

BOARD STAFF INTERROGATORY #13

INTERROGATORY

Reference: p.4, lines 10-12

Preamble: “The primary factors that determines allocational efficiency is the presence in the market of correct price signals – that is, prices that reflect marginal costs – and the ability of consumers to respond to those price signals.”

In Ontario, distribution rates are based on average costs. Does this mean that allocational efficiency can not yet be obtained?

RESPONSE

Allocational efficiency is never fully realized in the real world. No competitive or regulated market is perfect. We can nevertheless implement polices that improve the efficiency of price signals and improve allocational efficiency, without “obtaining” it.

The current regulatory regime for determining distribution rates in Ontario, and in most other jurisdictions, sacrifices efficient price signals and allocational efficiency in the interest of other objectives, such as:

- Regulatory streamlining – given that rates must be set by a regulator in the absence of full competition, it would be very burdensome to establish customer specific rates that are significantly more granular than the existing set of customer classes.
- Rate simplicity – it would be difficult in a regulated environment to create rate schedules that is as varied and complex as the diversity of price-service packages that are commonly observed in competitive markets. It is one thing for each supplier in a competitive market to have different price-service packages that target specific market segments; it would be quite another matter to have the same diversity being offered by a monopoly distribution company.
- Equity – it is generally considered to be equitable for all customers within a class to pay the same rates although the cost of serving them may differ. As a result, customers have less opportunity to choose a service package among many competitive offerings that best suits their individual needs.

The issues being addressed in this proceeding will not remove all sources of allocational inefficiency in the electricity distribution sector. With appropriate policies,



however, allocational efficiency can be improved in relation to new distribution facilities.

