

1 **Ontario Energy Board (Board Staff) INTERROGATORY #6 (KEMA Report)**

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3 **Interrogatory**

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5 On page 3 of the evidence it is suggested that distribution utilities have high fixed costs
6 for assets and service provision, including metering, billing and customer service.

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8 a) Is it the authors' view that these functions are a necessary part of distribution?

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10 b) How does outsourcing of these activities affect the costs related to not serving
11 potential consumers (those that are connected to a competing distributor). Please provide
12 reference to any recent studies related to the costs of investment per sale for pure "wires-
13 only" electric distribution businesses.

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16 **Response**

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18 (a) As a practical matter, distribution utilities have always had responsibility for
19 metering, billing and customer service. Nevertheless, these services, in theory, could
20 be provided by a retail service company or another entity.

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22 (b) Outsourcing these services would tend to lower overall utility costs if the outsourced
23 cost of service is less than the utility cost of service – all other things being equal. In
24 addition, the effect of outsourcing of the "back-office" costs when potential
25 "territorial" customers are served by a competitor depends upon the structure of the
26 outsourced costs (ie., does the outsource vendor charge on a fixed cost basis, on a
27 \$/customer basis, or some other basis?). KEMA/ Quantec is not aware of any recent
28 sales of " pure wires-only" electric distribution businesses, or of any studies of such
29 sales.
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