BOARD STAFF INTERROGATORY #17

INTERROGATORY

Reference: p.9/10, lines 25-2

Preamble: "Furthermore, as long as it is the incremental cost that determines competitive advantage, a distributor that has a high cost-to-serve customer base will not be at a disadvantage in seeking to connect new customers."

New connecting customers are likely to consider both up-front capital cost of connection as well as distribution rates. If a distributor had a high cost-to-serve customer base, would it not be at risk even if it provided the lowest incremental cost of connection?

RESPONSE

The only time this situation would create a problem would be if no customer contribution were required. That situation is addressed in the Report with a regulatory override that would determine which service provider has the lowest incremental cost, adjusted for service differences.

Where there is a customer contribution required, the higher rates of the distributor with a high cost-to-serve customer base would mean that required contribution would be smaller than the contribution required by a distributor with lower rates.

The intent of the customer contribution is that it should cover any portion of the incremental cost that will not be recovered through rates on a present value basis. By definition, the present value of the contribution plus future rates will be the same for two distributors with the same incremental costs and same cost of capital.

The customer would only have a preference if he/she had a discount rate that differs from the distributor's. If that is the case, the customer could be expected to choose the option that is most attractive based on his/her personal discount rate. This basis for the choice is consistent with the principle of giving primacy to the preferences of the customer.