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From: communicate@amo.on.ca [mailto:communicate@amo.on.ca]
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To: clerk@hamilton.ca
Subject: AMO makes submission to the Ontario Distribution Sector Panel

TO THE IMMEDIATE ATTENTION OF THE CLERK AND COUNCIL

July 4, 2012

AMO makes submission to the Ontario Distribution Sector Panel

The Ontario Distribution Sector Panel (ODSP) is currently conducting a comprehensive review of the Province's electricity sector focusing on options to improve efficiencies including local distribution company (LDC) consolidation.

AMO's submission is based upon the following three key principles:

1. Since distribution only represents a maximum of 20% of the bill, regulatory and governance reform would yield far greater savings than mere consolidation.

2. Efficiency gains from merging municipal LDCs are dwarfed by the potential that exists within Hydro One— Hydro One is the least efficient LDC in the Province (in terms of operating, maintenance and administrative costs) and must be part of the equation if a meaningful review is to occur.

3. LDCs are assets (mostly) owned by municipal governments. Any change must be driven by clearly identified business principles and if consolidation is deemed to create efficiencies, it must be led and facilitated, not mandated.

Our paper is organized around three key sections: Governance and Regulatory Reform, Consolidation and Conservation—which AMO believes should be a cornerstone of energy policy in this Province but is in danger of being ignored in favour of flashier, more expedient issues. The Panel must look to the most appropriate policy responses to the properly defined problem statements.

AMO has set out a number of recommendations in this paper based on the belief that the efficiency of a given LDC must be balanced with its effectiveness, as well as its contributions to the overall energy system and the community that it serves. The aim is to create a new relationship between the Province, its regulatory agencies, utilities and municipalities that is based on better collaboration and a recognition that we all have to think differently and operate more efficiently.

AMO Contact: Scott Vokey, Energy Services Coordinator, email: svokey@amo.on.ca, (416) 971-9856 ext.357

Association of Municipalities of Ontario

AMO's Submission to the Ontario Distribution Sector Panel

July 2012

Association of
Municipalities
of Ontario

200 University Avenue, Suite 801
Toronto, ON M5H 3C6 Canada
tel: 416-971-9856 fax: 416-971-6191
email: amo@amo.on.ca
website: www.amo.on.ca

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Introduction

Ontario municipal governments were at the forefront of innovation in the energy sector as early as October 11, 1910, when Adam Beck brought power to the people in Kitchener. We have been involved in the energy sector ever since. We were involved in restructuring of Ontario's electricity sector in the mid-to-late 1990s. The recent reforms including the *Green Energy Act* has brought tremendous change and added complexity to what was already a complex sector. Municipal governments have a good understanding of the energy sector and how it serves their communities.

Like all other Ontario energy consumers, Ontario municipalities are now paying for previous decades of neglect by provincial governments. As very large consumers of energy, accounting for nearly $1 billion of energy supplies annually, Municipal governments have been and will continue to be severely impacted by rising energy prices. They own a large stock of buildings and facilities in need of investment to support the Province's energy conservation and greenhouse gas reduction goals.

Municipal governments are owners of local distribution companies (LDCs) which form the links between Ontario's residents and the provincial electricity supply. Municipal governments also host, and sometimes partner, in energy projects that are critical to Ontario's sustainable future. The Association of Municipalities of Ontario (AMO) is a non-profit organization representing almost all of Ontario's 444 municipal governments and their interests as owners, consumers, and project hosts. AMO is pleased to have the opportunity to submit this paper to the Ontario Distribution Sector Panel (Panel).

It is our understanding that the Panel has been set up to research, analyze, provide advice and make recommendations to the Minister of Energy regarding issues related to Ontario's electricity distribution sector and distribution models. While we realize the Panel is focused on "financial advantages and savings that could be realized from consolidation of Ontario's local distribution companies", any restructuring should be "interpreted broadly and could include, as examples, consolidation, co-ordinated

procurement, co-ordinated administration, and/or re-assessment of service area boundaries, as well as any combination of solutions".

AMO continues to apply a triple bottom line approach to its analysis of pertinent policy issues. In its broadest sense, the triple bottom line concept captures the spectrum of values that organizations must embrace – economic, environmental and social. Triple bottom line means expanding the traditional working framework to use financial outcomes as well as environmental and social performance to result in decisions that will:

- Lead to greater physical, cultural and financial access and equity in service delivery and activities
- Use fewer natural resources
- Promote and maintain economic development and growth in a sustainable manner.

The triple bottom line is ideally suited to energy policy analysis since energy policy is about ensuring that our environment can support our society, economy and way of life not just now, but well into the future. This same triple bottom line approach guides our response to the Panel's search for efficiencies in the energy sector. AMO realizes that to the outside observer the 78 LDCs of various sizes appears to be inefficient. There are also a number of new pressures facing LDCs including: financing challenges for building or refurbishing old distribution infrastructure; increased customer demands; new products and services such as Smart Meters, Electric Vehicles and the Smart Grid. All of these pressures require increased capacity and greater access to private equity capital. Municipal governments, especially those that govern single-industry towns, are very well aware that reliable and affordable energy is essential for attracting business and investment to our Province. We too are struggling with fewer resources and are doing our utmost to find as many efficiencies as possible. AMO offers this submission to the Panel to help it make the best recommendations possible not just for municipal governments, but for energy ratepayers and all Ontario citizens.

Through our research and consultations with municipal governments and LDCs, three key principles became eminently clear:

1. Since distribution only represents a maximum of 20% of the bill, regulatory and governance reform would yield far greater savings than mere consolidation.
2. Efficiency gains from merging municipal LDCs are dwarfed by the potential that exists within Hydro One— Hydro One is the least efficient LDC in the Province and must be part of the equation if a meaningful review is to occur.
3. LDCs are assets (mostly) owned by municipal governments. Any change must be driven by clearly identified business principles and if consolidation is deemed to create efficiencies, it must be led and facilitated, not mandated.

As a result, this paper is organized around three key sections: Governance and Regulatory Reform, Consolidation and Conservation—which AMO believes should be a cornerstone of energy policy in this Province but is in danger of being ignored in favour of flashier, more expedient issues. The Panel must look to the most appropriate policy responses to the properly defined problem statements.

It is at the municipal level that much can be accomplished in integrating land-use and energy infrastructure planning into a holistic approach that can optimize energy use, minimize waste and improve the quality of life for all Ontarians. It is our hope that the Panel recognizes the opportunities inherent in a new relationship between the Province, its regulatory agencies, utilities and municipalities that is based on better collaboration and a recognition that we all have to think differently and operate more efficiently.

Governance and Regulatory Reform

Very few fields are as fragmented and complicated as energy policy in today's Ontario. Over the years, provincial decision makers have swayed from favouring traditional, centralized electricity planning to a deregulated quasi-free market and back again. Ontario now has a hybrid market structure, consisting of a competitive wholesale energy market and significant amounts of centrally procured or regulated supply. The wholesale

energy market is used to dispatch generation efficiently and to produce price signals that coordinate the actions of the many diverse participants. Central procurement and regulated prices are used to ensure that key government energy policy objectives are achieved.

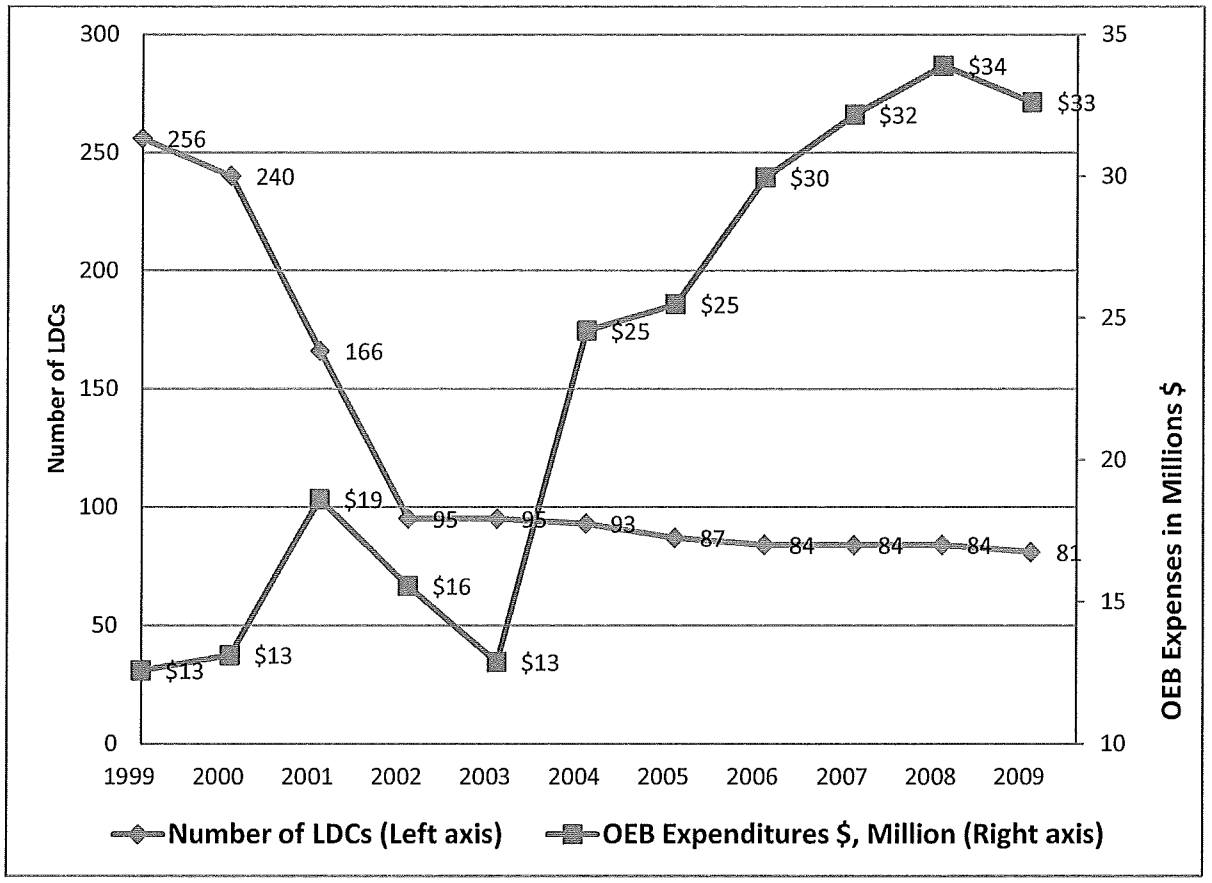
As a result of these swings in policy direction, we are now left with a confused marketplace governed by a veritable alphabet soup of regulators and other agencies including Hydro One, Ontario Power Generation (OPG), Ontario Power Authority (OPA), Independent Electricity System Operator (IESO), Electrical Safety Authority (ESA), Ontario Electricity Financial Corporation (OEFC), and the Ontario Energy Board (OEB). While the current *Bill 75 An Act to amend the Electricity Act, 1998 to amalgamate the Independent Electricity System Operator and the Ontario Power Authority* is a good start in terms of reducing the number of agencies involved in the sector much more needs to be done to streamline the current regulatory process. There is overlap in the various functions of Ontario's energy agencies. The OPA, Ministry of Energy, and the IESO all do some form of power system planning; the OPA, Infrastructure Ontario, and the Ontario Electricity Financing Corporation (OEFC) all procure generation projects and/or manage procurement contracts; and the OPA, IESO and OEB either administer or regulate different conservation programs. Streamlining these agencies' mandates by removing duplication and creating an easier-to-navigate system can result in cost savings and better outcomes for all market participants.

More also needs to be done to educate the public about the important decisions facing utilities and other power system planners. AMO agrees with the Drummond Report in this area:

The Province must coordinate a comprehensive, proactive electricity education strategy across sector participants that at a minimum covers generation, imports/exports, what drives electricity prices, the roles and responsibilities of the various entities operating in the electricity sector; and the evolving role of the electricity ratepayer in the smart grid paradigm.

Governments, industry and NGOs should work together to improve Ontarians' energy literacy. Our citizens need to understand the energy choices that the Province faces so that they can make informed decisions based on realistic assessments of their respective costs and benefits. While this will not necessarily result in greater efficiencies, it will certainly help citizens and ratepayers understand the trade-offs that energy policy makers must make and may ideally lead to better and easier infrastructure siting processes for all types of energy infrastructure.

In terms of changes that will lead to cost savings, consolidation is only one option for achieving efficiency. Bigger is not always better. Service quality, dependability, rate of return, are some of the factors that form any business plan of a willing buyer and seller. Since distribution only represents a maximum of 20% of the bill, the Panel should recommend other meaningful measures in its report to the Minister. It is time to carefully review the regulatory processes to identify areas that could be improved and streamlined. Conservation must become a higher priority for the regulators and utilities and the Ministry needs to review the entire regulatory process to remove unnecessary duplication and costly oversight that offers no real benefits for ratepayers. The OEB is frequently focused on bill impacts in its recent decisions—yet nobody seems to focus on the overall impacts of all of the compliance work. The following chart shows how rapidly the costs of the OEB have escalated at the same time as LDCs costs have decreased.



A more efficient and cost-effective regulatory framework that achieves provincial policy objectives is possible. The costs of regulation must be balanced with the benefits to customers and the amount of regulation should be proportionate to the intended policy outcome. As shareholders of local distribution companies (LDCs) municipal governments have also been indirectly burdened by interveners driving up compliance costs—often in rate applications where individual interveners have no actual members or where their members are completely unaware of their intervention. The intervener process, which appears to benefit a cadre of energy lawyers instead of ratepayers, is a good place to start.

Regulatory streamlining and reform is required to realize greater efficiencies. The OEB must revise the guidelines around interveners to ensure they represent a distinct interest that is relevant to the issue being reviewed. New guidelines should also impose a cap on cost awards and include eligibility rules to weed out those that can pay their own way.

The OEB should revise the guidelines around interveners to ensure they represent a clearly definable/distinct interest that is relevant to the issue being reviewed. New guidelines should also impose a cap on cost awards that reflects the costs and benefits of the review and include eligibility rules to weed out those that can pay their own way. AMO agrees with the Office of the Auditor General that the OEB must better coordinate and evaluate intervener participation in the rate-setting process in an effort to reduce duplication and time spent on lower-priority issues.[1]

The OEB must enhance the cost effectiveness of its rate-setting by working with the LDCs to address their concerns about the cost and complexity of the current rate-setting filing requirements and the impact on their operations.

AMO again agrees with the Office of the Auditor General that the OEB should work with the regulated entities to address their concerns about the cost and complexity of the current rate-setting filing requirements and the impact on their operations; and, better coordinate and evaluate intervener participation in the rate-setting process in an effort to reduce duplication and time spent on lower-priority issues.[2] The provincial Auditor General found that a typical LDC rate application can involve 1,200 pages of paper work, the use of external consultants and cost a mid-sized utility a quarter of a million dollars to complete. We understand that the OEB has recently retained a third party to initiate a review of the LDC rate applications and hearing process.[3] This will be a very

[1] Office of the Auditor General of Ontario, *2011 Report*, Tabled in the Legislative Assembly of Ontario on December 5, 2011. Section 3.02, Rec. 1.

[2] Office of the Auditor General of Ontario, *2011 Report*, Tabled in the Legislative Assembly of Ontario on December 5, 2011. Section 3.02, Rec. 1.

[3] OEB Board Chair Rosemarie T. Leclair, *Letter re Review of Rate Applications and Hearing Process*, Toronto: June 26, 2012.

welcome development if the OEB can obtain the objective identified in the letter—"an improved and streamlined regulatory process that leverages regulatory best practices and is tailored to the Board's legislative requirements and operating environment"—and does not merely tinker around the edges of its currently overly labourious, time consuming and costly process.

Another way to enhance the efficiencies of LDCs is to enable them to expand the scope of their business. To fully realize the business opportunities that will bring value to customers and shareholders alike, LDCs need a regulatory model that builds efficiencies for utilities. The regulatory model should shift from focusing on LDC ability to deliver traditional services to customers to one that provides electricity distributors the flexibility and freedom to effectively expand these services to support and empower customers to manage their electricity consumption through conservation and renewable energy programs. Currently, many LDCs have very entrepreneurial and innovative business offerings in their unregulated affiliate companies. They have evolved from the old "poles and wires" PUC model into an integrated energy company that offers many different services to not only customers in their service area but to other areas in the Province and sometimes to the U.S. and overseas markets. The numerous regulatory restrictions on the main holding companies prevent them from moving into areas where natural synergies may exist. Further, the expense of establishing an affiliate is another obstacle to some LDCs from expanding their operations.

LDCs should be allowed to provide street lighting maintenance and other services in a competitive market with other providers. The Ontario Energy Board (OEB) should enable increased flexibility in internal firm structure and operation

AMO has been pushing for a regulatory remedy to deem streetlight maintenance as a permissible LDC activity under section 71 of the *OEB Act* since 2010. Allowing LDCs to conduct street lighting services to their municipalities will give municipalities the choice to use their own LDC for street lighting services or consider other options. Presently, that choice does not exist. We believe this regulatory change will provide legislative and regulatory clarity, promote public safety, and increase cost effectiveness for municipal shareholders and ratepayers alike.

Our members see no rational benefit to create affiliated companies to conduct street lighting services -- it is simply an unnecessary administrative burden that poses additional costs to the municipality with no real value to the public. Moreover, the operational distinction between the street lighting system and the distribution system is artificial given that for decades street lighting was maintained by local municipal electric utilities under Ontario Hydro regulation. Allowing LDCs to carry out street lighting maintenance assures many of our members access to reliable, qualified professionals that might not otherwise be available at all time in all areas of the Province. Maintenance of street lighting is an important public safety matter in the community. Municipal governments need to be able to ensure timely delivery of maintenance services for the benefit of the public. The OEB has applied a one size fits all approach to this issue and others like it in the name of attempting to ensure fair competition for private sector firms. The pendulum has now swung too far towards excessive rules, with too many layers of watchers at the expense of people who actually get things done. Some municipal governments will continue to utilize private firms for streetlight maintenance—all we are asking for is to allow LDCs to perform this service as they once did.

System Planning

AMO is not for or against any one particular type of generation as we believe a broad portfolio of supply options mitigates the risk of dependence on any one fuel supply but we are supportive of less GHG intense fuel sources. This portfolio should also be complimentary in terms of supplying base, intermediate and peak demands. We do maintain, however, that any potential hosts should have a say in the type of generation planned in their community and that any new generation should be the best available technology and should make use of all available energy types including thermal energy.

Municipal governments must be invited to participate in the Regional Planning of energy infrastructure at its earliest stage.

The current planning process in place since the first Supply Mix Directive of 2006 is too cumbersome because of the numerous shifts in direction, frequent ministerial directives and lack of coordination with municipal governments. The lack of consultation on many

of the directives, an OEB-approved plan and details on the LTEP assumptions points to the continuing lack of transparency. AMO agrees with the Environmental Commissioner of Ontario that "a more nimble approach with attention to localized load growth and closer alignment of conservation targets with annual results and demand growth would better serve the Province".[4] A better approach is needed for system planning to allow electric utilities to figure out how to best connect significant amounts of renewable energy generation at the distribution level and to allow gas utilities to plan for district energy plants or better yet to allow both to participate in truly integrated community energy system planning. The current regional planning approach "entails joint planning between distributors and transmitters in relation to distributor connections to the transmission system (to) share information regarding distributor connection issues, and identify optimal connection solutions among alternatives involving transmission and distribution investments."[5] The OEB paper also states that regional planning may facilitate the "desirable outcome" of integrating land use planning and electricity infrastructure planning exercises, whereas the OPA admits that "while there are some commonalities across regions, each is unique in terms of its electricity requirements, anticipated growth, economic development potential, age and configuration of existing infrastructure, resource and demand management opportunities and community acceptance of proposed solutions."[6] Despite the desired outcome of finally integrating land use and energy planning and the realization that each region has unique circumstances, and the goal of aligning with local initiatives such as Community Energy Plans, Official Plans and other municipal planning considerations, municipal governments have not been invited to participate in this exercise.

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[4] Environmental Commissioner of Ontario, *Restoring Balance: A Review of the First Three Years of the Green Energy Act. Annual Energy Conservation Progress Report –Volume One:* Toronto, 2011.

[5] Ontario Energy Board, *Discussion Paper: Regulatory Framework for Regional Planning for Electricity Infrastructure (EB-2011-0043)* Toronto: 2011.

[6] Ontario Power Authority, *The OPA's Regional Planning Process*, Toronto: February 2012.

Early consultation with affected municipalities will result in superior decisions relating to the siting of new generation facilities as well as the infrastructure to support the new generation. Municipal leaders can provide valuable intelligence on not only what sites would work best but also on how to improve community acceptance as well as how to maximize public investment by integrating new infrastructure into local land use and other planning. The current process of issuing RFPs to proponent who then determine sites without necessarily consulting the affected municipality will repeat past mistakes unless this process is amended as suggested. As the order of government closest to the public our members can provide valuable advice on program development and siting issues before major decisions are made—which will reduce the potential for major reversals and save time and money at the end of the day. Early and consistent consultations with municipal governments will not only avoid many expensive and unpleasant challenges with residents but will present alternative, superior solutions to issue facing our shared energy system that may not have been considered by the plan's developers. The following case study from Northwestern Ontario illustrates that municipal governments and LDCs also need to be at the table in terms of transmission planning to eliminate waste and maximize opportunities to grow our economy:

Transmission or Distribution? Northwestern Ontario Needs an Infrastructure Upgrade to Tap Into a Better Economic Future

The transmission in the Northwest Region (apart from the 230 kV line that at this point serves primarily as a conduit line running between the Manitoba boarder and points east of Wawa) takes place typically at 115kV delivering power to step-down transformers of customers.

- It is essential to appreciate that the transmission system in place covers only the lower one third of the land mass of the Northwest Region.

- The remaining two thirds of the land mass of the Northwest Region have no access to power supplied by transmission.

It is also essential to appreciate the lack of security in the transmission system that does exist in the Northwest Region. The 115kV lines are virtually all long radial circuits running extensive distances of between 200 km and 500 km through remote areas of Crown Land. Permanent faults in these transmission lines result, several times a year, in blackouts that are often measured in days rather than hours. Moreover, transmission line management during electrical storms requires the temporary suppression of transmission in the locality of a storm. The absence of two line supply throughout most of the Northwest Region, outside the City of Thunder Bay, leaves industrial customers and LDCs of smaller communities with little security in power supply.

There are several power lines in the Northwest that are classified as distribution lines in terms of voltage but are much longer than many classified as transmission lines elsewhere in the Province. These radial lines are vulnerable to weather, natural disasters and even traffic accidents. Permanent faults in these distribution lines result, several times a year, in blackouts that are often measured in days rather than hours. Many local leaders feel that local LDCs could be more responsive than Hydro One in servicing these areas.

As the Northwest is on the threshold of massive investments in mining, requiring significant construction and operation of infrastructure – from roads to telecommunications, to rail to electrical transmission or distribution. This is at the same time as two-thirds of the region's land mass has no transmission infrastructure and remote First Nations must rely on expensive and dirty diesel generation. These people are citizens of Ontario and should have the same access to electricity as do all other citizens and should not be asked to bear a higher cost to make those connections.

A smart grid involves monitoring and controlling the electrical grid to ensure it remains balanced and reliable. Smart grid proponents suggest there are different 'types' of efficiencies: physical (energy lost), operational (staff processes and resources), and market level (economic efficiency)—all of which will result in better information, better service and reduced costs. In November 2010, the Minister of Energy issued a directive to the OEB requiring it to take steps to establish, implement and promote a smart grid by providing guidance to distributors, transmitters and other regulated entities. Since then the OEB, IESO, Smart Grid Forum and several private firms have engaged in discussions around customer, technical and operational objectives as well as the preparation of smart grid plans. In April 2011, the Ministry of Energy announced a $50 million Smart Grid Fund, offering financial support for projects that advance the commercialization of smart grid products and services. The smart grid promises homes and appliances consumers can control via the internet and mobile devices, distributed generation and demand response, electric vehicle charging infrastructure and a whole range of future products that may revolutionize the electricity and home building industries. AMO recognizes that the human capacity and future infrastructure needs to enable a smart grid may be beyond many current LDCs which is one reason why proponents of consolidation suggest the current situation is untenable. Indeed, whether we have 78, 68, 58, or some other number of LDCs, they will likely need capital support from investors whether pension funds or private lenders to be able to make the types of investments required to have a truly smart grid. However, AMO would like to point out what is also missing from this equation is the input of municipal governments into smart grid planning. While the OEB, IESO, some LDCs, electricity sector partners, automakers and certain academic institutions have all been engaged in smart grid developments, municipal governments have not despite the fact that they enforce the building code, regulate local roads and transportation infrastructure, utility corridors and a host of other hard and soft infrastructure issues that will affect the smart grid.

Municipal governments must be invited to participate in the planning of smart grid infrastructure.

Current system planning is also inefficient because the existing regulatory environment prevents electric and gas utilities from working together on synergistic projects. The OPA is only interested in reducing electricity demand and the primary regulator and other agencies have swung the pendulum too far towards excessive rules at the expense of people who actually get things done.

Energy planning and programming must be holistic and one that all includes types of fuel sources and all supply options with a priority on conservation.

The Ministry of Energy must build upon the LTEP to produce a true energy plan that is based on all forms of energy and not just electricity. AMO supports moving to more integrated, longer term planning that eliminates the inefficient wall between electricity, natural gas and other sources of energy. A growing number of Ontario municipalities have also decided to implement district energy (DE) systems to meet their thermal energy needs and environmental goals. DE systems, especially Combined Heat and Power facilities, are very efficient because they utilize multiple energy sources, including what are often waste products. District energy systems currently exist in Cornwall, Hamilton, London, Markham, Ottawa, Sudbury and Toronto and could be established in many additional communities across Ontario if investors can accept long pay-back periods. LDCs and gas utilities not only have experience with the technologies involved, but are also more willing to accept long pay-back periods than most private lenders. Unfortunately, the current regulatory framework focuses on conventional energy forms and systems.

The *Ontario Energy Board Act* should be amended to allow LDCs and gas utilities to expand their mandates to become rate-regulated electricity and district energy utilities and rate-regulated natural gas and district energy utilities.

Consolidation

The current collection of electric utilities is as diverse as the communities they serve. LDCs tend to be the products of history and geography —which makes developing a one-size-fits-all approach in terms of determining an ideal size, based on geography or the number of customers difficult and also difficult to "sell".

Forced municipal amalgamations (another form of consolidation) did not necessarily achieve the desired outcomes (i.e. service and governance efficiency). The cross-subsidization of property taxes and "harmonization" of service costs, which became generally higher given successors rights, etc., within existing labour law and agreements. Forced municipal amalgamation became more about the number of municipal governments and boundaries and loss of community identity, rather than the tools to achieve efficiencies and better service within the municipal governance framework. Forced municipal amalgamation was a solution to a poorly identified concern and it brought unintended consequences.

> **"We've replaced downloading, amalgamations and a one-size-fits-all approach with respect, partnership and consultation,"** Premier Dalton McGuinty[7]

AMO is pleased that the Province has recognized municipalities as responsible and accountable governments—and have committed to a new form of government to government discussion, including pre-consultation as enshrined in the Memorandum of Understanding. This type of relationship also recognizes that accountability means mutual respect between municipal governments, the Province and other public agencies. In the face of the question of possible consolidation, many municipal governments are asking: since the Province would never consider forcing consolidation on privately owned companies, why should municipally-owned corporations be treated any differently? Is this signalling a new phase of forced amalgamation and not just in the

[7] *Remarks By Premier Dalton McGuinty To The Rural Ontario Municipalities Association And The Ontario Good Roads Association* http://news.ontario.ca/opo/en/2006/02/remarks-by-dalton-mcguinty-premier-of-ontario-to-the-rural-ontario-municipalities-association-and-th.html February 21, 2006.

area of electricity? Indeed, if anything, LDCs should be protected as they are looking after the best interests of their community instead of strictly adhering to the bottom line. We are also unconvinced of the benefits of LDC consolidation given a review of past experiences in this area "indicates that few real welfare gains have emerged from the costly effort by the Ontario Government and the Regulator to reduce the number of distribution utilities in the Province."[8]

Given that the Panel is focused on seeking out all sorts of possible efficiencies beyond just merely conventional consolidation approaches, it is worthwhile to point out the benefits of shared services at this point.

Shared Services

Since the Panel has been tasked with conducting an analysis of the current system to determine what financial advantages and savings could be realized, we believe it is worthwhile briefly pointing out current examples of successful coordinated procurement and administration between and amongst LDCs. A quick scan of the current LDC environment reveals that several initiatives are underway, sometime involving groups of up to 48 LDCs in the following areas:

- billing services shared by multiple electricity distributors
- billing services shared by various services (e.g., electricity, water and sewage)
- joint development of ESA standards
- shared services based on meter technology
- joint procurement of products and services
- shared services arrangements for regulatory filings
- sharing 'locates' services
- delivery of CDM programs
- collaboration and aid during natural disasters.

[8] Frank Cronin and Stephen Motluk, "How Effective are M&As in Distribution? Evaluating the Government's Policy of Using Mergers and Amalgamations to Drive Efficiencies into Ontario's LDCs," *The Electricity Journal* 2007, 60-68.

For example, Horizon Energy Solutions Inc. is managing and delivering all OPA CDM programming under contract for Oakville Hydro. Horizon also houses three CDM Key Account managers to meet the needs of nine LDCs and are dedicated to the needs of 30 large use customers. We also understand that Hydro One has contracted out its CDM delivery to Union Gas—which has the potential of not only dramatically improving CDM delivery in large parts of the Province but of realizing the efficiencies of combining electricity and natural gas incentive services.

Such collaboration is occurring in all areas of the Province. For example, the Cornerstone Hydro Electric Concepts Association (CHEC) involves 12 LDCs in south, central and eastern Ontario while the Northwest Group serves five LDCs in northwestern Ontario.

Founded in 2000 the CHEC group is an association of 12 LDCs modeled after a cooperative to combine resources, share insights and share professional services such as specialists on rate design, CDM, and regulatory obligations. CHEC has been able to achieve the benefits of scale while maintaining accountability to its members and has developed a number of cost-effective solutions to improve operating and delivery standards.

In 2008 – 2009, the Northwest Group (Thunder Bay Hydro, Sioux Lookout Hydro, Kenora Hydro, Fort Frances Power Corp. and Atikokan Hydro) worked as a group to take part in the London Consortium to gain approval for smart meters. The purchase, installation and operation were coordinated to take advantage of scale. The Northwest Group used one entity for billing software and smart meter operation and the same group has also consolidated the administration and delivery of CDM programs.

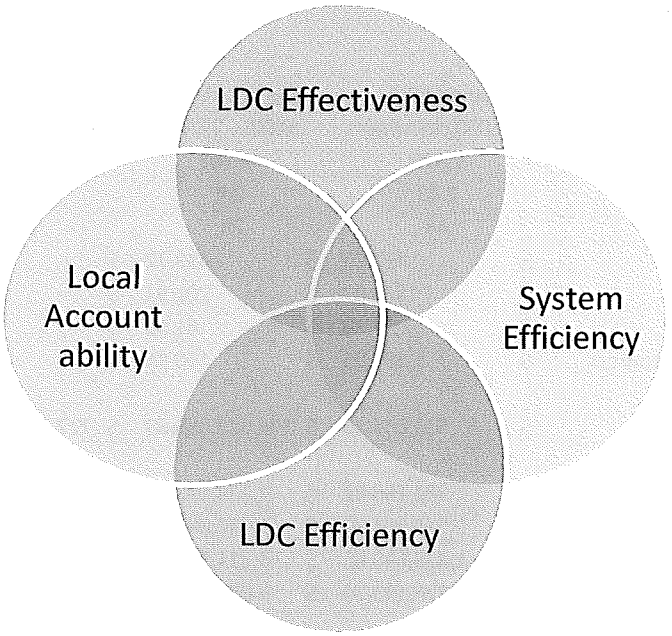
Most LDCs are sharing services wherever possible under existing regulations but as previously mentioned the regulatory environment needs to be recalibrated to ensure that regulated LDCS and not just their affiliates can share services, contract out when desired and develop whatever type of local innovation in service delivery that brings the

best value to its ratepayers and shareholders. If the desired outcome of this exercise is to create more efficient and effective entrepreneurial energy companies then surely this would be a good place to start.

Voluntary alliances and sharing of services should be incented whenever possible. More must be done to encourage specialization. There are great synergies and service sharing on the unregulated side of the business—this should be allowed on the regulated side as well. Current OEB policies which are a barrier to realizing efficiencies must be eliminated.

Principles to Guide Consolidation

As mentioned AMO has its doubts that significant financial savings can be realized from consolidation of LDCs and some of our members are opposed to this initiative. Efficiencies can be achieved by looking at the entire system. However, if the government is going to pursue consolidation and views the current conditions as being inadequate in terms of pushing LDCs towards consolidation and other efficiencies. AMO offers some caution on how it proceeds. The following principles may help guide the Panel to offer recommendations to the Minister of Energy. We were pleased with the frank and wide-ranging discussion we had with the Panel at our initial meeting and are confident that it will interpret its mandate widely. In developing this submission, we have been guided by the belief that the efficiency of a given LDC must be balanced with its effectiveness, its service to its customers, as well as its contributions to the overall energy system and the community that is serves.



To recognize the reality that most LDCs are municipally owned and to realize the objective of looking at any combination of solutions instead of merely traditional consolidation, AMO suggests the Panel advise the Province to recommit to voluntary consolidation with some new parameters.

Consolidation should be voluntary. Consideration of consolidation should be a local not a provincial decision.

Forcing consolidation will negatively impact asset value and likely result in negative outcomes for shareholders—a perverse outcome that will also negatively impact the ability of remaining LDCs to make the necessary investments in infrastructure required in the near future.

Bigger is not necessarily better. One size does not fit all when it comes to amalgamations or mergers in the Electricity sector.

The following table demonstrates that bigger is not always better in terms of overall LDC performance:

Comparison of LDCs by Size
Data from OEB Yearbooks 2008-10

	Small LDCs <20,000 customers	Medium LDCs 20,001--99,999	Large LDCS >100,000	Hydro One
Avg Number of Customers	7,929	41,162	262,386	1,194,683
% of Ontario Electricity Consumers	7.43	24	43.7	24.87
Number of LDCs	44	28	9	1
Avg Revenue Per Customer	$ 494.80	$ 439.72	$ 497.76	$ 893.66
Avg O&M per Customer	$ 301.87	$ 202.91	$ 194.94	$ 423.45
Avg Net Income per Customer	$ 37.28	$ 61.53	$ 74.42	$ 130.99
Avg New Capital Spent per Customers	$ 1,157.05	$ 180.15	$ 181.06	$ 343.87
Power & Distribution Revenue	$ 17,529,641.10	$ 104,029,496.63	$ 727,299,346.91	$ 3,100,883,045.11
Expenses				
operating	$ 382,198.82	$ 2,234,993.68	$ 14,393,833.90	$ 72,037,434.47
maintenance	$ 515,354.22	$ 1,622,087.84	$ 9,877,971.86	$ 227,837,441.74
administrative	$ 1,428,640.65	$ 5,211,871.76	$ 31,497,208.66	$ 206,179,217.02
Total O&M&A	$ 2,326,193.70	$ 9,068,953.28	$ 55,769,014.42	$ 506,054,093.23

A caution here—not all small LDCs are underperforming and in fact an LDC by LDC examination reveals that many small LDCs outperform much larger ones. AMO suggests the real opportunity here is to develop a framework where these smaller LDCs can expand by acquiring areas currently within Hydro One's distribution service territory. The data clearly shows that Hydro One remains an outlier in terms of poor performance.

While a certain amount of Hydro One's poor performance is due to the vast distances it must service including many areas with very few customers, that is not the full story. Hydro One has some of the highest salaries in the Ontario public sector, even though they are running businesses that do not face normal competition or the pressure for results that comes from having to meet shareholders' expectations. There are also numerous instances of redundant infrastructure in the Province where Hydro One has assets in the same neighbourhood or even on the same street as a municipal LDC. Hydro One faces substantial investment requirements in the near future related to several planned transmission projects. Transmission is Hydro One's core business. AMO suggests that Hydro One's distribution assets should be independently valued and put up for sale to municipal LDCs with a right of first refusal. Proceeds from this sale could go to help Hydro One fund its transmission builds and refurbishments.

In the absence of the Shoulder to Shoulder utilities concept first developed in the *MacDonald Report* there will continue to be redundant electrical infrastructure and multiple service providers within the same area.

The Shoulder to Shoulder concept also requires that Hydro One divests many of its assets if not its entire distribution grid.

The creation of Shoulder to Shoulder utilities can only be achieved if Hydro One is willing to divest its distribution assets. The *MacDonald Report's* overriding principle that no service area should be left out in any restructuring should still apply. Based on maps of its distribution system on its website, Hydro One's 1.1 million customers appear to be divided into 52 areas (12 in the north and 40 in the south), each with approximately 21,000 customers. Allowing municipal LDCs to acquire these areas will help them improve the scale of their operations and offer more efficient service to the newly acquired areas. Some municipal LDCs may have no interest in this and may instead choose to merge with another LDC that has the capacity to expand, but this may also meet the needs of the Panel in terms of driving efficiencies and reaching a scale where LDCs can make the investments required of them in the near future. No doubt some will object that such a sale would inevitably result in cherry picking of the denser, more urban areas within southern Ontario at the expense of rural and remote areas. However, there is already a $175 million dollar a year Rural and Remote assistance mechanism in place. This mechanism should be preserved as a way to ensure that rates in Northern Ontario where there are greater distances and fewer customers remain competitive. Working with the independent evaluator, the Province and Hydro One could also ensure that the respective areas are packaged together in a way that enhances their value and does not leave them with only the areas with the worst returns.

Moving customers to municipal LDCs will reduce the rates to the customer and improve LDC efficiency as well as service levels to the end use customers.

The inclusion of Hydro One's rural territories with more urban areas held by other LDCs would result in lower costs and efficiencies through better economics of scale and by eliminating redundant assets, equipment and personnel. This would also allow Hydro One to focus on the transmission build-outs required in the near future.

The inclusion of Hydro One's rural territories with more urban municipally-owned LDCs would result in lower costs and more efficiency through considerable economies of scale and scope by eliminating redundant assets, equipment and personnel. The sale of Hydro One distribution assets at reasonable prices determined by an independent evaluation will result in efficient regional LDCs that will be able to provide benefits to all customers through reasonable rates and enhanced service.

To enable true Shoulder to Shoulder utilities investment, outside investors will be required, but we would prefer that majority ownership of LDCs remain within the public sector. The combination of democratic, local oversight and market-based discipline from such firms would be ideal for owners and ratepayers alike.

The continued exclusion of the private sector from the LDC sector has reduced the options for capital-raising, prevented monetization of municipal value and may be a deterrent to additional consolidation and efficiency in the sector. Another concern is the fact that permissible debt is capped at 60% and the industry currently sits at approximately 55% overall.[9] However, private capital is not a silver bullet and in no way are we suggesting that an ownership transfer occur from public to private hands—the majority equity share of LDCs should remain publically owned. Some consolidation proponents argue that the private sector will impose the discipline of a bottom-line profit motive to hold management's feet to the fire but this is based on the two false assumptions that the private sector performs better and the public sector does not have any external sources of discipline. Numerous studies have confirmed that there is no "statistically significant difference in the operation of distribution electric utilities based

[9] Figures provided by the Electricity Distributors Association (EDA) based on long-term debt and equity for the distribution industry from 2005 to 2010.

on ownership form".[10] Maintaining public ownership also ensures that LDCs meet the economic, social and environmental needs of the ratepayers and citizens that it serves instead of merely the desires of the shareholders for ever greater returns.

Consolidation should be commercially driven. Consideration of consolidation should be based on detailed business plans that point to specific cost savings for owners and consumers.

Any consideration of consolidation, whether it is a merger, sale or lease type arrangement, should be based on a solid business case that addresses the financial benefits to ratepayers and shareholders, rate harmonization, as well as challenges including the successor rights, etc. of union agreements. Any restructuring must be done to take into account local conditions and the potential to realize synergies in terms of economic, customer and strategic benefits of scope and scale. The efficiencies of any consolidation framework have to outweigh the current situation plus the costs of transformation.

Like many other businesses, effective and efficient management of utilities requires that its Board of Directors set clear objectives, use proper metrics to measure progress and provide clear accountability for those expected to meet the objectives. Utilities should drive relentlessly towards effectiveness and efficiency and focus on outcomes, not inputs. Quantitative data already exists that should guide the direction the Panel might take in seeking efficiency opportunities. All LDCs currently meet the standards for customer service and performance as set out by the OEB. Many entrepreneurial LDCs have created a competitive environment by tracking and publishing performance data on a regular basis and encourage productivity improvements.

The OEB should refine and enforce efficiency, reliability and service standards as this benefits all consumers. Outliers including Hydro One should be given clear expectations and reasonable time periods to achieve required improvements.

[10] Frank Cronin and Stephen Motluk, "How Effective are M&As in Distribution? Evaluating the Government's Policy of Using Mergers and Amalgamations to Drive Efficiencies into Ontario's LDCs," *The Electricity Journal* 2007, 60-68.

The Panel could recommend that the OEB and LDCs work together to reform the current common performance standards. The OEB should refine and enforce efficiency, reliability and service standards as this benefits all consumers. Outliers should be given clear expectations and reasonable time periods to achieve required improvements. The OEB has commenced this exercise[11] by looking at incentive regulation, benchmarking and service quality standards in other jurisdictions and AMO is pleased that it is considering an "outcome-based approach with multi-year rate-setting". More work needs to be done in this area—the OEB should separate considerations of Operational, Maintenance and Administrative (OM&A) Costs to focus more on reducing administrative costs and new utility outputs that measure how LDCs connect renewable energy projects, incent innovative conservation initiatives and operationalize the smart grid should be developed.

The transfer tax should be eliminated in order to create benefit for municipal taxpayers and ratepayers.

The Electricity Act imposes a 33% Transfer Tax on any sale of assets owned by a municipal LDC, payable to the Ontario Electricity Financial Corporation (OEFC). The OEFC uses proceeds from this tax, along with other revenue sources, to pay off the stranded Ontario Hydro debt. Eliminating the transfer tax barrier will deliver greater options and flexibility to municipal governments. Some municipalities will choose to expand their local hydro companies and generate new revenue and shareholder benefits while others may choose to sell part or all of their LDC for own source revenue purposes.

Conservation

Until recently, Ontario has had a tradition of offering low, subsidized prices for electricity with less focus on the vast potential of conservation and demand management (CDM) programs. The broad array of our natural resources, our growing population, our climate and geography push us towards above-average energy consumption. As a result,

[11] Ontario Energy Board, *Staff Discussion Paper on Defining & Measuring Performance of Electricity Transmitters & Distributors* EB-2010-0379, Toronto: 2010.

"Ontario's energy consumption per person is amongst the highest in the world. For example, our energy consumption per person is 50% higher than New York State's and is double that of the United Kingdom."[12]

The good news is that the Province now has laudable conservation goals in its *Long Term Energy Plan* (LTEP)—to reduce by 4,550 MW by 2015 and 7,100 MW by 2030. Moreover, Ontario invested about $1.7 billion in conservation programs from 2006-10—which will save ratepayers $3.8 billion in avoided costs. These targets, which the Province suggests are among the most aggressive in North America, will be met through a combination of programs and initiatives:

- Innovative energy efficiency programs for residential, commercial and industrial sectors
- Next-generation building code updates and standards for appliances and products
- Demand response programs to help reduce peak demand
- Time-Of-Use rates.

The government anticipates that the commercial sector will contribute 50 per cent of the conservation target; residential sector will contribute 30 per cent; and industrial sector 20 per cent. Over the next 20 years, Ontario's conservation targets and initiatives are projected to save about $27 billion in ratepayer costs on the basis of a $12 billion investment. Conservation will also do more than that by helping to ensure that Ontario's air is cleaner and the electricity sector reduces its impact on the environment. [13]

AMO is a strong supporter of energy efficiency and Conservation and Demand Management (CDM) initiatives because these programs save money, create local employment, improve system reliability and fight climate change. CDM programs are

[12] Ontario Clean Air Alliance and Ontario Clean Air Alliance Research Inc., *An Energy Efficiency Strategy for Ontario's Homes, Buildings and Industries*, Toronto: October 2011.

[13] Ministry of Energy, *Building Our Clean Energy Future: Ontario's Long-Term Energy Plan*, Toronto: 2011.

strategic investments of public money because they commonly leverage $2-3 for every dollar spent while making our air cleaner and reducing environmental impact. AMO has consistently supported these objectives through our policy positions and program delivery through our subsidiary, Local Authority Services Limited (LAS). We believe conservation should be the first priority in terms of not just supply options but overall energy policy design and system planning.

CDM Should be the First Priority

The energy we stop wasting is the cheapest and most readily available energy source there is. For example, the cost of saving electricity is 76-94% lower than the cost of new nuclear energy. Conservation and Demand Management (CDM) also helps avoid the construction of new, expensive and often unpopular energy supply projects and has many other system benefits. Reduced use of carbon-based fuels would make urban air more breathable. CDM has a multiplier effect in terms of system benefits as a unit of energy saved at the consumer level cascades into multiple units of energy saved at the source. CDM also creates well-paid, local jobs that cannot be outsourced.

In terms of primary delivery agents, the LTEP recognized that the *Green Energy and Green Economy Act* tasked LDCs with being the "face of conservation" by assigning conservation targets which they must meet as a condition of their licence via a combination of province-wide and local incentive programs. LDCs are well suited to deliver CDM programs because they have existing relationships with their customers, they are very knowledgeable and trusted sources of energy information and they can provide financial incentives.

The Current System is Broken

Despite its ambitious targets, the Province is proposing to spend six times more on electricity supply ($75.4 billion) than on energy efficiency ($12 billion) in the LTEP. Worse, in the alphabet soup that is Ontario's current energy regulatory environment, the Ontario Energy Board (OEB) has completely undermined existing efforts by utilities to meet the targets provided to them in November 2010.

The LDCs have also been beset with a constantly changing CDM policy environment. Three different regulatory frameworks with distinct risks, roles, responsibilities and rewards have been in place over the last six years and as their association has argued, "the transitions between these frameworks have not been smooth. Furthermore, the frameworks have progressively increased LDCs' regulatory requirements and responsibility for outcomes, without increasing LDCs' rewards or level of control over outcomes."[14]

The LDCs will currently not be able to meet their mandatory conservation targets by the target date of 2014 because the OEB has put a chill on potential Tier 2 or Board-Approved Programs (BAPs). The OEB turned down applications by both Toronto Hydro and Hydro One for BAPs. The rest of the sector is rightly concerned as putting such applications together under normal circumstances is a costly and time-consuming process—let alone when there is little-to-no chance of success. As a result, no BAPs have been approved and LDCs only now have a complete set of rules within which to develop programs even though we are roughly half way through the 2014 target period.

The OEB is deterring both gas and electricity from promoting conservation to its full potential. AMO agrees with the Environmental Commissioner of Ontario that "the recent rulings have been indifferent and even hostile towards conservation, the opposite of what the government intended when the Board's objectives were amended. In both the natural gas and electricity framework, the Ontario Energy Board has shown a focus on ratepayer costs in the short term, at the expense of the long-term system benefits of conservation, the financial savings for those who conserve and the harmful consequences for the environment."[15] The Panel needs to weigh in on this short-term versus long-term need, otherwise no one will be appropriately served.

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[14] Electricity Distributors Association, *Innovation From The Ground Up: Locally Driven Conservation*, Toronto: 2012.

[15] Environmental Commissioner of Ontario, *Restoring Balance: A Review of the First Three Years of the Green Energy Act,* Toronto: 2012.

A New Conservation Framework is Required

The Province needs to move beyond talk to true leadership by making our homes, buildings and industries the most energy efficient in the world. A new conservation framework is required.

In a comprehensive review of state conservation governance schemes, the International Energy Association (IEA) concluded that the ideal CDM and DSM framework:

- Confers sufficient authority to implement EE policies and programs;
- Builds political consensus on EE goals and strategy;
- Creates effective partnerships for policy development and implementation;
- Assigns responsibility and create accountability;
- Mobilises resources needed for EE policy implementation; and
- Establishes a means to oversee results.[16]

Clearly, while the Province was off to a good start in many of these areas the current system has too many agencies involved, suffers from competing objectives and has been overwhelmed by a focus on renewable energy generation—all of which threaten to undo the political consensus and effective partnerships that have been built to date. The regulatory agencies have also been too focused at maintaining 'arbitrary divisions' between electricity, natural gas and other types of energy conservation programs to the point that they are creating inefficiencies. Energy systems are just that, it is not a series of silos.

A new conservation framework should be designed to achieve the maximum cost-effective CDM and DSM, over long time periods. It should enable innovation, improvement and learning in program design and delivery. It should promote the development of local capacity to design and deliver CDM and DSM in Ontario. It requires a combination of technology development, market mechanisms and government policies that can influence the actions of all consumers. Better conservation

[16] International Energy Agency, *Energy Efficiency Governance*, Paris: 2010.

policies and programs will help insulate Ontarians from volatile energy prices, reduce costs for public institutions and improve the international competitiveness of local firms.

The Province must amend the *Ontario Energy Board Act* to include having regard to the environmental and social costs associated with energy consumption as one of the Board's objectives.

The OEB should encourage more not fewer CDM and DSM programs if it plans to enable utilities to meet the targets assigned to them. The OEB also should be directed to more explicitly consider the societal and environmental costs of energy consumption to factor in the multiple system benefits of CDM and DSM.

The Minister must direct the OEB to include the environmental and social costs associated with energy consumption in its analysis of CDM and DSM programs. The Total Resource Cost (TRC) test is too limited to incorporate a true triple-bottom line approach to conservation program development and does a particularly poor job of valuing vital capacity-building initiatives.

Conservation activities should be customer-centric. Current programs are perceived as engineering-based solutions, aimed to solve electricity system peak issues. Ontario needs customer-centric programs that help all customers save energy and reduce bills. This should include capacity building, customer education, as well as traditional incentive programs.

The Province should empower LDCs and gas utilities to design and deliver CDM and DSM programs according to recognized business cases.

Allowing new and innovative programs to be designed at the local level will create more cost-effective conservation, cater to local needs and support research and development into new techniques and technologies. Groups of LDCs with similar customers could also work together to design locally relevant programs and effective programs could be expanded into other areas. AMO supports the development of a fixed price for CDM and DSM and allowing the marketplace to innovative as a response.

The Province should work with the utilities to determine a payment per kW/kWh and m^3 of savings delivered through CDM and DSM, respectively and then allow utilities and other players in the marketplace to develop their own innovative programs.

There is still a need for program development and research and development by a central agency such as the OPA. OPA programs provide a helpful default for those utilities with limited capacity and have the opportunity to pursue non-conventional approaches such as human resource capacity building and novel technologies. However, the OPA must streamline its lengthy approvals process, move beyond its narrow focus on electricity demand and stop wasting time on technical benchmarks and standards development divorced from market realities.

The OPA should be allowed to continue to provide CDM programs as a default for LDCs and to pursue non-conventional approaches such as human resource capacity building and novel technologies. However, the OPA must streamline its lengthy approvals process and move beyond its narrow focus on electricity demand to more efficiently take advantage of the huge conservation opportunity available.

AMO is pleased that the OPA is now considering CDM programming that looks beyond technology-focused pilots and electricity demand reduction to the crucial goal of developing staff capacity. Like many other customer groups, the municipal sector's main challenge in accessing utility incentive programs is a lack of capacity and qualified staff to take advantage of these opportunities. We believe current CDM efforts could be enhanced by a one-window approach to programs, municipal account managers at the utility level and financial support for energy efficiency service providers to service the municipal and other key consumer sectors.

As previously discussed, current electricity pricing is also an obstacle to achieving more CDM. Rate mitigation efforts through subsidies such as the Ontario Clean Energy Benefit (OCEB) only mask the true cost of power and act as a disincentive to conservation. Electricity pricing must be made more transparent to the consumer to align the role of price in signaling consumption and conservation. Customers are confused by their energy bills, especially those municipalities which have multiple bill

formats from different utilities. Furthermore, the recent increases in the global adjustment mechanism (GAM) have often meant that customers are paying more money for less energy, at a time when the hourly price is quite low.

The Province should reform energy pricing policy to ensure bills clearly reward behaviour that yields an absolute reduction in energy demand.

The Role of the Municipal Sector

Municipal electrical consumption accounts for more than 4% of the total provincial consumption. The municipal sector is a very significant component of the broader public sector as municipalities consume well over 6.6 billion kilowatt-hours per year (or 6.6 terawatt-hours). In terms of costs, the sector spends over $1 billion a year on energy (including over $700 million on electricity) and energy costs are general between the third to fifth largest item in the annual budget of a municipality (where it is tracked as such). IESO/AMO Research indicates that the sector has the potential to reduce its consumption from 12% to 15% using a combination of energy efficiency measures and demand response activities. The municipal sector is doing its part to reduce energy consumption through energy efficiency projects and energy planning and will continue to do so as it grapples with multiple competing demands on its revenue.

Energy conservation plans are good public policy because they help municipalities reduce costs and environmental impacts while enhancing existing asset management initiatives. The planning requirement under the Energy Conservation and Demand Management Plans Regulation (397/11) of the *Green Energy Act* will help municipalities gain better control of their energy consumption, but the plan and its implementation requires investments.

AMO's subsidiary, LAS, is working to develop a number of support programs to assist those that lack the internal capacity to move forward with this important work. LAS delivers programs and services to 320 municipalities and 20 broader public sector entities (primarily school boards) including a number of valuable programs and products designed to help municipalities save money, energy and the natural environment through our Energy Services Division.

LAS has developed a range of conservation tools and programs since 2005:

- Energy management workshops in partnership with Natural Resources Canada. LAS has educated over 800 municipal officials and staff about energy management since 2005.
- 2007 Making the Most of Energy: A Top 10 Guide to Energy Savings booklet that was distributed to all municipalities across the Province.
- The *Audit++ Program* rolled out across the 42 sites from May 2008 to February 2009. Every municipality in Ontario was mailed a box containing 3 binders of Audit++ Program case studies at the end of the project.
- The *Municipal Energy Performance Benchmarking Project* compiled and analyzed data from 393 municipal facilities from 140 municipalities all across Ontario. Individual reports, best practices, and a summary report were provided to all participants.
- LAS *Energy Management Tool (EMT)* allows municipalities to track electricity, natural gas, and water accounts, and is available to all municipalities regardless of location, size, number of facilities, or internal resources.
- LAS Energy Planning Tool (EPT) enables municipalities to produce plans and reports in compliance with the Energy Conservation and Demand Management Plans Regulation (397/11) under the *Green Energy Act*.

AMO also supports the move to provide more flexibility around how municipalities can utilize Local Improvement Charges to develop programs for residential homeowners interested in home energy retrofits and renewable energy projects. Building a culture of conservation is important through a variety of means.

The Province should move forward with its proposal to amend the Local Improvement Charges (LIC) Regulation (O.Reg 586/06) under the *Municipal Act* to provide a mechanism for residents to undertake energy efficiency and/or renewable energy works.

Using LICs for energy efficiency and renewable energy projects is a no-cost initiative for the government to undertake and is a win-win for both the Province and municipalities.

It enhances municipal autonomy and is synergetic with other provincial policy objectives, including local job creation and energy conservation. The amendments to the regulation will be of benefit to municipalities that are currently interested in energy efficiency and renewable energy projects.

Conclusion

Ontario's energy system is becoming and must continue to become cleaner, more responsive and more efficient. Past periods of great risk have prompted Ontario to mobilize its wealth, skills, leadership, natural resources and entrepreneurial spirit to overcome great challenges. Time and again, we have emerged from crises better and stronger. Ontario has before it an historic opportunity to make and incent strategic investments in key infrastructure projects and new technologies to revolutionize our rather archaic and cumbersome energy system to place the province at the forefront of the new, greener economy.

AMO has set out a number of recommendations in this paper based on the belief that the efficiency of a given LDC must be balanced with its effectiveness, as well as its contributions to the overall energy system and the community that is serves. This guiding principle, our collective experience, and an examination of data available to us led to the conclusions that: (1) regulatory and governance reform would yield far greater savings than mere consolidation, (2) efficiency gains from merging municipal LDCs are dwarfed by the potential that exists within Hydro One, and (3) that any consolidation that occurs must be voluntary and driven by business principles. AMO believes that if we stick to these guiding principles we can capitalize on the synchronicity between sound energy system planning and economic health to tap the productivity of our people, invest wisely, and restore Ontario's technological leadership.