

VECC INTERROGATORY #11

INTERROGATORY

Reference: The Benefits of Competition in the Electrical Distribution Sector, September 26, 2003 (The Report), page 1, lines 11-14

Preamble: "It addresses the question of whether the distribution sector can be fully competitive without assessing the potential benefits, as well as risks, of introducing some elements of competition into the distribution sector"

- a) While the Report discusses the benefits of allowing competition in unserved and underserved locations (pages 3-6), it does not appear to provide an assessment of the potential risks. Please identify and discuss the risks associated with introducing some elements of competition into the distribution sector.

RESPONSE

The primary risks are identified by the KEMA-Quantec. Those risks are discussed in response to Question 6 in the Report.

In general, the most significant risk when introducing competition into a sector that has been served by regulated monopolies is the risk that effective competition will not develop. Unregulated near-monopoly may result. In this particular case, however, rates will continue to be regulated since competition will be limited to the selection of service provider for unserved and underserved locations. Hence, there is no risk that in the absence of competition, distributors will have significant market power that can be used to charge excessive rates.

Perhaps the most significant risk is that customers may choose unwisely. In essence, when the choices are left to the market, less efficient decisions will be made than the decisions of regulators. Of course, this is a risk in every competitive market. As a matter of government policy Ontario is committed to the path of allowing market forces to replace regulation where feasible.

The most compelling argument that there is a risk that the market will systematically make inefficient decisions is the claim that developers will choose the supplier that requires the lowest capital contribution, although that may commit customers to



comparatively high distribution rates. There are several reasons for dismissing this concern:

- This is no different than the concern that developers will build houses with electrical heating, which has low capital cost and comparatively high operating costs when compared fossil fueled forced warm-air heating. Regulatory intervention has not been relied on to ensure that the market makes the efficient decision between natural gas and electricity. The market has managed to sort out the issue adequately.
- The predominant situation that has arisen to date is that distributors with lower rates are seeking approval for boundary changes that would place a new development in the territory of the distributor with lower rates.
- If it is observed that the market is failing to make efficient decisions, there are many solutions other than prohibiting competition. The more common solution to such problems is to require disclosure of information by developers to prospective purchasers.

