Wirebury Connections Inc. INTERROGATORY #35

Interrogatory

KQ concludes that under competition the most desirable customers could be captured by other firms leaving the incumbent at a disadvantage particularly if the incumbent has an obligation to connect the less desirable customers.

Reference: KQ p.7-8, pt. 4

a) If a utility builds additional facilities or capacity to serve future customers who pays for that investment until the customers are attached?

b) If those costs were reflected in current rates, how would the delay or loss of future customers put added pressure on rates since all of the fixed costs are currently being recovered in existing rates?

c) If new customers can be connected with no need for additional capital investment by the utility, would rates to existing customers go down rather than going up? If not, please explain why, to what degree and under what circumstances the rates would increase.

d) If the utility revenues from increased consumption continue to grow in excess of the increase in operating costs with no additional investment in fixed assets, why would a death spiral occur?

e) Please explain how any of the adverse impacts associated with "cherry picking" could occur with new customers connecting to the incumbent's distribution system through an embedded distributor using the same connection and upstream distribution assets that the incumbent would use. In addition the connecting customer would provide an ongoing contribution to the incumbent's fixed costs through an embedded distribution rate as well as paying all of the capital costs associated with the connection that would not be covered by the embedded distribution rate.

Response

As stated in the response to Networks' Exhibit J8-12-34, if a utility builds additional facilities to serve future customers, the costs of those facilities are paid by current and future customers. Cost recovery is spread over the expected life of the facility. Any cost breakdown between current and future customers would be based on a blend of equipment of many vintages and lifetimes. It is also a blend of spending for upgrades and refurbishments, as well as expansion and anticipated future needs. All of this investment is directed at the system as a whole, to which all customers contribute and from which they all benefit.

Our point about cream skimming (or “cherry picking”) is self-evident. If current or future customers are selectively removed from the system, the incumbent utility’s costs per customer will be higher than they would otherwise have been. Stated another way, if the customer base of a natural monopoly, such as a distribution system, were fragmented in an opportunistic way, the total costs to the customer base as a whole will be higher than the minimum required to serve the load.

Responses to specific questions follow:

(a) Please refer to response J8-12-34 (e). Depreciation is not charged to current customers until the assets serving them go into service. Interest is charged to the capital value of the asset as new facilities are constructed. Current interest from financing the company’s cash flows is charged to current customers.
(b) Rates would be higher than they would have been otherwise. Please refer to response J8-12-34 (d).
(c) Not necessarily, since customer rates are designed based on projected load growth. Any new customer not served by the incumbent utility but whose load was (theoretically) incorporated into the load growth forecast used to design customer rates would result in higher rates than would have otherwise been for remaining customers served by the incumbent utility.
(d) Please refer to response J8-12-35(b).
(e) Please refer to response to J8-12-35(b).