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Andrew Skalski
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BY COURIER

September 20, 2012

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

Dear Ms. Walli:

EB-2012-0181 – Orangeville Hydro Limited – Application for Service Area Amendment – Hydro One Networks' Argument

I am attaching two (2) paper copies of the Hydro One Networks' 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 ANDREW SKALSKI

Andrew Skalski

c – Orangeville Hydro Limited (Electronic Only)
Intervenors (Electronic Only)

EB-2012-0181

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

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

FINAL SUBMISSION
OF
HYDRO ONE NETWORKS INC., THE INCUMENT DISTRIBUTOR

1.0 INTRODUCTION

Orangeville Hydro Limited ("OHL") filed an application (EB-2011-0213) with the Ontario Energy Board ("the Board") sixteen months ago, on May 25, 2011, to amend its licensed service area pursuant to section 74 of the *Ontario Energy Board Act, 1998* to include development lands ("the development") owned by Thomasfield Homes Ltd. (the "developer") located in the Township of East Luther Grand Valley. These lands are inside the service territory of Hydro One Networks Inc. ("HONI"), the incumbent distributor. More than 15 months ago, on June 13, 2011, OHL filed a revision to that application.

Fifteen months ago, on July 22, 2011, the Board informed OHL and its previous consultant that OHL would need to produce a "comparison of the economic and engineering efficiency for OHL and Hydro One to serve the area that is the subject of the application". (Please see OHL's response to HONI IR # 11.) Because OHL had failed to inform the developer of the obligation to obtain an offer to connect from the incumbent distributor, HONI, the 2011 SAA application was filed without such an offer, thereby delaying the process and ultimate connection of the development.

More than a year ago, on September 9, 2011, OHL withdrew its application, stating, "Due to unanticipated circumstances, Orangeville Hydro would like to request to withdraw our application for a service area amendment at this time and to reapply at a future date."

More than six months later, on March 23, 2012, OHL filed the present Application (EB-2012-0181), for the same service area amendment as the application that had been filed on May 25, 2011.

On April 20, 2012, the Board notified OHL that its new Application was incomplete, for reasons similar to those in the Board's notification dated July 22, 2011. As a result, on

May 9, 2012, OHL filed a revised Application to the Board, which Application is the subject matter of this Submission.

The development lands for which OHL is making its Application are described as Mayberry Hill Subdivision Phase 1, located at Lot 29 and 30, Concession 2 and 3, in the Township of East Luther Grand Valley in the County of Dufferin.

The incumbent distributor, HONI, has responded that it is in the public interest for the lands to remain inside HONI's licensed service territory and that service by the incumbent distributor meets the principles set out in RP-2003-0044.

HONI submits that the economics are clear that HONI's costs to connect the development are significantly lower than OHL's, which should be the deciding factor in this proceeding. As outlined in HONI's Intervenor Evidence filed on August 28, 2012, the total costs for HONI to service the development are $589,089**,** while HONI's estimate of the total costs for OHL to serve are $720,520**.**

The development is within HONI's licensed service area, and HONI has a well-developed distribution network in the area with existing distribution assets running through the development that will be incorporated into the design to provide service in a manner that results in effective utilization of existing distribution assets. Additionally, service by HONI will optimize utilization of assets and investments made in HONI's service territory as part of the long-term planning for the service area.

2.0 BACKGROUND

The lands that are the subject matter of the Application lie entirely within HONI's service territory, and HONI already has distribution assets running through the lands that can be used to service the development. HONI's service centre is located in close proximity to the development, and HONI's reliability in the area meets or exceeds its obligations under the Distribution System Code. HONI is ready to service the development as soon as its Offer to Connect is signed by the developer.

3.0 PRINCIPLES OF RP-2003-0044

In assessing service area amendment applications, the Board is guided by the principles articulated in the Board's Decision with Reasons in RP-2003-0044, which principles were developed to ensure a consistent approach in assessing applications for service area amendments ("SAAs") while, at the same time, ensuring that no amendment would be made if it were not found to be in the public interest. In determining that economic efficiency would be a primary consideration in assessing SAA applications, the Board stated:

> "…Economic efficiency is a primary consideration in assessing a service area amendment application…" [para. 208]

The Board continued by stating:

> "In addressing economic efficiency, applicants should demonstrate that the proposed amendment does not reduce economies of contiguity, density and scale, and preferably that the amendment enhances these economies. Generally the applicant should be able to demonstrate that it can provide the lowest cost connection, and that the proposed connection is consistent with existing networks, avoiding duplication. An increase, or at least no decrease in the smoothness of the boundaries between the utilities, is also desirable" [para. 85]
>
> "In a contested application, the onus will be on the applicant to demonstrate that the amendment is in the public interest" [para. 199].

HONI submits that OHL has failed to satisfy the onus on OHL to demonstrate that amending the service territory boundaries is more in the public interest than retaining the boundaries as they are. HONI has a well-developed distribution network with infrastructure running through the development, which infrastructure will be incorporated in the design of the distribution infrastructure required to service the development. In addition, denying HONI the right to service this development will reduce HONI's density and scale, both of which factors are also contradictory to the principles outlined above.

The remainder of HONI's submission will compare the respective Offers in light of the principles outlined in RP-2003-0044, focusing on those areas where HONI submits that OHL has failed to satisfy the onus on OHL to demonstrate that it should be awarded the service territory.

4.0 CAPACITY, QUALITY AND RELIABILITY OF SERVICE

HONI provides reliable service in the area, and its local system reliability is comparable to or better than the Applicant's, as are HONI's after-hours response times. The similarity of reliability is not surprising, given that OHL's service territory in the Township is fully embedded within HONI's distribution system and is therefore indirectly served by HONI. Regardless of who connects the development, it will be supplied by HONI's distribution station.

In addition, HONI's service centre that will service the development is slightly closer to the development than OHL's service centre.

It is also an important factor that HONI's loop feed design has notably higher reliability than OHL's design, which has no loop feed. HONI's loop feed design allows for the isolation of faults and restoration of power to the remainder of the development by feeding the customers downstream of the faulted section from an alternative source.

The development lands will be serviced from HONI's Grand Valley Distribution Station, which is both owned and operated by HONI. In addition to the actual underground assets within the development, and because OHL's service territory in the Township is fully embedded within HONI's distribution system, HONI will own, operate and supply most of the distribution assets required to supply the development, regardless of which LDC services the development. For this reason, the new development will be equally affected by upstream reliability factors no matter which distributor services it, and upstream reliability should not be a consideration in determining this application. With respect to downstream reliability, as noted above, HONI's loop feed provides greater flexibility in managing faults and outages within the development.

Furthermore, HONI's feeder out of Grand Valley DS has ample capacity to feed this development and all of the foreseeable future load growth in the area.

In addition to the proposed supply, in an emergency situation HONI can also supply the development from two other local distribution stations, East Luther DS (F1 or F3) and Green Park DS (F1). On the contrary, OHL has only one other feeder tie option, which is the Grand Valley F3 (owned by HONI) which is the feeder to which HONI will connect this development. If OHL were to acquire the development, HONI would not be able to guarantee that a request to backfeed all of the OHL load on the Grand Valley F2 would be possible.

Another supporting factor for allowing HONI to remain the distributor is that regardless of which LDC serves the lands, it will be HONI that will need to restore any outage on the sub-transmission feeder Orangeville M6 that feeds Grand Valley DS.

Lastly, it will no longer be necessary for the Board to consider the method of burying the distribution wires: the Township has now agreed that the method proposed by HONI and the method proposed by OHL are both acceptable.

5.0 ECONOMIC EFFICIENCY

In RP-2003-0044 the Board stated:

> "The Board considers that economic efficiency comprises the concept of the most effective use of existing distribution resources. It is a concept that involves an objective assessment of the efficiencies attendant upon the connection of a customer by a distribution utility. The assessment involves a consideration of the distribution assets available for the connection, their proximity to the proposed point of connection, and the other costs necessary to effect the connection. 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." [para. 235]

HONI has a well-developed distribution network in the area with existing assets running through this development which have been included in the design to service the new development. This is the most effective use of existing distribution resources available to service this development and supports the principle stated in RP-2003-004 [para. 246] which says, "In every connection proposal the prime consideration must be whether the connection is being effected in a manner that optimizes the resources reasonably brought to bear on the location." Clearly, allowing the existing distribution line to be relocated through the Township of East Luther Grand Valley (the case if OHL's SAA Application is successful) as opposed to utilizing the existing assets to service the development (the case if HONI retains the service territory) would be contrary to this principle. The costs of relocating the existing HONI distribution assets have been incorporated in HONI's design and are therefore included in the costs presented in HONI's Offer to Connect. HONI submits that to compare the fully loaded costs of connecting this project, the relocation costs must also be added to OHL's costs, regardless of who is paying.

In RP-2003-0044, the Board also 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." [para. 197]

That is clearly not the situation with OHL's Application: awarding this development to OHL would not be in the public interest because it is neither the most effective use of existing distribution infrastructure nor the lower incremental cost of connection.

HONI's connection proposal is clearly the lower cost option for servicing the new development. In addition, retaining this development would also allow HONI the opportunity to service future developments planned for this area by utilizing assets and investments made as part of the long term planning for the area. This would eventually result in an "urban category" cluster of customers, which would lower rates for those future customers and surrounding existing customers.

In its August 22, 2012, Decision on Motion and Procedural Order No. 3, the Board found that LV Charges should not be included in OHL's economic evaluation as they are not associated with upgrading or expansion of OHL's distribution system. However, these are additional costs that OHL incurs for the use of HONI upstream assets required to supply this new load. These upstream costs on HONI's system will be incurred regardless of which distributor services the development. HONI has included these upstream costs in its economic evaluation, whereas OHL has not. An adjustment must therefore be made to account for this difference: the upstream costs must either be added to OHL's economic evaluation or subtracted from HONI's economic evaluation.

Additionally, HONI does not agree with OHL's inclusion of $0 for capacity enhancement costs to OHL's own system. Appendix B of the Distribution System Code mandates OHL to account for these costs using a system-average calculation. OHL has provided no evidence to support its implied claim that its five-year rolling system average for capacity enhancement costs is $0.

OHL has failed to provide an economic evaluation based on a compliant methodology, yet another reason that HONI submits that OHL has failed to satisfy the onus of greater economic efficiency. HONI's economic evaluation is generated by using Board Staff-approved methodology to produce a customer-specific Offer to Connect based on specific average load calculations for the houses being built for each development. These factors include the size of the homes being built and major appliance usage such as electric heating, electric water heating and air conditioning. These loads are further based on the latest building codes to predict the latest heat loss efficiencies. The result is the connection-specific 1,069 kWh per house load forecast that is included in HONI's economic evaluation. OHL, on the other hand, has simply used the average monthly consumption for OHL's residential rate class of 700kWh, an approach which Board Staff have directed HONI not to use because it does not provide an Offer to Connect specific to the connection requested by the customer. HONI therefore submits that OHL's methodology is not only inaccurate but also non-compliant.

6.0 OTHER ITEMS RAISED BY OHL

During the course of this proceeding, OHL raised several other items that may be quickly addressed.

(i) **Water billing.** OHL made the argument that it will be confusing for homeowners within the development to receive their electricity bill from HONI and their water bill from another entity. HONI responds that not only does this occur most places within the Province, without any confusion to electricity customers, but also that it is contrary to law for an LDC, such as OHL, to bill for water.

(ii) **Two incumbent distributors.** OHL made the argument that it, like HONI, is an incumbent distributor. HONI responds that if OHL were an incumbent distributor, OHL would not be applying for a service area amendment for the lands in question. HONI further responds that there is no such thing as two incumbent distributors for the same land.

(iii) **Release of easements.** OHL made the argument that HONI is refusing to release an easement in the southern part of the lands for inappropriate reasons. HONI responds that until it is known which of the two LDCs will service the lands, HONI needs to keep the easement in order to serve its customers.

(iv) **Delay in this proceeding.** OHL made the argument that the Board and HONI have moved slowly in this proceeding. HONI responds that it has kept to every timeline in the proceeding, that the proceeding has moved ahead in accordance with normal Board process, and that if this proceeding has been delayed at all, the delay has been as a result of the facts set out in the first five paragraphs of Section 1.0 of this Submission.

7.0 CONCLUSION

In RP-2003-0044 the Board concluded that "significant weight should be given to economic efficiency when assessing an application for a service area amendment. Failure on the part of an applicant to adequately demonstrate the economic efficiency of a service area amendment application will generally constitute sufficient grounds for the Board to turn down the application [para. 249]." The Board also stated:

> "In all instances, the costs associated with the connection should be the fully loaded costs, which capture all of the relevant indirect and direct costs reasonably associated with the project at issue, not merely the price of connection quoted to the prospective connection customer." [para. 236]

The Board's statement supports HONI's submission that the Board must include all costs associated with this project, not just the contestable/non-contestable costs that OHL has included in its Offer to Connect. Fully-loaded costs for this project include line relocation costs, costs to build a loop feed, increased LV charges and upstream OM&A costs.

HONI therefore submits that OHL has failed to satisfy the onus of demonstrating that the economic efficiency of the service area amendment is greater than the economic efficiency of having the lands remain inside HONI's service territory. On the contrary, the total project costs associated with OHL's connection are significantly higher than HONI's by $131,431 when all project costs are taken in to consideration and an apples-to-apples comparison of the offers is performed.

Futhermore, HONI is concerned that information placed by OHL before the Board is inaccurate and will not provide the Board with the details required to assess OHL's Application. The Application dated May 10, 2012, is incorrect because:

(a) it has not been amended to contain the updated Offer to Connect that OHL included in its Response to the Board's Decision on Motion and Procedural Order No. 3 dated August 24, 2012; and

(b) it does not contain the change in service point for the connection of the development that OHL indicated in its IR #4 questions to HONI on HONI's evidence.

Therefore, essentially all of the pertinent details concerning costs and design of OHL's proposal to connect the development are not as stated in the Application.

For all of the reasons stated in this Submission, HONI asks that the Board dismiss OHL's Service Area Amendment Application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.