

HYDRO ONE INTERROGATORY #5

INTERROGATORY

In Paragraph 27, Wirebury asserts that “customer value and competition in the electricity marketplace are basic tenants of government policy as reflected in the Energy Competition Act, 1998.” Please elaborate on where these tenants are found with respect to the provision of distribution wires systems making particular reference to the Act and the policy documents that shaped the Act, such as the White Paper “Direction for Change”, 1997) and the Macdonald Committee Report (“A Framework for Competition”, 1996)?

RESPONSE

Wirebury accepts that the uneconomic duplication of assets (i.e. “wires”) is not advocated by any of the named sources, but the *Ontario Energy Board Act* and policy documents that shaped the Act do support increased competition in the distribution sector.

Objective No. 1 under the *Ontario Energy Board Act, 1998* requires the Board to be guided by the objective of facilitating competition in the generation and sale of electricity. Objective No. 1 is not limited solely to the retailing and wholesaling of electricity, but rather the whole act of selling electricity, which necessarily includes its delivery and the activities associated with that delivery. Consistent with this interpretation is Subsection 70(6) which allows for overlap in service territory, and absent a license condition to the contrary, prohibits a claim to service area exclusivity. Further support is found in the *Distribution System Code* which sets out mechanisms for customers to obtain competing bids for the installation of distribution plant and/or to operate as an embedded distributor should they choose. In addition, Regulations to the *Ontario Energy Board Act, 1998*, exempt certain distributors from the need to obtain distribution licences and approval for rates. These unregulated unlicensed distribution entities clearly operate within the competitive market and are embedded within the licensed distribution territory of their host LDC.

The policy documents which lend support for competitive distribution services begins with the covering letter of the Honourable Donald S. MacDonald, Chair of the Advisory Committee on Competition in Ontario's Electricity System, dated May 1996. In that letter the Committee stated that:



“Fundamental to our recommendations is the termination of Ontario Hydro’s monopoly control”. (page 2)

The Committee further wrote in its covering letter to the Minister that:

“Our recommendations are based on empowering all customers – large and small – to choose their supplier of both electricity and energy services. We are recommending a phased process that leads to a competitive electricity system”. (page 2)

At page 24 of its report, the Committee noted that most consumers – large and small – support increased choice and flexibility in products and services and the right to choose the company or supplier with whom they are doing business. The Committee referred favourably to innovations like time-of-day metering that would allow customers to change their consumption habits and save money. The Committee concluded that the electricity system “must be in a position to respond to customers’ needs and to participate in this dynamic and changing environment” (page 25).

At page 72 of the report, the Committee identified one of its terms of reference, namely, that it investigate and assess structural change options for phasing in competition in the distribution system. The Committee went on to state:

“The Advisory Committee is convinced that changes in the other sectors of the electricity system will lead to a restructuring in distribution. The vertical separation of Ontario Hydro and the creation of a competitive market in generation will result in a new role for distributors. This new role will mean undertaking new responsibilities and will demand new skills – for example, forecasting, sophisticated purchasing and contract negotiating, dealing with the spot market and futures market, delivering energy services and products which respond to new needs, innovation and developments in technology”. (page 73)

Later on in the same page, the Advisory Committee went on to note that distribution utilities will be forced to compete for customers and that commercial acumen will be a necessary element in searching out new customers and investigating new services and technologies.

On page 74 of the report, the first benefit identified by the Advisory Committee of a restructured distribution system would be that it facilitates effective customer choice.

Wirebury submits that its business model is fully consistent with the findings of the Advisory Committee and the government’s White Paper “Direction for Change, 1997” and in particular, the government’s objective of creating a cost-competitive distribution sector through, amongst other things, the adoption of “best practice” methods (page



12). Wirebury's business model is consistent with one of the government's key elements as expressed on page 15 of the White Paper, namely, encouraging cost savings in the local distribution sector. As noted in Wirebury's response to the LDC Coalition at Ex.J12, T15, S3, Wirebury's emergence in the distribution sector is a recent example of the ongoing transition of distribution services. Wirebury's ability to provide innovative services such as new metering technologies to new customers represents further advancement towards the MacDonald Commission's goals of competition throughout the electricity system.

