

Hydro One Networks Inc.

8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5707
Fax: (416) 345-5866

Andrew Skalski

Director – Major Projects and Partnerships
Regulatory Affairs



BY COURIER

June 20, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700,
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

**EB-2011-0085– Erie Thames Powerlines Corporation Application for Service Area Amendment–
Hydro One Networks' Argument**

I am attaching two (2) paper copies of the Hydro One Networks' submission (argument) regarding the above-note proceeding.

An electronic copy of this argument has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY ANDREW SKALSKI

Andrew Skalski

c. Mr. Chris White, Erie Thames Powerlines Corporation

HYDRO ONE NETWORKS INC.
SUBMISSION
EB-2011-0085

1.0 INTRODUCTION

Erie Thames Powerlines Corporation (“Erie Thames” or “ETP”) filed an application to the Board on March 17, 2011 to amend its licensed service area pursuant to Section 74 of the *Ontario Energy Board Act, 1998* to include lands owned by Sifton Properties Ltd. located in the Town of Ingersoll. These lands are currently included in Hydro One Networks’ service territory.

The subject lands are described as all of Part Lot 10, Block 69 and part of Lots 6, 7, 8 and 9, Block 69, Part of Lots 11 and 12, Block 68 and part of Robert St., Registered Plan 279 and part of Lots 6, 7 and 8, Registered Plan 173 and part of Lot 19, Concession 1 (West Oxford), in the Town of Ingersoll, and the County of Oxford.

Hydro One is contesting this application, and believes that allowing it to remain the incumbent distributor for the development is in the public interest and meets the principles set out in RP-2003-0044.

In Hydro One’s submission, this is a relatively straightforward Service Area Amendment (SAA) application for the Board to adjudicate. Both parties have facilities near the proposed development (although in Hydro One’s case its facilities are immediately adjacent whereas Erie Thames has to modestly expand its system to reach the subdivision), both parties’ costs are similar (when properly accounted for – see more details below), both parties can offer similar levels of emergency response and reliability, and both parties have spare capacity on their respective systems to supply the development. Although Erie Thames’ rates are somewhat lower, the Board has ruled in the past in RP-2003-0044 that a rate differential is not in itself determinative in an SAA application. Therefore, in many respects there is little to choose from between the

1 competing offers. What is singularly different however is the operationally inefficient
2 result that would be obtained if Erie Thames' application was granted. This inefficiency
3 would arise from the "peninsula" created by the resulting addition to Erie Thames'
4 service area, which would jut into an area of existing Hydro One customers. More details
5 regarding this issue are provided below but in Hydro One's view it is this erosion of the
6 smooth border, contrary to the principles of RP-2003-0044 and leading to clear service
7 inefficiencies, that is the most compelling fact that differentiates the respective utilities'
8 connection offers. It is this difference that should lead the Board to deny ETP's
9 application.

11 **2.0 BACKGROUND**

13 Erie Thames is an embedded utility within Hydro One's system serving the Town of
14 Ingersoll. The new development, Sifton Properties, lies within Hydro One's service area
15 and Hydro One has existing distribution assets immediately adjacent to the site that can
16 be used to connect and provide service to it. Hydro One currently serves customers on
17 both the east and west sides of Harris Street, adjacent to the proposed site, and also
18 immediately to the west of the proposed development in an existing subdivision. Hydro
19 One has a local presence in Ingersoll as well as a service centre in the Town of
20 Beachville, less than 10 km from the proposed development (see Hydro One evidence
21 page 4). Hydro One will provide reliable service to the new development and believes its
22 costs to connect the development are similar to or lower than Erie Thames' costs when
23 those costs are compared on an apples-to-apples basis. The net cost to the developer is
24 also lower under Hydro One's Offer, after factoring in revenue credits.

26 **3.0 PRINCIPLES OF RP-2003-0044**

28 The Board's intent in the RP-2003-0044 hearing was to develop principles to ensure a
29 consistent approach is taken in assessing service area amendments (SAA). The Board
30 was guided by Section 74(1) of the OEB Act which allows the Board to amend electricity
31 licences where the amendment is in the public interest. In making its decision in that

1 case, the Board addressed various issues including amendments to service areas at the
2 border of contiguous distributors. Importantly, the Board determined that economic
3 efficiency would be a primary consideration in assessing a SAA application.

4
5 The remainder of Hydro One's submission will compare the respective Offers in light of
6 the principles outlined in RP-2003-0044, focusing on those areas where Hydro One
7 believes Erie Thames has failed to demonstrate that its solution is in the public interest.
8 As such, in Hydro One's view the requested SAA should not be approved.

9
10 **4.0 CAPACITY, QUALITY AND RELIABILITY OF SERVICE**

11
12 The first objective of the OEB Act for electricity is to "protect the interests of consumers
13 with respect to prices and the adequacy, reliability and quality of electricity service".
14 This objective is also important in assessing the viability of a service area amendment.

15
16 As stated in Hydro One's response to Board Staff IR # 1a), Hydro One has ample spare
17 capacity on its existing 38M50 feeder that runs alongside the proposed new development
18 to connect both the initial and future phases. Hydro One has also provided evidence
19 (Section 9, page 4) regarding interruption statistics for the feeder in the subject area that
20 confirms the subject area has very good reliability with only 2 interruptions in the last 4
21 years with an average duration of 40 minutes. Hydro One has also noted in Section 7 of
22 its Evidence (page 2) and in the response to ETP IR # 2 that if Hydro One connects the
23 subdivision, reliability to existing customers will not be impacted and the new
24 subdivision will be provided safe and reliable electricity service.

25
26 ETP in its evidence at p. 9 has made claims that connection of the new subdivision by
27 Hydro One could result in an adverse impact to reliability on Erie Thames' system. In
28 Hydro One's view, the Board should ignore these claims. The fact is that both utilities
29 will use the same feeder (the 38M50) to make the connection to the new development.
30 The only difference is that ETP's proposed connection point to the 38M50 feeder will be

1 somewhat further north (most likely no more than a few hundred metres) from Hydro
2 One's proposed connection point. As Hydro One indicated in its response to ETP IR # 5
3 d), since both utilities are using the same feeder at approximately the same location to
4 make the connection, the impact on reliability related to downstream events will only be
5 marginally different between the two offers. The potential for any difference, which is
6 marginal, arises on the short section of the 38M50 feeder (less than 1 km) running
7 between the existing retail point of supply at the current service area boundary in the
8 north, and Clarke Road in the south, where the feeder can be switched to isolate it from
9 downstream events. As such Hydro One submits the Board should ignore ETP's inflated
10 claims regarding a potential reliability impact should Hydro One make the connection.

11
12 ETP has also implied that in emergency situations downstream of the retail point of
13 supply, Hydro One cannot offer supply from another source. Hydro One has noted
14 (response to ETP IR # 12a) that neither utility currently has the ability to back-feed the
15 new development using an alternate path and that both require additional facilities in the
16 future to do so. Hydro One, when the demand and need warrant, would most likely
17 extend the 38M44 feeder out of Ingersoll TS to provide additional supply and a means to
18 back-feed the area using an alternate path. The area back-feed would include the new
19 subdivision, which as noted in Hydro One's response to Staff IR # 1 b&c) is in a prime
20 development area extending south from the existing subdivisions to Highway 401. This
21 additional circuit would be required to handle load growth for both Erie Thames' and
22 Hydro One's customers, not just the proposed development.

23
24 Erie Thames has also noted in the preamble to ETP IR #5e) that it has the existing
25 capability to supply the area using the 38M49 feeder in its service territory as a back-up
26 source in cases of upstream events on the 38M50, and that downstream Hydro One
27 customers benefit from this. Hydro One agrees with Erie Thames that this second feeder
28 is able to provide that benefit. Furthermore, Hydro One assumes that ETP will continue
29 to use this operational capability when required to address upstream events within its
30 service area, and that this would continue to be a benefit to downstream customers served

1 from the 38M50 feeder, including those within the new subdivision -- regardless of which
2 utility is chosen to serve it.

3
4 On page 6 of Erie Thames' evidence, ETP suggests that if it were to serve the
5 development, "it would prevent customer/employee confusion in an emergency
6 situation." ETP has filed no evidence of customer/employee confusion that has occurred
7 in the past in the existing subdivisions near the boundary that are served by Hydro One
8 and as such ETP's claim remains a hypothetical one which the Board should ignore.
9 Hydro One also notes that because of the "peninsula effect" that the proposed amendment
10 would produce -- with the new subdivision if served by ETP surrounded on three sides by
11 existing Hydro One customers, and with the only road access to the subdivision occurring
12 from within Hydro One's service territory - the potential for confusion to be created
13 among customers and emergency crews in the area would be far greater if ETP served the
14 new subdivision than if Hydro One did, and a smooth and clearly delineated border was
15 maintained.

16
17 Hydro One's assets in the area of the proposed development are in good condition and at
18 approximately 5 years of age are comparable to or slightly lower in age than ETP's,
19 based on ETP's evidence (lines 22-23) in which it indicated that the surrounding area
20 adjacent to this SAA application has been developed over the past seven years.

21
22 Throughout Erie Thames' evidence reference is made to Hydro One using a retail meter
23 point to connect the subdivision, implying that this solution is inferior to the ETP solution
24 which does not use a retail meter point. Hydro One has noted, in response to ETP IR# 8
25 b) that reliability is not impacted by the type of metering point used, retail or wholesale.
26 Electrons do not know the difference between a retail point of supply and a wholesale
27 point of supply.

1
2 Further, Erie Thames cited the Board's discouragement in RP-2003-0044 against creating
3 new retail points of supply (RPS), and suggested that Hydro One's means of connection
4 would do just that. In its response to ETP IR # 3b), Hydro One noted that it is not
5 creating a new RPS but is simply using an existing RPS. Accordingly, Hydro One's
6 approach is fully consistent with the Board's principles.

7
8 With respect to Hydro One's proximity to Ingersoll and its ability to quickly respond to
9 emergency situations, Hydro One's Beachville service centre is less than 10 km from the
10 town of Ingersoll. As such its emergency response time to the proposed development
11 would be approximately 10 minutes, comparable to ETP's, as indicated in their evidence
12 on page 5. In addition, Hydro One has access to crews from neighbouring areas that
13 could be utilized in Ingersoll if required during an emergency situation. Due to the
14 proximity of the Beachville service center, Hydro One's local response times for the area
15 around the new development are accordingly well below Hydro One's 120 minute service
16 quality standard set out in the Distribution System Code, which is reflective of Hydro
17 One's predominately rural system.

18
19 For all the above reasons, Hydro One believes it will provide adequate, reliable and
20 quality service to the new subdivision, without impacting existing customers. In Hydro
21 One's view, the level of service it will provide will be comparable to, if not better, than
22 that of Erie Thames.

23 24 **5.0 ECONOMIC EFFICIENCY**

25
26 In RP-2003-0044 the Board concluded that "significant weight should be given to
27 economic efficiency when assessing an application for a service area amendment.
28 Failure on the part of an applicant to adequately demonstrate the economic efficiency of a
29 service area amendment application will generally constitute sufficient grounds for the
30 Board to turn down the application [para. 249]." Hydro One contends that Erie Thames

1 has failed to provide a persuasive argument to demonstrate the superior economic
2 efficiency of its proposed service area amendment.

3
4 In order for Erie Thames to reach the proposed development, as described in ETP's
5 response to HONI IR #1a), ETP will "extend their 27.6 kV overhead distribution line
6 south by one pole span and then proceed underground approximately 40 meters south
7 before entering the subject area". By contrast, Hydro One has existing assets at the
8 entrance of the new subdivision on Harris Street which it will use to make the connection.
9 Therefore no expansion is required and there is no duplication of assets as there would be
10 under Erie Thames' proposal which involves building facilities that would parallel the
11 existing 38M50 feeder south from ETP's existing service area boundary to the access
12 point into the development. As such, Hydro One believes its solution more closely
13 matches the principles put forth in paragraph 84 of RP-2003-0044, that include
14 "optimization of use of the existing system configuration" and "ensuring the amendment
15 does not result in any unnecessary duplication or investment in distribution lines and
16 other distribution assets and facilities" in assessing the economic efficiency of a SAA
17 application.

18
19 In its evidence at pages 5 and 6 and in Appendices A and B, Hydro One has expressed
20 various concerns over the connection costs prepared and submitted by ETP in its
21 application. Some of the inconsistencies or concerns that Hydro One brought forward
22 are:

- 23 • Connection rebate calculations are inconsistent between the Harris View comparison
24 table (\$95,163) and the Offer to Connect and Economic Evaluation Model (EEM)
25 (\$81,636)
- 26 • Inspection costs on contestable work and the cost for supply and splicing of
27 secondary cable are both excluded. Hydro One estimates that these excluded costs
28 could amount to over \$6,500
- 29 • Incremental Low Voltage charges related to the new development are excluded in the
30 EEM and hence in the connection rebate calculation (\$12,572)

- 1 • Incremental Operations and Maintenance costs associated with meeting the demand
- 2 (kW) and consumption (kWh) appear to have been excluded in the EEM and hence in
- 3 the connection rebate calculation
- 4 • Outdated and understated economic parameters are used in EEM
- 5 • Labour costs, which have overhead rates up to 100% according to ETP's response to
- 6 Hydro One IR # 5a), appear too low to complete the required work
- 7 • Potential easement cost of \$2,000 to enter subdivision is excluded
- 8 • 40 meters of underground cable in front of Harris St. is potentially unaccounted for,
- 9 per page 6 of Hydro One's evidence

10
11 Based on the above inconsistencies and apparent omissions, Hydro One submits that
12 ETP's stated cost estimate cannot be relied upon and the Board should accept Hydro
13 One's revised estimate, as contained in Appendix A of its evidence, as a more reasonable
14 cost comparison between the two utilities' Offers.

15
16 Hydro One also submits that the adjustments above if accounted for would result in a
17 material change to ETP's Offer to Connect and, as noted in Hydro One's evidence at
18 page 5, would make for a lower net cost to the developer under Hydro One's Offer than
19 under Erie Thames'. On an adjusted basis and reflecting only some of the adjustments
20 (those which Hydro One can reasonably approximate), the net cost to the developer
21 would be \$13,365 if ETP connects the subdivision (or \$26,892 if the connection rebate
22 was based on a staggered installation schedule) and \$5,383 if Hydro One connects, as
23 indicated in Appendix A of Hydro One's evidence.

24
25 This revised comparative estimate excludes the impact of the adjustments Hydro One is
26 unable to approximate, such as the inclusion of 2011 economic parameters in ETP's EEM
27 in place of the current outdated ones, any adjustments to its artificially low labour costs,
28 the possible inclusion of costs related to 40 meters of underground cable install that may
29 have been omitted, and the possible omission of incremental per kW and per kWh O&M
30 costs.

1
2 Based on the above, Hydro One submits that it is far from clear that ETP's connection
3 costs are in fact lower than Hydro One's, as ETP contends in its Application at page 10.
4 Accordingly, the Board should conclude that the costs of each utility are likely not
5 materially different when properly accounted for. Additionally, Hydro One submits that
6 the net cost to the developer would be lower, after factoring in revenue credits, under
7 Hydro One's Offer than under Erie Thames' and that Hydro One's connection cost
8 proposal is therefore clearly superior for the developer than Erie Thames' Offer. Hydro
9 One also submits that the Board should give no or little weight to the letter of support
10 from the developer in favour of Erie Thames' application, in view of the likely
11 misstatement of Erie Thames' costs and connection rebates on which the developer's
12 support was presumably premised.

13 14 **5.0 OTHER CONSIDERATIONS**

15 16 CDM

17 Erie Thames expressed concerns regarding Hydro One's ability to offer CDM programs
18 to residents in the Town of Ingersoll. Hydro One does not agree with these concerns.
19 Although admittedly not able to have as many "feet in the street" in the local area, Hydro
20 One, as indicated in its response to ETP IR # 11, provides an alternative and excellent
21 web- and phone-based delivery model that offers customers convenient in-home access to
22 CDM information and advice through a team of dedicated conservation call agents. This
23 service delivery model also includes a web-based time-of-use portal that allows
24 customers to calculate energy usage and potential savings. Hydro One participates in all
25 the province-wide CDM programs offered by the OPA and is planning to file a CDM
26 application with the Board later in 2011 that will introduce a range of new programs for
27 residential, commercial and industrial customers, including those in Ingersoll.

1 Consistency with the Principles of RP-2003-0044

2
3 In RP-2003-0044, the Board found that:

4
5 “In addressing economic efficiency, applicants should demonstrate that
6 the proposed amendment does not reduce economies of contiguity, density
7 and scale, and preferably that the amendment enhances these economies.
8 Generally the applicant should be able to demonstrate that it can provide
9 the lowest cost connection, and that the proposed connection is consistent
10 with existing networks, avoiding duplication. An increase, or at least no
11 decrease in the smoothness of the boundaries between the utilities is also
12 desirable” [para. 85]

13
14 “In a contested application, the onus will be on the applicant to
15 demonstrate that the amendment is in the public interest [para. 199].”
16

17 Hydro One believes that Erie Thames has failed to demonstrate that its solution is more
18 in the public interest than the incumbent distributor’s solution. Hydro One has
19 distribution infrastructure adjacent to the proposed development, has a well developed
20 network of assets in the area and believes its cost to the developer would be comparable
21 to or lower than Erie Thames’ cost on a properly accounted-for basis. Hydro One’s
22 distribution system has the capacity to serve the proposed and any future phases of the
23 new development, without building new facilities, unlike Erie Thames. Hydro One has a
24 local presence and can provide safe and reliable service to the residents of the new
25 subdivision at a level comparable to Erie Thames.
26

27 Significantly, as Hydro One has highlighted in its evidence, Hydro One’s solution
28 maintains a smoother boundary. If granted, ETP’s proposed amendment would
29 effectively create a peninsula jutting into Hydro One’s service territory, surrounded by
30 existing Hydro One customers. This can best be seen from Map 2 filed in ETP’s
31 evidence, and attached as Appendix A, which shows the new development (in red) along
32 with ETP’s existing service area boundary (in yellow). As that map clearly shows, there
33 are existing Hydro One customers to the west and east of the new development (and also
34 to the south of the future phases), and Hydro One notes that Erie Thames is not proposing

1 to include these existing customers in its SAA application. They will thus remain Hydro
2 One customers after the new development is connected.

3
4 Additionally, as Map 2 reveals, there is no road access into the new subdivision from the
5 northern section that partially abuts Erie Thames existing service area. And as Map 2
6 also reveals, that northern section of the new subdivision abuts what appears to be an
7 existing municipal park or greenspace, making it unlikely that road access into the
8 subdivision, from the north, is likely in the foreseeable future. Therefore, the only road
9 access, existing and future, is likely to remain through Hydro One's service territory.
10 Thus Erie Thames' crews would have to drive through Hydro One's territory to reach the
11 new subdivision for service calls, while Hydro One crews would have to drive past the
12 subdivision, which it could otherwise have serviced, in order to respond to service calls to
13 existing Hydro One customers to the west, east and south of the new development. This
14 is clearly an inefficient arrangement and is one reason why smooth borders are to be
15 preferred under the Board's principles. As such, Hydro One's submits that the Board
16 should not allow this inefficient arrangement to be implemented.

17 18 **6.0 CONCLUSION**

19
20 Hydro One believes that the facts set out above are persuasive in favour of having it serve
21 the new development, consistent with the principles of RP-2003-0044. Although Erie
22 Thames also has a local presence in the area and its service area is partly adjacent to the
23 proposed development, ETP has failed to provide a compelling argument as to why a
24 service area amendment is in the public interest.

25
26 As written in RP-2003-0044 [paragraph 199]:

27
28 "In a contested application, the onus will be on the applicant to
29 demonstrate that the amendment is in the public interest. Amendments
30 that are consistent with the principles articulated by the Board in this
31 decision, and supported by evidence that demonstrates their advantages,
32 will have a great chance of success."

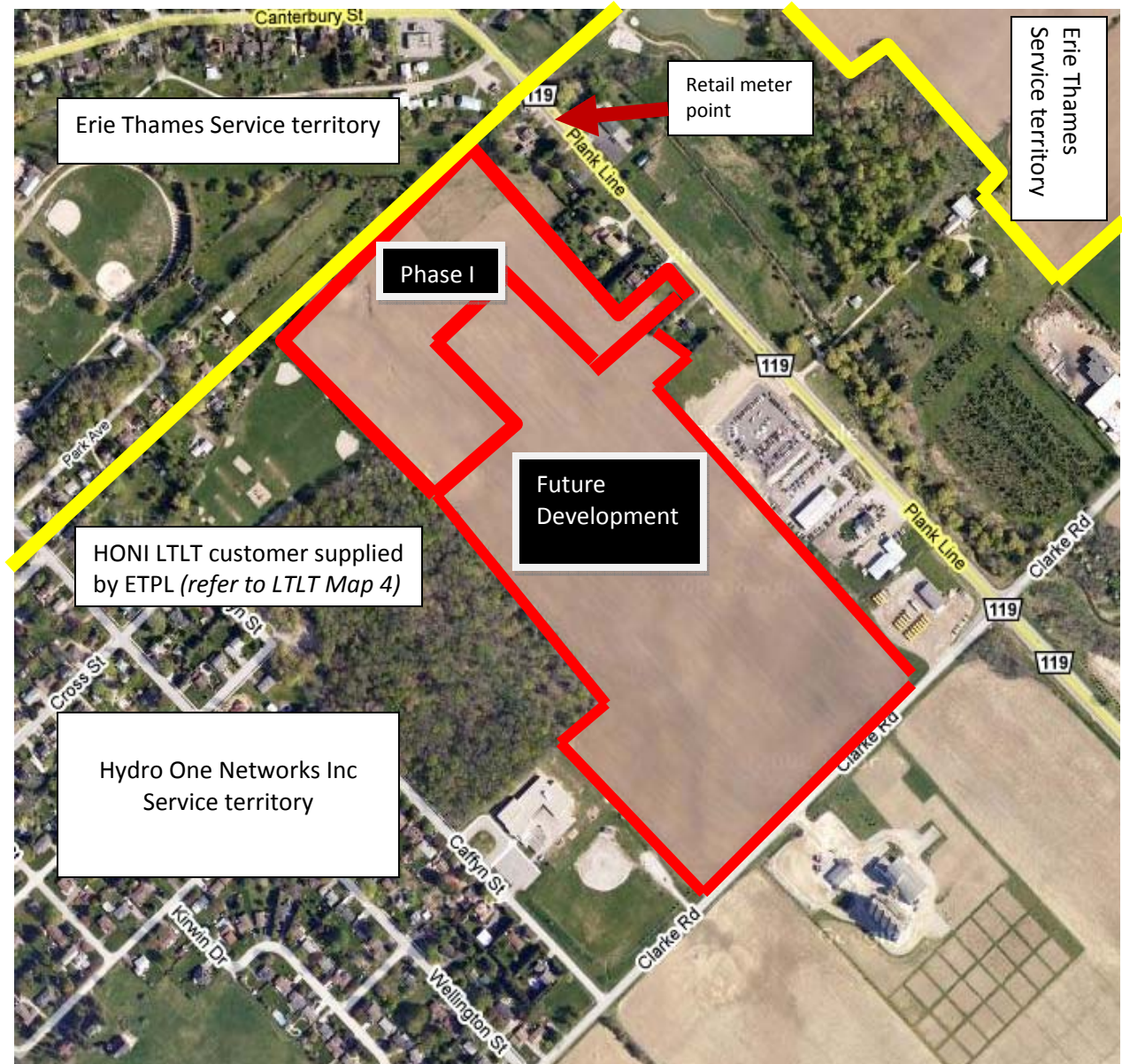
1

2

3 In Hydro One's view, Erie Thames has not met the onus outlined above and its
4 application should be denied.

5

6 All of which is respectfully submitted for the Board's consideration.



Surrounding Area
(Erie Thames service boundaries highlighted in yellow)

Map 2