

RP 2003-0044

ONTARIO ENERGY BOARD

**A Consultation to Review Further Efficiencies
in the Electricity Distribution Sector**

SUBMISSION OF WIREBURY CONNECTIONS INC.

1. The Ontario Energy Board (the Board), by letter dated January 21, 2003, issued a Notice of Consultation to Review Further Efficiencies in the Electricity Distribution Sector. The Board invited interested stakeholders to make written representations.
2. As Wirebury Connections Inc. (Wirebury) intends to operate as an electricity distributor in Ontario it will be subject to any decisions made by the Board with respect to electricity distribution and therefore have an interest in these matters.
3. Wirebury is pleased to submit these comments with respect to this initiative. It understands from the notice dated January 21, 2004 that “the Board wishes to review alternative ways of driving further efficiencies in the delivery of electricity services and to better understand the impact of implementing these alternatives on distributors and the broader electricity industry.”
4. Wirebury is a new company established to own and operate distribution assets in Ontario as a distributor. Wirebury will enter into connection agreements with land and building owners and/or developers and connect its distribution system to that of a host distributor.
5. Wirebury’s proposed operating model is not unique or proprietary as it is currently being used by many incumbent LDCs and it can be used by new entrants or existing LDCs to enhance customer growth and improve overall market efficiency by competing for new customers. The service bundle, operating model and cost structure offered by Wirebury will provide a competitive advantage during its market entry, but to the degree that other LDCs take similar steps, further innovation will be required on the part of the company to maintain a competitive edge.
6. Wirebury notes that in requesting a consultation in further efficiencies in the electricity distribution sector Board Staff seem to be pre-supposing that the restructuring that has already occurred in this area has in fact resulted in efficiencies and benefits to ratepayers. Wirebury is not certain that the evidence exists to suggest

that this is the case and that in some cases the result has been just the opposite as pointed out by CUPE in the oral presentations.

7. While Wirebury believes that any effort to reduce the cost of electricity to the consumers of Ontario is laudable, it recommends that Board Staff keep in mind the overall objective of the review. If that objective is to reduce cost and improve efficiency while maintaining or improving service quality for energy consumers in Ontario, the review should be expanded beyond the provision of distribution efficiencies. The distribution component of a typical residential customer's electricity costs is in the range of 20 to 28 percent. For commercial customers it can be less than four percent. Policies and measure that are designed to drive out efficiencies in the distribution sector must be assessed against any impacts they might have on the other 75 to 90 percent of a customer's electricity cost. Obviously system efficiency as measured by the total cost that a customer pays is more affected by non-distribution costs. Consequently, similar resources and costs required to obtain distribution efficiencies should be applied or spent looking for efficiencies in transmission, generation and IMO operations.
8. Board Staff's Discussion Paper, talks about operational efficiency and the goal of reducing distribution costs with out affecting safety, reliability or service. The challenge for the Board is to determine firstly whether it needs to intervene further in the market to foster greater efficiency to benefit the ratepayer and secondly, if it determines it does need to be involved, how to drive out such efficiencies.
9. With respect to the first question, Wirebury believes that the Board already has the means of creating operational efficiencies in the distribution sector. It believes that the opportunity exists for creating a competitive distribution sector based upon customer choice and new and innovative competition for the distribution rights. Ontario is fortunate in this regard. As a region that continues to experience significant growth and demand for electricity, Ontario can harness that growth to facilitate the development of a viable competitive market for distribution services and provide new technology and new ways of distributing electricity. Competition

amongst distributors to serve that growth forces existing distributors, whether they decide to compete or not, to look for every opportunity to operate more efficiently while delivering superior customer value.

10. Wirebury has recently participated actively in the Combined Service Area Amendment Proceeding, RP 2003-0044, where it advocated a competitive electricity distribution model. As expressed in its evidence in that proceeding Wirebury believes that:

“Increased competition in the distribution sector and improvements to distribution services will improve retail access to distribution systems, protect the interests of customers, promote economic efficiency and facilitate energy efficiency. New participants in this market sector will bring new ideas and new technologies that will benefit all electricity customers. To the extent that new entrants can compete with established distributors by offering improved service value, existing distributors will be encouraged to reduce costs and improve service to their customers. The increased pressures from expanded competition will also encourage further consolidation of the industry and allow efficient distributors to expand their delivery areas by offering improved economies of scale to a broader customer base.”

11. The Company advanced this concept further in that proceeding by filing a report from an industry expert on market efficiency, John D. Todd, entitled The Benefits of Competition in the Electrical Distribution Sector¹.
12. Competition also helps balance the trade-offs between cost and customer service since customers will place a value on service delivery. An LDC can not simply cut service in order to compete. Such a competitive response is not sustainable. While it might achieve a near term result over the long-term customers will reject it.
13. Another benefit to having a competitive distribution services industry is that it fosters innovation and creates efficiency benefits from technological advances and process

¹ “The Benefits of Competition in the Electrical Distribution Sector” by John D. Todd on behalf of Wirebury Connections Inc. RP 2003-0044

enhancements. Without competition there is frequently a resistance to change as a consequence of the inherent risk.

14. Earlier Wirebury indicated that some 75 to 90 percent of a customer's costs are not impacted by efficiency gains in distribution costs. In a competitive environment, however, distribution costs become relevant as LDCs differentiate themselves through delivery of bottom line savings to customers impacting all components of the customer's bill. Consequently competing distributors must focus themselves on the customer's total cost and enable reductions in total costs through technology or any other means.
15. The Board Staff's discussion paper describes controllable and uncontrollable structural efficiencies and suggests that structural efficiencies can be achieved through mandatory or voluntary industry restructuring or consolidation.
16. While the theory of consolidation is to spread the fixed costs of service over a larger customer base there are also diseconomies that prevail in such circumstances. The costs of consolidation and the write off of redundant or incompatible systems can be a significant cost that ultimately will be borne by customers. Labour costs, which represent a large proportion of utility operating costs, tend to migrate towards the higher unit rates of the consolidated business rather than the lowest unit rates, thus minimizing if not totally eradicating the anticipated benefits of consolidating work forces.
17. Where consolidation is mandatory there is a significant risk of failure to achieve the desired results. Even where the consolidation is voluntary there is some risk of failure although there should be a greater chance of success since the consolidating parties generally would be starting from similar corporate cultures and a willingness to work together to take advantage of any synergies.
18. Some parties might suggest that the Board should establish benchmarks and cost recovery mechanisms that reflect its expectations with respect to the efficiency gains

resulting from consolidations, however, such an approach would not inherently make the utility efficient. It would simply establish the cost level that the ratepayer is expected to fund and any excess cost would be financed by shareholders. Such a result clearly does not create a sustainable, viable or efficient industry.

19. It seems that there is a perception that scale efficiencies are a likely (or worse still a guaranteed) result of amalgamations or consolidations. While this might be the happy result in circumstances where the consolidating utilities share similar cultures and can achieve some synergies, Wirebury suggests that the scale efficiencies are more readily available and more effectively provided through the use of outsourced service providers.
20. Third party service providers often have a broader scale than the electricity distribution industry could ever hope to achieve simply because such service providers are not limited to the scale of the electricity distribution business or to the same jurisdictional constraints. These services are available on an efficient scale for almost all aspects of the distribution service, allowing small utilities and new entrants to gain instant scale and scope economies that will allow them to effectively compete with much larger established utilities.
21. An efficient, viable industry is best created by allowing competition wherever possible and to look for ways in which the competitive environment can be made to exist. While facilitating competition should be the main objective of any policy seeking to enhance efficiency, there are situations where a monopoly structure provides the most efficient delivery of distribution services. As submitted in the combined proceeding, Wirebury believes that Ontario can benefit from allowing competition for new customers without foregoing the benefits of monopoly provided services. Once distribution assets are installed and customers are attached, electricity distribution service still needs to be regulated as a monopoly service. Consequently one of the Board's roles in fostering competition and regulating monopolies should be to ensure that distribution systems are operated on an open access basis and that barriers to access are not allowed.

22. Wirebury recognizes that in a competitive environment not all utilities will survive in their current form. This is the natural and expected outcome of an efficient market. Wirebury believes that rather than protecting the status quo and sustaining the inefficiencies that currently exist the Board's objective should be to create an environment in which new and existing distributors have the opportunity to compete and succeed in a fair and open market.
23. Part of this responsibility would be to make sure that failure of a business does not mean that end-use customers will be harmed. The Board has the authority to ensure that customers will continue to be served and electricity will continue to flow.
24. In assessing the opportunities for efficiency, parties must not lose sight of the most important participant, the electricity consumer. Focusing on cost and established processes may not be efficient from the customer's perspective or for the industry. Benefits from new technology, like interval meters and time-of-use rates, may be foregone in such an environment. Efficiency assessment must include appropriate service and quality components.
25. In summary, Wirebury offers the following observations and conclusions to assist Board Staff in recommending an appropriate framework to improve the efficiency of Ontario's electricity market:
26. There is no empirical basis to assume that bigger is better and, in fact, a review of the current rates may demonstrate just the opposite, i.e. that customers pay more for the same or a lesser level of service from many of the larger utilities. A detailed review of the costs and benefits of consolidation should be conducted before imposing rationalization on Ontario.
27. Economies of scale and scope can best be accommodated through outsourcing and service sharing. Distribution is only a small portion of the cost of delivering power. Greater efficiency gains may be found in the other aspects of the electricity market.

28. The merits of new technology, service quality and customer preferences are best fostered and sustained through distribution competition and these aspects should not be overlooked when assessing efficiency hence the Board should facilitate an environment that encourages competition in the distribution sector.