

## WIREBURY

### INTERROGATORY #1

THESL recommends that the Board consider using the MAADs process when assessing service area amendments.

Reference: Section 4

- a) Please provide a detailed explanation of why sections 85 and 86 of the Ontario Energy Board Act, 1998 are relevant to service area amendments and why the Board's conclusions on the disposition of assets in its decision on jurisdiction in this proceeding (paragraphs 26 to 29) would not apply.

**Response:**

*Please refer to section 16 of THESL's Summary of Evidence for a detailed explanation of why THESL believes that the MAADS process as contemplated in sections 85 and 86 of the Ontario Energy Board Act, 1998 is relevant to service area amendments.*

*With regard to the Board's conclusions on the disposition of assets in its decision on jurisdiction in this proceeding THESL relies on the Board's findings that the effect of subsection 70 (13) on the Board's consideration of distribution service area amendments will depend on the facts of the individual case before it.*

- b) How would the relevancy of these sections change if the Board allows overlapping licenses and there is no change to the incumbent's ability to provide distribution services to customers that request that service in writing?

**Response:**

*The new LDC will then not be seeking to purchase assets from the incumbent LDC therefore section 86 becomes largely irrelevant. In the view of THESL, overlapping licences, were they to be granted, would have potentially substantial effects on the incumbent LDC's ability to provide service to new customers. THESL does not agree with the premise that there is no change to the incumbent LDC's ability to provide distribution service were overlapping licences to be granted.*

- c) Why would the Board treat a service area amendment as an amalgamation under section 85 when there are more appropriate and direct means for the Board to deal with this issue in the Act?

**Response:**

*THESL submits that section 86 of the MAADs process is an effective means of transferring assets between electricity distributors in that it provides for a series of checks that allows the Board to ensure that the arrangements reached between two willing parties are consistent with the broader public interest and that the transaction*

*will not adversely affect the financial viability of either party. In that it is a joint and mutually agreed to process, the MAADs process also supports societal and industry preference to minimize regulatory burden and the costs to parties associated with regulatory proceedings where possible.*

*The more appropriate and direct means available to the Board referred to in the question are not stated therefore THESL is not in a position to respond to the implication.*

- d) To what degree can a service area amendment be treated as a sale, lease or disposition under section 86 of the Act?

**Response:**

*THESL does not believe that the concept of overlapping service areas is justified therefore it is our belief that the MAADs process would be used for any sale, lease or disposition of LDC assets.*

**INTERROGATORY #2**

As one of its guiding principles for service area amendments, THESL concludes that distribution is a natural monopoly and does not support competition.

Reference: Section 6(a)

- a) What is THESL's definition of a natural monopoly and how does it apply to areas that are not currently served but could be serviced economically by one or more licensed distributors?

**Response:**

*THESL uses the conventional definition of 'natural monopoly', long employed in economics and regulation. A natural monopoly is an enterprise for which average costs decline over a broad range of output, such that two or more firms serving the same market are unable to achieve lower average costs than a single firm. Natural monopolies typically occur where the fixed costs of providing service are a high proportion of total costs.*

*The natural monopoly characteristics of local distribution are not dependent upon whether a particular geographical area is presently served or not. Therefore, THESL rejects the premise of the second part of this question (i.e., that an area could be served economically by more than one licensed distributor).*

- b) Where there is no investment in fixed assets, why does THESL conclude that the public interest is served by prohibiting customer choice and foregoing the benefits of open competition?

**Response:**

*Please refer to THESL's response in 2a).*

- c) Please explain the economic justification for maintaining monopoly rights over unserved territory when competition for the distribution rights can provide improved customer benefits without adversely impacting other customers or stranding the assets of the incumbent provider.

**Response:**

*THESL does not accept the premise of the question, which asks THESL to abandon its own submissions and assume that 'competition for [and actual awarding of] distribution rights can provide improved customer benefits without adversely impacting other customers or stranding the assets of the incumbent provider'. Effectively, the question assumes demonstration of the very point at issue, which THESL does not grant.*

*THESL has made clear submissions concerning the economic justifications for the maintenance of local distribution as a natural monopoly, which include the loss of scale economies benefiting existing customers and the increased social resource cost of duplicated facilities.*

- d) How does THESL reconcile its position on monopoly services with respect to those building owners and landlords who are operating as unlicensed embedded distributors throughout its existing service area?

**Response:**

*No reconciliation of THESL's position is necessary. O. Reg. 161/99 was established simply to provide clarity where these distributors are providing a distribution service to end-use customers and applies only where the distribution occurs on a confined parcel of land. Being an unlicensed distributor means there are no rates to approve or Code requirements to be met for the redistribution of electricity. Hence there is no conflict with the concept of providing a monopoly service in this case.*

- e) What would change if the distribution services that are currently exempt under O. Reg. 161/99 were provided by a licensed distributor?

**Response:**

*The proposed circumstance would arise if a bulk-metered multi-unit building were converted to individual metering, in which case the appropriate rates would be applied to the appropriate classes of customer. The incumbent LDC would assume responsibility for meter installation, meter reading, collection and billing of customers.*

### INTERROGATORY #3

THESL confirms that in some circumstances a neighbouring distributor may be better able to serve than the incumbent, particularly where the neighbouring distributor has distribution assets and capacity in the vicinity of the new customer. However, where the incumbent has “planned and expanded its distribution system to accommodate customers” there is no merit in permitting the transfer of customers. If customers are transferred, THESL believes that the compensation to the incumbent must cover all costs related to any stranded assets.

Reference: Sections 11 & 12

- a) Please confirm that it is the customer’s request for service and the planning and building of the distribution plant to accommodate the customer’s request that justifies compensation being required for the associated stranded assets if the customer is subsequently transferred. In other words, if no distribution plant has been constructed to accommodate the customers, there are no customer-specific assets to strand or duplicate. If this is not the case, please explain why and reconcile with THESL’s submissions in sections 11 and 12.

**Response:**

*THESL can confirm that ‘if no distribution plant has been constructed to accommodate the customers, there are no **customer-specific** assets to strand or duplicate’. However, this does not imply that there would be no stranded distribution assets if there were a customer transfer, since it is often the case that upstream distribution plant required to serve anticipated customer loads is put in place prior to the installation of customer-specific assets.*

*For example, if an area is scheduled for development over the next five years, it may be prudent and more economical for a utility to install certain upstream components (e.g., substations, poles, conductors etc.) with a capacity to serve the ultimate expected load, rather than install small increments of capacity in each successive year. If eventual customers for whom plant was intended and installed are subsequently transferred, the associated capacity could be stranded.*

- b) Please describe the amount of stranding that would occur on its system if THESL provided service to a new subdivision in a portion of its service area that is not currently being served (no distribution plant built yet).

**Response:**

*There would be no stranding of assets in the circumstances described in the question.*

- c) Please explain why the potential for stranding would change if the new service was provided by another distributor using the same connection point and the same upstream distribution facilities that THESL would have used in (b).

**Response:**

*Assuming the new facilities provided by the other distributor are identical to those THESL would have supplied and the only difference is ownership of the facilities, such an arrangement may result in no stranding of assets. However, there is no guarantee that this would be the case and if the other distributor were to supply the new subdivision by alternative means, stranding would occur in an amount equivalent to upstream costs.*

*Additional costs may also be incurred due to the awkward and uncoordinated planning that results as a consequence of having embedded distributors. For example, if the incumbent LDC found it necessary to extend its supply to a new development beyond the intervening embedded LDC's service territory, it could accomplish this in a number of ways:*

- *The least cost solution would have the incumbent LDC make a connection to the embedded LDC's facilities. This would require the embedded LDC to plan and build extra capacity into its facilities in anticipation of the need to wheel power through its service territory. (If the new area is serviced by a third LDC, this would also result in a multiple nesting of embedded LDCs which in itself is undesirable. As well, the end-use customer could possibly face pancaked distribution charges).*
  - *Another option would have the incumbent LDC build a new line across the service territory of the embedded LDC possibly resulting in a duplication of line assets. The embedded LDC may not find this option desirable as some of its customers would now 'lie along' the new line.*
  - *A third option would have the incumbent LDC simply construct a new line around the service territory of the embedded LDC, or extend facilities from other, more distant supply points, at obvious higher cost.*
- d) What approach does THESL take to long-term planning? What would change if other LDCs were permitted to connect new customers through embedded connections in THESL's service area if the connection and the upstream plant requirements were the same as those that THESL would have used?

**Response:**

*In the stated scenario, unless the new LDC were to supply service in exactly the same manner as THESL, there is the potential that distribution assets may be stranded and/or overall distribution costs may increase.*

**INTERROGATORY #4**

THESL has submitted a few select quotes from the Macdonald Report and the government's White Paper in support of its position on service area amendments.

Reference: Sections 17 & 18

- a) If the government's intention was to limit distribution competition, why does the legislation treat exclusivity as a default license condition? Why were no limits imposed on non-discriminatory access and why did the government pass O. Reg. 161/99, which facilitated the expansion of embedded distribution in high-rise and other multi-residential buildings?

**Response:**

*THESL cannot offer an opinion as to the rationale for the government's actions as posed in this interrogatory. With respect to the reference to O. Reg. 161/99, THESL refers the reader to its comments in response to IR 2d), above.*

- b) In its evidence (page 3 of Appendix A), Networks highlights a quote from page 18 of the government's white paper. Does THESL believe that this quote accurately portrays the intent of the government? Please explain why with reference to the following quotes from Macdonald Report:

- “market changes will lead to “a restructuring in distribution” and a “new role for distributors” (para.4, p.73);
- “The distribution utility will be forced to compete for customers” (para.5, p.73);
- electrical utility businesses will require commercial acumen in “searching out new customers, and investigating new services and technologies” (para.4, p.73);

**Response:**

*THESL understands and interprets this quote in the White Paper on its common meaning and supports the view of the government that “...transmission and distribution remain natural monopolies and are not amenable to competition” (White Paper, page 18).*

*The key point of the discussion found at p. 73 of the Macdonald Report appears to be the impact on distribution utilities of the eventuality of retail access and the vertical separation of electricity supply. During the Board's SSS proceeding (RP-1999-0040) parties advocated procurement by distributors for SSS supply by way of a negotiated portfolio of supply. However, in its Decision, the Board found that to minimize risk to distributors and consumers, direct procurement by distributors should be from the spot market. At paragraph 3.2.8 of its Decision, the Board found that “... in order to minimize risk for the wires business the utility should be held harmless from price risk and volatility related to the large volume segment of the SSS market”. This decision placed all distributors on the same footing and served, in effect, to eliminate the need for distribution utilities to “compete for customers” by procuring competitive prices for SSS supply.*

*The quotation from the Macdonald Report is irrelevant to the issue of competition within the monopoly “wires” services.*

- c) Have market conditions changed since the white paper in a way that would allow segments of the distribution industry to be competitive? If not, please explain why the legislation has allowed competition for service area amendments and the regulations provide for unlicensed distributors in respect of certain specific lands and buildings. If no changes were expected, what does THESL believe is meant by the words of the Advisory Committee: “This is not the last word on the subject [of competition] ... in our minds, this is only the beginning” (Reference” para.4 in Macdonald Report cover letter to Minister).

**Response:**

*Please see THESL’s response to item 2. THESL is not aware that the legislation has provided for competition in service area amendments. THESL is not in a position to offer an opinion as to the rationale behind the Advisory Committee’s statement as quoted.*

- d) How does the quote cited by Networks compare to the situation today where distributors have the ability to compete to install distribution services in the unserved areas and to drive efficiencies, technological change and consolidation? In responding, please consider the government’s terms of reference on distribution as noted in the Macdonald Report, which were to “investigate and assess structural change options for phasing in competition in the distribution system” and specifically “look at options that would enhance the efficiency of the distribution sector” (opening paragraph on Restructuring the Distribution System, p.72).

**Response:**

*THESL believes that Wirebury’s characterization of the situation as it exists today is inaccurate. THESL submits that the Terms of Reference given to the Macdonald Committee aren’t as relevant to the issues in this proceeding as are the government’s findings in its White Paper.*

- e) Is THESL or any of its consultants aware of jurisdictions where there is competition for transmission or distribution services, including secondary capacity markets and competitive bidding for licensing or franchise rights? Please provide a brief description of these activities explaining how they could be applied in Ontario.

**Response:**

*THESL is not aware of any such arrangement as described.*

## INTERROGATORY #5

In their submissions, the members of the LDC coalition claim that a “significant increase in administration [is] imposed on a host distributor when embedded distributors are introduced”.

Reference: LDC Coalition, Section 9

- a) Does THESL agree with this conclusion? If it does agree, please describe and itemize the incremental requirements.

**Response:**

*The incremental administrative burden imposed on a host LDCs is associated with an increased number of customer calls,(e.g. power outages; move ins; move out; general service inquiries), from customers confused about their service provider in a distribution service area that has been fragmented by the introduction of licensed embedded distributors, settlement processes for the incumbent distributors and revisions to mapping, planning and other asset management systems. These incremental requirements are not possible to quantify without information on the specific extent and configurations of embedded distribution areas.*

- b) What amount of THESL’s existing administration is required to accommodate the existing level of embedded distribution, including buildings operating as unlicensed embedded distributors under O. Reg. 161/99?

**Response:**

*Unlicensed embedded distributors cannot be equated with licensed embedded distributors. THESL tracks its costs in accordance with the USoA which does not provide for tracking of the costs for unlicensed distributors.*

- c) Does your utility have an obligation to connect all residential or commercial customers located in buildings lying along your distribution lines that request individually metered service in writing? How would these connections impact your administrative and operating costs with respect to new multi-residential buildings seeking individual metering for each suite?

**Response:**

*THESL does have the obligation to connect any customer that lies along its lines , within the context of its Conditions of Service document and the customer has a reciprocal obligation. All administrative and operating costs that are customer-related would be higher in cases of individual metering rather than bulk metering (e.g. meter reading, billing, collecting, customer care).*

- d) If THESL believes there is no obligation to connect customers in new multi-residential buildings along its existing distribution lines, please explain why section

28 of the Electricity Act, 1998 would not apply to individual electricity consumers in your licensed service area?

**Response:**

*Please refer to THESL's response to 5c), above.*

- e) What is the difference in THESL's administrative costs between a high rise where the owner is operating as an unlicensed embedded distributor and a high rise where the owner is not?

**Response:**

*To answer this question, THESL interprets an unlicensed embedded distributor to be applicable only in those cases where the building is bulk-metered. Otherwise, the incumbent LDC would provide individually metered units. The difference between individual- and bulk-metered units is discussed in c), above.*

**INTERROGATORY #6**

THESL believes that "cherry picking" could adversely impact incumbent distributors.

Reference: Section 14, second indented bullet under second bullet.

- a) Please explain how existing distribution infrastructure would be more expensive than newly constructed distribution plant given the impact of inflation and depreciation that would have occurred since the incumbent installed its distribution plant.

**Response:**

*THESL is unable to relate the question to the reference and does not make the contention indicated in the question. Capital and operating costs for distribution vary according to many factors such as customer density, required capacity, whether plant is underground or overhead, vintage of plant, and others.*

*THESL submits that under the historical and current system of ratemaking based on class-average costs, it is inequitable to existing and future customers of the incumbent LDC to permit selected lower-than-average cost areas to be severed from the existing pooled network. It would be equally possible for the incumbent LDC to sever selected areas and charge distribution rates based on localized incremental costs, but this would be inequitable to other customers in the comparable rate class and thus unacceptable to both them and THESL. This conclusion is not altered if another distributor serves the severed area at rates based on localized incremental costs. In the case where the same rates as those of the incumbent are charged, THESL submits it would be equally unacceptable for private, new distributors to exploit intra-utility local cost differences to earn extraordinary returns through rates based on the incumbent's average costs being applied to local low-cost areas.*

- b) How does the capital cost of adding new customers compare to the average capital cost per existing customers?

**Response:**

*It is not possible to give a general answer to this question. Costs depend on the extent of distribution expansion that would be required to accommodate each customer.*

- c) Since new customers are required to pay the connection costs and any capital shortfalls based on the incumbents existing rates, why would an incumbent LDC be at a disadvantage?

**Response:**

*Please refer to THESL's response to 6a), above.*

- d) Without the threat of competition, what incentives exist to ensure that customers are provided the best service at the best price?

**Response:**

*As discussed at paragraph 9 of THESL's submission, PBR brings the benefits of competition and preserves important service quality standards.*

- e) How would the ability to compete and expand into other service territories adversely impact an innovative, efficient LDC?

**Response:**

*The adverse impacts do not accrue from the ability of the LDC to compete, but rather, from a market structure that permits overlapping service territories and creates uncertainties as to an incumbent LDC's service obligations and ability to conduct system planning activities which ultimately are reflected in overall distribution costs..*

- f) Does THESL believe that it would be able to compete for customers and realize growth opportunities outside its current service area so as to lower its operating costs? If not, please explain why.

**Response:**

*If the market rules did provide for competition in distribution services, THESL would be forced to compete for desirable, low-cost customers outside its service territory in order to lower its average cost per customer.*

## **INTERROGATORY #7**

THESL believes fewer utilities will be more efficient and that there is no policy basis for distribution competition.

Reference: Section 17

Does the monopoly apply only to the existing distribution wires or does THESL also contend that new customer connections in unserved ("greenfield") areas should also be treated as a monopoly? Please describe the legislative and economic justification supporting your response.

### **Response:**

*THESL believes that greenfield areas within defined service territories should be served by the incumbent distributors, for the reasons set out in its submission, with the exceptions noted at bullet 3 of THESL's discussion at section 11, page 5 of its submission and in THESL's discussion of Customer Preference in page 12 of its submission.*

## **INTERROGATORY #8**

THESL submits that the interests of individual customers should not outweigh the other aspects of the public interest and that without "the balancing effect of newer infrastructure" other customers will be exposed to higher rates.

Reference: Section 22, Issue 1

a) please explain what is meant by "the balancing effect of newer infrastructure".

### **Response:**

*Newer infrastructure has the benefit of requiring lower maintenance costs. If newer infrastructure is put in place to replace older infrastructure, maintenance costs should be reduced.*

b) What is the average incremental cost of adding a new customer? How does that compare to the average cost per existing customer?

### **Response:**

*It is not possible to give a general answer to this question. Costs depend on the extent of distribution reinforcement that would be required to accommodate each customer.*

c) Do existing customers subsidize new connections, i.e. would capital expansion and customer connections put upward pressure on rates?

**Response:**

*The economic evaluation process is designed to ensure that the existing pool of customers does not subsidize new connections.*

- d) How would a LDC be disadvantaged by having to connect higher cost customers if the cost of connecting the customer is recovered through the connection charge?

**Response:**

*As explained in c) above, the LDC and its existing customers would not be disadvantaged in the cited instance.*

- i) Why should service area amendments and competition for customer connections be restricted to service area boundaries? What is the economic and legislative basis for THESL's position?

**Response:**

*THESL has identified certain exceptions where service area amendments may be justified at service area boundaries. THESL does not support competition for distribution service areas.*

- ii) Does THESL believe efficiencies are driven by contiguous expansion or by servicing more customers at the same or lower embedded cost? Please explain your response.

**Response:**

*Efficiencies are driven by PBR.*

- e) If a utility can offer to connect customers in THESL's service area and provide the same or better service at the same or lower rates, what impact would such a connection have on the overall efficiency of the industry? Please identify any public interest reason that exists to deny customer choice under these conditions?

**Response:**

*THESL would be in a position to provide the same services to its own customers that another utility could offer. In this circumstance, a separate classification of customer may be required in order for these customers to retain the benefit of these "same or lower rates".*

*In general, THESL has no reason to believe that new distributors with fragmented operations are more efficient than incumbent distributors on a marginal basis. The appearance of higher efficiency may exist if invalid and misleading comparisons are made between the incremental costs to serve new customers (incurred either by the incumbent or a new distributor) and average costs on the incumbent's system.*

*Incremental costs may be higher or lower than average costs, but it is clear that a process which permits the selective severing of areas with low incremental costs will operate to the detriment of existing customers, who would be left to support areas where incremental costs are higher.*

*From a public policy perspective, THESL submits that the superficial appeal of 'customer choice' is insubstantial. First, in many cases developers, rather than end-users who are the ultimate ratepayers, would determine which distributor provides local service. With that determination made, the initial and subsequent end-users have no further or enduring choice, unless physical equipment is uneconomically duplicated. The concepts of customer 'choice' and mobility do not apply in the case of electricity distribution in at all the same sense as they do for electricity commodity supply.*

*Second, even if the initial end-user were given the choice among competing distributors, it is inequitable to extend to certain customers the benefits of ratemaking based on local incremental costs while remaining customers pay rates based on historical average costs. This practice is equally objectionable whether it is the incumbent or the new distributor that provides local distribution service.*

#### **INTERROGATORY #9**

THESL contends that service areas should be aligned with municipal boundaries but in the next bullet recognizes that municipal boundaries do not always match service areas and that these boundaries will continue to change.

Reference: Section 22, Issue 4

- a) Under these conditions, would it be more practical to define the license service area as the area currently serviced by existing distribution lines?

**Response:**

*No. Across the province as a whole, and particularly in high growth areas, it would be administratively difficult, complex, and costly to maintain up-to-date records of service areas if these were based on the coverage of existing distribution facilities at a given point in time. Distribution service areas as currently defined, should remain.*

- b) If not, please explain why including an explanation of why at a particular point in time municipal boundaries were appropriate limits for service areas and at another point they are not.

**Response:**

*THESL does not contend that municipal boundaries are not appropriate limits for service areas. THESL simply allows that in some circumstances, it can be appropriate for service territories not to exactly coincide with municipal boundaries.*

**INTERROGATORY #10**

THESL believes that the introduction of an additional distribution company will create operational complexities and lead to problems with outage management and the location of underground plant.

Reference: Section 22, Issue 4, Bullet 6

- a) How would connecting a new customer through an embedded distribution company using same plant and same connection point as THESL, create complexities for outage management or under ground plant locates?

**Response:**

*Confusion on the part of customers would result from such an arrangement. For example, if the customer's power is out, conceivably the customer could call THESL, not knowing which LDC is his distributor. Under these circumstances, THESL would have no record of the customer, and would refer the customer to his/her bill in order to identify the customer's service provider. However, TH would be obliged to determine the location and cause of the problem which may not be within its own distribution system. Similar confusion would arise from underground plant locates.*

- b) How does THESL deal with the amalgamation issues and utility interconnections to neighbouring distributors re: employee confusion and customer satisfaction?

**Response:**

*All distribution customers in the amalgamated Toronto area are connected to THESL's distribution plant and are currently being served by THESL. Since amalgamation, Toronto Hydro has undertaken major consolidation initiatives and currently operates as a fully integrated utility. THESL is electrically separated from its neighbouring distributors, with minor exceptions.*

- c) Are there any other operations complexities? Please list them and explain why they present insurmountable problems to THESL.

**Response:**

*One of the first integration initiatives undertaken by Toronto Hydro was the development of a single Work Protection Code. The unified Code became effective in 1999 and allows all THESL workers to safely operate the multiple and diverse types of distribution systems. This initiative was followed by the consolidation of the Call*

*Centre in 2000, development of the harmonized Rulebook in 2001, the consolidation of the Control Centre in 2002, and the harmonization of the Construction Standards, not to mention the introduction of a single Enterprise Resource Planning (ERP) system. The ERP system enables THESL to make intelligent decisions regarding the repair or replacement of its assets. The granting of a licence to other distributors for the same territory would represent a major setback in THESL's consolidation process. Under this scenario, it would be difficult to maintain the same level of safety and provide the same level of service to all end-use customers.*

## OEB STAFF

### INTERROGATORY #1

Please explain the implications and how the service area amendment principles you support are affected by the situation of a new customer with new network assets being required?

#### **Response:**

*THESL believes that greenfield areas within defined service territories should be served by the incumbent distributors, for the reasons set out in its submission, with the exceptions noted in THESL's discussion at section 11, page 5 of its submission and in THESL's discussion in bullet 3 under Customer Preference at page 12 of its submission. THESL allows that anomalies in the patterns of development could create situations near the borders of service territories in which the neighbouring distributor could have existing facilities closer to the undeveloped area that is remote from the incumbent's existing facilities and/or new wholesale supply points. In that instance, THESL takes the view that the incumbent distributor should have the opportunity to negotiate temporary load transfer arrangements with the neighbouring utility, if it is expected that ongoing growth will make the undeveloped area economically accessible within a reasonable time period. Otherwise, in the case where the incumbent cannot economically serve an undeveloped area, the customer should be entitled to seek an offer to connect from the neighbouring utility or alternate provider.*

### INTERROGATORY #2

Where an incumbent LDC's existing assets may be aging, largely depreciated and in need of modernization, would there be potential advantages to customers and the overall reliability of the electricity system in allowing the construction and modernization of wires assets and infrastructure by distributors seeking to expand into the incumbent LDC's service area? Please discuss.

#### **Response:**

*THESL agrees that there would be advantages to customers in the modernization of distribution assets that are aging and largely depreciated, providing that the assets are not retired before the end of their useful life. If the assets are providing reliable service, customers would be disadvantaged from a cost perspective by premature retirement of the facilities.*

*However, THESL does not agree that the existence of such distribution assets nearing the end of their useful life by itself provides justification for the entrance of other distributors into the incumbent's service territory. One would have to assume that the incumbent was unable or unwilling to undertake the investments necessary to renew its asset base and maintain standards of reliability. THESL does not see any*

*reason to assume this generally, and the Board is equipped already to deal with cases where there is a foreseeable threat to the security of supply to utility customers.*

### **INTERROGATORY #3**

Is there a distinction between duplicating an existing wires system and making an investment to replace an aging and potentially obsolete distribution system? Please discuss.

#### **Response:**

*Duplication of a distribution system is never economically justified. This is distinct from replacement of obsolete distribution plant which does not ultimately result in duplication. Replacement of the plant is the responsibility of the LDC.*

### **INTERROGATORY #4**

Paragraph 6 of the THESL submission suggests recourse to the MAADs process contemplated in sections 85 and 86 of the OEB Act to deal with service area amendment applications. However, unlike a typical amalgamation request where both parties are agreeable to the change, a service area amendment application may be disputed by the LDC which already has a licence to service the particular area.

What additional criteria and filing guidelines might be required to evaluate a service area amendment application under these circumstances, where the parties do not necessarily share the same view on the merits of the proposed service area amendment?

#### **Response:**

*THESL believes that both LDCs should be able to come to agreement. However, the onus should be on the LDC seeking amendment to bear the evidentiary burden. THESL supports the position of Hydro One Networks Inc. as proposed in Appendix B of its submissions and further recommends that filing requirements under these circumstances include a Dispute Resolution process.*

### **INTERROGATORY #5**

On page 12, THESL notes that “open LDC competition is unsustainable for the OEB, the LDC, and its customers.”

- a) Please discuss the potential merits of a new competitor with strong financial resources entering the marketplace and making investment in modern distribution infrastructure which an existing LDC may not be in a position to make.

**Response:**

*In a hypothetical scenario in which a utility was unable to make necessary investments in the distribution system, THESL must agree that there would be merit in another financially capable party making those investments in order to ensure ongoing adequacy and reliability of the distribution system.*

*However, THESL questions the plausibility of a scenario in which investors with alternative opportunities would make investments in businesses which are not generating sufficient regulated returns to allow incumbents to make those necessary investments themselves. From a public policy perspective, THESL submits that it would be preferable to ensure that customers of existing utilities enjoyed the benefits of prudent utility investments and system expansion undertaken by utilities that were generating sufficient returns to make those investments.*

*In the scenario where the existing LDC is not capable of deploying capital resources to finance capital investment directly, it is then forced to seek outside investors for funding. This would typically be done by investors either through a debt or equity infusion into the utility, rather than by a fragmentation of the service area. New, innovative financing techniques not currently utilized in the electricity industry may be considered as well (e.g. leasebacks). THESL anticipates that such circumstances would be abnormal.*

- b) Is this scenario not consistent with the Board’s mandate to promote economic efficiency and reliability?

**Response:**

*In its understanding of the postulated scenario, THESL does not believe that such a situation would be consistent with the Board’s mandate. However, economic efficiency and reliability in electricity distribution are achieved through the PBR process, not through competition.*

**VECC**

**INTERROGATORY #1**

“Distribution is a natural monopoly and does not support competition”

“Certain participants in this proceeding have suggested ... includes competition in the delivery of electricity”

Reference: Evidence of Toronto Hydro, paragraphs 6 and 8

- a) How does Toronto Hydro reconcile its position that distribution is a natural monopoly with the OEB’s objective “to facilitate competition in the generation and sale (emphasis added) of electricity”?

**Response:**

*No reconciliation is necessary since the distribution of electricity is a separate and distinct matter from the sale of the electricity commodity, to which the objective refers.*

**INTERROGATORY #2**

“a mechanism already exists for compensation for distribution assets ... which contemplate[s] agreements among the parties as to the value of those assets”

“which would include the compensation of the incumbent utility for all stranded distribution assets, or portions thereof, including items that would not be the subject of compensation according to some parties to this proceeding”

“while service area amendments for new customers may be supportable in certain limited circumstances, the transfer of existing customers is not, in the absence of agreement between distributors on the terms of the transfer”

Reference: Evidence of Toronto Hydro, paragraphs 12, 13 and 22

- a) Is it Toronto Hydro’s position that service area amendments for new customers should only occur when both distributors agree? If not, please outline what criteria the Board should use to decide on the disposition of a service area amendment Application, assuming the incumbent utility does not concur.

**Response:**

*Please refer to THESL’s response to OEB Staff’s interrogatory #4.*

- b) In Toronto Hydro’s view, what distribution assets and/or costs should be eligible for considerations as “stranded assets”? In responding please indicate what assets/costs Toronto Hydro would consider the subject of compensation that would be excluded “according to some parties to this proceeding”. Also, in responding, please distinguish between situations that strictly involve new customers and ones that involve existing customers.

**Response:**

*Attempting to quantify the level of stranding is difficult and is more readily done on a case-by-case basis. However, facilities that become redundant or that have a capacity overbuild can be considered stranded for a longer period than was originally planned.*

**INTERROGATORY #3**

“the only way in which it would be economically efficient to allow a neighbouring utility to serve a new customer is in circumstances where the cost of connecting the customer to

the neighbouring distributor's system, which would include compensation to the incumbent utility ... is less"

"there are the interests of the remaining customers in the incumbent utility, and of the incumbent utility itself, that may be affected in a number of ways"

"The "cherry-picking" of high-value customers at the borders of, or within the incumbent distributor's service area, will have adverse impacts on system planning and the rates of customers remaining"

Reference: Evidence of Toronto Hydro, paragraphs 13, 14 and 22

a) Is it Toronto Hydro's view that compensation to the incumbent utility should address the impacts of service area amendments arising from:

- "Cherry-picking" low cost customers,
- Higher borrowing costs due to increased load forecast and customer retention risk, and
- Stranded distribution network assets planned and built to service reasonable forecast load growth.

If not, why not – given such factors will impact on the incumbent utility and its customers. If yes, please indicate Toronto Hydro's position as to how such the associated compensation should be determined?

**Response:**

*THESL submits that stranded asset costs should be compensated, and that these costs are not always readily identifiable. While THESL appreciates that increased risk arising from uncertain changes to load and service areas would directionally act to increase the cost of financial capital, it is unclear how this could be quantified and allocated to specific service area amendments. To the extent that 'cherry picking' pertains to new customers not yet connected to the distribution system, an opportunity cost to existing customers may be created. Otherwise, the incumbent utility should be compensated based on the present value of the net revenue streams coming from the transferred customers over the remaining life of the assets.*

**INTERROGATORY #4**

"For example, while a developer may have an interest in selecting a distributor that requires a lower capital contribution for an expansion of its system, this will likely result in higher distribution rates for the end-use consumer"

Reference: Evidence of Toronto Hydro, paragraph 15

- a) Is Toronto Hydro’s claim that developers may be more influenced by the level of capital contribution required as opposed to the ongoing rates based on conjecture or actual experience in dealing with developers?

**Response:**

*THESL simply observes that a developer who is not the ultimate end-user and is therefore not responsible for payment of ongoing rates will not have an economic incentive to minimize lifecycle costs. Rather, its incentive will be to minimize the capital contribution required.*

- b) Please explain why selecting the distributor that requires the lower capital contribution will likely result in higher ongoing distribution rates, assuming both distributors have developed their capital contribution calculations in accordance with the OEB’s Distribution System Code?

**Response:**

*Assuming that the capital costs of a given project are equal for alternative distributors, and both distributors follow the same economic evaluation model, the distributor with higher distribution rates will require a lower capital contribution. This is because the economic evaluation model equates the present value of current and future project costs to the sum of the capital contribution and the present value of the revenue stream provided by distribution rates over the study horizon. If the present value of the revenue stream is higher due to higher rates, the capital contribution will necessarily be lower. Therefore, for a given project cost and consumption profile, a lower capital contribution implies higher distribution rates.*

**INTERROGATORY #5**

“TH Electric System submits that overlapping service areas are not in the public interest”

Reference: Evidence of Toronto Hydro, paragraph 22

- a) Other parties to this proceeding have argued that overlapping service territories are in the public interest and will result in minimal stranding provided the customers who want the service are required to pay the costs (including compensation) associated with their decisions. Does Toronto Hydro’s position on overlapping service areas change if adequate compensation is provided to the incumbent utility and the customers who want the service change are responsible for paying the associated compensation? If not, please explain why.

**Response:**

*THESL asserts that overlapping service territories are not in the public interest and that the circumstances described in the question are implausible. While theoretically it is true that THESL and its existing customers would be financially indifferent in the circumstances described, it is doubtful that full compensation could be determined*

*conclusively. If this were possible, payment of the compensation would reduce or eliminate the economic advantage available to the switching customers, and in any case the total resource cost of providing overlapping distribution service would be higher. In addition, overlapping service areas could create confusion on the part of customers as well as other unpriced costs that would not be reflected in any financial compensation.*

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