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VIA WEB PORTAL AND COURIER

September 28, 2011

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

Dear Ms. Walli:

Re: EB-2011-0085 – Erie Thames Powerlines Corporation's Application for a Service Area Amendment – Procedural Order No. 2

Please find enclosed two (2) copies of Erie Thames Powerlines Corporation's final submission in respect of the above-referenced proceeding.

An electronic copy of this cover letter and the final submission have been filed through the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY PAT ZIMMER

Pat Zimmer
Regulatory & Administrative Assistant
Erie Thames Powerlines Corporation

cc: Mr. Andrew Skalski, Hydro One Networks Inc.



ERIE THAMES POWERLINES CORPORATION

REPLY SUBMISSION – PROCEDURAL NO. 2

I. INTRODUCTION

1. On March 21, 2011, Erie Thames Powerlines Corporation (“Erie Thames”) filed an application with the Ontario Energy Board (the “Board”) under section 74 of the *Ontario Energy Board Act, 1998* (the “Application”) for an order of the Board to amend Erie Thames licensed service area in Schedule 1 of its electricity distribution licence ED-2002-0516. The proposed Service Area Amendment, if granted will expand Erie Thames’ service area to include the lands owned by Sifton Properties Ltd. located in the Town of Ingersoll that are designated for residential development.
2. The Board issued its Notice of Written Hearing and Procedural Order No. 1 on March 28, 2011. The record closed in this proceeding with Erie Thames’ reply submission dated June 20, 2011 (“Procedural Order No. 1 Reply Submission”). On August 19th, the Board re-opened the record and ordered that both Erie Thames and Hydro One Networks Inc. (“Hydro One”) submit a detailed economic evaluation prepared in accordance with Appendix B of the Distribution System Code (“DSC”).
3. This submission addresses the submissions filed by Board staff and Hydro One and it is supplemental to Erie Thames’ Procedural Order No. 1 Reply Submission.

II. SUBMISSION

A. Economic Efficiency

4. Erie Thames’ agrees with Board staff’s submission that, in assessing service area amendment applications, the Board is guided by the principles articulated by the Board in the RP-2003-0044 decision, which included the following statements at paragraphs 208 and 235:

“Economic efficiency is a primary consideration in assessing a service area amendment application...Where new assets must be developed to effect the connection, a comparison of the costs associated with such development will inform the assessment of economic efficiency.”

5. Erie Thames agrees with Board staff's conclusion (page 4) that Erie Thames has demonstrated that it can provide connection of the development at a cost to the customer which is "significantly lower" than Hydro One's costs. Subject to the minor adjustment in Paragraph 23 below, Erie Thames agrees with Board staff's table comparing both distributors' connection costs (page 3), which established that Erie Thames' total capital costs were \$59,918 less than Hydro One's and that Erie Thames' total customer costs were \$49,890 less than Hydro One's. This total cost difference of \$109,808 represents a 28% increase of Hydro One's costs over Erie Thames'. In addition, based on information contained in the parties' economic evaluations, Erie Thames submits that its operation and maintenance costs and consumer revenue costs over a 25 year period will be substantially lower than Hydro One's.
6. Erie Thames further submits that its proposal to connect the proposed development is also more economically efficient than Hydro One's for reasons not reflected in economic evaluations. In particular, as previously submitted in paragraph 21 of the Procedural Order No. 1 Reply Submission, Erie Thames submits that the optimal solution for the proposed development involves maximizing the existing capacity on Erie Thames' 38M49 and 38M50 feeders to supply future growth in the subject area before Hydro One is required to introduce costly additional feeders or new sources of supply to service the subject area. In other words, Erie Thames submits that maximizing the existing capacity on Erie Thames' existing feeders is the more economically efficient option as it would defer Hydro One's future plans and the related costs.
7. Hydro One has neither established nor argued that its proposal to connect the development is more economically efficient than Erie Thames' or that it better satisfies the guiding principles set out in the RP-2003-0044 decision. Instead, Hydro One has questioned Erie Thames' credibility and the integrity its costing and economic evaluation. As addressed in greater detail in Paragraphs 12 to 19 below, Erie Thames strongly objects to these assertions and respectfully requests that the Board disregard Hydro One's arguments in this respect. Erie Thames respectfully submits that Hydro One has resorted to questioning Erie Thames' credibility to remove the focus from the fact that Hydro One's proposal is not the most economically efficient and that Erie Thames' proposal better satisfies the guiding principles established in the RP-2003-0044 decision.

B. Other Guiding Principles from RP-2003-0044

8. Erie Thames agrees with Board staff's earlier submission that the RP-2003-0044 decision (paragraph 233) establishes the principle that system planning, reliability and quality of

service, customer preference and the rate impact on the prospective customers should also be considerations when considering service area amendments.

9. Board staff repeated the conclusion (page 3) from its earlier submission that Erie Thames and Hydro One are in a relatively equal position to serve the proposed residential development from the perspective of system planning and reliability and quality of service. Erie Thames agrees with this submission. Hydro One also acknowledged this fact in its earlier submission (line 21, page 6 and line 25, page 10).
10. Board staff also submitted (page 4) that since both distributors are in a relatively equal position to serve the development from the perspective of system planning and reliability and quality of service, considerable weight should be given to the costs of the assets necessary to effect the connection and the capital contribution the customer must pay. Erie Thames agrees with this submission. As addressed in Paragraph 5 above, Erie Thames submits that the costs of the assets necessary to effect the connection and the capital contribution the customer must pay are significantly lower under its proposal.
11. As submitted in paragraphs 17-19 of the Procedural Order No. 1 Reply Submission, the developer customer prefers Erie Thames' proposal and the rate impact on prospective customers is lower under Erie Thames' proposal.

C. Responses to Specific Hydro One Submissions

Credibility of Costing and Economic Evaluation

12. In its submission (line 16, page 3 and line 1, page 4), Hydro One has questioned the integrity and credibility of Erie Thames' cost estimating and economic evaluation. Erie Thames strongly objects to this assertion and respectfully requests that the Board disregard Hydro One's claims for the reasons described in Paragraphs 13 to 19 below.
13. Regarding Erie Thames' cost estimating, Erie Thames submits that it employed its standard cost estimating practices, methodologies, assumptions and software tools when it prepared the offer to connect for the proposed development. Erie Thames further submits that past projects have confirmed that its cost estimating is very accurate and certainly credible.
14. Regarding the economic evaluations, Erie Thames submits that the preparation of economic evaluations, like any other economic modelling exercise, is an art and not a science. Accordingly, Erie Thames submits that approaches to completing the economic evaluations will vary based on the business practices and the assumptions of the respective

parties. Given the above, Erie Thames submits that the contents of economic evaluations will always be open to interpretation and questioning. Erie Thames submits that this is evidenced by the fact that Hydro One has had to submit three versions of its economic evaluation before satisfying Board staff (as compared the two versions submitted by Erie Thames.)

15. Erie Thames submits that its economic evaluation complies with Appendix B of the Distribution System Code (DSC). Erie Thames also submits that it has used its best and good faith efforts in preparing and presenting its economic evaluation in an open, transparent and accurate manner. Erie Thames' submits that its detailed 30 page economic evaluation is supported by substantive details and the assumptions supporting the costs and financial projections therein. Contrarily, Erie Thames submits that Hydro One's sparse, three page economic evaluation is a high-level summary containing minimal detail and no assumptions to support Hydro One's revenue numbers and expenses. Erie Thames submits that Hydro One's economic evaluation does not provide the level of detail and transparency required to assess the credibility and integrity of their costs. Erie Thames also submits that it has been limited in its ability to ask questions about or comment on Hydro One's submission given its high-level nature. Erie Thames submits that this problem was magnified by the fact that Hydro One did not submit an economic evaluation that was satisfactory to Board staff until after interrogatories were closed to Erie Thames.
16. During written hearing process, both distributors have made amendments to their economic evaluations in response to interrogatories and the parties' understanding of the requirements of Appendix B of the DSC. Erie Thames submits that the changes to its economic evaluation, in terms of dollar amounts, were substantially lower than the necessary changes made in Hydro One's economic evaluation (i.e. the inclusion of \$103,420 in excluded civil costs in order to reflect all projected costs associated with the connection of the development).
17. In addition to the changes to Hydro One's economic evaluation that were prompted by the interrogatory process, Erie Thames submits that Hydro One has decreased its cost estimates while providing little detail to support the changes. Erie Thames further submits that Hydro One has not satisfactorily explained the decreases in cost estimates when the Hydro One's labour costs have increased by 8.2%.
18. Given the lack of the detail in Hydro One's economic evaluation and the other issues described in Paragraphs 14 to 17 above, Erie Thames submits that its economic evaluation is as equally credible as and more transparent than Hydro One's.

19. Despite the issues with Hydro One's economic evaluation identified in Paragraphs 14 to 18 above, Erie Thames has refrained from questioning Hydro One's credibility (although it would be possible using the rationale employed by Hydro One in its characterization of Erie Thames' modelling.) Given the subjective nature of economic modelling, Erie Thames respectfully requests that the Board refrain from making judgement's regarding either distributor's credibility based on the oversights or misinterpretations encountered by both distributors' in preparing their respective economic evaluations. Instead, Erie Thames respectfully requests that Board rely on the final economic evaluations submitted by both distributors and the guiding principles of the RP-2003-0044 when considering Erie Thames' Service Area Amendment Application.

Enhancement Costs

20. In its submission (lines 5-17, page 2) Hydro One quoted a portion of Erie Thames' response to an interrogatory where it responded that there "have been no enhancement costs related specifically to system expansions within the subject area within the past five years" and, accordingly, Erie Thames' has not included enhancement costs in its economic evaluation. Hydro One then referenced (lines 19-31, page 2) a capital budget table included with Erie Thames' 2008 rate filing where certain projects were described as "enhancements" leading Hydro One to submit that these costs are "the kind on enhancement capital that is supposed to be included through the kW charge in Appendix B of the DSC". Erie Thames does not agree with Hydro One's submissions above. Erie Thames submits that the costs identified in the 2008 rates filing were not "incurred in system expansions", which is the test set out in paragraph (d) of Appendix B, B.1 Common Elements of the Discounted Cash Flow, Capital Costs. Accordingly, Erie Thames submits that these costs are not the kind of costs to be included through the kW charge and resubmits that the appropriate enhancement costs have been included in Erie Thames economic evaluation.
21. Erie Thames also submits that the Board should not put significance on the terminology used in the capital budget table included with Erie Thames' 2008 rate filing. The terminology contained in the capital budget table reflects the output from Erie Thames' asset management tool and Erie Thames submits that it is not consistent with the definitions of "enhancement" or "per kilowatt enhancement cost estimate" contained in the DSC and Appendix B.1 of the DSC, respectively. Erie Thames submits that the costs identified by Hydro One would be more appropriately defined as betterments, which includes the replacement of end of life assets.

22. As a final point on this issue, Erie Thames submits that Hydro One's treatment of enhancement costs is not evident from the high-level summary that Hydro One has submitted as an economic evaluation and, for the reasons described in Paragraph 15 above, Erie Thames cannot comment on the reasonableness or accuracy of Hydro One's enhancement costs.

Hydro One's Outstanding Concerns Regarding Erie Thames' Connection Costs

23. In its submission (lines 3-5 and 8-9, page 3), Hydro One makes a vague assertion that it has outstanding concerns about the validity of the Erie Thames' connection costs that have not been addressed by Erie Thames. Hydro One states that these outstanding issues include "for instance the use of 2011 economic parameters (ROE) and labour costs". Although presented as examples, Erie Thames has assumed that these ROE and labour costs are the only outstanding issues (or Erie Thames' expects that Hydro One would have included additional examples in light of its strong assertions regarding the credibility of Erie Thames' costing). Erie Thames submits that the ROE issue is addressed in Paragraph 23 below and the labour cost issue, along with all other connection cost concerns raised by Hydro One during interrogatories, were addressed by Erie Thames in paragraph 43 of Procedural Order No. 1 Reply Submission.
24. Regarding the ROE, Erie Thames submits that a minor additional change is required to its economic evaluation. In particular, Erie Thames should have updated the ROE from 8.15% to 8.57% in its revised economic evaluation, which results in an increase of \$1,962 to Erie Thames' costs.

Miscellaneous

25. In the conclusion to its submission (lines 20-25, page 3), Hydro One submitted that:
- "Erie Thames' has failed to demonstrate that its solution is more in the public interest than the incumbent distributor's solution. Hydro One has distribution infrastructure adjacent to the proposed development and has the operational capacity to serve the development without building new facilities. Hydro One's solution would maintain a smoother boundary and would avoid a peninsula effect as described in previous evidence".
26. In response to the above, Erie Thames submits that:

- (a) Erie Thames has demonstrated that its proposal to connect the development is clearly in the public interest given that (i) its connection costs are “significantly” lower than Hydro One’s, (ii) both distributors are in a relatively equal position to serve the development from the perspective of system planning and reliability and quality of service, (iii) the rate impact on the prospective customers is less under Erie Thames’ proposal as end user rates are lower than Hydro One’s, and (iv) the developer customer prefers Erie Thames’ proposal. In addition, Erie Thames’ proposal is in the public interest given Erie Thames ability to feed the proposed development from two existing feeders in emergency situations. These two feeders will also support the introduction of a smart grid and defer Hydro One’s future plans to introduce costly additional feeders or new sources of supply to service the subject area, both of which are in the public interest.
- (b) Like Hydro One, Erie Thames submits that it has distribution infrastructure adjacent to the proposed development and has the operational capacity to serve the development without building new facilities. Regarding Hydro One’s submission that it has operational capacity to serve the development without building new facilities, Erie Thames submits that this contradicts with Hydro One’s statements regarding the need for additional sources of supply in the future (as discussed in paragraph 21 of the Procedural Order No. 1 Reply Submission).
- (c) Regarding Hydro One’s concerns about creating a peninsula, Erie Thames submits that it addressed these concerns in paragraph 30 of the Procedural Order No. 1 Reply Submission.

III. CONCLUSION

- 27. For the reasons described in this Reply Submission, Erie Thames submits that all areas of relief described in its Service Area Amendment Application relating to Phase I of the proposed development be granted by the Board. In particular, Erie Thames submits that its proposal to connect the development is in the public interest and satisfies the guiding principles set out in the RP-2003-0044 decision given that that:
 - (a) Erie Thames’ connection costs are “significantly lower” than Hydro One’s;
 - (b) Both distributors are in a relatively equal position to serve the development from the perspective of system planning and reliability and quality of service;

- (c) The rate impact on the prospective customers is less under Erie Thames' proposal as end user rates are lower than Hydro One's; and
 - (d) The developer customer prefers Erie Thames' proposal.
28. Erie Thames further submits that Hydro One has neither established nor argued that its proposal to connect the development is more economically efficient than Erie Thames' or that it better satisfies the guiding principles set out in the RP-2003-0044 decision. Erie Thames submits that Hydro One has instead relied on questioning Erie Thames' credibility. Taking into account Erie Thames' transparent economic evaluation (compared to the lack of detail supporting Hydro One's costs), the subjective nature of economic modelling, and the ultimate changes required to both distributors' economic evaluations, Erie Thames respectfully requests that the Board disregard Hydro One's claims regarding Erie Thames' credibility and rely on the parties' final economic evaluations and the guiding principles of the RP-2003-0044 decision when considering this Service Area Amendment Application.

All of which is respectfully submitted.