BOARD STAFF INTERROGATORY #14

INTERROGATORY

Reference: p.4, lines 25-27

Preamble: "Dynamic efficiency reflects the extent to which costs are minimized through time. In part, dynamic efficiency is achieved through appropriate system planning, which can optimize the timing and the increments of system expansion and upgrades."

How is system planning enhanced by the introduction of competition and additional distributors in the marketplace?

RESPONSE

The Report does not suggest that competition and additional distributors will enhance system planning. The areas in which competition are most likely to enhance dynamic efficiency are set out in the sentence following the one quoted in the preamble.

> *Dynamic efficiency is also affected by technical innovation, pricing strategies and other actions that increase efficiency over time.*

It may be noted, however that system planning as it is currently practiced in the monopoly distribution sector contributes to the concerns set out at p. 5, lines 9-25. In a non-competitive environment, system planning can take a longer term view because a monopolist can slow the pace of change relative to a competitive environment. Although competition introduces uncertainties that make planning more difficult because a competitive market is more dynamic, it cannot be concluded that a less dynamic market is preferred simply because planning is easier.

The weakening of long term planning is not primarily the result of a lack of coordination among competitive suppliers – that issue can be addressed by the regulator. It comes from uncertainty about the competitive innovations that might arise in the future. With a more dynamic market, system planning should focus more on the short term and recognize the uncertainties of the longer term.

To illustrate the point, system planning will tend to view the future as an extrapolation of the past. Facilities required to meet demand from a growing customer base will tend to assume the continuation of current consumption trends. A monopolist may therefore

make an effort to protect the status quo against innovations such as interval meters and time-of-use rates and distributed generation as such innovations may strand investments that were made based on faulty long term plans.

While it is clear that short-term system planning is consistent with dynamic efficiency, it is not at all clear that inflexible long-term system planning is consistent with dynamic efficiency given the innovations that may be on the horizon for the electricity market. Short-term system planning requires only that competing distributors cooperate to minimize the total cost of interconnected facilities. It is on their mutual self-interest to do so, especially in a PBR environment.