

Wirebury Connections Inc. INTERROGATORY #39

Interrogatory

In its evidence on comparable industries, KQ notes the benefits of competition in the telecommunication industry as a result of reduced economies of scale and new technological innovation, and concludes that these benefits do not exist in the electric distribution industry. Despite the possibility for lower prices and greater product diversity by allowing limited competition in segments of some industries, KQ concludes that where fixed costs are a significant proportion of total costs customers continue to benefit from exclusive service territories.

Reference: KQ p.18

- a) Wirebury's business model is based on system wide economies of scale and strategic outsourcing to offer the latest interval metering technology to customers at competitive rates while continuing to reduce the costs associated with connecting to and receiving service from the incumbent utility's monopoly network. Considering these benefits could be readily available to new customers, would KQ concur that competition may be possible in some segments of the electrical distribution industry? If not, please explain why, describing why such an approach should not be used to provide enhanced service value to new customers.
- b) In instances where new customers have choice and can benefit from a broader range of more innovative services at competitive rates, and existing customers would be no worse or slightly better off, what economic principles would prohibit limited competition for distribution services?
- c) Would KQ's opinion change if the competition was limited to new customers in new "greenfield" subdivisions where there is no existing investment in fixed assets and the customers will be connected to the incumbent's distribution system and the customer will pay for reasonable connection costs? If not, please explain why.
- d) If customers are prohibited or delayed from realizing the benefits of available technologies and innovative cost-effective services, some may seek alternate distribution arrangements such as gated communities with embedded generators and separate distributors, so there is no need to connect to the incumbent's distribution grid. Given this possibility, why would embedded distribution not be a better option for greenfield developments?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Response

- (a) Please refer to the response to 37(b) regarding the implications of Wirebury's business model. And, while competition is possible in some segments of the electric distribution industry as noted by the utilization of distributed generation projects by certain customers, that does not imply that it is desirable from a societal perspective. The impact of distributed generation on the electric distribution industry is not comparable, for example, to the impact that cellular technology has had on the telecommunications given the widespread application of mobile phones throughout the world.
- (b) In the hypothetical where existing customers are "no worse or slightly better off", there are no economic principles which would prohibit limited competition for distribution services. There may be safety issues involved, however.
- (c) No. Please refer to the response to J8-12-34 (d).
- (d) To the extent that customers chose self generation as an alternative to connecting to the incumbent distribution system, society may be worse off as a result of higher overall costs. Such customers would also be subject to a different level of system reliability (since they would not be connected to the grid, and therefore would not have the benefit of the network's diversity and availability of multiple generation and transmission facilities).