VECC INTERROGATORY #25

INTERROGATORY

Reference: The Report, page 16, lines 4-5

Preamble: Competition for the right to connect locations that are unserved or underserved would be in the public interest"

a) Please comment on the public interest principles set out by Hydro One in its August 7th prefiled evidence (page 2, lines 7-18) and the extent to which they are the same/differ from the definition of "public interest" as used in the context of the Report.

RESPONSE

While the four "principles" itemized at page 2 of the evidence of Hydro One will clearly serve Hydro One's interests, it is not at all clear that they would advance the interests of consumers.

> *"Customers should continue to receive a level and quality of service to which they are accustomed, at the lowest possible cost in the longer term."*

This "principle" would deny the right of consumers to select something other than the "level and quality of service to which they are accustomed" even if they consider the alternate service level, at the price offered, to provide greater customer value. There is nothing inherently optimal about the "level and quality of service to which [consumers] are accustomed". Permitting choice in the market would allow customers to select preferred services at the lowest competitive price.

> *"Costs should be fairly allocated over the entire customer base, in a manner that does not create a disproportionate benefit for one customer or several groups of customers, and harm others."*

If this "principle" were to be adopted in the Province, it would imply that the entire province should be rationalized under one distributor, or at least with one set of rates. Hence, it may be presumed that Hydro One means "the entire customer base" to refer to whatever the distinct customer bases happens to be for the 93 incumbent distributors in the Province. On this basis, it would preclude competition, as competition could create different customer groups within the traditional service territory of an incumbent distributor. In the approach envisioned in the Report, customers who choose an alternate provider would benefit and overall value of service to consumers in the Province would be increased. Any principle that ignores the possibility of changes that will enhance efficiency in the Ontario electricity market, ignore not only the principles of the *Energy Competition Act, 1998*, but also the necessary balancing of efficiency and equity objectives. Again, there is nothing inherently optimal about the status quo.

> *"The determination of what is in the public interest should not be determined by existing transitional distribution rates which may not reflect cost of service."*

As discussed in the response to Board Staff Interrogatory 10, the proposed approach to competition for the right to connect unserved and underserved locations is not compromised by distribution rates that do not reflect costs. As long as the incremental costs of the competing distributors are correctly determined, any variances from cost in the distribution rates will be offset by the calculated contribution requirement (incremental costs less present value of distribution revenue). Future "corrections" to distribution rates that do not reflect cost of service may benefit some customers served by a distributor relative to others, but that will happen in any case when distribution rates are "corrected".

> *"Utilities should be provided with a clear planning horizon to allow for system optimization and the ability to capture scale economies within their territory, to the benefit of the broad group of customers and investors."*

The implication of this "principle" is that dynamic efficiency is bad. Dynamic efficiency, whether the result of competitive forces or any other factor, is in the public interest because it leads to enhanced customer value in the form of more valuable services at a lower cost. While market stasis simplifies utility planning, and allows for system optimization based on the perpetuation of the status quo, restricting competition will preclude market forces as an instrument to enhancing customer value in the Ontario distribution market.

It should also be noted that Hydro One's list of principles is conspicuously incomplete in that it fails to recognize enhancing technical, allocational and dynamic efficiency as an important public interest principle. As the Report suggests, effective competition can be the most effect means of pursuing these objectives.