

1 **Ontario Energy Board (Board Staff) INTERROGATORY #1 (Prefiled Evidence)**

2
3 **Interrogatory**

4
5 Please explain the implications and how the service area amendment principles you
6 support are affected by the situation of a new customer with new network assets being
7 required?
8

9
10 **Response**

11
12 As the Board has noted, Networks has outlined four principles for service territory
13 amendments (Pre-filed evidence, p. 2, lines 7 to 18) and two limited and specific
14 circumstances where it believes amendments should be permitted (Pre-filed evidence, p.
15 3, lines 1 to 7). The implications of the situations described are that the principles would
16 not be violated where the applicant LDC could connect the customer at a lower
17 incremental cost than Networks and the connection of the customer by the applicant
18 would not result in underutilization or stranding of Networks' assets. For example,
19 Networks has already acted on these principles and circumstances in its response to the
20 amendment application of Erie Thames Powerlines. Networks has indicated in this case
21 that Erie Thames should connect the first phase of the development based on principles
22 and circumstances noted above.
23

24 If by the term "network assets," the Board's interrogatory is referring to either the assets
25 that would be required in a simple "lies along" case (under Section 28 of the Electricity
26 Act) or the additional assets required where the customer does not lie along, the
27 implications of Networks' principles and circumstances would be as noted above. If by
28 the term "network assets," the Board's interrogatory is referring to upstream assets, such
29 as new feeders or distribution stations, the same principles and circumstances noted
30 above would also apply, with the proviso that if both the applicant and the incumbent
31 required new upstream assets, the case for stranding and underutilization for the applicant
32 would be diminished to the extent its upstream assets were insufficient.
33

34 Networks continues to believe, as it has articulated in its principles, that there should not
35 be benefits for one customer or several groups of customers at the expense of others as a
36 result of an amendment. If new customers are "cream skimmed" through expansion of
37 service territory or new embedded distributors, whether through overlapping or exclusive
38 service territory, the applicant LDC gains an opportunity to spread its fixed costs over a
39 larger base. Conversely, the incumbent LDC loses an opportunity to spread its fixed costs
40 over a larger customer base and may, in fact, have a smaller customer base if existing
41 customers are lost, too. The zero sum game nature of the amendments means that growth
42 is a valuable commodity for any LDC and its customers. In Networks' case, as in other

Filed: 2003-09-18

RP-2003-0044

Exhibit J8

Tab 10

Schedule 1

Page 2 of 2

1 LDCs, the fixed costs of operating, including the overheads from customer and
2 information technology systems, remain relatively stable with either a gain or loss of
3 customers. They have also been planned based on revenue and growth projections over
4 the life of the assets. The implications of these amendment applications for the stranding
5 and underutilization of LDCs assets are considerations with important consequences.

6