

Wirebury Connections Inc. INTERROGATORY #26

Interrogatory

Networks refers to distribution licenses in general as being a natural monopolies where customer interests are protected by regulation, not competition.

Reference: Appendix A, p.4, L 24-25

- a) Please explain why an undeveloped area which could be served by any licensed distributor (either directly or via embedded distribution) needs to be regulated as a natural monopoly.
- b) Would Networks response change if the distribution system serving the new customers were connected to the incumbent's distribution grid in a manner such that no distribution assets would be stranded or duplicated? If not, please explain why and under what authority the Board should restrict competition and prohibit customer choice when the monopoly portion of the service area is not adversely impacted?

Response

- a) See Networks' Exhibit J8-12-01(e). Networks disagrees with the premise of this Interrogatory on four counts. First, the OEB has a statutory obligation to regulate distributors with licences, and does so with licences that define service territories, so it is not for Networks to speculate on a hypothetical interrogatory. Second, the OEB's objectives include the following: "3. To protect the interests of consumers with respect to prices and the reliability and quality of electricity service. 4. To promote economic efficiency in the generation, transmission and distribution of electricity. 5. To facilitate the maintenance of a financially viable electricity industry." In the context of these objectives, the Board's *Electricity Distribution Rate Handbook* ("the Handbook") has set out a program of performance-based regulation, recognizing that regulation is a substitute for competition. Under the "objectives of PBR", the Handbook states: "By creating incentives that normally accrue in a competitive market, PBR brings the benefits of competition, and preserves important service quality standards." (Handbook, section 2.3.1). Third, the premise, to the extent it suggests that there are "undeveloped areas" in the settled areas of Ontario, is incorrect. There are only "undeveloped areas" where there has never been any settlement, and thus no wires connections whatsoever. And, fourth, regulation is still required to ensure no duplication of assets and resources and to ensure the lowest distribution cost to future and existing customers.

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Exhibit J8

Tab 12

Schedule 26

Page 2 of 2

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2 b) Yes, if the customers of the incumbent could be held harmless. See Networks'

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Exhibit J8-12-16 (a).

4