



EB-2011-0085

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application pursuant to
section 74 of the *Ontario Energy Board Act, 1998* by Erie
Thames Powerlines Corporation to amend its Electricity
Distribution Licence ED-2002-0516.

By delegation, before: Theodore Antonopoulos

DECISION AND ORDER

THE APPLICATION

Erie Thames Powerlines Corporation ("ETPC") filed an application on March 21, 2011, with the Ontario Energy Board under section 74 of the *Ontario Energy Board Act, 1998* for an order of the Board to amend the licensed service area in Schedule 1 of its electricity distribution licence ED-2002-0516. The service area amendment ("SAA") is sought by ETPC in order to expand its distribution service area to include specific lands owned by Sifton Properties Limited ("Sifton"). The subject lands are located in the Town of Ingersoll and currently vacant but designated for residential development ("Development Lands"). ETPC wishes to supply and provide electricity distribution services to a proposed residential development known as Harris View Subdivision Phase I and future Phase II (the "Development"), which is being developed by Sifton on the Development Lands. The Development Lands are within Hydro One Networks Inc.'s ("Hydro One") licensed service area and Hydro One has contested this application.

The Board issued its Notice of Written Hearing and Procedural Order No. 1 on March 28, 2011. ETPC served the Notice of Written Hearing and Procedural Order No. 1 on Hydro One, Sifton and the Corporation of the Town of Ingersoll, all of which were deemed intervenors in the proceeding. Procedural Order No. 1 made provisions for

interrogatories on ETPC's evidence, the filing of evidence from intervenors and interrogatories on that evidence, and written submissions.

In its submission Board staff objected to ETPC's request to include Phase II of the Development because it was premature. Board staff submitted that the scope of this proceeding should be limited to Phase I of the Development. In its reply submission ETPC withdrew its request to include Phase II of the Development and stated that it will submit a separate application to include future phases of the Development when final details are available. Accordingly, the scope of this proceeding is limited to Phase I of the Development.

In Procedural Order No. 2, issued on August 19, 2011, the Board re-opened the record to require ETPC and Hydro One to file economic evaluations in order to better assess the relative economic efficiency of their respective proposals. Procedural Order No. 2 also made provisions for interrogatories and submissions but limited to the Board's consideration of economic efficiency. On August 26, 2011 both ETPC and Hydro One filed their economic evaluations and subsequently both distributors and Board staff submitted interrogatories and filed submissions on the economic evaluations.

FINDINGS

The application is approved. I find that it is in the public interest to amend ETPC's licensed service area in Schedule 1 of its electricity distribution licence ED-2002-0516 to include Phase I of the Harris View Subdivision located on part of Lot 19, Concession 1 (West Oxford) in the Town of Ingersoll. I note that Hydro One's licence is not required to be amended given the manner in which Schedule 1 of Hydro One's licence is presented.

ETPC is directed to submit a written update, with a copy to Hydro One Networks Inc., on the status of the connection of the Development within 180 days of this Decision and Order.

REASONS

The typical tests applied in contested SAA applications are related to system planning, safety and reliability, and economic efficiency. In reviewing the evidence supporting these factors I find that the impacts on each factor flowing from each of the subject

distributors' proposals were either comparable or in the favour of ETPC. On balance, the results of the above tests favoured ETPC. I also note that while rate levels did not influence this finding, I did afford appropriate weight to the customer's preference, which in this case, was limited to supporting the outcome that flowed from applying the key tests addressed above, namely that the SAA is in the public interest.

In reaching a decision with respect to this application I was guided by the three tests identified above that are underpinned by the principles articulated in the Board's Decision with Reasons in the RP-2003-0044 combined service area amendments proceeding (the "RP-2003-0044 Decision").

In the RP-2003-0044 Decision, the Board stated that economic efficiency should be a primary principle in assessing the merits of an SAA application.

The Board stated:

"The Board finds that amendments that involve contiguous distribution companies, but that are opposed by the incumbent distributor, may be in the public interest where the amendment results in the most effective use of existing distribution infrastructure, and a lower incremental cost of connection for the customer or group of customers."

System Planning

Phase I of the Development has 54 single family homes and one multi-family residential block. The evidence demonstrates that both ETPC and Hydro One have well developed distribution facilities that are adjacent to the proposed amendment area. Hydro One can connect the development from a feed off an existing pole. ETPC will need to extend its distribution system one pole span south to enter the property, and would enter the subject area underground using municipal infrastructure. ETPC stated that no assets will be stranded as a result of the proposed amendment.

The evidence indicates that both distributors will supply the Development from the same Ingersoll TS M50 feeder. However, Hydro One would connect the Development through a retail point of supply. Although no new retail points of supply would be created to connect the proposed Development, Hydro One would be adding additional load to the retail point to connect the Development. In its evidence ETPC demonstrated that it has

the ability to supply the Development from two different feeders maximizing the existing capacity and providing a back-up system for outage situations. Hydro One, on the other hand, submitted that "...when demand and need warrant, [it] would most likely extend the 38M44 feeder out of Ingersoll TS to provide additional supply and means to back-feed the area using an alternate path."

While Hydro One can service the Development with existing assets, the benefits of ETPC's proposal, as evidenced by the economic evaluation results noted below, more than offset the requirement for ETPC to extend its distribution system by one pole span underground.

Safety and Service Reliability

In its application, ETPC has argued it can provide more reliable service because it considers the facilities to be located in an urban setting and therefore must respond to emergencies within 60 minutes as per the urban service requirements, whereas Hydro One considers the facilities to be in a rural setting and therefore need only respond to emergency calls within 120 minutes. The evidence submitted by Hydro One indicates that in the past four years Hydro One has good reliability performance in the subject area with an average duration of disruption being considerably less than the duration permitted under the service quality standard. In addition, in its June 20th submission Hydro One pointed out that due to its service centre proximity its emergency response time is comparable to ETPC's and stated that it can provide adequate and reliable service to the new subdivision.

Overall, there was not sufficient evidence filed in this proceeding to demonstrate that safety and quality of customer service of one distributor was inferior to that of the other.

Economic Efficiency

Pursuant to Procedural Order No 2, ETPC and Hydro One submitted economic evaluations prepared in accordance with Appendix B of the Distribution System Code ("DSC") for connecting Phase I of the Development. For comparison purposes, Board staff summarized in its submission the connection costs filed by both distributors and the price the developer, Sifton, would pay in the table below:

Phase I of Harris View Development		
	Erie Thames	Hydro One
Non-Contestable Work	\$73,075	\$89,832
Contestable Work	\$46,320	\$108,921
Service Installation	\$19,440	
Civil Work Costs	\$103,420	\$103,420
Total Capital Costs	\$242,255	\$302,173
Total Customer Costs	\$144,372	\$194,262

The amounts in the table above were confirmed by ETPC in its reply submission and are consistent with Hydro One's response to a Board staff interrogatory. The evidence indicates that ETPC can provide connection of the Development at a cost to the customer considerably lower than Hydro One. In its final argument Hydro One acknowledged that ETPC arrived at a lower connection cost. However, Hydro One expressed concerns over the validity of the connection costs submitted by ETPC, identifying inconsistencies which, in Hydro One's view, remain outstanding, specifically the use of outdated economic parameters (Return on Equity) and labour costs. In addition, Hydro One raised concerns regarding enhancement costs which were identified as typical capital costs in ETPC's 2008 cost of service rates filing but which were not included in ETPC's economic evaluation for the subject connection.

In its final reply submission ETPC stated that its economic evaluation contained more detail than Hydro One's, that it was prepared in an open, transparent and accurate manner and that it complies with Appendix B of the DSC. ETPC also stated that in contrast to the detailed approach to its economic evaluation, Hydro One provided a high-level summary with minimal details in support of its assumptions. With regard to enhancement costs, ETPC stated that costs identified by Hydro One from ETPC's 2008 rates filing are actually betterments and not the kind of costs to be included in an economic evaluation. ETPC reiterated that there are no enhancement costs that should be included in ETPC's calculations.

As to the Return on Equity update that Hydro One was referring to, ETPC submitted that its connection costs would increase by \$1,962, which is not a material increase. And, with respect to the labour costs that in Hydro One's view are too low, ETPC stated in its June 30th reply submission that the labour rates used for the costs estimate are in accordance with the collective agreement in force at the time the estimates were prepared.

Board staff submitted that ETPC was able to demonstrate that it can connect the Development at a cost to the customer which is significantly lower than Hydro One's costs. Board staff submitted that since both distributors are in a relatively equal position to serve Phase I of the proposed residential development from the perspective of system planning, 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.

Overall I find that ETPC demonstrated that its estimated connection cost to the customer is considerably lower than Hydro One's cost estimate. The economic evaluations developed by ETPC and Hydro One show that ETPC's cost estimate for connecting Phase I of the development is approximately 25% lower than Hydro One's.

I also note that Hydro One has argued that ETPC provided an economic evaluation that is overall not reliable. I do not agree with this assertion. There is no evidence to indicate that ETPC did not provide a thoughtful account of the costs that are appropriate to be included in the Board's economic evaluation model. The onus is on the applicant (ETPC) to demonstrate why the SAA they are seeking is in the public interest. I note that in the course of this proceeding, ETPC addressed concerns raised by Hydro One and submitted a revised economic evaluation which included costs that were not presented in ETPC's original filing.

Customer Preference and Rate Levels

In its application ETPC stated that the developer, Sifton, prefers ETPC as the distributor to supply the Development. I note that with respect to the weight to be given to customer preference when assessing SAA applications, in the RP-2003-0044 Decision the Board stated:

"... the Board finds that customer preference is an important, but not overriding consideration when assessing the merits of a SAA application. Customer choice may become a determining factor where competing offers to the customer(s) are comparable in terms of economic efficiency, system planning and safety and reliability, demonstrably neutral in terms of price impacts on customers of the incumbent and applicant distributor, and where stranding issues are addressed."

ETPC's evidence emphasised that prospective customers will be subject to lower distribution rates if serviced by ETPC. The RP-2003-0044 Decision noted that with regard to rates:

"The Board does not believe that significant weight should be put on differences in current distribution rates even though current rates may be a significant factor in determining customer preference. In fact current rates, insofar as they are not a predictor of future rates, may misinform customer preference."

In this context, I note that the weight afforded to customer preference in the subject application was limited to confirming the outcome from first applying the three key tests identified above. No further consideration was afforded to the level of existing distribution rates for each distributor.

IT IS THEREFORE ORDERED THAT:

1. Erie Thames Powerlines Corporation's electricity distribution licence (ED-2002-0516), specifically Schedule 1 of the licence, is amended to include the lands described as Part Lot 19, Concession 1 (West Oxford), Town of Ingersoll.
2. Erie Thames Powerlines Corporation shall file with the Board, and deliver to Hydro One Networks Inc., a written update on the status of the connection of the Development within 180 days of this Decision and Order.

DATED at Toronto, November 15, 2011

ONTARIO ENERGY BOARD

Original signed by

Theodore Antonopoulos
Manager, Electricity Rates