

**Peninsula West Utilities Limited  
(Pen West)**

**Submission to Ontario Energy Board**

**RP2004-0020,  
Consultation on Efficiencies in the LDC  
Sector**

**February 18, 2004**

Good afternoon, my name is John Alton and I am the President of Peninsula West Utilities Limited. Unfortunately, our Chair Mr. Brian Walker is unable to be with me today because of a scheduling conflict.

Pen West welcomes the opportunity to participate in the OEB's consultation process on Review of Further Efficiencies in the Electricity Distribution Sector.

Pen West was created after the former Hydro Electric Commissions of Lincoln, Pelham and West Lincoln amalgamated. The predecessor Commissions served 7500, 1200 and 4500 customers respectively.

After the passing of the Electricity Competition Act (Bill 35) Lincoln, Pelham, West Lincoln and other utilities looked at taking advantage of the transfer tax holiday by amalgamating in order to garner enough staff resources to deal with all the new codes, rules, regulations and perceived challenges with electricity deregulation.

Our rationalization efforts have been a success because of the common desire by our respective Shareholders to make it work. There were other utilities that participated in the initial amalgamation discussions but all the parties were unable to come to a consensus on governance and ownership issues.

The historical development section of your discussion paper leaves out several relevant facts, which we believe you should include in your review of the distribution sector. The first is the capital grants provided by the Province of Ontario, up to 1957, given to the former Ontario Hydro, which promoted the distribution system expansion and electrification of the Province.

The next was the Regionalization Acts of the late 60's and early 70's that froze existing hydro service territories to the former towns, or police villages. The new Municipalities were required to review hydro expansions to serve their entire municipal boundaries every three years and if they decided to expand the distribution assets were transferred to the local HEC or PUC along with the customers equity associated with those assets.

Then along came the precursor to distribution rationalization, the Power Corporation Amendment Act 1994 (Bill 185) which allowed municipalities to pass by-laws in order to assume control and management of the distribution assets in stages if they wished within their entire municipal boundaries. That legislation set out a number of conditions and provided for the transfer of employees and assets from Ontario Hydro to the municipal commission at cost minus the customers equity invested in the distribution system built to serve them. Bill 185 also transferred the rural rate assistance associated with those customers to the expanding commission on a declining basis from 100% to 0% over five years.

All three of Pen West's municipal shareholders passed hydro service territory by-laws under the provisions of Bill 185. Lincoln completed its expansion on July 1, 1998 and West Lincoln expanded on June 1, 1999. Pelham's by-law unfortunately was considered void after the introduction of Bill 35 and their service territory expansion did not materialize. Currently Pen West serves the entire municipalities of Lincoln, West Lincoln and only the former village of Fonthill. Hydro One services the remainder of Pelham. Since October 2000 our crews must drive through Hydro One territory to service our customers and Hydro One does the same.

We do believe that fragmented service territories are not efficient and there should be mechanisms developed to allow or promote that Pen West serve the remainder of the rural Pelham residents. Pen West reports to its shareholder, the Pelham Council on a regular basis and understands their desire to have their entire municipality served by its LDC.

Pen West has continuously improved its rural distribution infrastructure in order to improve system reliability as directed by its municipal shareholders. We are concerned that on a going forward basis the costs to purchase the rural assets in Pelham from Hydro One could be prohibitive and negatively impact on the remainder of our customers, unless we would be permitted to establish a stand alone LDC so that all costs associated with servicing that debt would be the responsibility of the benefiting customers.

It was only with the passing of Bill 35 that ownership of distribution assets became definitive, the Province was Hydro One's shareholder and municipalities were their respective LDC shareholders. Up until that time the equity shown on the distributors books flowed with the customer whenever a transfer occurred. The Board should consider customer equity when Fair Market Value is determined on distribution assets.

Pen West is a member of the Niagara Erie Public Power Alliance (NEPPA) that is comprised of eleven LDC's in the Niagara Region, Brant, Haldimand and Norfolk Counties as well as the City of Brantford. That Alliance provides an excellent mechanism to avoid future costs and it works on a voluntary basis. NEPPA has submitted its own written brief on the benefits it provides to its customers through its affiliation such as common policy development, health and safety issues, staff training, material procurement, etc.

Pen West believes that there is more than one way to achieve economies of scale and scope and would encourage the Board to think beyond consolidations or mergers and examine shared service arrangements, Services Companies, etc. to gain additional efficiencies. One example of how a shared service arrangement may be able to provide economies of scale is by forming an alliance to become a Load Serving Entity. The alliance might want to mix southern and northern LDC's in order to optimize its net system load shape and we do not believe that the only way this function can be delivered is through mergers of LDC's to form the necessary base to handle all the associated risks.

Pen West currently has a shared service arrangement to assist in our settlement functions because our requirements do not warrant a full-time position. We are also examining further shared services for line work requirements and we contract out for a number of other services such as meter reading, meter calibration, tree trimming, capital building projects, line maintenance, etc.

Recently, Pen West has addressed its transformation supply needs by having its holding company enter into a joint venture with Grimsby Power's holding company to form the Niagara West Transformation Corporation. The new jointly owned Municipal Transformer Station is being built to service the needs of each of our utilities at a substantial savings to all our customers.

Pen West has a number of load transfer customers, which we find to be a very economical and efficient way to provide service to them. We are a little concerned that we may be required to incur large capital expenditures to provide service to them in the future.

The distribution and transmission systems in the Province of Ontario were not originally built with competition and open access in mind. They were built to electrify the province in the most efficient way and all of those system assets should not be stranded until their useful life is depleted. System planning requires a long-term business horizon and we should not rush to make rule changes that do not properly utilize the systems that are in place.

Pen West believes that as we move forward to find better and more efficient ways to carry out the Distribution function we must remember how all the other pieces of the electrical industry work. The re-introduction of DSM initiatives after LDC's were purposely set up to put those interests into separate companies is a very good case in point.

The OEB and the government need to carefully examine all aspects of electrical restructuring and should be cognizant of how each action impacts on other sectors of the industry.

In closing we commend the OEB for this exploration initiative and hope you can find a way to become a light handed regulator while still carrying out all your stated objectives.