

Energy Probe Interrogatory # 1

Interrogatory

Ref: Evidence of Milton Hydro, p. 3 of 7

The evidence of Milton Hydro at Paragraph 5, references RP-2000-0023 a previous Hydro One Distribution rate case. In this case the definition of "Specific Lines" was apparently:

"those within the boundary of an LDC and serving only the customers of that LDC"

Please explain:

- (a) Is this still the definition of Specific Lines for the purposes of EB-2007-0681?
- (b) If not what is the current definition of Specific Lines?
- (c) If yes, how should this be reconciled with the statement in Paragraph 17 of the Milton Hydro evidence that "The M1 and M3 feeders therefore meet the current definition of a specific LV line in that they lie entirely *within either the transmission station property or Milton Hydro's service area*"? (emphasis added) i.e. If part of a feeder lies partly outside of Milton Hydro's service area how can it lie "within the boundary of an LDC..." per the definition in paragraph 5?

Response

- (a), (b) The definition you quote is the current Hydro One definition of Specific Lines (LV, now ST).
- (c) Milton Hydro is of the view that the Hydro One property on which both the Palermo transformer station and the .25 km of M1 and M3 feeders are located is part of Hydro One Network's transmission assets and is not part of Oakville Hydro's service territory. The feeders should be treated as transmission assets which are part of the transmission station, not distribution assets. Alternatively, the shared line/specific line dichotomy as defined by Hydro One in the manner outlined in Milton Hydro's evidence is flawed and needs to be adjusted. The M1 and M3 lines are dedicated lines in that they were built to serve Milton Hydro's load, and have always served only Milton Hydro's load. There should be a new category of LV(ST) line which is a designated line, which is defined as a line that is built to serve, and serves a single LDC load whether or not the transformer station from which the line emanates is in that LDC's service territory. Alternatively, the LV assets are more properly considered transmission assets, and should be transferred from the distribution rate base to the transmission rate base, where they resided prior to the OEB decision in RP-1998-0001.

Energy Probe Interrogatory # 2

Interrogatory

Ref: Evidence of Milton Hydro, Diagram

The schematic accompanying the evidence shows other feeders serving Oakville Hydro. If feeders on Hydro One property do not lie within an LDC service territory, please explain:

- (a) How are the M7 and M8 feeders treated? They appear from the schematic to be owned by Hydro One and feed only Oakville Hydro customers. Are these feeders categorized as Specific or Shared feeders? If Specific why are they treated differently than Milton's M1 and M3? If Shared, does Oakville Hydro have the same complaint about charges that Milton has?
- (b) How are feeders on Hydro One transmission rights of way within one LDC but feeding only the customers of another LDC treated? Are they Specific or Shared facilities?
- (c) Why are M7 and M8 feeders serving Oakville Hydro owned by Hydro One from the breaker position to the boundary while the M2 and M4 appear to be wholly owned by Oakville Hydro?
- (d) If Oakville Hydro can own feeders right up to the breaker position on Hydro One property, can Milton Hydro do the same? If yes, why doesn't Milton purchase the .24 km of line and avoid paying any Shared facility charges? If no, why is Milton treated differently than Oakville?

Response

The purchase price quoted by Hydro One is \$219,000 and represents what they term the commercial value (HONI Defn: [a value that ensures there are no impacts to any end-customers now, or in the future](#)) and is based on NPV of LV revenues (see spread sheet and small asset sales template). It would seem that Hydro One is somewhat flexible in the application of their revenue based calculations. Initially Hydro one thought that besides the five poles on their property they also owned about 1.7 km of the M1&M3 feeders from the station going north along Hwy 25 to Lower Base Line. This would likely explain their comment when advising of the sale price that the original amount was to be over \$700,000. It is interesting that we understand that they have offered to sell Oakville similar assets on a different basis which we interpret as recognition that by their interpretation of LV lines the Oakville circuits should have been considered Specific.

For Milton Hydro to agree to purchase these assets with a book value of zero and a replacement cost of about \$30,000 would only be rational if the OEB were to permit recognition of the full purchase price in our rate base. Clearly this would not be in the interests of Milton's consumers and clearly for this type of asset, any recognition other than the full purchase price would not be in the interest of Milton Hydro. Our understanding is that some utilities have been purchasing LV assets based on HONI's commercial value. At the very least the OEB needs to clarify the accounting treatment for these purchases. If no, why is Milton treated differently than Oakville?

MILTON HYDRO

Palermo TS - M1 & M3 Feeder Commercial Value

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
LV Revenue	\$ 81,000	\$ 81,000	\$ 81,000	\$ 81,000	\$ 81,000	\$ 405,000
OM&A Costs	\$ 850	\$ 850	\$ 850	\$ 850	\$ 850	\$ 4,250
Net	\$ 80,150	\$ 80,150	\$ 80,150	\$ 80,150	\$ 80,150	\$ 409,250
Taxes	\$ 28,309	\$ 28,309	\$ 28,309	\$ 28,309	\$ 28,309	\$ 141,545
Net Net	\$ 51,841	\$ 51,841	\$ 51,841	\$ 51,841	\$ 51,841	\$ 259,205

NPV \$218,968.58

Feeder Length 0.5 km
 OM&A \$ 1,700 per km
 WACC 5.90%
 Capital Taxes 1.32%
 Income Tax 34.00%

Section 86(1)(b) Applications for Small Asset Sales Submission Template

Hydro One Networks' Request for Leave to Sell Distribution Assets under Section 86(1)(b) of the *Ontario Energy Board Act*, 1998.

1.0 Basic information about the asset(s)

1.1 Description of the asset(s)

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This asset will be sold on “as is, where is” basis

1.2 Location of the asset

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- Map attached

Given that the proposed sale is located entirely within the purchaser's service territory and it has no material effect on any other party other than the purchaser and seller, we ask the Board to dispose of this proceeding without a hearing under Section 21(4)(b) of the *Act*.

2.0 Optimizing the use of the asset

2.1 Description of how the asset is necessary in serving the public - Information on customers that are currently served by the asset and information on customers that will be served by the asset following the proposed transaction and into the foreseeable future.

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Now exclusively serves and will continue to serve the purchaser's customers only

2.2 Description of how the sale optimises the use of the asset and the benefit of this sale for the Distribution System as a whole— information on how the transaction is beneficial in serving the public

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2.3 Description of how the sale will not adversely affect the safety, reliability, operational flexibility or economic efficiency of either utility.

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3.0 Impacts of the proposed transaction

3.1 Information on the sale price; how it was arrived at as well as how this sale price ensures that both buyer's and seller's rate payers will be kept whole.

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The sale price represents the Commercial Value of the asset to be sold. This sale price ensures that both buyer's and seller's rate payers are kept whole so that there are no rate impacts..

3.2 Impact on any other parties (e.g. joint users of poles) including agreement with 3rd parties is applicable.

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3.3 Description of any Easement transfers resulting from this sale

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3.4 Information on any environmental issues associated with proposed transaction

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Joint signatures of Seller and Buyer

Yours truly,

Director, Applications
Hydro One

President
Purchaser

Attachments:

Map

Draft Agreement of Purchase and Sale (if available)