BOARD STAFF INTERROGATORY #7

INTERROGATORY

Paragraph No. 12 (f) states that an underlying principle of an efficient service area amendment process is the requirement that an applicant or connecting customer compensate an affected distributor for unpaid assets dedicated exclusively to the lands and structures which are the subject of the service area amendment.

a) Please elaborate more precisely as to how the compensation might be determined?

b) Would it be based on some measure of stranded cost, and if so how would this measure be calculated?

c) What might be the implication of calculating the cost of service and rates for customers, both those remaining on the system losing the customer or not gaining a new customer, and those on the system gaining the customer?

RESPONSE

a) & b) Any compensation that is paid to an affected distributor would be based on that distributor demonstrating that the assets in question have been constructed exclusively for the lands and structures that are the subject of the service area amendment and that these assets will no longer be used or useful because of the amendment. This would entail proof that no benefit is provided to the affected distributor's remaining system or customers by the assets in question. A simple test to determine if stranding has occurred would be for the affected distributor to demonstrate the impact of abandoning the assets in question. For an asset to be truly stranded, the incumbent should be able to decommission and retire the asset without impacting its ability to serve existing and future customers through the remaining assets with no other system changes or additions. Compensation would be calculated on the net book value of the stranded assets to eliminate any rate base exposure for the affected distributor.

c) In cases where existing customers switch, the incumbent LDC would experience a reduction in rate base equal to the stranded asset payment and its operating costs could decline, as there would be less services to manage. Since this new connection is assumed to be through contiguous expansion by a neighbouring LDC, (there is no stranding with embedded distribution), the incumbent's load and revenues would be reduced. Overall these changes could impact the rates paid by the incumbents remaining customers, but it is difficult to determine whether rates would need to go up or down.

Where future customers are served through contiguous expansion with full compensation for any stranding, the incumbent's rate base would remain the same or go down. The only impact here would be an opportunity loss. Rates would stay the same or decline slightly as the incumbent would forego the opportunity to attach a customer but avoid the need to invest in additional capital, which usually puts upward pressure on rates in the short-term. The capital requirements creating this upward pressure on rates would be transferred to the connecting distributor along with the added revenue that over the life of the asset would keep rates neutral.