Vulnerable Energy Consumers' Coalition (VECC) INTERROGATORY #1

Interrogatory

Reference: August 7th, 2003 Prefiled Evidence of Hydro One, page 3 (lines 6-7) and page 6 (lines 1-3);

Preamble: "would not result in the devaluation, under-utilization or even stranding of assets"

"will punish the customers of the incumbent distributor for responsible planning, leaving the distributor's assets devalued from underutilization, and, in some circumstances, evenutally even stranded"

Question:

a) Some parties to this proceeding have suggested that customers be permitted to choose their distributor provided the incumbent utility is compensated for any stranded costs. Please provide Hydro One's position as to how affected parties and the OEB should:
   - Determine whether or not any of the incumbent distributor's assets will be devalued or stranded as a result of a proposed service area amendment, and
   - Determine the appropriate level of compensation, if it is determined that the incumbent's distribution assets will be devalued or stranded.

Response

Networks believes that the guiding principle for assessing applications for service area amendments should be that all customers be held harmless. The determination of whether or not an incumbent LDC's assets are underutilized or stranded and any related compensation should be evaluated with the objective of this guiding principle.

With respect to whether there will be stranded costs if all customers had a choice, LDCs will have costs from stranding and underutilization that will need to be paid for by their remaining customers. This would, in turn, require compensation or put upward pressure on rates. Networks' understanding is that the Board will establish, as part of this hearing, principles in support of the public interest.

The competition for customers, it should be noted, could not be limited to a single instance in the same area if the competition was open. A cascading situation of stranding could actually result if customers could decide to switch LDCs whenever possible, leaving multiple stranding in their wake. For example, where a new subdivision becomes an embedded distributor, stranding or underutilization is likely for the incumbent LDC. If, however, a second new subdivision, adjacent to the first, also establishes itself as a separate embedded LDC that is able to compete for customers from the first embedded LDC subdivision, the result would be a second instance of stranded costs. The situation could repeat itself further.

Networks' view is that the public interest dictates, first and foremost, that stranded costs should be avoided wherever possible. Where the public interest results in service territory amendments that create stranding or underutilization (partial stranding), compensation should be geared to ensuring that the customers of the incumbent LDC are held harmless for all stranding (full or partial). In Networks' view, compensation must be structured to include all affected assets, not just the installed connection assets necessary to connect the specific customers. This would also encompass the opportunity costs for lowering overheads. The reason for an encompassing treatment of stranding and underutilization is that distribution connections require not just incremental additions to assets, but also upstream capacity and overheads that need to be installed in minimum tranches for capital efficiency.

Compensation must reflect all elements of the stranding and underutilization that results from the unanticipated boundary or service territory adjustment, and this would be the case for both new and existing customers. The reason why new customers need to be included, not just existing, is the resulting lost opportunity to spread fixed overhead over expected load and planned customer growth.

In considering how compensation for stranding and underutilization be developed, Networks believes that the incumbent LDC should be compensated for the lost revenue associated with existing and future customers less the costs that it is able to mitigate.

In the determination of compensation, Networks holds that every effort should be made to encourage voluntary settlements in a market of willing sellers and buyers, as contemplated in section 86 of the OEB Act (and the MAADs process derived from this section).