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BY COURIER

August 7, 2012

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli

**EB-2012-0181 – Orangeville Hydro Limited – Application for Service Area Amendment –  
Hydro One Networks Motion Reply Submission**

In accordance with Procedural Order 2, I am attaching two (2) paper copies of the Hydro One Networks' Motion Reply Submission in the above-mentioned proceeding.

An electronic copy of the complete application, including the attached updates has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY FOR ANDREW SKALSKI

Andrew Skalski

c – Intervenors (Electronic Only)

1                   **IN THE MATTER OF** the *Ontario Energy Board Act*,  
2                   1998, S.O. 1998, c. 15, (Schedule B);

3  
4                   **AND IN THE MATTER OF** an application under  
5                   section 74 of the *Ontario Energy Board Act, 1998* for a  
6                   licence amendment

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9                   **REPLY OF HYDRO ONE NETWORKS INC. (“HYDRO ONE”)**  
10                  **TO THE RESPONSE OF ORANGEVILLE HYDRO LIMITED**  
11                  **REGARDING HYDRO ONE’S NOTICE OF MOTION DATED**  
12                  **JUNE 24, 2012**

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15                  Pursuant to item #4 of Procedural Order No. 2, dated July 6, 2012, the Board stated that  
16                  the Moving Party, Hydro One Networks Inc. (“Hydro One”), shall, by August 7, 2012,  
17                  file any reply that Hydro One may wish to file to the Response Submission of  
18                  Orangeville Hydro Limited (“OHL”).

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20                  Hydro One therefore makes the following submissions.

21  
22                  **GENERAL SUBMISSIONS**

- 23  
24                  1. In response to OHL’s paragraph 3, in which OHL submits that all relevant costs are  
25                  fully and completely reflected in its Offer to Connect, Hydro One reiterates that OHL  
26                  has not included all of the costs associated with OHL’s proposal to service the  
27                  proposed subdivision; and Hydro One submits that if OHL were to answer the  
28                  interrogatories that are the subject matter of Hydro One’s Notice of Motion, there  
29                  would be additional evidence of the amount of such costs and of the fact that OHL  
30                  has not included all such costs.  
31  
32                  2. In response to OHL’s paragraph 4, in which OHL submits that the Line Relocation  
33                  Cost is an easement and not a cost associated with servicing the subject area, Hydro  
34                  One states that the Line Relocation Cost is not an “easement cost borne directly by  
35                  the developer,” as alleged by OHL. On the contrary, it is a cost associated with

servicing the subject area and must be included in a comparison of the total costs of servicing the development. The Line Relocation Cost is not an easement cost, and should be treated as a cost to service the proposed development, because the developer specifically requested Hydro One to remove the line for the following reasons:

- (a) the overhead line must obviously be removed in order for the developer to register anything on Lot 6, as the current line runs across the location of the proposed house on that lot; and
- (b) the line interferes with the condominium townhomes that are planned for the future.

3. In response to OHL's paragraph 7(c), in which OHL submitted that the line relocation and related costs are no longer required because of the exclusion of 40 lots affected by the Hydro One easement, Hydro One responds that the developer has requested that Hydro One release two easements that go straight through the development lands. Hydro One has informed the developer and the developer's contractor that Hydro One will release all or portions of the easement as construction of the development necessitates, given that there are power lines at the north end of these easements. The easements must remain in place until such time that the line is relocated as Hydro One needs to retain access for regular maintenance and emergency repair. The cost of the relocation is driven by the need to maintain supply to Hydro One customers and is clearly not a cost of removing an easement.

In its submission in paragraph 9, OHL has recognized the cost of the Line Relocation to be \$175,853.80 and has admitted that this cost can be added to the total cost of the project, but Hydro One submits that OHL must still provide an official response to Hydro One's interrogatory # 4.

1 4. OHL has submitted in its paragraph 5 that the 'Upstream Cost Calculation' included  
2 in its economic evaluation accurately reflects an amount of \$0, but Hydro One  
3 responds that it is apparent from the information provided by OHL to date that the  
4 zero dollar amount is inappropriate. Hydro One submits that if OHL were to answer  
5 the interrogatories to which Hydro One has sought answers by way of Hydro One's  
6 Notice of Motion, there would be additional evidence of the amount of the Upstream  
7 Cost Calculation and of the fact that the zero dollar amount is inappropriate.

8  
9 5. OHL's paragraph 7(c) submits new evidence to the effect that the developer recently  
10 submitted a revised request for connection for 114 lots. Hydro One responds that if  
11 there is new evidence to be submitted, it is inappropriate for such filing to occur in a  
12 response to a motion: instead, OHL should update its Application to reflect this  
13 change in number of lots and costs. In the event that the Board determines that it is  
14 willing to accept evidence from OHL in OHL's submissions justifying OHL's refusal  
15 to answer Hydro One's two interrogatories that are the subject matter of Hydro One's  
16 motion, Hydro One has also inserted evidence in this Reply Submission. In that  
17 regard, Hydro One states the following:

18  
19 (a) Hydro One, too, has been approached on behalf of the developer for a new Offer  
20 to Connect that would reflect a change in the number of lots as well as various  
21 design changes;

22 (b) Hydro One has witnessed construction taking place by contractors for OHL in  
23 preparation for servicing this development, as if the Board had already determined  
24 to grant OHL's Application. To that point, Hydro One notes that it appears that  
25 this work being performed by contractors for OHL is for the internal loop feed  
26 referred to in OHL's response to Board Staff's interrogatory #2(a), where OHL  
27 responded that carrying out the work would be contingent on an amendment to  
28 OHL's licence to award the area to OHL. Furthermore, based on the extent of  
29 construction underway, it appears that the service point into the development may  
30 have been changed from Mill Street (as shown in OHL's application) to a service

1 point from Melody Lane, a change which would affect the costs included in  
2 OHL's application. The onsite supervisor performing the work has confirmed to  
3 Hydro One that OHL is the owner of the new ducts being installed and is the  
4 company responsible for paying for the construction. Hydro One therefore  
5 respectfully suggests that if the above-noted changes represent a change to OHL's  
6 subdivision design, an amendment to OHL's Application is required to account  
7 for this advanced construction and potential change in design.

## 9 **SPECIFIC SUBMISSIONS**

### 11 **Interrogatory #4 - Line Relocation Costs**

13 6. In its paragraphs 7(a) and (b), OHL states that the Line Relocation Cost is not a cost  
14 associated with servicing the subject area and that OHL would be able to service the  
15 subject area indefinitely with the Hydro One pole line left in its current location.  
16 Hydro One states that it is clear that the Line Relocation Cost is, in fact, a cost  
17 associated with servicing the subject area, because Lot #6 cannot be registered due to  
18 the fact that the current line runs through the location of the new house. Therefore,  
19 Hydro One rejects OHL's submission that the Line Relocation Cost "should be  
20 considered an easement cost rather than a contestable or non-contestable cost of  
21 servicing the subject area."

23 7. In response to OHL's paragraph 7(c), in which OHL submits that "the developer has  
24 recently submitted a revised request for connection for 114 lots..." Hydro One  
25 responds that:

27 (a) as Hydro One has submitted above, it is inappropriate for OHL to attempt to  
28 assert new evidence in its Response Submission to Hydro One's Notice of  
29 Motion;

(b) if the developer's plans have changed and continue to change, both OHL and Hydro One should amend their Offers to Connect, and OHL should amend its Application;

(c) it is impossible for the Board and for Hydro One to conduct an apples-to-apples comparison of two Offers to Connect if, even at this stage of the Application, there is still lack of clarity as to the size and nature of the subdivision plan; and

(d) if OHL is permitted, in its Response Submission to Hydro One's motion, to submit new evidence of a basic change in the size and nature of the subdivision plan, Hydro One will need to revise its own Offer to Connect after being given an opportunity to ask additional interrogatories.

8. OHL's paragraphs 8(a) and (b) state that due to the fact that OHL will not own the relocated line when the proposed subdivision is complete, the Line Relocation Costs should not be included in OHL's economic evaluation model. Hydro One responds that the fact that OHL may not own the relocated line when the proposed subdivision is built, and may not be responsible for this work, is not determinative of whether the Line Relocation Costs should be included in OHL's Application or in the Board's comparison of the total costs of connecting the proposed development to each of the two distributors.

Furthermore, Hydro One notes that it is not suggesting that the relocation cost be included in OHL's economic evaluation model, as OHL states in paragraph 8(b): rather, as stated above, Hydro One's view is that the cost of relocating the line is a cost that should be included in both utilities' Offers in order to provide an apples-to-apples comparison of the cost to the distribution system of connecting the development. To that end and to provide the information that the Board will need to make that comparison, Hydro One's Interrogatory #4 requested OHL to add relocation costs to its Application. Regardless of OHL's view on the appropriateness of doing so, Hydro One submits that the information is important and necessary for

1 Hydro One to make its case, and for the Board to have that information in hand if it  
2 determines that the cost is indeed relevant for its assessment.

3  
4 9. In response to OHL's paragraph 9(a), which states that the cost impact associated  
5 with the line relocation if OHL services the development is clear and that the  
6 developer recognizes the requirements to pay this amount and still prefers OHL as the  
7 distributor of the subject property, Hydro One submits that OHL's Application is  
8 unclear as to the cost impact associated with the line relocation if OHL were to  
9 service the development. In its paragraph 9(a), OHL has acknowledged the cost of  
10 the Line Relocation to be \$175,853.80. Hydro One submits that OHL must still  
11 provide an official response to Hydro One's Interrogatory # 4 and reflect the impact  
12 of these costs in OHL's Application as a cost of servicing the subdivision.  
13 Furthermore, Hydro One responds that OHL's statement that the developer prefers  
14 OHL is not a relevant submission for an Applicant to provide as a reason for refusing  
15 to answer an interrogatory to which an answer is being sought by way of motion.

16  
17 OHL also asserts in its paragraph 9(a) that "the developer has recently signed an offer  
18 to connect with OHL reflecting the revised request for connection for 114 lots..." In  
19 addition to Hydro One's response in paragraph 7 above, Hydro One responds that:

- 20  
21 (a) it is not open to a customer located within the service territory of one LDC  
22 (Hydro One, in this case) to accept an Offer to Connect from an LDC with no  
23 licence to serve the territory in which the customer is located (OHL, in this case);  
24 (b) it is Hydro One's submission that it is inappropriate for OHL to attempt to assert  
25 new evidence in its Response Submission to Hydro One's Notice of Motion; and  
26 (c) if OHL is attempting, in its Response Submission to Hydro One's Notice of  
27 Motion, to assert new facts and/or to facilitate the creation of new facts on the  
28 ground by entering into an Offer to Connect with a customer in another LDC's  
29 licensed service territory, such Response Submission should not be accepted by  
30 the Board and should not be considered in determining whether interrogatories

1           that are clearly within the scope of this proceeding should be answered by the  
2           Applicant.

3

4   10. In response to OHL's paragraph 9(b), which states that if the Board determines that  
5       the Line Relocation Costs constitute part of the total cost of connection, the Line  
6       Relocation Costs simply need to be added to the Developer's total costs, Hydro One  
7       responds that the Line Relocation Costs are direct costs to service the development  
8       and therefore must be included in OHL's Offer to Connect in the total costs of  
9       connection and must be added to the developer's costs in both Options A and B.

10

11   11. In response to OHL's paragraph 9(c), which states that the line relocation costs are  
12       not clear in Hydro One's offer to connect, Hydro One responds that the Line  
13       relocation is part of the overall Hydro One design for servicing the development, so  
14       the Line Relocation Costs are therefore included in both Options A and B in Hydro  
15       One's Offer to Connect. Hydro One submits that in order to have a fair, apples-to-  
16       apples comparison, OHL must also add the Line Relocation costs to the total costs to  
17       connect the subject area and must therefore provide an answer to the interrogatory.

18

19   **Interrogatory #8 - Upstream Costs**

20

21   12. In response to OHL's paragraphs 11(a) and (b), which state that Hydro One  
22       incorrectly interpreted the meaning of "Upstream Cost Calculation" and therefore  
23       OHL correctly shows \$0 for Upstream Cost Calculation in its economic evaluation  
24       model, Hydro One rejects OHL's submission that Hydro One has incorrectly  
25       interpreted the meaning of "Upstream Cost Calculation" as it is used in OHL's  
26       economic evaluation model. Hydro One submits that such definition is not specific,  
27       nor should it be specific, to the economic evaluation model in which it is used. Hydro  
28       One submits that whether such definition has been used or even reviewed in the past  
29       is not determinative of whether it is appropriate to use it in situations where, pursuant  
30       to the Board's Decision and Order in RP-2003-0044, it is necessary to compare the



total costs of connecting a proposed development to an applicant distributor to the total costs of connecting the development to the incumbent distributor. Therefore, Hydro One submits that the interrogatory should be answered and that the amount of the “Upstream Cost Calculation” included in OHL’s economic evaluation is inappropriate.

13. In response to OHL’s paragraph 12(a), which states that Hydro One has low voltage costs confused with upstream costs, Hydro One has not confused low voltage costs with upstream costs. Upstream costs, which are not defined in the Distribution System Code and hence must be ascribed their plain and everyday meaning, mean precisely that: costs that occur upstream of the proposed development. As an embedded distributor, OHL receive its electricity supply from its host (in this case, Hydro One). Any incremental upstream costs that are incurred in order to supply the new development, regardless of whether those upstream costs originate in the embedded or host system, are distribution system costs that form part of the total costs of connecting the development and must therefore be included when assessing the total costs of connection. Within the host distributor, those incremental upstream costs are LV charges. Within the embedded distributor, those incremental upstream costs are capacity enhancement costs (to use OHL’s terminology). Both cost elements are relevant to the determination of the total costs of connecting the development. That is the case regardless of how those costs are charged and collected, which, as OHL correctly notes in the case of the LV charges, is a matter of ratemaking, i.e. cost recovery. Hence the fact that the incremental LV charges associated with servicing the development will be factored into rates and recovered from all OHL customers does not mean that they can be ignored in assessing the total costs of connecting the development. As Hydro One asserted in its motion submission, to ignore such costs is to treat them as being free with respect to the economics of the new connection.

1 For the above reasons, Hydro One's Interrogatory #8 asked OHL to include LV  
2 charges in a revised economic evaluation. Whether or not OHL agrees on the  
3 appropriateness of doing so, Hydro One submits that the information is relevant and  
4 will be helpful to the Board in assessing the total costs of connection.

5  
6 14. In OHL's paragraph 11(a), OHL notes its definition of Capacity Enhancement costs  
7 used in its economic evaluation model and suggests that its approach is consistent  
8 with the instructions for determining such costs attached as Schedule B. The  
9 instructions in Schedule B discuss a method of charging capacity enhancement costs  
10 on a \$ per kW, five-year rolling system-average basis. In paragraph 11(b), OHL goes  
11 on to assert that in line with these instructions, OHL has "correctly" included \$0 for  
12 capacity enhancement costs. Hydro One responds that charging zero dollars for  
13 capacity enhancement by adopting a purely incremental costing basis, as OHL has  
14 done, is inconsistent with the five-year rolling system-average costing methodology  
15 contained in Schedule B, unless OHL is claiming that it has spent \$0 over five years  
16 on capacity enhancements over its entire system. As the instructions note, that rolling  
17 average methodology is designed to address the inherent lumpiness of capacity  
18 enhancement investments and thereby avoid the short comings of the purely  
19 incremental approach that OHL has used. In Hydro One's view this may indicate a  
20 misapplication of OHL's economic evaluation methodology and a difference between  
21 its theory and its practice. This in turn provides further support for Hydro One's  
22 request in Interrogatory #8 for OHL to add LV charges to its economic evaluation.  
23 By its own admission and by using an inconsistent methodology, OHL has charged  
24 \$0 for capacity enhancement costs associated with supplying the new development.  
25 To ignore as well the incremental LV charges incurred in supplying the development  
26 would mean that zero upstream costs on either the embedded or host distribution  
27 systems will have been recognized in OHL's economic evaluation. Such a result, in  
28 Hydro One's view, would not reflect the economic reality of connecting the new  
29 development. Therefore, LV charges must clearly be included.

**CONCLUSION**

15. Hydro One respectfully submits that OHL has provided no valid reasons for its refusal to answer the two interrogatories that it has refused to answer. The two interrogatories clearly concern matters that are within the scope of this proceeding. Additionally, Hydro One needs the answers to ensure that a fair comparison can be made of the two LDCs' Offers to Connect; and Hydro One submits that when the Board makes determinations later in this proceeding as to the appropriate methodology to be used in making an apples-to-apples comparison of the two LDCs' Offers to Connect, having the interrogatory answers will ensure that the Board has all the information.

16. Hydro One also submits that OHL has attempted to change the playing field in this proceeding by means of inappropriately providing new evidence under the cloak of a Reply Submission to a motion for answers to interrogatories. The new evidence is a change in the size of the proposed subdivision and the late news that the Applicant has entered into an Offer to Connect with a customer in Hydro One's licensed service territory.

17. Regarding paragraph 16 above, it is Hydro One's submission that OHL's attempts to adduce new evidence in its Reply Submission should not be permitted by the Board, and that if OHL wishes to adduce new evidence, it should be required to do so by way of an amended Application, which would necessitate new interrogatories and further submissions. As Hydro One has stated in paragraph 5 above, Hydro One has also provided new evidence herein for the Board's consideration, in the event that the Board determines to accept OHL's new evidence from OHL's submissions in Hydro One's motion.

18. Regarding paragraphs 16 and 17 above, Hydro One further submits that it cannot ensure that its Offer to Connect a customer within its own licensed service territory

1 can be fairly compared to the Offer to Connect of another LDC if the fact is that, even  
2 at this stage of the proceeding, neither Hydro One nor the Board can be certain about  
3 what will be built by the proposed developer and what will need to be built by the  
4 connecting LDC.

5  
6 19. Hydro One also submits that it is concerned that the delay of this proceeding that has  
7 resulted from the Applicant's refusal to answer interrogatories and the Applicant's  
8 attempt, in its Reply Submission, to adduce new evidence, may in fact be providing  
9 an opportunity for new facts to be created on the ground, such as the entering into of  
10 an Offer to Connect by a non-incumbent distributor and the impending  
11 commencement of construction within the subdivision based on OHL's design (which  
12 is different from Hydro One's) before the time that a decision by the Board is likely  
13 to be rendered in this proceeding.

14  
15 20. Based on the information presented in this response submission, Hydro One submits  
16 that OHL must still respond to Interrogatories #4 and #8 to provide Hydro One and  
17 the Board with the information needed for an apples-to-apples comparison of both  
18 Offers to Connect. Hydro One further submits that due to the revised number of lots  
19 and construction taking place which appears to be changing OHL's design, OHL  
20 should be updating its Offer to Connect and amending its Application accordingly.  
21 As noted above in paragraph 5(a), Hydro One (like OHL) has recently been contacted  
22 on behalf of the developer regarding various design changes, including a change to  
23 the number of lots. As a result, Hydro One plans to update its Offer to Connect and  
24 will file the updated Offer as part of its evidence when this proceeding continues.

25  
26 ALL OF WHICH IS RESPECTFULLY SUBMITTED.

27  
28  
29 August 7, 2012

ORIGINAL SIGNED BY MICHAEL ENGELBERG

30 Michael Engelberg

31 Counsel to the Moving Party, Hydro One Networks Inc.