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April 02, 2015

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0116 Toronto Hydro-Electric System Limited

Please find enclosed the interrogatories of VECC in the above-noted proceeding regarding the evidence filed by the Carriers. As per Procedural Order No. 7 we have also forward copies to the applicant as well as all intervenors via email.

Thank you.

Yours truly,

A handwritten signature in black ink, appearing to be 'Michael Janigan', written in a cursive style.

Michael Janigan
Counsel for VECC

REQUESTOR NAME	VECC
INFORMATION REQUEST TO:	The Carriers
DATE:	April 2, 2015
CASE NO:	EB-2014-0116
APPLICATION NAME	Toronto Hydro Electric System Limited, 2015-2019 CIR Rates Application

EXPERT EVIDENCE OF SUZANNE BLACKWELL (Blackwell)

VECC-1

Reference: Blackwell, page 7, paragraphs 21 - 23

- a) Is it Ms. Blackwell's position that an aggressive pole replacement program will lead to a temporary increase in depreciation expense such that the use of such values as a cost input will overstate future years' costs. If so, please explain more fully how this will occur when the depreciation will continue for the life of the newly replaces poles.

VECC - 2

Reference: Blackwell, page 8, paragraph 25 and page 59, paragraphs 165-168.

- a) In Ms. Blackwell's view should the weighted average cost capital used include an allowance for income taxes?
- b) What is Ms. Blackwell's understanding as to whether or not income taxes have been included in the weighted average cost of capital used by THESL?

VECC-3

Reference: Blackwell, page 11, Footnote 7

- a) Please confirm that the denominator used in the calculation should be 16.75 (i.e., 5.25+11.5).

VECC-4

Reference: Blackwell, page 12, paragraph 37

- a) Please confirm that in the example given in paragraph 37 the assumption is that the 2.5 non-hydro attachers per pole are all “communications attachers”.
- b) Please provide a schedule setting out the derivation of the 54.6% allocation factor for indirect costs to all communications attachers.
- c) Please provide a schedule that sets out the derivation of the allocation factor using the same approach but assuming 1.6 users per pole in addition to the hydro attacher
- d) Please provide a schedule setting out the calculation of the allocation factor for indirect costs to all communications attachers using the same assumptions as in the Blackwell evidence but with separation space included as part of dedicated communications space (as per the OEB in RP-2003-0249).
- e) Please provide a schedule setting out the calculation of the allocation factor for indirect costs to all communications attachers with separation space included as part of dedicated communications space (as per the OEB in RP-2003-0249) and also assuming THESL’s 1.6 attachers per pole in addition to the one hydro attacher.

VECC-5

Reference: Blackwell, page 13, paragraphs 41 – 42 and page 40, paragraph 110.

- a) Please confirm that, per the Evidence of Mr. Timothy Brown (paragraphs 5-6), not all THESL poles with costs recorded in Account 1830 necessarily have wireline communications attachments. If not confirmed please explain why.
- b) Please confirm that if the methodology uses the total costs recorded in Account 1830 and the corresponding full pole count, then the assumed number of attachers per pole will have to take into account those poles where there are no wireline attachments. If not confirmed, please explain why.

VECC-6

Reference: Blackwell, page 26, Table 4 and page 36, Table 6

- a) Please confirm that in her calculations, Ms. Blackwell assumes there are a total of 2.51 non-hydro attachers per pole and that 2.01 of these are wireline communications attachments. If not, please explain.

- b) If confirmed, please explain why in the Adjustment column in Table 6 the allocation factor applicable after one removes data inputs unrelated to wireline communications shouldn't be 21.83% (i.e., $27.26\% * (2.01/2.51)$).

VECC-7

Reference: Blackwell, page 38, paragraph 111

- a) Are the circumstances under which THESL receives grants and/or contributions such that one would expect to see the proportion of grants/contributions relative to embedded value of THESL's assets to be generally the same across all types of assets or is THESL more likely to receive contributions/grants for some types of assets over other types of assets?

VECC-8

Reference: Blackwell, page 43, paragraph 122

- a) Please clarify the discussion in paragraph 122. Is it Ms. Blackwell's view that there are no benefits to replacing poles before they reach their end-of-life?
- b) If there are no benefits, is it Ms. Blackwell's view that spending for such replacement is unnecessary and that THESL should therefore not be permitted to recover the cost from either electricity consumers or 3rd party attachments?
- c) In the alternative, if there are benefits, why should the cost of replacement be recovered entirely from electricity consumers as opposed to all users of the poles?

VECC-9

Reference: Blackwell, pages 50 – 51, paragraphs 144 – 145

- a) Given that pole attachment rates are being set for 2015 and subsequent years thereafter (until reset through a subsequent application) why is it appropriate to use historical depreciation costs for 2011-2015?

VECC-10

Reference Blackwell, page 57, Table 13

- a) Please confirm that the \$185.60 average cost value used in Table 13 does not account at all for the impact that inflation would have had on the per pole cost of treatment over the period.

VECC-11

Reference Blackwell, pages 64-65, paragraphs 184 and 188
WR-Carriers-4

- a) Is it Ms. Blackwell's understanding that the 46,405 figure represents: i) the total number of poles with 3rd party attachments or ii) the number of poles for which data has been gathered by the Pole Inspection Program to date (and which is only 80% complete) that were found to have 3rd party attachments.
- b) Would the later interpretation address some of the inconsistencies noted in the Ms. Blackwell's evidence?

VECC-12

Reference Blackwell, page 67

- a) Are the other 0.5 attachers per pole assumed to also use/share the "communications" space on the pole? If not, where and how are they assumed to be attached?

VECC-13

Reference Blackwell, page 11, paragraph 34 and page 69, paragraph 198

- a) Please confirm that under the proportional use approach as described on page 11 in total all third party attachers (including third party wireline communications attachers plus other attachers) would be allocated 31.3% of the indirect costs. If not, please explain what the allocation of indirect costs would be.
- b) If there are 2.5 third party attachers in total why wouldn't the portion of these costs attributed to each attacher (including a wireline communications attachers) be 12.52% (i.e., 31.3%/2.5) as calculated on page 11 as opposed to 15.6% set out on page 69?

VECC-14

Reference: Blackwell, page 70, Table 20

- a) Please confirm that under the Proportional Allocation method the calculation of each of values in Rows A and B is based on the 31.3% of footage for the item concerned divided by 2.01 communications attachers (e.g., For Row A: $0.93 = 6 \text{ feet} \times 31.3\% / 2.01$).
- b) If confirmed, please explain why the numerator used is 2.01 as opposed to the total number of non-hydro attachers.

EXPERT REPORT BY DR. ROGER WARE (Ware)

VECC-15

Reference: Ware, page 2, paragraph 4

- a) What is Dr. Ware's understanding of the Ontario Energy Board's policies with regard to pricing of non-electric services provided using regulated electric utility resources (i.e. is it incremental costing, fully distributed costing or some other approach)? Please provide references to relevant OEB decisions that support the response.

VECC-16

Reference: Ware, page 7, paragraph 14

At paragraph 14, Dr. Ware states:

The FDC pricing methodology is grounded in sound economic principles and is a methodology widely used by regulators in North America for allocating common capital costs between different uses for different products.

- (a) Focusing on the first part of that sentence, "The FDC pricing methodology is grounded in sound economic principles", please provide references to the economic literature supporting this statement.
- (b) At note 21 of his evidence, Dr. Ware cites a textbook that he co-wrote, entitled *Industrial Organization: A Strategic Approach*. At page 846 of the book, he states;

FDC pricing will be inefficient for two reasons. First, FDC prices are not Ramsey prices: they are not based on marginal costs or demand elasticities. Second, even though the revenue from a

product will be set at least as great as the allocated costs, FDC prices will not, in general, be subsidy free.

Does Dr. Ware still believe that FDC prices will be inefficient, as he wrote in 2002? If not, please explain why not.

(c) At paragraph 16, Dr. Ware provides a quotation from Alfred Kahn, to the effect that common costs

“may be distributed on the basis of some common physical measure of utilization, such as minutes, circuit-miles, message-minute-miles, gross-ton miles, cubic feet, or kilowatt-hours employed or consumed by each. Or they may be distributed in proportion to the costs that can be directly assigned to the various services. [...] [T]he allocations among the various services are often made in part on the basis of the relative number of physical units of consumption or utilization by each, and the total allocation dollars are then divided by those physical units to get the unit costs.”

Between the two sentences cited, in fact the second sentence after the first sentence cited, Dr. Kahn also wrote as follows:

Quite simply, the basic defect of fully distributed costs as a basis for rate making is that they do not necessarily measure marginal cost responsibility in a causal sense.

Could Dr. Ware reconcile this statement with his belief that certain forms of fully distributed costs can be economically efficient.

VECC-17

Reference: Ware, page 8, paragraphs 20 and 21

At paragraphs 20 and 21, Dr. Ware provides two reasons why he thinks that an “equal sharing rule” for allocating common costs is not consistent with economic efficiency.

(a) At paragraph 20, Dr. Ware states:

First, an equal sharing rule bears no relationship to economic activity. A user who places multiple times as heavy a demand on a utility pole will pay the same contribution to common costs as any other user of the pole.

Given that causal incremental costs have already been accounted for at the previous stage, could Dr. Ware please explain how taking into account relative usage at this stage further contributes to economic efficiency.

- (b) At paragraph 21, Dr. Ware states his second reason for thinking that equal sharing is economically inefficient:

Second, an equal sharing rule creates perverse incentives: Two users that take up space on the pole and combine their operations will reduce their total contributions to common costs even though their economic demands on the pole network are unchanged.

Explain why Dr. Ware thinks that the magnitude of savings in pole attachment fees, due to combining operations, will be sufficient to outweigh the costs of reaching such an agreement and of ongoing coordination. Could Dr. Ware provide his best estimate of the costs of such arrangements, and compare them to the expected reduction in pole rental fees?

- (c) Does Dr. Ware have any other reason for believing that a proportional use allocation of common costs is more economically efficient than equal sharing?

VECC-18

Reference: Ware, page 11, paragraph 31

At paragraph 31, Dr. Ware states:

In conclusion, the equal sharing rule is not an appropriate methodology for allocating common costs to set regulated rates for wireline pole attachments and has no basis in principles of economic efficiency.

Suppose that that full distribution of costs is intended to achieve the objective of economic fairness, or equity, rather than economic efficiency. Under this assumption, could Dr. Ware please provide his views as to why equal allocation of common costs among various users is not appropriate.

EVIDENCE OF TIMOTHY BROWN (Brown)

VECC-19

Reference: Brown, page 3, paragraphs 5 - 6

- a) Paragraph 6 states that “in almost every case of poles with attachments there are at least two attachers, being Bell and Rogers”. However, is it Mr. Brown’s view that all THESL poles with an attachment will have wireline communications attachments from Bell and Rogers or could there be some with no wireline communications attachments from either of these parties but that do have some other form of wireline attachment?
- b) If Mr. Brown is of the view that all THESL poles with an attachment of any kind) will have both Bell and Rogers attachments, please explain the basis for this position.
- c) If there are some THESL poles that have an attachment but not wireline communications attachments from Bell and Rogers, couldn’t this explain the 1.6 average determined by THESL?

VECC -20

Reference: Ware, page 8

- a) Under Row E in the table, please explain how dividing the Net Embedded Cost per pole by the average life of poles yields the Depreciation Expense, when the Net Embedded Cost represent the Gross Costs reduced by the accumulated depreciation to date.

VECC -21

Reference: Ware, page 10, Table 2

- a) Please confirm that Table 2 assumes two non-hydro users per pole.
- b) Please re-do Table 2 assuming there are 1.6 non-hydro users per pole, consistent with THESL’s calculations.

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