VECC INTERROGATORY #14

INTERROGATORY

Reference: The Report, page 2, lines 17-19 and 24-28

Preamble: "where the distribution facilities necessary to accommodate current or expected loads are not currently in place"

a) Please clarify if a location could be considered to be "underserved" even if upstream facilities were adequate to serve the expected new load.

b) If yes and if the upstream facilities are not employed by the "alternate" distributor in serving the targets loads, could the circumstance potentially give rise to the duplication or stranding of assets? Please explain your response.

RESPONSE

(a) The reference and preamble identify passages that define unserved locations, not underserved locations as stated in the question. A location would be unserved if the area to be served (e.g., residential development) is not serviced, even if the upstream facilities are adequate to provide service.

(b) In some cases, the alternate distributor will use the incumbent's upstream facilities. It is clear that no stranding will occur in these cases.

In other cases, the alternate distributor may have upstream facilities that are adequate to serve the new load. This situation may arise where the new load is on the fringe of two incumbent distributors. It would be difficult to conclude that where two distributors each have the necessary upstream capacity to serve the new load, that the incumbent's assets would be stranded if the alternate distributor serves the load. Whichever distributor serves the new load will experience slightly faster growth and higher utilisation of its facilities in the short term, while the other distributor will experience slightly slower growth and lower utilisation.

The issue therefore reduces to whether priority should be to efficiency or protecting a monopolist's right to serve its captive customers. In the current policy environment, it appears that efficiency should be given priority by the Board.

The only situation that can clearly be characterized as stranding is the case where a customer terminates service with one distributor in order to take service from an alternate distributor. If some of the incumbent's assets become unusable as a result, stranding will occur. This situation would not occur under the proposals contained in the Report.