ONTARIO DISTRIBUTION SECTOR REVIEW PANEL PRESENTATION

ONTARIO ENERGY ASSOCIATION
JUNE 28, 2012

THESE SLIDES ARE PART OF AN ONTARIO ENERGY ASSOCIATION PRESENTATION
AND ARE INCOMPLETE WITHOUT ACCOMPANYING ORAL COMMENTARY

THE OEA

RATEPAYER BENEFITS

OPTIMUM NUMBER

CHALLENGES

TIMING

ALTERNATIVES

OPTIONS

OEA RECOMMENDATIONS

1 EXECUTIVE INTERVIEWS

2 OEA COMMITTEE INPUT

3 MEETINGS WITH GOVERNMENT

4 PRE-BUDGET SUBMISSION

5 ONTARIO DISTRIBUTION SECTOR REVIEW PANEL PRESENTATION

6 FORMAL SUBMISSION

RATEPAYER BENEFITS ARE INCONTROVERTIBLE

- Ontario has gone from 300+ LDCs to less than 80

RATEPAYER BENEFITS

CONSOLIDATION THAT HAS ALREADY HAPPENED

RATEPAYER BENEFITS

COMPONENTS OF SAVINGS:

- Eliminate executive management
- Rationalize operating territory where possible
- Scale efficiency in back office
- Capital rationalization over time
- Regulatory savings

OPTIMUM NUMBER OF LDCs

- Variations around the world
- Historical accident determining current structure
- Some regions have seen substantially more consolidation than others

DISTRIBUTION SECTORS IN COMPARABLE COUNTRIES

Country	Distributors	Customers (millions)	Average Size (thousands)	Notes
Australia	16	10	1,600	Mix of state and investor-owned
New Zealand	29	2	69	Mostly owned by cities, but management is outsourced
UK	7	29	4,143	Investor-owned, operating in 14 regulated territories
US	3150	143	45	Mix of investor-owned, city-owned, and rural cooperatives

OPTIMUM NUMBER

US DISTRIBUTION INDUSTRY OVERVIEW

	Investor-Owned	Publicly Owned	Cooperatives	Total
Total Revenue (billions of dollars)	277	50	37	364
Number of organizations	220	2,000	930	3,150
Number of total customers (in millions)	104	21	18	143
Size (median number of customers)	400,000	2,000	12,500	
Customers, percent of total	73	15	12	
Revenues, percent of total	76	14	10	
Kilowatt-hour sales, percent of total	73	15	10	

OPTIMUM NUMBER

OPTIMUM NUMBER

UK ELECTRICITY DISTRIBUTION

13 Northern Ireland Electricity

Distributes to Northern Ireland.

14 WESTERN POWER DISTRIBUTION

Distributes to the Midlands, South West and Wales.

15 Scottish and Southern Energy Power Distribution

Distributes to the South.

16 UK Power Networks

Distributes to the South East.

17 Scottish and Southern Energy Power Distribution

Distributes to Northern Scotland.

18 SP ENERGY NETWORKS

Distributes to Southern Scotland.

19 electricity north west

Distributes to the North West.

20 NORTHERN POWERGRID

Distributes to North East.

21 SP ENERGY NETWORKS

Distributes to North Wales.

OPTIMUM NUMBER

OPTIMUM NUMBER OF LDCs

- No agreement on "most efficient"
- More than 1, less than ?

CHALLENGES

CHALLENGES TO CONSOLIDATION

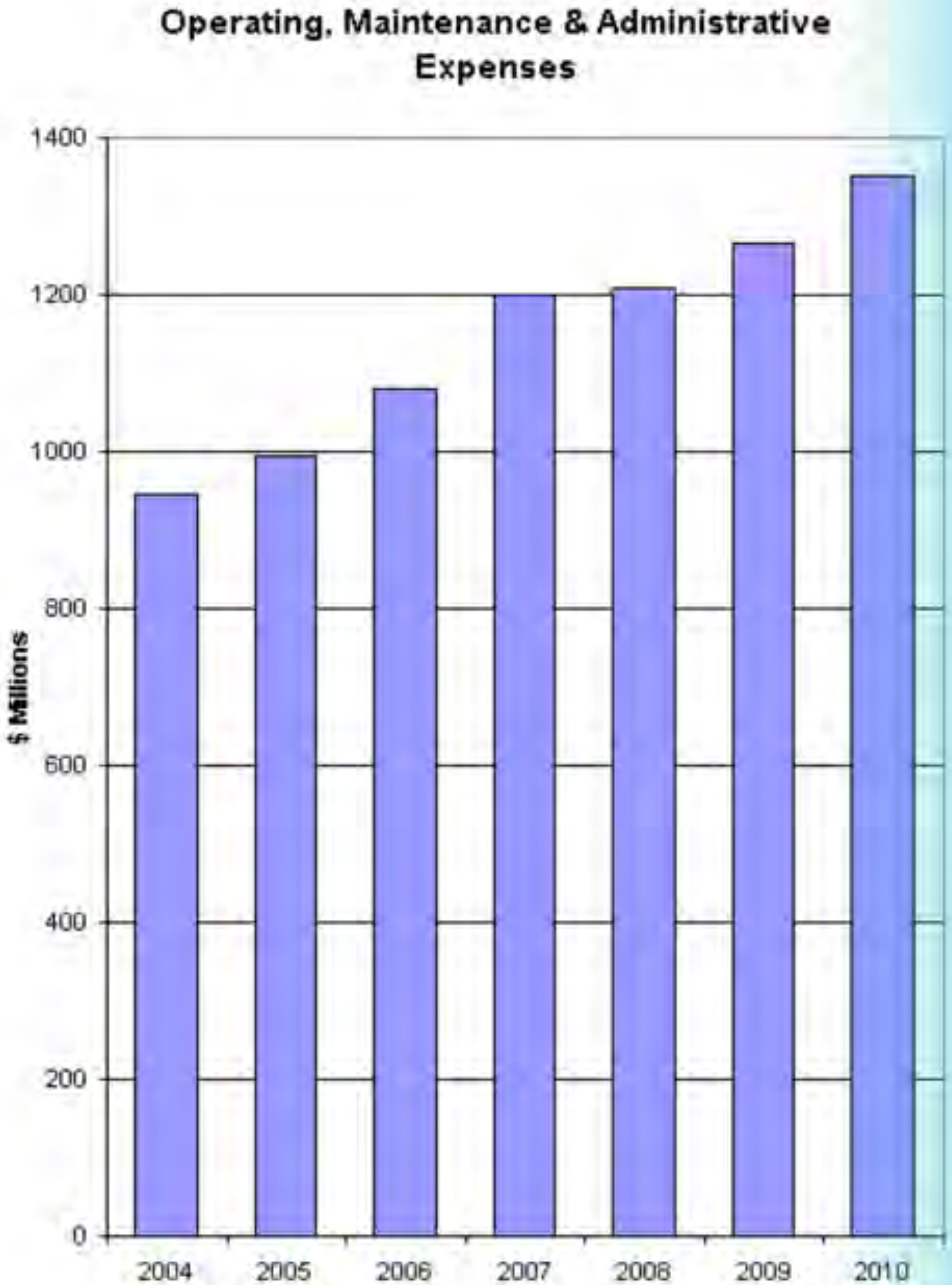
- Public support for local distributors
- Capital allocation issues
- Consolidation leads to efficiency, but not necessarily lower rates for the customer
- Lack of private sector investment

TIMING

WHY SHOULD CONSOLIDATION BE A PRIORITY NOW?

- Labour
- Cost Containment
- Pubic Sector Finances
- Capital Requirements

GROWTH IN DISTRIBUTION OPERATING COSTS



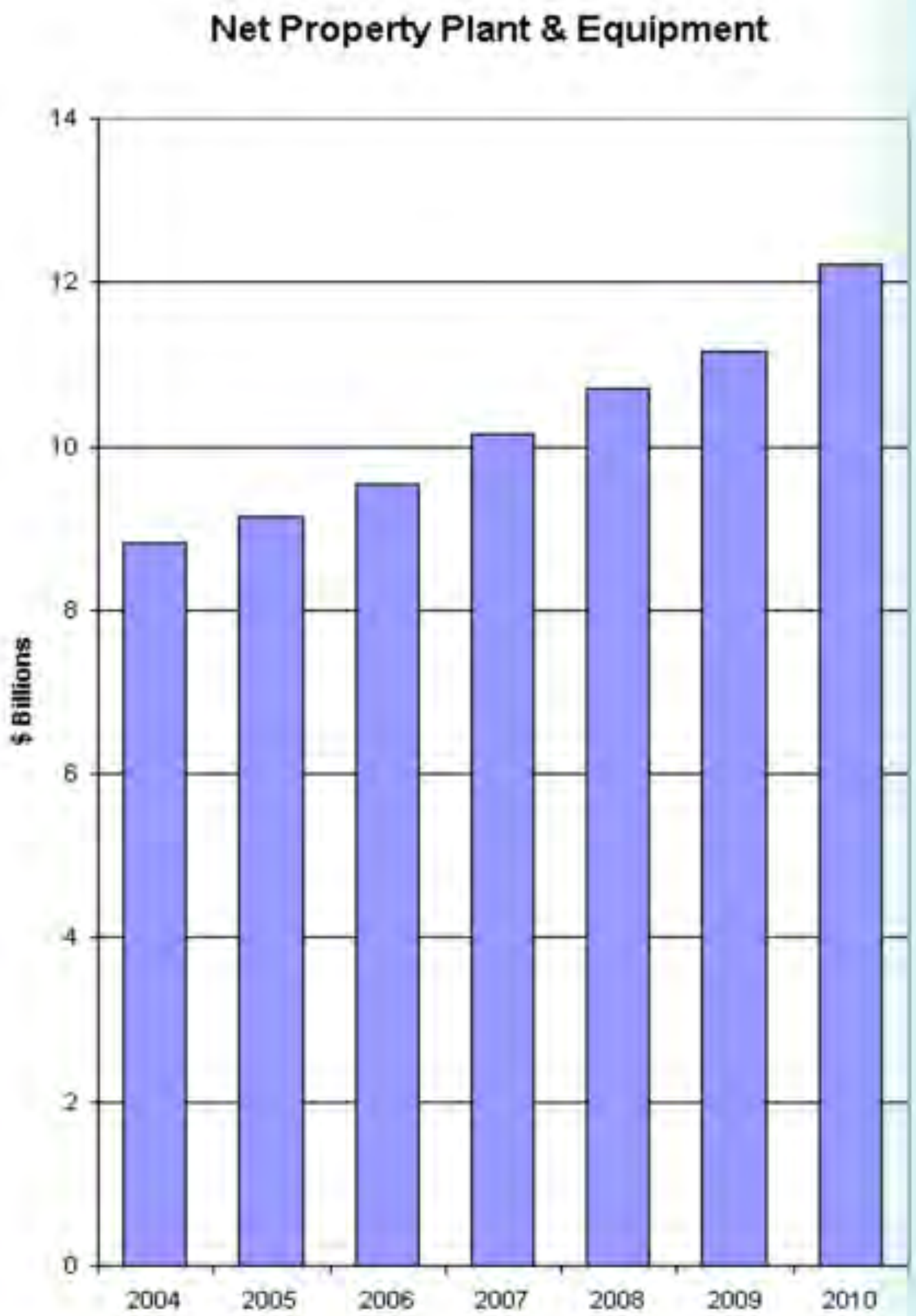
2004 to 2010:

- 40% increase in OM&A costs
- 13.5% increase in inflation
- 9.1% increase in customer numbers

Source: Ontario Energy Board

TIMING

GROWTH IN DISTRIBUTION CAPITAL ASSETS



2004 to 2010:

- 48% increase in book value of distribution assets
- Replacement of old equipment with new
- Spending on new initiatives such as smart meters

Capital requirements for the future are even greater, as older assets reach the end of their useful life and must be replaced with new equipment

Source: Ontario Energy Board

TIMING

ALTERNATIVES

ALTERNATIVES TO CONSOLIDATION

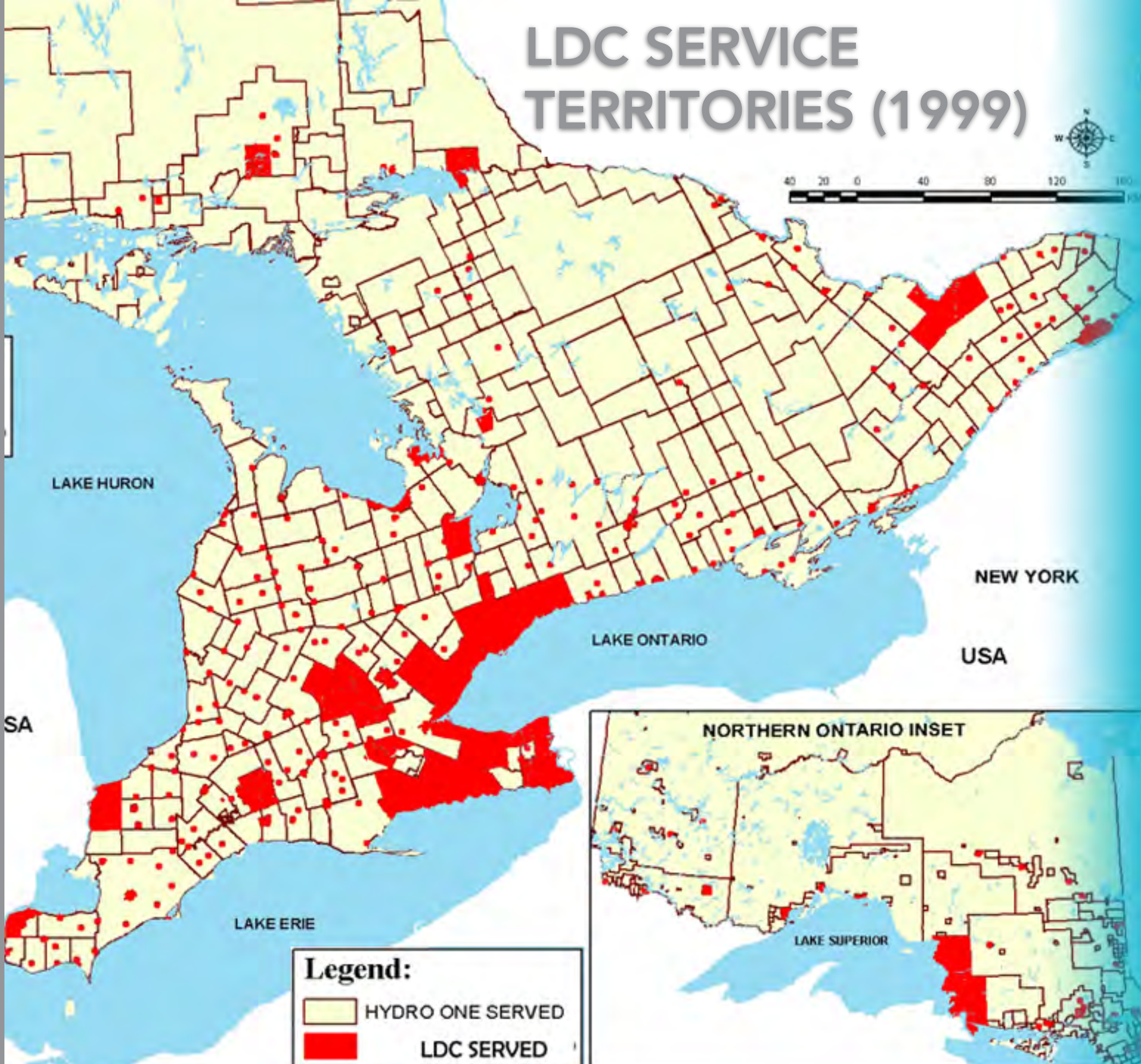
- Partnerships
- Sub-contracting
- Capital lease: the special case of Port Colborne

OPTIONS

OPTIONS FOR CONSOLIDATION

- Forced consolidation through legislation
- Partially forced consolidation
- Voluntary consolidation

LDC SERVICE TERRITORIES (1999)



OEA RECOMMENDATIONS

OEA RECOMMENDS

1 Consolidation must be voluntary

2 All LDCs must be eligible buyers and sellers

3 Transfer tax is the most significant impediment that must be removed

4 Ratepayers must visibly benefit from consolidations

5 OEB policies should be adjusted to encourage rational consolidation

ONTARIO'S **ENERGY** VOICE

Ontario Energy Association

CELEBRATING 10 YEARS

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