THE TIME FRAME FOR THIS CONSULTATION IS TOO SHORT. WHERE IS THE URGENCY?

Given the extremely short time frame between when this consultation was originally announced, the OEB consultation paper was released and when hearings have been scheduled, it is difficult to comment in more than generalities to the issues raised in the consultation paper. This is unfortunate given that it is an important issue to stakeholders particularly the electrical customers, the municipalities and the LDCs in the Province of Ontario.

It should be noted that LDCs have been given only five business days to respond to the Energy Board's consultation paper which was posted on the web on February 10, 2004 with hearings scheduled for the week of February 16'th. It is the view of Orillia Power that the Board would encourage more meaningful dialogue regarding this important issue if a more realistic and lengthened time frame were established. Extending the consultation period deadlines would allow all interested parties to respond in a more thorough and insightful manner. This consultation should not be rushed. We all remember the many difficulties that arose with market restructuring in Ontario due to the process being rushed unnecessarily.

ADEQUATE SUPPLY NEEDS TO BE THE PRIORITY

In it's letter to all interested stakeholders of January 21, 2004, the OEB stated "One of the primary issues that will be addressed in the consultation paper is whether there are economic, service and other benefits to be gained from **further consolidation** of the electricity distribution sector." This comes directly on the heels of the most significant restructuring that LDCs have faced in the last one hundred years. It also comes on the heels of the August 14th blackout, which identified serious deficiencies in Ontario's generation capacity and in the province wide transmission system. The distribution systems throughout the province performed very well and in fact facilitated a faster restoration of power once the generation and transmission systems were brought back on line.

The OEB has an important mandate to "protect the interests of consumers with respect to prices and the reliability and quality of electrical service". In Orillia Power's opinion, the primary issue facing electrical consumers in the Province of Ontario today is the lack of sufficient generation capacity to supply their electrical needs. Until adequate solutions are found for this issue, generation should remain the priority. The provincial wide blackout of August 14 was a small reminder of what consumers will be facing should the generation supply problem not be addressed. When faced with rotating blackouts, consumers will not be worrying about whether or not LDCs, that account for only 20% of the customer's total electricity bill, can be made slightly more efficient by some form of rationalization or some other PBR process.

In our opinion, to divert Distributors and other market participants' attention away from this much more important issue is not in the best interest of Ontario electrical consumers at this time. Distributors can make contributions in this area working with business ventures to develop distributed generation solutions and conservation initiatives within the community.

FURTHER CONSOLIDATION SHOULD NOT BE MANDATED BY LEGISLATION

Orillia Power supports the view that any rationalization or consolidation of the distribution industry sector should occur on a voluntary basis. Decisions to merge, amalgamate, acquire or participate in shared service ventures should be based on sound business principals, shared values by the participants and concern for the impact on customers, employees and other stakeholders. Consolidation initiatives should not be based on a preconceived notion that “Bigger is Better”. It is worth repeating the comment made in the Board’s consultation paper that the driving force behind the Government’s restructuring initiative in the first place was not the performance of distribution utilities but “the financial and operational performance of Ontario Hydro”.

It is important that current and future legislation should encourage LDCs to make “correct” decisions based on their individual circumstances and equally important that such legislation not stand as a roadblock to implementing what would otherwise be a solid business decision. Consolidation may make perfect business sense only to be prevented by “legislative barriers”. One such barrier, the 33% transfer tax, will come back into effect in March 2005. The Energy Board should recommend to the Minister of Energy that this date should be extended indefinitely in order to not stand in the way of a possible merger between willing participants down the road.

In general, we would hope that any recommendations coming out of this process which could impact future legislation will respect the ownership rights of the municipalities previously established under Bill 35.

SAFETY OF EMPLOYEES AND RELIABILITY OF THE SYSTEM ARE CRITICAL

In it’s discussion paper while discussing operational efficiency, the OEB rightly focuses not just on cost reduction issues but on the more important aspects of safety and reliability of the electrical system. A recent article in the February 2004 Electrical & Utilities Safety Association magazine- “Safety Matters” titled “The Simmering Volcano” alludes to increased serious accident levels during the last two years among those utilities previously involved in amalgamations. These increased accident levels may be the result of best safety practices not being enshrined in the objectives of the merger or amalgamation along with other best business practices.

We feel that it is critical that employee safety and system reliability not be jeopardized in any way by measures put in place to achieve cost reductions.

LARGE SCALE CONSOLIDATIONS WITHIN DISTRIBUTION SECTOR WILL NOT NECESSARILY INCREASE EFFICIENCY

It has been suggested by some that we are headed down the road to a Province with six to twelve LDCs such as has happened in places like Australia. This may not be the best result if customer interests are to be considered. Customers like the fact that utilities are locally accountable and that their voice on electricity issues can be heard within the community.

It is encouraging to note that the Board recognizes that unit costs are dramatically affected by factors beyond the control of a particular LDC such as customer type, load and density. As pointed out in the consultation paper merging two LDCs with differing customer densities will not necessarily result in operational cost savings.

It is possible to create economies of scale savings in back office functions such as billing and administration if the merging utilities are small to begin with. These back office savings can also be achieved without merging to a significant extent using shared services. Orillia Power has utilized shared services with great success participating in joint ventures with groups such as the Upper Canada Energy Alliance (UCEA) and Cornerstone Hydro Electric Concepts (CHEC). We are continuing to pursue opportunities to further reduce costs using shared billing and meter reading services. With our partners in the UCEA we are pursuing a smart metering initiative that will cost effectively provide a significant energy conservation venture.

We believe there is a tendency for organizations to become less cost effective and bureaucratic once they grow past a certain point. Bigger is not always better. LDC statistics gathered over the last few years have demonstrated that sometimes the largest utilities had the highest costs per customer in areas of billing and administration and reduced communication with customers.

Once again, we wish to stress that consolidation should occur between willing participants based on a solid business case with the intention of implementing “best practices”.

PERFORMANCED BASED REGULATION

Orillia Power completely supports a Performance Based Regulation (PBR) approach as has already been implemented in Ontario as well as other jurisdictions. Normally PBR focuses on using financial incentives to ensure costs are controlled and statistical measurements to ensure that consumers are protected. In Ontario, for example LDC rates are essentially capped setting the limit on revenues. The LDC must then control operating and capital expenditures in order to ensure that the shareholder's return on equity is not negatively impacted while ensuring customer service is maintained. We believe PBR is a much better method of ensuring inefficiencies do not get passed on to the customer than the method formally used in Ontario prior to Bill 35. The former method did not encourage efficiencies as all costs incurred could ultimately be passed on to the customer through increased rates.

We believe that the concept of light handed regulation needs to go hand in hand with PBR. Based on our experience, this has certainly not been the case so far in Ontario. We are constantly required to report financial and statistical data to the Board. This given the fact that LDCs are also regulated by the Ontario Business Corporations Act, must undergo annual external audits and are required to report to our shareholder as well. One has to wonder what use all of this information is being put to and whether the costs of producing and monitoring it are exceeding the informational benefits provided and in the end really helping the customer

LOAD SERVING ENTITIES

Orillia Power believes that responsibility for ensuring sufficient load is available for Ontario consumers should rest with a large centralized, provincially regulated aggregator that has the Province's best interests in mind. LDCs should not be forced to take on this high-risk venture. LDCs have already been asked to underwrite far too much of the wholesale / retail market activities without appropriate return that correlates to the risk involved. Orillia Power has not seen any information that would allow us to be convinced that having multiple aggregators would result in adequate supply at the lowest cost to Ontario consumers.

RETAIL MARKET

The introduction of the retail market has increased the complexity of customer information systems and processes significantly thereby increasing costs to all customers. Where are the consumer benefits offsetting the costs of this complexity? Not only are consumers completely confused as to who does what but since the implementation of Bill 210, the government has been acting as the retailer for the majority of customers in this province. The retail market was a poorly implemented Government experiment that has failed completely and it should be scrapped. Scrapping the retail market would certainly have a positive impact on increasing LDC efficiencies with no apparent benefits to customers being lost.