

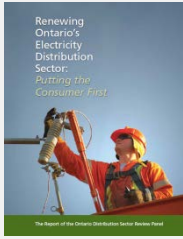
Renewing  
Ontario's  
Electricity  
Distribution  
Sector:  
*Putting the  
Consumer First*



The Report of the Ontario Distribution Sector Review Panel

# The Report of the **Ontario Distribution Sector Review Panel**

Technical Briefing  
January 15, 2013



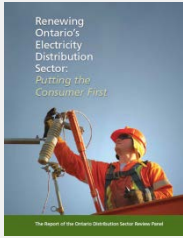
# The Panel

- Announced on April 13, 2012

Chair: **Murray Elston**

Members: **Floyd Laughren**  
**David McFadden**

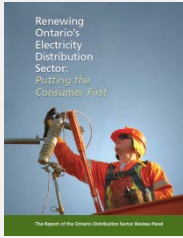
- Context:
  - Drummond Report (R 12-13): “Consolidate Ontario’s 80 LDCs along regional lines to create economies of scale.”
  - 2012 Ontario Budget: “The government plans to move forward with a comprehensive review of the electricity sector and its agencies.”



# Panel Mandate

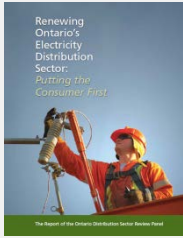
1. Research, analyze, provide advice and make recommendations... regarding issues related to Ontario's electricity distribution sector.
2. Determine what financial advantages and savings could be realized, particularly for ratepayers, from the consolidation of Ontario's local distribution companies (LDC).

**Panel's Goal:** *Position the sector to meet the challenges not just of today but of ten years from now — for the benefit of electricity **consumers** and the Ontario **economy**.*



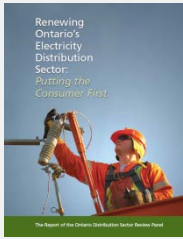
# Consultation

- Stakeholder meetings held from May through September.
- Submissions taken via Panel's public website.
- Nearly 85 individuals and organizations provided input to Panel through meetings and submissions.
  - LDCs and the Electricity Distributors Association
  - Electricity sector organizations and associations
  - Municipalities and other shareholders
  - Consumers
  - Unions
  - Financial community
  - Government ministries and agencies
  - Industry experts



# Today's Distribution Sector

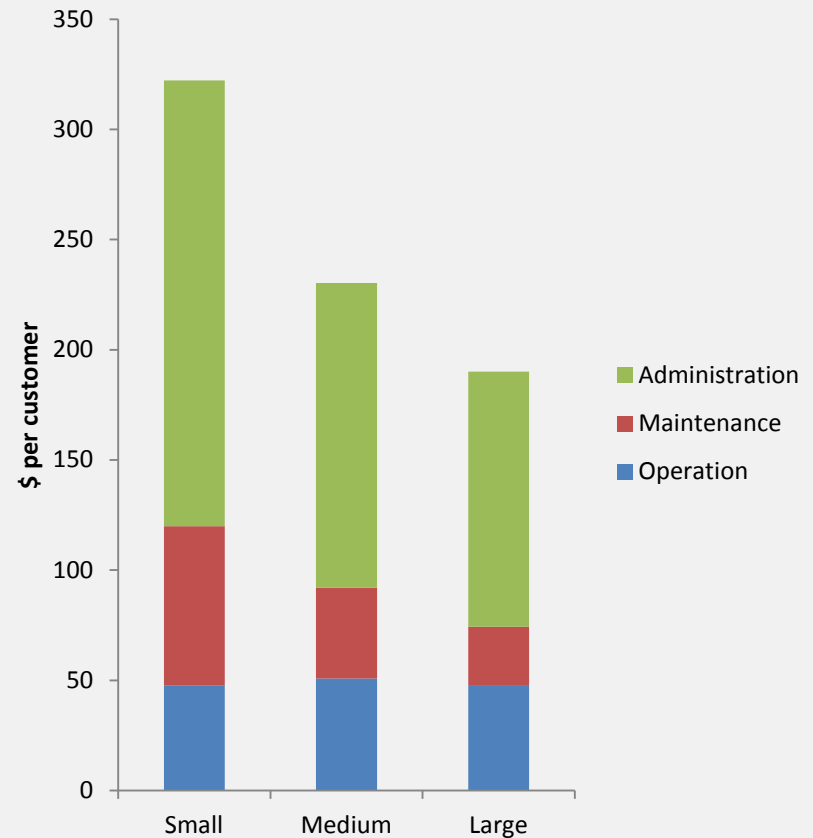
- 80 LDCs | 77 have their rates set by the OEB.
- Distribute electricity to 4.8M customers across the province.
- Wide range of sizes:
  - High: Hydro One Networks @ 1,210,695 customers
  - Low: Hydro 2000 @ 1,208 customers
  - Smallest 29 LDCs (36%) account for less than 4% of customers
- Range of ownership models:
  - Municipal, provincial and private shareholders



# Costs of Fragmentation

- OM&A costs show clear economies of scale.
- Financing costs tend to be lower for larger LDCs.
- Duplication of effort.
- Inefficiencies from discontinuity.
- Regulatory inefficiency.
- Barriers to innovation, better customer service.

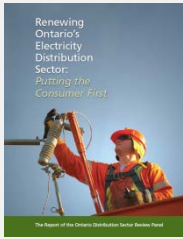
**OM&A Costs by LDC size**



S: < 12,500 customers

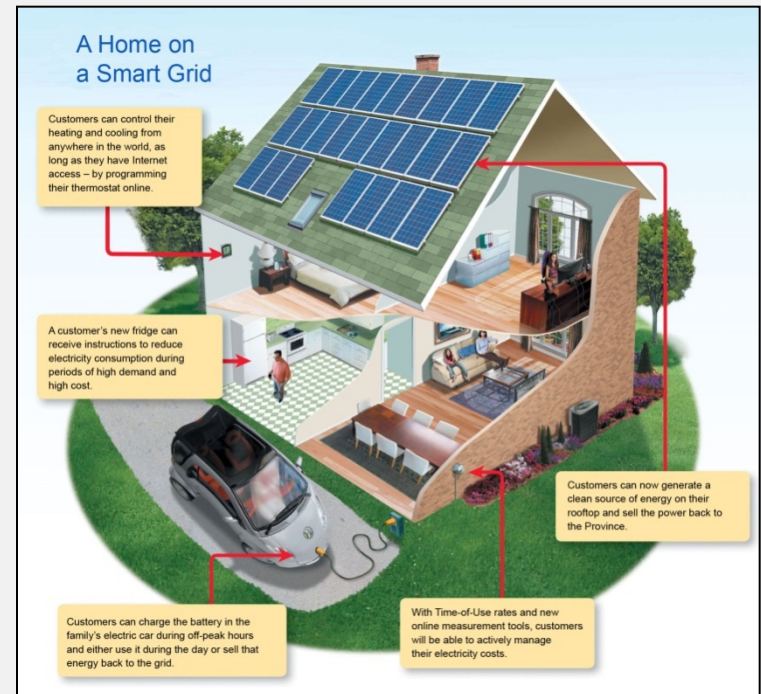
M: 12,500 to 100,000

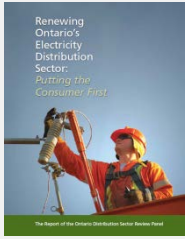
L: 100,000 to 500,000



# Key Distributor Deliverables (I)

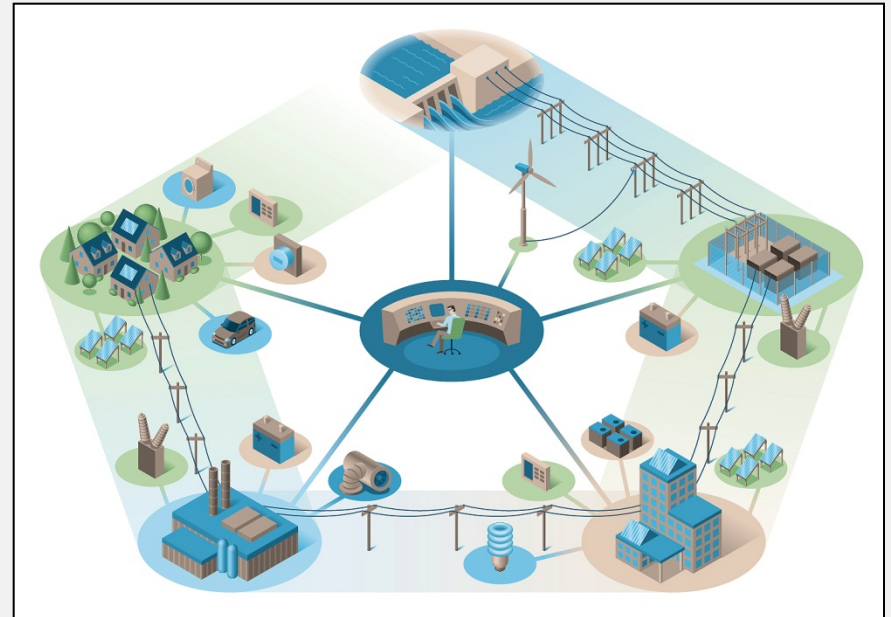
- First Class Customer Focused Service
  - Safe, reliable delivery of electricity to homes and businesses
  - Maximised efficiency to minimise costs
  - Innovate, adopt new technologies to support customer centric services that meet future expectations
    - Smart Grid
    - Smart Home
    - Electric Vehicles
    - Distributed Generation



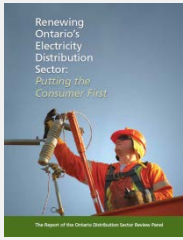


# Key Distributor Deliverables (II)

- Enhance Ontario's Economic Competitiveness
  - Modern, reliable infrastructure with capacity for growth
    - Encourages investment in Ontario
    - Supports economic growth
  - Cost efficiency
    - Electricity - significant cost component for businesses
    - Greater cost efficiency maximises Ontario's cost competitiveness

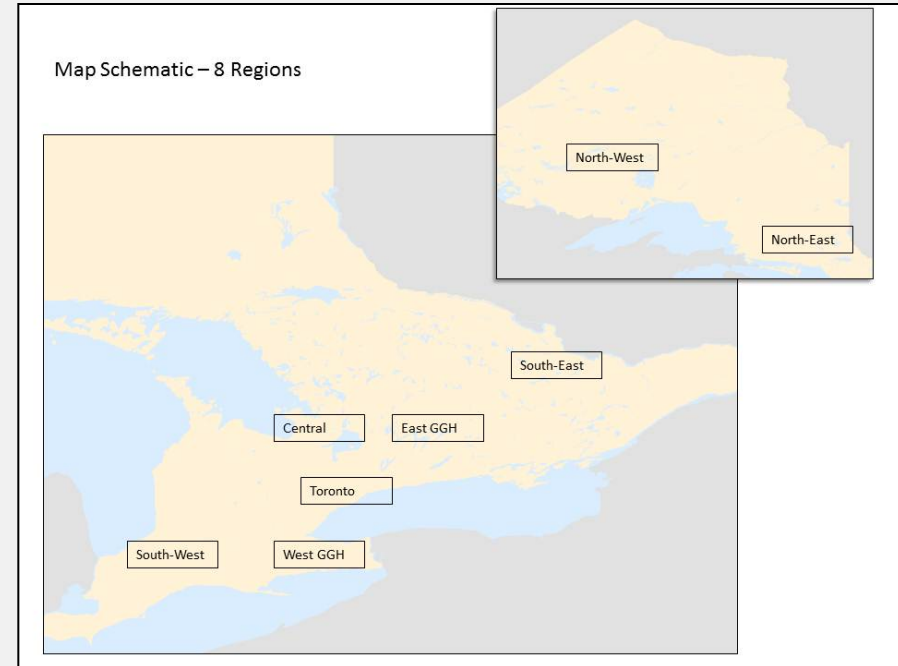


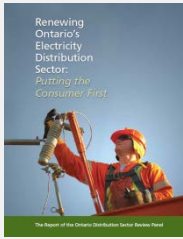




# Panel's Vision

- 8 to 12 regional distributors: shoulder-to-shoulder, robust, well-resourced and efficient.
  - 2 in northern Ontario
  - 400,000 customer minimum in 6-10 regional distributors in south
  - Toronto Hydro likely its own region, could remain unchanged
  - Service territories set by electrical boundaries
  - Independent Boards of Directors
- Achieve vision within 2 years.





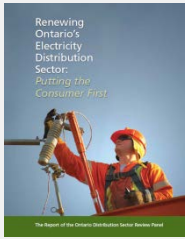
# Achieving the Vision

Panel recommends 6 to 9 month window for additional incentives to encourage voluntary mergers.

- Hydro One assets made available for mergers, but not for sale.
- Transaction costs for successful mergers allowed to be recouped.
- LDCs to receive equity in proportion to the value of the assets they contribute.
- Streamlined MAAD process.

Government-appointed Transition Advisor (TA) to monitor progress.

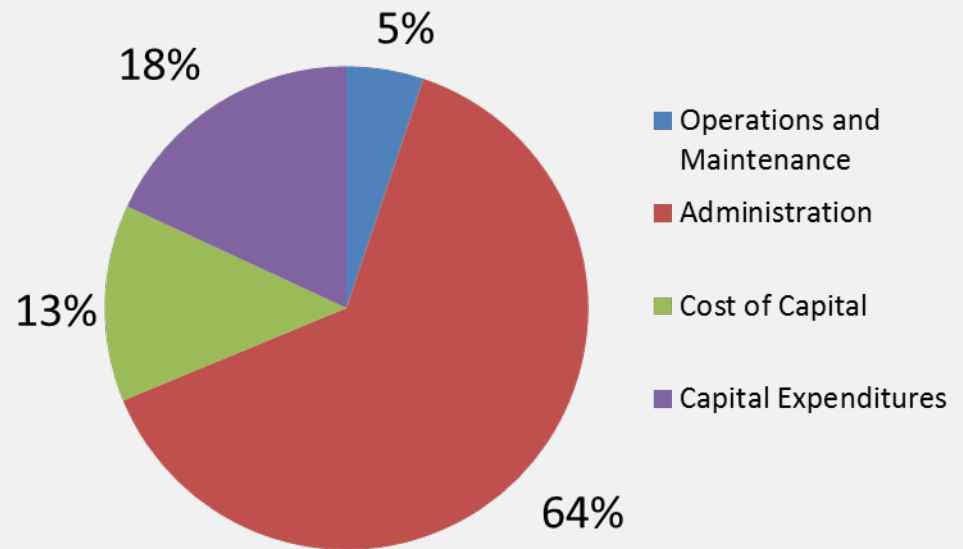
- New entities to submit Progress Reports with proof of agreement (e.g. MOU) within 6 months.
- TA to highlight inconsistencies with proposed vision.
- TA to report back to Minister after 6-months; additional negotiation period 3 additional months if necessary.
- If progress is insufficient, the Panel recommends mandatory action to achieve 2 year target.



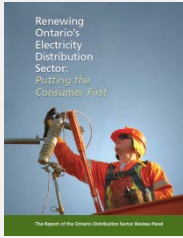
# Benefits and Costs

- Net benefit of \$1.2 billion in present terms over first 10 years.
- Benefits of \$1.7B in present terms (pie chart):
  - Economies of scale
  - Reducing duplication
  - Lower borrowing costs
  - Better use of capital
- Costs of \$0.5B in present terms:
  - One-time transaction costs
  - Ongoing transition costs

**Benefits: 10 yr breakdown**

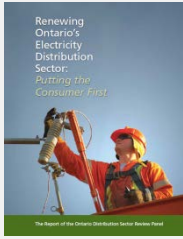


In year 10, benefits are expected to total about \$70 per customer, shared between ratepayers and shareholders.



# Other Recommendations

- Panel takes no position on privatization:
  - There is clearly significant interest (public pension plans).
  - A small number of LDCs are already privately owned
  - A federal agreement could facilitate removal of the transfer tax — but the decision to sell (or not sell) should rest with the regional distributors and their shareholders.
- Changes to loans and debt holdings:
  - Remove restrictions on municipalities from holding LDC debt.
  - Legacy notes issued that pay interest above the market rate should be retired or renegotiated.
  - Infrastructure Ontario should cease providing loans to LDCs.
- The Rural or Remote Rate Protection (RRRP) benefit should apply to eligible northern customers only.



# Conclusion

- The recommendations are the unanimous view of the Panel. Each member concurs with the entire contents of this Report.
- The Panel is adamant that consolidation is not the ends for ends sake: it is the means to a better future for the sector, consumers and the economy.

“The Panel is confident the leaders of the distribution sector have the **vision** and the **skills** to forge a new era in the distribution of electricity in Ontario.”

- The Report of the Ontario Distribution Sector Review Panel