

LDC COALITION INTERROGATORY #11

INTERROGATORY

Reference: Evidence of Wirebury Connections Inc., August 7, 2003, Paragraph 36

In the absence of cost allocation studies and a framework for second generation performance based regulation, and in light of the freeze on the rates of existing LDCs as a consequence of Bill 210 and the resultant financial inequities across LDCs, on what basis does Wirebury submit "that current rates provide a reasonable indication of the relative price difference between service providers now and in the future"?

RESPONSE

Current rates are the best indicator of the cost of service for customers making connection decisions based on service value. If the rate freeze remains in place as envisioned in Bill 210, existing rates are indicative of the actual cost of distribution services for most LDCs over the next three years. Current rates also provide the best available relative cost comparison between competing distributors.

The current rates for most LDCs are the product of standard rate regulation practices under Ontario Hydro, which set rates based on rate setting guidelines for municipal electric utilities. The basis for these guidelines was a cost allocation study for municipal electric utilities conducted by Ontario Hydro in the mid 1980's. In accordance with section 1.4 of the Electricity Distribution Rate Handbook, the OEB directed each LDC in the province to conduct a distribution cost allocation study prior to the implementation of second generation PBR. It is anticipated the cost allocation study will form the basis for distribution rates in second generation PBR. Since a cost allocation study was used as a basis for current rates and will be used to determine rates in the future, Wirebury expects the relative differences between LDC rates to be more or less the same with respect to relative position and degree of separation.

For customers making decisions between competing distributors, a relative difference is all that is really required. If the current rate differential is small, the customer's decision will turn on other factors. If the differential is large, price will be more of a consideration and the likelihood of changing the relative positions of the distributors' rates will be remote. As demonstrated in Hydro One's submission in the Erie Thames application (p.3, L5-7), current rates are already being used to support service area amendments and customer connections since the revenue input into the Board's economic feasibility formula in the Distribution System Code is based on existing rates.

