

VECC INTERROGATORY #22

INTERROGATORY

Reference: The Report, page 9, lines 13-16

Preamble: “all potential customers will be “cream” in the eyes of all distributors”

- a) Please comment on the Kema-Quantec issue of “cream skimming” as it relates to non-incumbent utilities targeting customers with the highest ability to pay (page 7).

RESPONSE

The portion of the KEMA-Quantec (“K-Q”) evidence referred to in the question is the statement that:

*“Competitive distribution utilities would compete for the most desirable customers (i.e., those customers with the highest ability to pay and lowest cost of service) ...*

This comment is made in the context of K-Q’s view of what will result “if the franchise is not clearly defined and dedicated to a single utility” (K-Q Evidence, page 7). The context appears to focus on a situation in which distributors are able to compete for customers, as opposed to locations. Customers have ability to pay, but locations do not. This implies that competition extends to switching customers at locations that are already being served by the incumbent.

In that scenario, it is conceivable that cream-skimming could be an issue, although it is unlikely given that electricity is an essential service, rates are regulated and bad debt costs are recoverable. Customers with low ability to pay create little risk of unrecoverable bad debt.

More important, in the context of competition for new connections only, it is difficult to imagine there being a risk of cream-skimming. In most cases (i.e., new residential developments), the ultimate customers, let alone their ability to pay, will not be known at the time distributors are competing for the right to connect a particular location. Furthermore, given that operating and bad debt costs are recoverable in rates, there is negligible risk that the distributor will suffer a loss regardless of the customer’s ability to pay and therefore there is no incentive to selectively target customers on that basis.



Even in a PBR environment, the cost of differentiating among customers on the basis of ability to pay would be high relative to the potential loss of not connecting the customer.

