Wirebury Connections Inc. INTERROGATORY #6

Interrogatory

Networks submits that a declining customer base from losing existing and new customers would translate into higher rates for all of its customers.

Reference: p. 5, L13-14

a) How would a declining customer base translate into higher rates when there would be less capital requirements, abilities to share services with other utilities and no stranding of fixed assets since existing customers would pay for any stranding?

b) Please list all areas of increase and why variable costs could not be mitigated or managed better to match the change in the number of customers served?

Response

(a) and (b)

Please refer to Networks' Exhibit J8-10-8 and the KEMA-Quantec report in Networks' Prefiled Evidence.

First, Networks does not agree that 1) shared services would be available to help mitigate upward pressure on rates and 2) that existing customers would pay for any stranding.

A loss of existing and new customers would result in a declining customer base for the incumbent distributor. This in turn would lead to a loss of revenue without a proportionate reduction in costs. The high fixed cost nature of the business means that capital requirements and operation and maintenance requirements would not change significantly because a minimum installed system capacity would be required for the remaining customers, even as customer density diminishes. There would be a small reduction in variable costs, including administration of customer accounts, but this would only offset a small portion of lost revenue. A portion of costs incurred to construct the installed capacity would have been incurred assuming it would be required to meet new load growth. This would result in further increased costs for the remaining customers.