Wirebury Connections Inc. INTERROGATORY #11

Interrogatory

Networks speculates that broad application of service area amendments would allow distributors to acquire customers without compensating the incumbent distributor and that local efficiencies accruing to the applicant's customers may cause costs to increase for all customers in the distribution sector.

Reference: p.11, L2-14

a) In the case of existing customers, if the incumbent is reimbursed fairly for any customer specific assets, what other recovery would be required and why would this be necessary to keep rates from increasing across the sector?

b) In the case of new customers connecting through embedded distribution, why would the incumbent need to be compensated?

c) If competition is limited to embedded distribution and new customers who are required to pay the operating and fixed costs associated with the embedded connection, why would rates increase for other customers?

d) If the competition for new customers as described in (c) leads to lower prices, newer technology or better value for the attaching customers without adversely impacting other customers, please identify any efficiency or public interest reason that would justify prohibiting customer choice and open competition for new customers in unserviced areas?

e) Why does Networks feel that it is not in a position to compete for new customers in order to spread its fixed costs across a broader customer base thereby lowering the average cost of service to its customers?

Response

a) Please see Networks' Exhibits J8-11-1, J8-12-04(a)(b) and J8-12-11(b). Recovery would be required for the portion of upstream assets – the assets beyond the "customers specific assets" cited by Wirebury – left underutilized by the loss of the existing customers.

b) See Networks' Exhibits J8-12-44 and J8-12-45. In addition, Networks' overheads, including customers systems and information technology systems, have been planned to accommodate new customer growth over the life of the assets. If new customers are "cream skimmed" through new embedded distributors, Networks loses an opportunity to spread its fixed costs over a larger customer base. Indeed, without any new growth, Networks has a declining customer base and would face higher unit costs for overheads. Please see Networks' Exhibit J8-12-5.

c) See Networks' Exhibit J8-10-7 and J8-10-8(c). The loss of customers has an opportunity cost. While some parties to this hearing would suggest that the loss of new customers would not affect rates, if the principle of competition for new customers is established, Networks has the potential to have a declining customer population. This is because of the large volume of service cancellations Networks experiences from rural depopulation and other factors. The increase in cost would put upward pressure on rates.

d) See Networks' Exhibit J8-12-1(e). Networks does not accept the premise of this portion of the interrogatory with respect to "lower prices", "without adversely affecting other customers", and "unserviced areas". Any prospect of lower prices is based on short-term advantages for the attaching customer that is derived from the transitional nature of rates. Moreover, this motivation does not result in greater overall efficiency, it does not come without harm to the existing customers, and thus is not in the overall public interest. Wirebury has not explained how Networks or other LDCs would not be in a position to offer the same technology.

e) Please see Networks' Exhibit J8-10-8(d). There are three issues. First, competition has not been established, and as in any orderly transition from monopoly to competition market rules would need to be established. Second, in most instances, growth is outward from urban LDCs, not inward to urban areas from rural areas. Given the character of its service territory, much of the competition will be within Networks' existing licence area, as is evident in 8 of the 9 applications in this hearing. Third, Networks' transitional rates are based on the legacy rates of the former Ontario Hydro. In the former public utility environment, the former Ontario Hydro had a public utility objective as a residual supplier where there were not any municipal or private distribution utilities, and thus has low customer density and higher unit operating costs. In addition, Networks' rates are "postage stamp" in character, such that while the rates are based on common density criteria there are different operating costs across different regions of the province depending on the character of the service territory, e.g., farmlands and the Canadian Shield.