

**VERIDIAN CONNECTION'S RESPONSE TO  
VULNERABLE ENERGY CONSUMER'S COALITION INTERROGATORIES**

**Combined Distribution Service Area Amendments Proceeding  
RP-2003-0044**

Question 1

Reference: July 2002 Application, paragraphs 1.4 and 1.5

- a) Please confirm that Hydro One Networks currently provides distribution services to the consumers in the areas addressed by the proposed service area amendment.

*12.11.1a. Hydro One currently provides these services.*

- b) Has Veridian undertaken any assessment of the proximity and capability of Hydro One Networks' distribution facilities with respect to the "lands scheduled for development"?

*12.11.1b. No. Veridian is aware of the Hydro One facilities that exist in and around it's service areas. However, details of Hydro One's feeder loading and capacity would not be information that we have at our disposal in respect to lands scheduled for development.*

- c) If the response to (b) is yes, please provide the results of any such assessments.

Question 2

Reference: July 2002 Application, paragraphs 1.9 and 2.9

Preamble: "Expanding the service territory in each community will provide the Company with the opportunity to offer cost effective electricity distribution services in the new development areas ... these services will include the construction, expansion and reinforcement of distribution facilities"

- a) Has Veridian undertaken any assessments of the costs it will incur to provide electrical service to the lands scheduled for development (paragraph 1.4)? If yes, please provide the results of any such assessments.

*12.11.2a. No.*

- b) Is it Veridians's position that it can provide service to these new development areas more cost efficiently than Hydro One Networks? (Please note that the question is not with respect to rates but with respect to the costs that will be incurred in the construction, expansion and reinforcement of distribution facilities as required to service the proposed amendment area)

*12.11.2b. No. Our position is that the introduction of customer choice within the proposed overlapping service areas will lead to the most efficient expansion of the respective distribution networks of Hydro One and Veridian.*

- c) If the answer to (b) is yes, please providing analyses supporting this position.
- d) If the answer to (b) is no, please explain the bases for the referenced statement in paragraph 1.9 and Veridian's contention (paragraph 2.11) that the proposed amendment to the licensed service area satisfies the objectives of the OEB Act, 1998 to promote economic efficiency in the distribution of electricity?

*12.11.2d. See response to Board staff IR # 10.*

### Question 3

Reference: July 2002 Application, paragraph 2.2 and 2.8

Preamble: "There is no expectation by the Company that the service boundary changes proposed this Application would result in any direct competition between the two distribution companies."

"will permit it to connect potential new customers who formally request to be connected to Veridian's distribution system"

- a) Please confirm that, to the extent there are existing Hydro One Networks' facilities in their proximity, any new customers would also have the option of requesting service from Hydro One.
- b) Please explain Veridian's position that there will be no direct competition between it and the incumbent distributor (Hydro One Networks) given that both parties will be in a position to serve new customers.

*12.11.3b. The implication is that customers will make potentially competitive choices in respect of distribution services where viable alternatives exist.*

#### Question 4

Reference: July 2002 Application, paragraph 2.3

Preamble: "Customers are generally (emphasis added) expected to purchase distribution service from the incumbent distribution utility that has served them to date"

- a) Does Veridian anticipate that there will be existing customers of Hydro One Networks that will lie along the distribution lines Veridian would construct to serve the new developments?

*12.11.4a. See Board staff IR #10*

- b) What would be Veridian position and response if an existing Hydro One customer, lying along Veridian's newly constructed distribution facilities, approached Veridian for connection and distribution service? If Veridian's position is that it would consider connecting such customers please, provide Veridian's view as what financial compensation, if any, should be provided to the incumbent distributor and who should provide the compensation, i.e., the Veridian or the customer. (Note: Please assume, in responding to this question, that the OEB finds that it has the jurisdiction to deal with service area amendments for existing customers)

*12.11.4b. Veridian has proposed that customer choice within the overlapping service areas be extended to new customers only. The transfer of existing customers would take place only under the terms of negotiated commercial arrangements with Hydro One.*

- c) Would be Veridian's position and response as outlined in response to (b) be any different if an expansion of its system (as per Distribution System Code Section 3.2) was required to connect the Hydro One customer? If yes, please explain.

*12.11.4c. See. 12.11.4b.*

#### Question 5

Reference: July 2002 Application, paragraph 2.9

Preamble: "The Company expects that it will be able to offer efficient network services and connections to consumers at costs significantly less than other distributors"

- a) Please provide any analyses that Veridian has performed to support this statement.

*12.11.5a. No specific analysis has been undertaken related to the proposed expanded service areas as a whole. However, the Board has recently approved three amendments to Veridian's licensed service areas to permit the connection of customers located just beyond its existing franchise areas. In each of these cases, Veridian was in a position to connect the customer at a far lesser cost than the incumbent distributor. Refer to Board licence amendment approvals EB-1999-0260; EB-1999-0063; and EB-2003-0020.*

- b) Does Veridian Connections consider the facilities it will be required to construct to provide service to customers in the expanded serviced area a "system expansion" as per:
- the Distribution System Code, section 3.2, and
  - the OEB Act, section 92?

*12.11.5b. This depends on the proximity of the new customer to Veridian's existing distribution infrastructure, and will vary on a case-by-case basis.*

- c) Has Veridian performed any analyses as to whether the revenues from the new customers in the expanded service territory (based on existing rates) will be sufficient to cover the capital costs of construction, expansion and reinforcement of distribution facilities along with ongoing O&M costs similar to that required by the Distribution System Code (section 3.2) for system expansions? If so, please provide the results.

*12.11.5c. No. This would be undertaken on a case-by-case basis.*

- d) Do the "costs" referred to in paragraph 2.9 include payments the customers in the new service area will be required to make through both rates and capital contribution?

*12.11.5d. The statement in 2.9 was simply meant to indicate that the elements of competition (which will include the costs of providing service) will exist in those areas where customers have a choice in distribution service providers.*

e) Will all of the costs of the new distribution facilities (and any reinforcement of existing facilities) required to provide service to the expanded service area be subject to the economic evaluation and customer capital contribution requirements as set out in section 3.2 of the Distribution System Code?

*12.11.5e. Yes. This would be the Company's normal approach in this matter.*

f) If the response to (e) is no, what is the anticipated impact on the rates to Veridian's existing customers arising from the construction, expansion and reinforcement required to service the expanded service area?

*12.11.5f. Not applicable.*

b) When planning the facilities required to service specific customers in the newly acquired service territory, what assumptions will Veridian use in sizing the new distribution facilities? For example, would Veridian base its sizing decision on:

- The capacity required to connect a portion of the specific customers concerned,
- The capacity required to service all potential new development, or
- The capacity required to service all potential new development and a portion of Hydro One's existing customers?

*12.11.5g. Planning additions to the distribution system is primarily customer driven and would be dealt with on a case-by-case. The capacity of these expansions would be determined by Veridian's standard design increments and related municipal approvals.*

h) If the planned capacity in (g) is greater than that required to just service the specific customer(s) concerned, will all of the costs still be included in the economic evaluation and the capital contribution derivation? If not, how will the balance of the costs be treated?

*12.11.5h. Yes. All of the costs will be included.*

## Question 6

Reference: July 2002 Application, paragraph 2.4

Preamble: "Service quality indicators and reliability indices demonstrate a higher level of performance and customer satisfaction in urban areas when compared to rural areas."

a) Please explain what relevancy and weight the existing service quality and reliability indices of the prospective and incumbent distributors (in this case Veridian and Hydro One Networks) should have in determining the appropriateness of a proposed service area amendment?

*12.11.6a. As stated previously, this is a customer choice issue. Customers will make their choice based on the best information available to them at the time of their decision.*

b) Is it Veridian's position that it will be able to provide higher service quality and service reliability to the specific customers in the contested service area than Hydro One Networks? If yes, please explain why.

*12.11.6b. No. This is a matter for customers to assess.*

### Question 7

Reference: July 2002 Application, paragraph 2.10

Preamble: "The Company has sufficient capacity to meet the additional connection requirements based on current growth projections for each of the communities it serves"

a) Does Veridian expect that the electricity carried over the distribution facilities that it would construct in the expanded service area would be provided primarily through connection with its existing distribution systems in the local communities or through new connection(s) with either Hydro One's distribution system or the transmission system?

*12.11.7a. It would be provided by means of the existing system with no new embedded supply points.*

b) If the connections will be primarily with Veridian existing distribution facilities, please explain why there is "sufficient capacity" on the systems in the associated communities to meet loads in excess of the expected loads in the existing service areas.

*12.11.7b. Decisions on building infrastructure were undertaken by others (such as former utilities) in the past with spare capacity for future system growth.*

c) Does Veridian have any information that would suggest Hydro One Networks does not have sufficient capacity on its distribution network

to deliver the electricity required to service the new connections in the contested service area? If so, please provide.

*12.11.7c. No. The Application is not made on the basis of system capacity.*

### Question 8

Reference: July 2002 Application, paragraph 2.10

Preamble: "Veridian expects that all its consumers will experience significant cost on-going savings in distribution service costs"

- a) Please explain the basis for this claim and provide all supporting analyses performed by Veridian

*12.11.8a. There was no need to undertake an economic analysis and the comment was made on the basis of the Ontario Energy Board's approval of distribution rates.*

- b) Please provide an estimate of the costs incurred to-date by Veridian 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 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?)

*12.11.8b. Disclosure of the costs related to the application would violate Veridian's confidentiality obligations to its counsel in this matter. The costs will be expensed.*

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

*12.11.8c. The decision of the Board will affect all distributors across the province. The Board has determined that this is a combined hearing that ultimately affects all LDC's in respect of Section 70(6). Veridian will ask for recovery of its costs in this matter. The Board will have to determine how these costs will be borne.*

- d) In the event that the OEB approves the request by Veridian for a service area extension:1. What additional activities would Veridian need to

undertake in order to prepare itself to make offers of service to new or existing customer in the expanded service area – in advance of actually making the offers?

2. What are the estimated costs of these activities, and

3. 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?

*12.11.8d. Veridian expects to carry on business as usual and as a normal extension of its business and operational practice in accordance with applicable statutes, orders, codes, rules and guidelines.*

### Question 9

Reference: July 2002 Application, paragraphs 1.6 and 2.11

Preamble: “the amendment request is appropriate and reasonable, and consistent with ... the objectives of the OEB Act and the purpose of the Electricity Act, 1998”

“The proposed amendment to the licensed service area satisfies the objectives of the Ontario Energy Board Act, 1998”

- a) Has Veridian any information or undertaken any assessment as to the impact granting the proposed service area amendment application and Veridian distributing power to customers in the expanded service area would have on:
- Hydro One Networks’ ability to achieve efficiencies in the distribution of electricity to its customers (e.g., Does Hydro One have also have excess distribution capacity and are the efficiencies gained by Veridian in being able to use its excess capacity gained at the expense of Hydro One and its customers),
  - The efficiency of overall supply to and in the regional areas concerned, or
  - The impact that the uncertainty associated with creating overlapping service areas would have on the capacity planning processes for both utilities?

*12.11.9a. No. It is Hydro One’s business to make these determinations. There is no need for uncertainty in system planning because restructuring the Ontario electricity market now forces the LDC’s to work together to find and quantify distribution problems and resolve them. However, in doing so, it is important to*

*note that utility planning time horizons (which are typically driven by others such as developers) are becoming increasingly short and consequently, there is a tremendous need for regulatory lead and process time to be sensitive to these situations.*

#### Question 10

Reference: July 2002 Application, paragraph 4.2

Preamble: “OEB approval is necessary, in part, to ensure that the financial viability of Veridian is not harmed”  
“will seek OEB approval as required for specific system expansion projects as required pursuant to the Distribution System Code”

- a) Assuming the OEB grants Veridian’s application for a service area amendment, what other formal approvals does Veridian require from the OEB in order to provide service to a new customer in the expanded service area?

*I2.11.10a. This would be determined at the appropriate time and on a case-by-case basis.*

#### Question 11

Reference: July 2002 Application, paragraph 4.2

Preamble: “The amendments will provide the choice of alternative distribution service to new customers”

- a) Please confirm that only customers in the contested service area will have a choice.

*I2.11.11a. Yes, because this provides for the rational expansion of distribution facilities.*

- b) Will Veridian facilitate and support the entry of new (embedded) distributors seeking connection to its distribution system in order to allow new customers in its existing serviced area the benefits of choice?

*I2.11.11b. Veridian opposes the licensing of new embedded distribution companies. Embedded supply points contribute to complexity in system planning and operations. In our experience, this leads to diminished service quality for customers, and a lack of transparency with regard to accountability for system reliability.*

## Question 12

Reference: March 2003 Reply, paragraphs 2.3

Preamble: "The Company further submits that the Application will not have any detrimental impact on customers... On the contrary, the Company asserts that the application provides benefits to customers, as they will be empowered to choose"

a) Please confirm that the only customers who benefit from the ability to "choose" are those in the contested service area.

*I2.11.12a. Yes.*

b) Please indicate how the granting the application for service area amendment will benefit:

- Veridian's existing customers, and
- Hydro One Network's existing customers.

*I2.11.12b. See Board staff IR #12. This response refers to the impact on Hydro One, but the same assessment applies to Veridian.*

c) Is it Veridian's position that granting the Application will not have a detrimental effect on Hydro One Networks' existing customers? Please explain the basis for the response and in doing so specifically respond to the concern expressed by Hydro One (February 28, 2003 Submission, page 5, lines 5-22) that the proposal could lead to "unnecessarily underutilized assets"

*I2.11.12c. See Board staff IR #12.*

d) Assuming the proposed service area amendment was demonstrated to have a detrimental effect on Hydro One's existing customers) what criteria would Veridian suggest to the OEB use to weigh the benefits to certain customers (e.g. the customers in the contested service area and/or Veridian's existing customers) against the disbenefits to others in approving this and similar applications?

*I2.11.12d. The simple fact of applying for an amendment to expand a service area pursuant to Section 70(6) of the OEB Act is all that is at issue here. There may be circumstances where new customers choose not to connect to Veridian in*

*the future so there is no way of determining whether or not there was or will be a detrimental affect on Hydro One customers. The term “detrimental effect” is relative depending on its reference, and what is being used for comparison. There is a very distinct difference in this case if reference is to Hydro One’s customers, province-wide, those in the immediate vicinity of a Veridian distribution line, or those connected to a particular single phase or three-phase circuit.*

*It must be kept clearly in mind that this Application is not a Veridian vs. Hydro One issue in any way, shape or form nor is it a Veridian customer vs. Hydro One customer issue. It is a customer choice issue.*

e) Please comment on Veridian’s view as to whether the benefiting customers should be required to “compensate” those that are disadvantaged by the service area amendment and, if some form of compensation is reasonable, how that compensation should be determined.

*I2.11.12e. Veridian does not understand the rationale for “compensation” between customers of one utility and another. Customer choice within the overlapping service areas will lead to the most efficient and rational expansion of both distributors’ infrastructure, thereby offering benefits to all customers.*

### Question 13

Reference: March 2003 Reply, paragraph 2.5 and 2.6

Preamble: “The Company has not proposed to duplicate facilities with Hydro One”

a) Please indicate what Veridian considers to be “duplication of distribution facilities”

*I2.11.13a. Simply, the construction of distribution circuits of the same voltages in locations to potentially serve existing Hydro One customers.*

b) Is it Veridian’s position that Hydro One would not be able to use its existing facilities in the contested service areas to service

some or all of the newly locating customers in the associated communities?

*I2.11.13b. No.*

c) Please provide the context for the comments in paragraph 2.6. Is Veridian asserting that duplication of assets should be allowed in new circumstances simply because it already exists elsewhere? Is Veridian suggesting that it will avoid duplication of assets through “joint use pole arrangements” with Hydro One in the contested service area?

*I2.11.13c. There are situations where the circuits of the two companies coexist on the same poles for good practical reasons and there may be occasions where these situations will continue to exist into the future. The example of “joint use pole arrangements” is simply one that exists today. Other arrangements may exist in the future that will be to the benefit of customers.*

#### Question 14

Reference: March 2003 Reply, paragraph 2.7 and 5.2

Preamble: “Under this scenario, customers will be able to make their own decisions with regard to any duplications or inefficiencies as reflected by the price they pay.”

a) Does Veridian agree that for the customers to make a rational choice (from an economic perspective) the price they pay must reflect the costs of any inefficiencies arising from their decision? If not, why not?

*I2.11.14a. It is not for Veridian to determine if customers make a “rational” choice or not – customers decide what is or is not rational for whatever reasons they have. Again, this is very simple, customers request a connection from one or more LDCs that may serve them, the LDCs provide offers to connect and costs, and the customer makes a decision.*

b) If yes, what process would Veridian propose to ensure that the costs of any stranded assets or inefficiencies that are imposed on an incumbent distributor as a result of customer choice are identified and included in the “price” payable by the customers?

*12.11.14b. None. The term “stranded assets” is nebulous within this context and must be defined. If customers detect apparent inefficiencies in a distributor’s operations, administration, or system (whether they truly exist or not) one would expect the distributor to investigate such matters and resolve them as part of good corporate practice.*

## Question 15

Reference: January 28, 2003 Application, page 3

Preamble: “Therefore, the addition of this customer will result in the more efficient utilization of existing assets”

a) In general, assuming an incumbent distributor also has the adequate capacity to meet the customer’s requirements, wouldn’t the loss of a customer lead to a less efficient utilization of its existing assets? If not, please explain why.

*12.11.15a. Ontario’s population base continues to expand and the demand for new connections will continue to grow as well. It is reasonable to expect new customers to be added and old customers leave distribution systems (circuits) continually over time. It is reasonable to expect in most cases that there are more additions than customers who leave systems. Consequently, only the LDC’s can determine and ensure assets are efficiently utilized under the prevailing circumstances.*

b) What is Veridian’s position regarding the criteria or measures that the OEB should use to determine if a proposed service area amendment meets its objectives (as per OEB Act, 1998, Section 1) to “promote economic efficiency in the...distribution of electricity.

*12.11.15b. It is Veridian’s view that the OEB ought not undertake detailed quantitative analyses of the relative merits of certain geographic areas being serviced by one distributor vs. another. This approach is cumbersome, subject to changing circumstances over time, and time and resource intensive. Instead, it is our view that a market-based approach should be adopted, under which the efficient expansion of distribution infrastructure is driven by customers making choices on the basis of self-interest. We believe that our application achieves this goal.*