

VECC INTERROGATORY #23

INTERROGATORY

Reference: The Report, page 9, Footnote 4

Preamble: “a flawed mechanism for determining customer contributions could give rise to anomalies”

- a) Does the Distribution System Code’ current methodology for determining customer contributions include all of the appropriate incremental costs? If not, what else should be included (or excluded)?
- b) Is the methodology sufficiently well defined that it is appropriate to compare the results of the methodology (as calculated by different distributors) to determine which distributor has the lowest incremental costs?

RESPONSE

A detailed review of the Distribution System Code was beyond the scope of the Report. Although the methodology for determining customer contributions in the Code was established to assess appropriate capital contributions and not specifically to compare connections costs, these two applications of incremental costs are conceptually coincident. That is, the concept of incremental costs that should be used to ensure that new customers are not subsidized by existing customers is the same as the concept that should be used to determine which of two options will add the least in the way of incremental costs to the aggregate costs of the Ontario distribution system.

If the Board is not satisfied that the current methodology in the DSC for determining customer contributions is not acceptable as a basis for comparing the incremental costs of competing proposals for providing distribution service, the appropriate response would be to initiate a further review of the methodology. If a review is required, the potential cost of such a review – a one-time cost – is likely to be far less than the lost opportunity for enhanced efficiency in the distribution sector if competition is permitted in selecting the distributor for unserved and underserved locations.

