

**Vulnerable Energy Consumers' Coalition ("VECC")  
Interrogatories Regarding Evidence Filed Jointly by Enwin Powerlines Ltd.,  
Erie Thames Powerlines Corp. and Essex Power Corporation (SW Applicants)**

**Question 1**

**Reference: Supplemental Pre-Filed Evidence, page 3**

**Preamble:** "Erie Thames Powerlines Corporation's application is for ... a specific green-field development site" "the Applicant distributors would engage in competitive behaviour with respect to the incumbent distributor's customers"

**I9.11.1**

a) Please confirm whether the subject land described in the Erie Thames' October 2002 Application is just the land associated with 45 lot residential subdivision (Little Creek Subdivision-Phase 1) or whether it includes lands over and above this.

***South West Applicants' answer to this question***

It includes the area specified in the application. 98.26 acres, which includes, but is not exclusively, Little Creek Subdivision - Phase 1.

The 98.26 acres covers the lands that will ultimately be all of the phases of the Little Creek Subdivision.

**Question 2**

**Reference: Supplemental Pre-Filed Evidence, page 3**

**Preamble:** "The applicant distributors would expect that their customers would have nondiscriminatory access to the incumbent distributor's system"

**I9.11.2**

a) Please explain more fully what the expectations of the SW Applicants are with respect to their customers having access to the incumbent distributor's system.

b) Are the customers referred to just the customers in the proposed expansion areas or all customers served by the SW Applicants?

***South West Applicants' answer to this question***

(a) If economically advantageous, as measured by the economic evaluation methodology contained at Appendix B of the Distribution System Code, the applicant utility would be able to connect customers on an embedded basis to the incumbent distributor's line in exchange and the customer would pay an approved rate for the use of the incumbent utility's facility.

(b) Customers in the proposed overlapping service area only.

**Question 3**

**Reference: Supplemental Pre-Filed Evidence, page 4**

**Preamble:** "This regime is simply an extension of the existing arrangements with respect to embedded utilities"

**I9.11.3**

a) Please identify the “existing arrangements” referred to and explain why the proposal is “simply an extension”.

***South West Applicants' answer to this question***

The Board has approved low voltage charges for the use of Hydro One's facilities by embedded local distribution company supply points. LDCs take power at distribution voltages and re-distribute the power to their customers in-turn.

The Applicants propose that this practice be extended to apply, wherever economically most advantageous, to all distribution customers within an overlapping service area. In this way, unnecessary duplication of facilities can be avoided according to a least-cost calculation.

**Question 4**

**Reference: Supplemental Pre-Filed Evidence, page 6**

**Preamble:** “Overwhelmingly, the most important (emphasis added) factor in the Board’s consideration of service area amendments is the introduction, wherever possible, of competition into the electricity distribution sector. The necessary corollary and obvious counterpoint of competition is customer choice”

**I9.11.4**

a) Please explain more fully why the most important factor in the OEB’s considerations of service area amendments is the introduction of competition into the electricity distribution – with specific reference to the OEB’s objectives.

b) Do the SW Applicants consider it feasible to have wide spread (in terms of the number customers who would be able to exercise choice) competition for distribution services in Ontario? Please provide the supporting rationale.

c) The referenced excerpt from the CRTC 94-19 Decision states that “effective competition requires the existence of multiple suppliers” (lines 31-32). Do the SW Applicants envision it feasible that through service area amendments individual electricity customers will be able to choose from “multiple suppliers” – as opposed to just two?

***South West Applicants' answer to this question***

(a) As indicated in the excerpt from the transcript, the position of the SW Applicants is that the sale of electricity includes services to connect customers to the electricity system. The Applicants point out that "electricity" is not defined in the Act, as either including only electrical energy or as excluding any other element in the delivery of electricity to customers. The introduction of competition is the first objective listed in the Act.

As the Board itself noted at paragraph 36 in its Decision regarding the limits of the Board's jurisdiction with respect to existing customers in service area amendment applications:

"if the legislature had intended to inhibit competition for distribution customers and prevent their migration to other providers, it could have done so explicitly. In fact, in providing for the presumption of non-exclusivity of service areas in subsection 70(6), it is clear to the Board that the legislature intended that the Board exercise a very broad jurisdiction with respect to licencing in general and service areas in particular, provided that the public’s interest is protected."

(b) The SW Applicants believe that it is feasible to have widespread competition for distribution services in Ontario, where there are:

- i) licenced distributors that have demonstrated local capability to provide service according to the Board's standards.
- ii) customer responsibility for the direct costs of service, so as to hold the industry whole against uneconomic investment.

The SW Applicants see few general technical impediments to such a development and believe that the legislative and much of the regulatory framework have already been created to allow this to happen.

(c) Yes.

## Question 5

**Reference: Supplemental Pre-Filed Evidence, page 7**

**Preamble:** "would ignore the measures the Board has already put in place with respect to embedded distributors. These measures ... are the appropriate way to allow for competition while compensating the incumbent distributor where required"

### I9.11.5

a) Evidence and arguments presented during the individual proceedings on the service area amendment applications requiring urgent consideration suggested that the main concerns of the incumbent distributor were with respect to duplication of assets and the potential for under utilization or stranding of existing assets. Please indicate how the existing rate measures outlined on page 7 will serve to compensate incumbent distributors for underutilized or stranded assets.

#### *South West Applicants' answer to this question*

The Board has approved low voltage rates, in response to Hydro One Networks' own rate application. If these rates are inadequate, then another rate application would evidently need to be brought forward. Between the Distribution System Code's Economic Evaluation requirements and the proposal made by the SW Applicants to hold incumbent distributors whole against stranded assets, there would be little likelihood of uneconomic duplication under-utilization or stranding of assets.

## Question 6

**Reference: Supplemental Pre-Filed Evidence, pages 6 and 7**

**Preamble:** The supplemental evidence draws a couple of references from the CRTC's 94-19 Decision where in the CRTC was seeking to encourage competition in the provision of local telephone service

### I9.11.6

- a) Please comment on the similarities between the provision of telephone and electricity service that make the make the CRTC's findings relevant with respect to the local distribution of electricity.
- b) Are there any technological differences that would make the CRTC's findings with respect to telecom not directly applicable for distribution of electricity services?
- c) Please indicate how the CRTC has addressed the concerns of the incumbent local telephone service providers regarding the potential stranding of assets and loss of high margin customers and provide references to the relevant CRTC Decisions.
- d) The CRTC's decision was issued almost ten years ago. To what extent has the CRTC's objective of encouraging effective competition in the local telephone market been achieved, particularly for small users such as residential customers?

***South West Applicants' answer to this question***

**Answer Forthcoming.**

**Question 7**

**Reference: Supplemental Pre-Filed Evidence, page 8 and Exhibit 1 (page 5)**

**Preamble:** “where it can be demonstrated that such a grant would result in lower consumer costs than if the amendment had not been granted” “the SW Applicants refer to the rate analysis contained in their respective applications”

**19.11.7**

a) Please confirm that the rate analysis suggested in Exhibit 1 (page 5) would simply compare the rates payable by current customers in each of the three utilities concerned with the current rates payable by customers of Hydro One.

b) Does this analysis address whether it's the incumbent utility (i.e., Hydro One) or the SW Applicant that can actually service the existing and new customers in the proposed expansion area at the lowest incremental cost. If yes, please explain how.

***South West Applicants' answer to this question***

(a) The SW Applicants confirm this understanding.

(b) No. The SW Applicants are completely aware of the requirements of the Distribution System Code and are advocating further measures to prevent stranding of assets. However, the SW Applicants note that:

- i) rates are an important element of total customer cost and;
- ii) the possibility that an applicant distributor may not always be able to serve certain customers in an area at the lowest incremental cost available in the market is not a reason to deny benefits to other customers to whom the applicant distributor can provide service at the lowest incremental cost.

**Question 8**

**Reference: Supplemental Pre-Filed Evidence, page 8**

**Preamble:** “This is true in each case, even allowing for an additional low voltage charge”

**19.11.8**

a) Please provide the analyses supporting this claim.

***South West Applicants' answer to this question***

**Answer Forthcoming.**

**Question 9**

**Reference: Supplemental Pre-Filed Evidence, pages 9 and 11**

**Preamble:** “the SW Applicants recognize that there will be circumstances under which the economic evaluation model requirements ... could yield a capital contribution”

**I9.11.9**

a) Do the SW Applicants agree that one of the considerations of the OEB should be whether the existing customers of a utility applying for a service area extension are protected, i.e., held harmless from rate perspective?

b) Do the SW Applicants agree that to be “held harmless” the rates payable by the existing customers of a utility applying for a service area extension should be no higher than they would have been without the service area extension? If not, what is the SW Applicants’ definition of “held harmless” in this context?

c) Are the SW Applicants of the view that the Distribution System Code’s economic evaluation model and requirement for utilities to obtain capital contributions to finance system expansion will hold the Applicants’ existing customers harmless?

d) If not, what measures, if any, do the SW Applicants propose should be used to assess the impact of the proposed expansion on the applicant’s existing customers (i.e., those in the Applicant’s existing service territory)?

***South West Applicants’ answer to this question***

(a) Yes.

(b) Yes.

(c) Yes. This is the understanding of the SW Applicants of the purpose of the economic evaluation model.

**Question 10**

**Reference: Supplemental Pre-Filed Evidence, pages 9**

**Preamble:** “the customer would make a choice of distributor based on the competing cost analyses presented”

**I9.11.10**

a) How is the OEB to be assured that the “customer” receives the sufficient information, in an unbiased manner, in order to make an informed and rationale decision? Are the existing protocols as laid out in the Distribution System Code sufficient? Please explain.

***South West Applicants’ answer to this question***

The SW Applicants submit that the protocols of the Distribution System Code, as they are currently specified and as they are modified from time to time, are appropriate. Additional specification would be required to notify customers in writing of any stranded asset costs they would have to bear if they accept an offer from a distributor.

**Question 11****Reference: Reference: Supplemental Pre-Filed Evidence, page 11****Preamble:** "Service area amendments can have impacts on the applicant ... and their existing and future customers"**I9.11.11**

a) Please provide an estimate of the costs incurred to-date by SW Applicants that are associated with the proposed service area expansion and what the estimated total costs will be to obtain approval from the OEB. Please describe the current accounting and regulatory treatment of such costs (e.g., are they being expensed to operations, capitalized as part to the anticipated cost of system expansion into the new service area or accrued in a deferral account for future disposition and potential recovery?)

b) In the event that the OEB denies the request by one or more of the SW Applicants for approval of the service area extension, how do the SW Applicants propose that the costs referenced in part (a) be treated (e.g., recoverable from existing rate payers or a shareholders' cost)? Please provide the rationale for the answer.

c) In the event that the OEB approves the request by one or more of the SW Applicants for a service area extension:

- What additional activities would each of the individual SW Applicants need to undertake in order to prepare themselves to make offers of service to new or existing customer in the expanded service area – in advance of actually making the offers?
- What are the estimated costs of these activities for each utility, and
- How will these costs be recovered – will they be expensed as part of ongoing operating and capital costs or accrued and included in the cost of system expansion for servicing new/existing customers in the expanded service area?

d) In the determining the facilities and system reinforcements required to service potential customers (e.g., a developer or consumer) in the expanded service area and respond to their requests for service will the SW Applicants consider:

- Only the requirements of the customers for whom an "offer" is to be prepared and determine the most cost-effective way to expand its system to service just those customers, or
- . Will the investment requirements also consider the likelihood that the utility may gain additional customers in the expanded service area and establish its system expansion requirements based on the most cost-effective approach to serving this potentially broader customer base? If the latter, would the SW Applicants include in the economic evaluation and capital contribution calculations required by the Distribution System Code the entire cost of the system expansion or only the costs of those facilities and activities required to specifically meet the needs of the customers currently requesting service?

***South West Applicants' answer to this question***

- (a) The total costs to obtain the necessary approvals are estimated at \$75,000 collectively. The costs are being expensed in the current period.
- (b) Shareholder's costs.
- (c) This question is outside the scope the application before the Board.

- (d) The SW Applicants will undertake any or all necessary assessments in keeping with good planning practices and code requirements consistent with the scale and scope of the project in question.

## Question 12

**Reference: Supplemental Pre-Filed Evidence, pages 9 and 10**

**Preamble:** “The process includes the requirement for each distributor to develop and bring forward a rate application reflecting its own particular needs” “All distributors’ costs are currently pooled for rate-making. All distributors necessarily have high- and low-cost customers”

### I9.11.12

- a) Do the SW Applicants agree that within any given rate class, the cost to serve an individual customer will typically be higher or lower than the overall average for the class? If not, please explain why.
- b) Do the SW Applicants agree that for any utility, the loss of customers from a rate class where the cost to serve those customers is less than the average for the class will increase rates for the remaining customers and that this will be the case even if the utility is compensated for the capital costs directly employed in serving the “departing customer”. If not, please explain why.
- c) Do the SW Applicants agree that the introduction of competition in distribution services would likely change the needs of distributors? For example, in order to respond to competitive threats, distributors may need to introduce more rate classes and thereby indicate to customers more precisely the actual cost to serve them.
- d) Recognizing the time required to introduce and gain approval for new rate classes, should distributors also be granted greater flexibility to retain customers through other mechanisms (e.g. granted the ability to offer customer-retention payments to high margin customers)?

### ***South West Applicants' answer to this question***

- (a) Yes.
- (b) The SW Applicants are not in a position to answer this hypothetical question. A departing customer could be served by a new distribution facility, which could have a higher unrecovered capital cost, but few maintenance problems. Alternatively, the customer could be served by a fully depreciated facility with higher maintenance cost. The answer would depend on the customer in question.
- (c) Yes.
- (d) The safeguards provided for in the SW Applicants' submission are, in their opinion, sufficient to protect the legitimate interests of the incumbent distributors.

The SW Applicants suggest that the Board prescribe generic interim facilities-use rates for distributors in overlapping service territories as a means of ensuring retention of reasonable amounts of revenue in the event of customer switching.

## Question 13

**Reference: Supplemental Pre-Filed Evidence, page 12**

**Preamble:** “Economic efficiency is promoted when an electricity distribution service area corresponds to municipal planning areas.”

**I9.11.13**

a) Do the SW Applicants agree that “economic efficiency in the distribution of electricity” requires that electricity distribution services be provided in most cost-effective manner possible consistent with meeting customer requirements for service quality and reliability? If not, how do the SW Applicants define “economic efficiency”?

b) Please explain more fully why aligning electric distribution service areas with municipal planning areas promotes economic efficiency in the distribution of electricity, as required by the OEB’s objectives.

c) In the view of the SW Applicants is there any potential loss in economic efficiency as a result of two distributors having an overlapping service territory? Please explain your response.

d) In the view of the SW Applicants will the existence of overlapping service areas lead to inefficiencies or increased costs in the municipal planning process?

***South West Applicants' answer to this question***

(a) Yes.

(b) A rationale for municipal boundary expansions is to allow for ease of securing municipal servicing for potential investors considering locating in the municipality. Allowing for provision of local electricity distribution services by the local provider in a responsive manner, in the opinion of the Applicant, will be less confusing and troublesome for investors than the status quo where remote co-ordination for service with Hydro One could be more difficult. If the investor wishes to be served by Hydro One, it will still have the option of doing so.

(c) No, not if the Distribution System Code and the provision for recovery of stranded assets are followed. In the absence of these or similar measures, there would be the potential for uneconomic investment.

(d) In the opinion of the municipal shareholders of the SW Applicants, municipal planning and local economic development processes will be streamlined.

**Question 14**

**Reference: Supplemental Pre-Filed Evidence, pages 12 and 13 and RP-2003-0044, Transcript Volume #2, paragraph 88**

**Preamble:** “granting of service area amendments can only occur in the context of evidence that existing and remaining customers of an incumbent distributor ... will not be burdened by unrecovered asset costs directly employed (emphasis added) in serving customers that would switch to the applicant utility”  
 “In Hydro One’s submission, it has built its system, designed, planned, and built in a way that provides for service and growth to all of its service territory. And Hydro One will provide evidence that that is the reasonable thing of the licenced distributor in the area to have done in order to plan for future growth.”

**I9.11.14**

a) Please indicate what types of facilities the SW Applicants would consider as being stranded assets.

b) Do the SW Applicants consider the approach to system planning and design, as described by Hydro One, to be standard and sound utility practice? If not, please explain why.

c) Have, in the past, the SW Applicants planned, designed and built their respective existing distribution systems “in a way that provides for service and growth to all of its existing service area”?



d) To the extent utilities have built their systems to accommodate future growth and such activities are considered to be standard and sound utility practice, please explain why there should be no allowance for stranded assets associated with new customers in a licence expansion area?

***South West Applicants' answer to this question***

- (a) The definition is provided at page 12 and 13 of the SW Applicants' Supplemental Evidence and involves fixed assets directly employed in servicing customers.
- (b) In the absence of specifics regarding the approach to system planning and design, the Applicant cannot comment on whether this is standard and sound utility practice. However, in the era since Bill 35, the possibility of changes throughout the electricity system ought reasonably to occur to industry participants and appropriate modification to what would be considered standard and sound utility practice ought to occur.
- (c) In the past, in some cases, yes. The Applicants note that two of the utilities involved did not exist prior to 1999, so there is limited history of consistent design construction policy at these utilities.
- (d) The SW Applicants have no objection in principal to the consideration of stranded assets associated with new customers in a licence expansion area, provided some evidence of unrecovered capital cost and intent of the facilities in question can be examined.

**Question 15**

**Reference: Supplemental Pre-Filed Evidence, page 13**

**Preamble:** “unrecovered capital cost of otherwise unusable (emphasis added) distribution assets”

**I9.11.15**

- a) Do the SW Applicants agree that the loss of existing customers could result in the under utilization of existing assets constructed to provide service to these customers? If not, please explain why.
- b) If existing assets are still used (to service other customers) but underutilized as result of the loss of existing customers due to a service area amendment and the existing customers connecting to the new distributor, why is it inappropriate to consider a portion of the costs of such assets to be stranded?

***South West Applicants' answer to this question***

- (a) Yes.
- (b) The SW Applicants agree that a case could be made that a portion of the costs of under-utilized assets could be stranded.

**Question 16**

**Reference: Supplemental Pre-Filed Evidence, page 15**

**Preamble:** “the potential disadvantage of this approach is the possibility of the creation of stranded assets”

**I9.11.16**

- a) Have the SW Applicants considered the potential for duplication of facilities in overlapping service areas and do they consider this to be an economically efficient result?

***South West Applicants' answer to this question***

As a point of clarification, duplication of facilities frequently occurs currently, as when a distribution feeder runs along each side of a street or highway. The mechanism proposed for stranded assets is concerned with the uneconomic duplication of facilities. If a customer with full knowledge of the costs involved agrees to pay for the construction of a duplicate facility that would not otherwise be built and agrees to pay stranded asset costs associated with the existing facility, the construction cannot be said to be uneconomic from the stand point of the incumbent or Applicant distributor.