

# WELLAND HYDRO-ELECTRIC SYSTEM CORP.



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February 16, 2004

Mr. Peter H. O'Dell  
Assistant Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 26<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Mr. O'Dell:

**Review of Further Efficiencies in the Electricity Distribution Sector - RP-2004-0020**

The Energy Competition Act, 1998 required the former Hydro-Electric Commissions to corporatize by November 7, 2000 into Ontario Business Corporation Act Companies. Even though over 300 Commissions were reduced to less than one hundred (100) most of the companies created stayed in the hands of Provincial or Municipal owners. These companies are OBCA companies with Boards and Shareholders. Shareholders and Boards of LDC's have the same rights and obligations as all other OBCA companies. Many Shareholders (Municipal Councils) have required their Local Distribution Companies ("LDC") to reduce rates or improve customer service or reliability rather than request a dividend or interest payments. Most Municipal Councils want what is best for the customer at a reasonable price. After all, Municipalities, like the OEB, are regulators that have to balance customer service, safety, reliability and rates for utilities such as water, sewer and for municipal taxes. The difference between the OEB and Municipalities is the fact that Municipalities have more contact with the customer and have a better understanding of what they want. Councillors know that generally the LDC customer is the same as the water, sewer and tax customer that have to pay the respective bill from the same wallet (or purse). As a result, LDC's are encouraged to reduce costs and increase efficiency by sharing resources with other LDC's, Municipal departments, and with private sector partners.

By forcing LDC's to amalgamate you can reduce efficiencies and erode accountability. Furthermore, forcing amalgamations is anti-business. It reduces the value of the company in the marketplace. It also de-stabilizes the industry. No investor will want to enter an industry, whether it is generation or distribution, that can force you to sell your business. In other words, Shareholders have rights and the OEB must respect these rights by not forcing amalgamation or creating policies that promote amalgamation.

In my opinion, joint venturing, partnering, shared services and use of technology will further reduce costs without affecting reliability or safety. To accomplish further efficiencies the OEB must allow time for the LDC's to absorb all the changes that have occurred since 2000. Many of the LDC's, that amalgamated late in 2000, are still working on realizing efficiencies from the amalgamations. These LDC's had to

incorporate and create a new Governance structure, change to a new rate setting mechanism, participate with a new Market Operator and spend a lot of money and time getting ready for market opening.

What this market really needs at this time is stability, time to absorb the changes and review processes to drive further efficiencies. With the transfer tax holiday in place further consolidation will occur based on good business principals and on a voluntary basis.

I believe the OEB time could be put to better use working on cost allocation studies, performance indicators, and trying to develop a more light handed approach to regulation. Light handed regulation will improve efficiency within the LDC's. Light handed regulation requires less LDC's resources and reduced LDC contribution to support the OEB resulting in more efficiencies. It is understandable that the OEB increased its regulation requirements, as compared to the former regulator that had three times the distributors to regulate, due to the new regulator environment. It is important that the OEB takes time to review their policies and regulations to make them more light handed and less costly to implement.

It has been suggested that certain components of the distribution business is scalable, such as billing. Even though the billing system may be scalable, it does not necessarily hold true that a larger system is more efficient. For example, required inputs derived from other sources may not be scalable and result in high cost. Furthermore, the larger system may have fewer suppliers, which may result in less competitive pricing for the system and ongoing maintenance. Larger isn't always the most cost effective. In some instances it is preferable to have smaller multiple units for optimizing cost effectiveness and reliability.

The only function that the "larger is better" concept applies is regarding the load serving entity. A load serving entity set up to establish long term contracts for purchase of power from generators is needed in the Ontario Market. This entity has to be large to effectively serve the marketplace and to mitigate the risk. This entity should be not-for-profit and it should be Provincially owned. It should be an affiliate of the IMO. The IMO has the experience and systems in place. As an affiliate it could be monitored by the parent company or the OEB.

Any changes that force amalgamation will have a drastic impact on distribution of electricity in this province. I would urge the OEB staff and Board members to visit the LDC's outside the GTA. Board members will develop a much better understanding of the efficiency of LDC's. I would be pleased to have the OEB visit Welland Hydro situated in Southern Ontario. I would also suggest that Board members visit small LDC's in Northern and Eastern Ontario. The LDC's really are vital to the communities they service. Please feel free to take me up on this offer.

Yours truly,

WELLAND HYDRO-ELECTRIC SYSTEM CORP.



Ross Peever  
President & CEO

RP/cv

Copy: Honourable Peter Kormos, MPP