

July 30, 2012

Jonathan Norman
Director- Transmission and Distribution Policy
Ministry of Energy
3rd Floor, 880 Bay St.
Toronto, ON M7A 2C1

Attn: Ontario Distribution Sector Panel Members

Subject: Ontario Distribution Sector Review Panel

Dear Mr. Elston, Mr. McFadden, and Mr. Laughren:

As Ontario's business advocate, the Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in Ontario, representing 60,000 businesses of all sizes, in all economic sectors and from every area of the province. Our members employ about two million people and produce about 17 percent of Ontario's Gross Domestic Product.

We appreciate the opportunity to comment on the restructuring of the electricity sector currently being considered by the Ontario Distribution Sector Review Panel.

Electricity is of major strategic importance to Ontario's long-term economic health and competitiveness and the cost and availability of electricity are important concerns for Ontario's businesses and residents. The OCC applauds the Ontario government for recognizing this and looking into opportunities for efficiencies, savings and benefits for ratepayers.

Ontario's local utility sector is comprised of 77 electric Local Distribution Companies (LDCs) serving 4.8 million customers across the province, with just two large gas LDCs (Enbridge with 2 million customers and Union Gas with 1.4 million), two municipal gas LDCs (Kingston and Kitchener) and NRG Resources, a micro private gas LDC in Aylmer. Given the number and range of scale of electric LDCs currently serving the province, with the smallest serving 1,200 customers and the largest 1.2 million customers, the OCC believes there are potential savings and efficiencies to be found in the system, particularly on the administrative cost side. As the report from the Commission on the Reform of Ontario's Public Services noted, the consolidation of Ontario's 80 LDCs could reduce the \$1.35 billion per year spent on operations, maintenance and administrative costs.

Efficiencies found in economies of scale play a large role in delivering utility services to customers at the lowest possible rates and have significant economic benefits to customers and businesses across the province. As a case in point, the 2005 merger of Hamilton and St. Catharines LDCs with Horizon Utilities have proven to generate cost savings to consumers and businesses at 40% lower than the industry average. Similar experiences are seen in other large utility mergers like PowerStream and Veridian.

180 Dundas Street W.,
Suite 505
Toronto, ON M5G 1Z8
Tel. 416 482-5222
Fax. 416 482-5879
www.occ.on.ca
ISO 9001 Certified

In the near future, infrastructure renewal demands in the electricity sector will continue to grow, placing upward pressure on electricity prices and increasing scrutiny on LDCs. In order to mitigate the rising prices on consumer and business pocketbooks, utilities will have to become more agile, lean and efficient, something smaller LDCs can do but for which it will be increasingly challenging. The OCC believes consolidation in the LDC market could offer significant savings and allow larger LDCs to deliver innovative, scalable technologies that offer cost savings to customers. Consolidation would also offer fewer price differentials across the province, minimizing distortions in economic development.

However, it is important to balance the value of consolidation within the scope and context of each municipality's unique history, geography, and economic situation. Electrical utilities are believed to serve as important economic development drivers in local communities and the loss of municipal input could have detrimental impacts for government, utilities and communities. The case of wind power in Ontario demonstrates what can happen when local oversight is removed from the decision-making process. The OCC recommends that voluntary consolidation be based on sound business sense, utilizing incentives to encourage consolidation where appropriate, and ensuring local buy in and support through local approvals.

Under the *Electricity Act*, a 33% transfer tax is applied when more than 10% of the value of a municipally-owned electric utility are transferred to another entity that is subject to federal taxation. The transfer tax helps pay down the stranded debt from the old Ontario Hydro. The transfer tax also imposes a significant barrier to entry for the private sector, limiting potential actualization of efficiencies in the sector. Eliminating the transfer tax will allow municipalities to sell their LDC if they so choose or to expand local companies or merge. In place of the transfer tax, a federal and provincial government tax agreement would ensure that the provincial government stranded debt is held whole. The OCC recommends the removal of the punitive 33% transfer tax should municipalities be willing to sell the utility. This would not only encourage private sector investment, but also spur growth and inspire efficiencies.

The OCC supports initiatives that foster a strong business environment with a solid foundation of reliable, affordable electricity. The OCC encourages the Panel to consider establishing 'carrot and stick' incentives for consolidation and enhancing opportunities for private sector involvement, particularly through elimination of the transfer tax. Both sets of initiatives will ensure that the local realities are taken into account in discussions on consolidation.

Business requires a stable policy and regulatory environment for investment, especially in the electricity sector where many investments have high capital costs and long lead times. In order to keep businesses in Ontario competitive, Ontario's electricity policy must support and encourage new investment, promote efficiency, ensure adequate capacity and foster conservation. The OCC looks forward to working with the province through the Ontario Distribution Sector Review Panel to achieve a competitive market for electricity that will bring real benefits for consumers.

Thank you for this opportunity to share our views. If you have any questions or comments on any of the above issues, your staff may contact Arielle Baltman-Cord, Policy Analyst, at (416) 482-5222, extension 2470, or ariellebaltman-cord@occ.on.ca.

Yours sincerely,

A handwritten signature in black ink that reads "Allan P. O'Dette". The signature is written in a cursive style with a large initial 'A' and 'P'.

Allan O'Dette
President & CEO