

Ontario Energy Board (Board Staff) INTERROGATORY #2 (KEMA Report)

Interrogatory

At pages 6 through 8 of the evidence, nine consequences of uncertainty in franchise areas are presented.

a) Please explain which of the nine consequences will still occur, and why, presuming all of the following:

- service area amendments do not create overlapping service areas
- service area amendments do not result in the loss of existing customers
- service area amendments are granted when new customers prefer not to be served by the incumbent distributor, and are prepared to pay for the cost of connection to the applicant distributor

b) Please indicate whether a requirement on the new customer to pay the incumbent distributor a reasonable cost for devaluation of distribution assets would change your answer to (a).

Response

Uncertainty Consequences	Service area amendments...	
	Column (a) No overlap, no loss of existing customers, and preference for applicant vs. utility service	Column (b) New customer required to pay for devaluation of distribution assets
Average costs for all customers within the service area will tend to be higher	Still occurs as fixed costs are spread over fewer consumption units of new customers	May not occur if new customers reimburse the utility for the full impact of fewer units
Load forecasts become more uncertain	Still occurs as the loss of service area definition creates load uncertainty (i.e., who will serve future customers?)	Still occurs

Uncertainty Consequences	Service area amendments...	
	Column (a) No overlap, no loss of existing customers, and preference for applicant vs. utility service	Column (b) New customer required to pay for devaluation of distribution assets
Existing investments are stranded	Still occurs as investments designed to meet the needs of future customers become underutilized	Still occurs but the economic consequences are ameliorated by new customer payment
Cream skimming would develop	Still occurs as applicant would compete against the utility for the most desirable customers	Still occurs but the economic consequences are ameliorated by new customer payment
Redundant networks would develop	Still occurs as network systems would require the same basic infrastructure	Still occurs but the economic consequences are ameliorated by new customer payment
Rates to remaining customers would have to rise	Still occurs as fixed costs are spread over fewer consumption units of new customers	Still occurs but the economic consequences are ameliorated by new customer payment
Society loses	Still occurs as society pays for two sets of fixed costs	Still occurs as society (in this case, the customer) pays for two sets of fixed costs
Obligation to serve issues become muddled	Still occurs as the loss of service area definition creates obligation uncertainty (i.e., who will serve future customers?)	Still occurs
Basic tasks would become more complex and costly	Most likely still occurs as the geographic boundaries may be difficult to define/delineate	Most likely still occurs

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 2 Of course, the extent to which the responses above (in Column b) recognize an
 3 amelioration of potentially adverse consequences depends upon the degree to which the

1 “new customer payment” is compensatory to the distribution utility, and its remaining
2 customers- thus holding all customers harmless. And, whether or not payments are
3 compensatory, remaining customers would still be subject to economies of scale losses.
4