

BOARD STAFF INTERROGATORY #6

INTERROGATORY

Paragraph No. 8 of the Wirebury submission notes that “increased competition in the distribution sector and improvements to the distribution system...promote economic efficiency...”. However, this paragraph also states that “the increased pressures from expanded competition will also encourage further consolidation of the industry and allow efficient distributors to expand their service areas by offering improved economies of scale to a broader customer base.”

Does this not suggest that natural monopoly may be the efficient market outcome from allowing competition in distribution and that overlapping service areas will eventually result in a monopoly provider which requires stricter regulation? Please discuss.

RESPONSE

Wirebury agrees that there are situations where a natural monopoly will provide the most efficient delivery of distribution services, particularly and perhaps exclusively in areas that are already serviced by a well-regulated utility. However, Wirebury firmly believes that there are also segments of Ontario’s electrical distribution market where competition would provide the most efficient market outcome by encouraging cost and service level competition and the introduction of new processes and new technology. These views are shared by John Todd in his report, found in the LDC Coalition interrogatory at Ex. J12, T15, S7.

Competition for new customers will allow efficient distributors to expand more rapidly and apply their economies of scale more broadly, putting added pressure on inefficient distributors who must either improve their competitive position or consider other options like mergers, shared services, or disposition. While it may be possible for distributors to improve efficiency through contiguous expansion, this is not always the case. In areas where competition is possible like green-field or brown-field developments, embedded distribution will offer more choice to customers and provide greater opportunities for improved efficiencies rather than restricting customer growth to contiguous expansion.

Depending on the degree of competition, the need for regulation can be reduced considerably and in some cases, the regulator may completely forbear if market forces are operating efficiently and customers have choice. Wirebury believes that the connection of new customers in areas that are not currently serviced is a segment of the



current distribution market that should be managed as a competitive market since minimal regulatory oversight is required to ensure that customers are benefiting.

Once customers are connected to a distribution system as end-use consumers, further competition for these customers is possible but is unlikely to be broadly accepted if all connected customers are required to pay the full cost of any switching, including any associated stranding. Consequently, overlapping service areas may not be the most efficient way to manage transfers of existing customers and requests to switch connected customers that may need to be considered on a case by case basis.

For similar reasons, once an area has been completely serviced and further competition for new distribution connections is unlikely, it may be more efficient to operate and manage the established service area as a regulated monopoly. Given the regulatory framework in place in Ontario, no increase in regulation would be required in such circumstances, as the Board would continue to regulate the rates of the distributor and approve the licensing conditions of the distributor.

For further discussion on the benefits of competition, economic efficiency and consolidation, please refer to Wirebury's response to the LDC Coalition at Ex. J12, T15, S7 and the expert report attached to that response.

