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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs

BY COURIER

September 21, 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 on the Economic Evaluation**

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

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

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. Mr. Chris White, Erie Thames Powerlines Corporation

**HYDRO ONE NETWORKS INC.**  
**SUBMISSION ON ECONOMIC EVALUATION**  
**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. Final submissions were filed on this application in June 2011. On August 19, the Board re-opened the record and ordered that both ETP and Hydro One submit a detailed economic evaluation prepared in accordance with Appendix B of the Distribution System Code.

This submission addresses the evidence filed by ETP and Hydro One relating to the economic evaluations of the two parties. It is supplemental to Hydro one’s submission filed with the Board on June 20, 2011. Hydro One still contests this application, and believes that allowing it to remain the incumbent distributor for the Sifton development is in the public interest and meets the principles set out in RP-2003-0044.

**2.0 SUBMISSION**

The revised economic evaluation filed by Erie Thames Powerlines shows a total expansion cost of \$242,256 with a customer capital contribution of \$144,372. Hydro One in response to Board Staff IR#1 revised its economic evaluation based on an average consumption of 750 kWh and a staggered customer connection over five years to provide an analysis comparable to ETP. The revised evaluation provided by Hydro One shows a total capital cost of \$198,754 with a customer capital contribution of \$90,842. Hydro One acknowledged in response to ETP IR# 1 (Tab 2, Schedule 15), that the civil work required to be completed by the contractor was not included in its analysis and agreed

1 that to arrive at a common economic assessment this work should either be included or  
2 excluded by both parties. Including this cost in Hydro One's analysis, would increase  
3 both total expansion costs and the customer capital contribution.

4  
5 In Hydro One interrogatory #1c), HONI questioned if ETP included enhancement costs  
6 in their analysis as required in the Distribution System Code, Appendix B, Capital Costs,  
7 Item (d) . ETP responded:

8  
9 "There have been no enhancement costs related specifically to system  
10 expansions within the subject area within the past five years and,  
11 accordingly, the historical three to five year rolling average of actual  
12 enhancement costs incurred in system expansions for ETP is \$0.00 per  
13 kW. Erie Thames submits that it has undertaken enhancements in its  
14 service territory but they have only been related to replacing end of life  
15 assets in connection with Erie Thames' normal asset management  
16 planning. As a result, the appropriate enhancement costs (i.e. nil) have  
17 been included in Erie Thames' Economic Evaluation" [emphasis added].

18  
19 In EB-2007-0928 2008 rates filing ETP filed a table entitled "Capital Budget by Project"  
20 (Exhibit 2, Tab 3, Schedule 1 and attached as Appendix A to this submission). This table  
21 identified a large number of "enhancement" projects classified with an underlying project  
22 description name "Increase Capacity/Improvements" that were to be undertaken in their  
23 bridge (2007) and test year (2008). However, ETP submitted in their interrogatory  
24 response quoted above, that enhancement work undertaken in their service territory only  
25 relates to replacement of end of life assets. In Hydro One's opinion this appears to be in  
26 contradiction with the description in the Capital Budget by Project table where only a few  
27 of the projects are identified as replacement. Hydro One believes that the type of  
28 enhancement costs referred to in the capital budget table is the kind on enhancement  
29 capital that is supposed to be included through the kW charge in Appendix B of the DSC.  
30 As such, an historical three to five year rolling average cost should be available and the  
31 appropriate per kWh enhancement costs would not be nil as presented in ETP economic

1 evaluation. Hydro One invites ETP to comment on this discrepancy.

2  
3 In addition to this inconsistency, Hydro One expressed concerns over the validity of the  
4 connection costs prepared and submitted by ETP in its original application that have still  
5 not been fully addressed in their economic evaluation evidence. ETP admitted in their  
6 June 30, 2011 argument that “some of the points raised by Hydro One are valid” [page  
7 14, paragraph 39] but their revised economic evaluation appears to only been updated to  
8 include basic connection costs. Other concerns Hydro One had are still outstanding, for  
9 instance the use of 2011 economic parameters (ROE) and labour costs. ETP in response  
10 to HONI IR #5a (List 1) indicated that the overhead burden rate on labour was 100%.  
11 Hydro One questions the reasonableness of ETP labour component cost of \$15,805  
12 (including 100% overhead) for uncontestable work. Hydro One submitted in its June 20,  
13 2011 submission that the inconsistencies and apparent omissions from ETP economic  
14 analysis made their cost estimate unreliable. ETP’s treatment of enhancement costs,  
15 together with the apprehensions cited above reinforce Hydro One’s concerns regarding  
16 the integrity and credibility of ETP’s costing and economic evaluation.

### 17 18 **3.0 CONCLUSION**

19  
20 Hydro One, as stated in its June 20, 2011 submission, believes that Erie Thames’ has  
21 failed to demonstrate that its solution is more in the public interest than the incumbent  
22 distributor’s solution. Hydro One has distribution infrastructure adjacent to the proposed  
23 development and has the operational capacity to serve the development without building  
24 new facilities. Hydro One’s solution would maintain a smoother boundary and would  
25 avoid a peninsula effect as described in previous evidence.

26  
27 Hydro One believes that the facts set out above render the economic evaluation presented  
28 by Erie Thames Powerlines unreliable. Hydro One suggests to the Board, if ETP is  
29 unable to satisfactorily clarify the matters relating to enhancement costs in their final

1 submission, that the Board should take into account ETP's credibility when making a  
2 determination in this case and should deny this application.

3  
4 In Hydro One's view, Erie Thames has not demonstrated the requested SAA is in the  
5 public interest and its application should be denied.

6

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

**EB-2007-0928**  
**EXHIBIT 2, TAB 3, SCHEDULE 1**

CAPITAL BUDGET BY PROJECT				
Project Description	USoA Account	Expansion or Enhancement	Amount	Spend Year
1004 Increase Capacity/Improvements	1835	Enhancement	\$28,654	Bridge
1010 Increase Capacity/Improvements	1835	Enhancement	\$22,679	Bridge
1040 Station Upgrade	1808	Enhancement	\$33,000	Bridge
1048 Increase Capacity/Improvements	1830,1835,1850,1850	Enhancement	\$292,000	Bridge
1043 Increase Capacity/Improvements	1830,1835,1850,1850	Enhancement	\$274,000	Bridge
1029 Increase Capacity/Improvements	1830,1835,1850,1850	Enhancement	\$136,000	Bridge
5355 Line Extension Serve New C&I	1830,1835,1850,1850	Expansion	\$155,000	Bridge
1044 Line Extension Serve New C&I	1830,1835,1850,1850	Expansion	\$83,000	Bridge
1056 Transformer Station Upgrade	1820	Enhancement	\$40,000	Bridge
1050 Broken Pole Primary Removal	1830	Enhancement	\$20,000	Bridge
1046 Servicing Relocation	1850,1855,1860	Enhancement	\$48,000	Bridge
1064 Burial of OH lines	1845	Enhancement	\$40,000	Bridge
1058 Serve New Residential	1850,1855,1860	Enhancement	\$70,000	Bridge
1059 Serve New C&I	1830,1835,1850,1855,1860	Enhancement	\$80,000	Bridge
1049 Feeder Line Upgrade	1835	Enhancement	\$68,000	Bridge
1036 Line Conversion	1840,1845	Enhancement	\$55,000	Bridge
1003 Poles Relocation	1830,1835	Enhancement	\$32,000	Bridge
1033 Increase Capacity/Improvements	1840	Enhancement	\$16,155	Bridge
1003 Increase Capacity/Improvements	1845	Enhancement	\$37,845	Bridge
1037 Line Enhancement/Pole Replacement	1835	Enhancement	\$34,000	Bridge
1000 GIS Mapping System	1925	Enhancement	\$60,000	Bridge
Project Description	USoA Account	Expansion or Enhancement	Amount	Spend Year
1113 C&I Meter Changes	1860	Enhancement	\$30,000	Test
1011 Increase Capacity/Improvements	1830,1835,1840,1845,1850	Enhancement	\$130,000	Test
1035 Increase Capacity/Improvements	1830,1835,1850	Enhancement	\$46,000	Test
1052 Pole Replacement Program	1830,1835,1850	Enhancement	\$100,000	Test
1058 Serve New Residential	1850,1855	Enhancement	\$110,000	Test
1059 Serve New C&I	1830,1835,1845,1850,	Enhancement	\$90,000	Test
1094 Serve New C&I	1830,1835,1850	Enhancement	\$40,000	Test
1095 Increase Capacity/Improvements	1835	Expansion	\$40,000	Test
1096 Increase Capacity/Improvements	1850	Enhancement	\$35,000	Test
1097 Serve New Residential	1830,1835	Expansion	\$60,000	Test
1098 Increase Capacity/Improvements	1840,1845,1850	Enhancement	\$80,000	Test
1100 Serve New Residential	1830,1835,1850	Expansion	\$17,000	Test
1101 Increase Capacity/Improvements	1830,1835,1840,1845,1850	Enhancement	\$180,000	Test
1103 Increase Capacity/Improvements	1835	Enhancement	\$30,000	Test
1104 Increase Capacity/Improvements	1850	Enhancement	\$25,000	Test
1105 Serve New Residential	1830,1835,1850	Expansion	\$75,000	Test
1107 Increase Capacity/Improvements	1830,1835,1840,1845,1850,1855	Enhancement	\$175,000	Test
1108 Increase Capacity/Improvements	1830,1835,1850,1855	Enhancement	\$95,000	Test
1109 Increase Capacity/Improvements	1830,1835,1850,1855	Enhancement	\$100,000	Test
1110 Increase Capacity/Improvements	1835	Enhancement	\$45,000	Test
1099 Increase Capacity/Improvements	1820	Enhancement	\$40,000	Test
1013 Increase Capacity/Improvements	1830,1835,1850,1855	Enhancement	\$80,000	Test