



February 19, 2004

Ontario Energy Board  
Attention: Peter H. O'Dell  
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Canada

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To Mr. O'Dell:

**Re: Review of Further Efficiencies In the Electricity Distribution Sector**

TransCanada Energy Ltd. ("TCE") welcomes the opportunity to respond to the Ontario Energy Board's ("OEB") request for comments on the Staff Discussion Paper titled, "Review of Further Efficiencies in the Electricity Distribution Sector" (the "Discussion Paper"). The focus of our response will be on the ability of Ontario distributors to take on the role of load serving entities ("LSE's"), with special emphasis on the requirement for LSE's to develop and maintain an appropriate level of creditworthiness.

**Support for Load Serving Entities**

The recently released Electricity Conservation and Supply Task Force ("ECSTF") report suggests that there may be a role for the electricity distribution sector to play as LSEs. According to the ECSTF report, the LSE's would take on the responsibility for acquiring electricity for customers who do not contract directly with retail or wholesale suppliers. As a supplier in the Ontario marketplace, TCE supports the concept of LSE's on the grounds that these new entities will bring much needed buyers into the marketplace with the ability to contract for large blocks of power that will underpin investment in new sources of generation.

**Need For Investment Grade Credit Ratings For LSE's**

In order for LSEs to contract for large blocks of power that will underpin investment in new sources of generation, they must be structured in such a way that they are capable of achieving an acceptable investment grade credit rating. In order to achieve an acceptable investment grade credit rating it will be necessary for LSE's to possess a sound business model, a significant customer base, and the expertise necessary to manage the risk associated with a portfolio of supply contracts. Until such time that the newly formed LSE's have developed an acceptable standard of creditworthiness, we would suggest to the OEB that any Power Purchase Agreements signed between LSE's and suppliers be guaranteed by OEFC or another designated branch of the Ontario government.

**Risk of Customer Switching**

Another area of concern to potential suppliers when considering the creditworthiness of LSE's and the risk associated with these new organizations is customer switching. While TCE



supports customer choice in the Ontario electricity market, we believe that restrictions may have to be put in place that limit the ability of customers to transfer between LSE's and other retailers. Without these restrictions,

particularly on large customers, LSEs could find themselves managing difficult positions in the market. The ability, or inability, of the LSE to manage these positions successfully will place the supplier at risk of default by the LSE. In other words, the problems of the LSE become the problems of the supplier.

Thank you for the opportunity to comment on the Discussion Paper. If you have any comments or questions with regards to our submission do not hesitate to contact me at 416.869.2183.

Sincerely,

**TransCanada Energy Ltd.**

*Original Signed By*

Brian G. Kelly  
Eastern Power

cc. Bill Taylor  
Margaret Duzy