Wirebury Connections Inc. INTERROGATORY #5

Interrogatory

Networks estimates that the liberal expansion of service territories will accelerate its current annual loss of customers and require a 5 percent increase in its rates over a ten-year period.

Reference: p.4, L13-14

a) Please provide the justification and underlying assumptions that would support a 5% increase in rates over ten years. In responding, please indicate to what extent the increase is due to the loss of existing customers and what portion is due to new customers. In addition, please indicate the amount of incremental revenue that Networks assumed it would receive from embedded distributors connected to its system or from new customers acquired outside its current service area. If no revenues were included for either of these competitive possibilities, please explain why.

b) Is the rate increase driven entirely by increased OM&A costs? If the rate increase is driven strictly by OM&A increases, please list and explain why these costs could not be mitigated.

c) If capital costs of new connections are included, please explain why since these costs would be paid by the attaching customers' capital contribution.

d) What would the comparable rate savings be for a customer attaching to the alternate distributor based on average rates and how does this compare to the annual rate increase expected for Networks' existing customers?

Response

a) The impact of 5 % was based on the projected change in revenue requirement-per-customer if customers were lost due to liberal expansion of service territories. It was assumed that the impact on customer rates of losing existing customers would be the same as adding fewer new customers than expected.

A reference level was sourced from statistics presented in RP-2000-0023: Hydro One Networks' Distribution Rate Application.

1999 Number of Customers (A) 925,764 Exhibit E Tab 3 Schedule 1 Appendix B
Target Revenue Requirement (B) $762.2M Exhibit E Tab 1 Schedule 1 Page 7
Average Revenue Requirement per Customer (C) = (A)/(B) =$823.4

Based on actual 2002 and forecast 2003 data, Networks attracts approximately 18,000 new customers annually. In the analysis we have presumed that 50% of those new connections typically take place in or adjacent to urban areas served by other LDCs and could be lost if the applicants' proposals are endorsed by the Board.

The associated cost reductions with loosing 9,000 new customers are estimated to be $3.5 million per year.

Based on these assumption:

Remaining Number of Customers	(D)=(A) – 9,000 =	916,764
Reduced Revenue Requirement	(E)=(B) - $3.5 million =	$758.7M
New Average Revenue Requirement per Customer	(F)=(D)/(E) =	$827.6

Increase of average customer costs of 0.5% per year [$827.6/$823.4] or 5% over a 10 year period.

Networks assumed that no incremental revenues would be received from embedded distributor's customers connected to its systems because Networks can not quantify the increase loading of these customers on the embedded distributors. That is, would the new customers add load to the peaks or valleys of the embedded distributors? Since charges to embedded distributors are based on their maximum hourly demand in the billing period, if the new customers add load only to the valleys of the embedded distributors, Networks would not collect any new revenues.

Networks assumed that no incremental revenues would be received from new customers acquired outside Networks current service areas.

b) The rate increase is not driven entirely by increased OM&A costs. The rate increase is driven by the loss of customer revenues partially offset by costs savings.

c) Capital costs of new connection are not included.

d) Networks believes that rates are not an appropriate basis for comparing customer impacts. If the calculations would be done as requested, it would assume that the distributor's rates would not increase as a result of attracting new customers and that the alternate distributor rates would be the average rate. Also, any potential savings would be applicable only to a few customers, while the increase to Networks would apply to its more than 500,000 residential customers.