Wirebury Connections Inc. INTERROGATORY #37

Interrogatory

In its evidence, KQ refers to a number of cases where departing customers were required to pay a contribution to fixed costs.

Reference: KQ pp. 10-11, pt 3

a) Please confirm that in all three of the cases cited in under the municipalization section (LasCruse, Alma and Order 888), the stranded costs were determined with respect to the existing customers only and there was no recognition of opportunity costs related to future customers.

b) Please confirm that these examples are not applicable to Wirebury's embedded distribution model, since any capacity actually built for the customer will be fully utilized and an ongoing contribution will be made to the incumbent's fixed costs. In addition, the applicant or its customer(s) would pay any shortfall in the capital requirements associated with the new connection. Under these conditions why would there be any risk of stranding.

Response

(a) The stranded costs calculations in the Las Cruces and Alma cases under the principles of the FERC Order 888 are linked to the forward-looking planning horizon of the incumbent. Thus, costs related to future customers are recognized. For example, if the incumbent entered into a long-term contract for power based upon a load forecast indicating customer growth, the associated costs are legitimately considered in the stranded cost deliberation. In the FERC Order 888, opportunity costs relating to future customers are characterized in the stranded cost calculation.

SCO(Stranded Cost Obligation) = RSE [(Revenue Stream Estimate – CMVE (Competitive Market Value Estimate)] x L (Length of Obligation)

The intent of this formula is to compensate the utility for the portion of its cost base incurred to serve the customers that have left the system. A consideration of "future customers" is implicit in the determination of "L." This stranded cost calculation approved in FERC Order 888 is intended to determine future lost revenue and is associated with some number of future customers over time period L. In FERC's City of Alma modified decision (July 30, 2001), the FERC upheld the Initial Decision's finding that Consumer Energy's planning horizon was a reasonable measure of "L."

The premise in the questions that stranded costs are determined with respect to only existing customers is incorrect in the forward-looking sense. Furthermore, past customers that no longer exist can also be tied to stranded cost recovery. For example, in the Alma Michigan modified FERC Order (November 7, 2001), "Alma Businesses for Electric Competition" it was it was requested that Total Petroleum not be included in lost revenue calculations because Total Petroleum had closed, was no longer an existing Consumers Energy customer, and was not anticipated to use a future Alma Municipal system. Nevertheless, the FERC upheld the Initial Decision to include the lost revenues from Total Petroleum in the stranded cost determination.

(b) KEMA-Quantec is not familiar with Wirebury's business model, and as such, it is difficult to comment on such implications. Please refer to Networks' Exhibit J8-12-34(d).