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May 23, 2014

via RESS e-filing – signed original to follow by courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited (“THESL”)
Application for an Order pursuant to Section 29 of the *Ontario Energy Board Act, 1998*
 (“Wireless Forbearance Application”) – Draft Accounting Order
OEB No. EB-2013-0234**

Pursuant to the May 16, 2014 Board-approved Settlement Agreement, enclosed is THESL’s Draft Accounting Order in the above-noted matter.

Kindly refer any questions or comments on this matter to my attention.

Yours truly,

[original signed by]

Rob Barrass

Manager, Regulatory Affairs

encl.

:RB\acc

cc: Intervenor of Record for EB-2013-0234
Robert B. Warren and Nikiforos Iatrou, WeirFoulds LLP

1 **DRAFT ACCOUNTING ORDER**

2
3 Pursuant to the Settlement Agreement approved by the Ontario Energy Board in EB-
4 2013-0234, Toronto Hydro shall establish the following Deferral Accounts to record the
5 Costs and Revenues associated with Wireless pole attachments:

- 6 • Account 1508, Other Regulatory Assets, Subaccount THESL wireless attachment
7 costs
- 8 • Account 1508, Other Regulatory Assets, Subaccount THESL wireless attachment
9 revenues
- 10 • Account 1508, Other Regulatory Assets, Subaccount THESL wireless attachment
11 cost carrying charges
- 12 • Account 1508, Other Regulatory Assets, Subaccount THESL wireless attachment
13 revenue carrying charges

14
15 In assessing the costs of attaching the wireless equipment, Toronto Hydro will rely on the
16 methodology as detailed in company's response to CCC IR 16 in this proceeding (Tab J,
17 Schedule 2-16, attached as Appendix A to this Accounting Order), which was developed
18 in accordance with the methodology approved in the Board's CCTA decision (RP-2003-
19 0249). This methodology estimates direct costs (admin and loss in productivity) and
20 indirect costs (capital costs of the poles with attachments).

21
22 Since the indirect costs related to poles are included and inseparable from Toronto
23 Hydro's regulated revenue requirement (and recovered through distribution rates), they
24 will not be recorded in the deferral account as treating them as such would effectively
25 double-count the costs. The direct costs, to the extent that they are incremental to any
26 OM&A costs included in Toronto Hydro's regulated revenue requirement, will be
27 recorded in the deferral account. Additionally, the one-time costs (such as the make-
28 ready costs, as described by THESL in its evidence (Tab J, Schedule 2-16)) will be
29 recorded as they occur.

1 Revenues to be recorded in the Deferral Account are the actual revenues received through
2 the negotiated contracts with wireless carriers, as well as the one-time revenues collected
3 directly to cover the one-time costs.

4

5 Carrying charges will be determined by applying the Board-approved rate to the opening
6 monthly balances record in the sub-accounts (exclusive of accumulated interest).

7

8 The net of the costs and revenues inclusive of carrying charges, as recorded in the
9 subaccounts, shall be brought forward for disposition in Toronto Hydro's next Cost of
10 Service rates application. As part of the evidence to support the disposition of the net
11 amounts recorded in the approved Deferral Accounts, Toronto Hydro shall include
12 information showing the full actual costs to demonstrate that revenues received were
13 equal to or in excess of the costs of wireless attachments.

14

15 The sample accounting entries for the Deferral Accounts are provided below.

16

17 A: To record the incremental costs associated with wireless attachments:

18 DR 1508 Other Regulatory Assets, subaccount THESL wireless attachment
19 costs

20 CR 5005 Operation Supervision and Engineering

21

22 B: To record the incremental revenues associated with the wireless attachments

23 CR 1508 Other Regulatory Assets, subaccount THESL wireless attachment
24 Revenue

25 DR 4210 Rent from Electric Property

1 C: To record the monthly carrying charges in subaccounts wireless attachment costs
2 and revenues
3 DR 1508 Other Regulatory Assets, subaccount THESL wireless attachment
4 cost carrying charges
5 CR 1508 Other Regulatory Assets, subaccount THESL wireless attachment
6 revenue carrying charges
7 DR 6035 Other Interest Expense
8 CR 4405 Interest and Dividend Income

RESPONSES TO CONSUMERS COUNCIL OF CANADA INTERROGATORIES

1 **INTERROGATORY 16:**

2 **Reference(s):** none provided

3

4 **ISSUE(S):** 10

5

6 The evidence indicates that the current authorized rate for pole attachments is \$22.35 and
7 that it is intended to cover direct and indirect costs. In addition, the evidence indicates
8 that THESL's direct and indirect costs for pole attachments are higher than that. Provide
9 a schedule setting out all of the direct and indirect costs associated with pole attachments.
10 If THESL were to develop a cost-based rate what would that rate be?

11

12 **RESPONSE:**

13 The table below sets out the estimated direct and indirect costs associated with
14 telecommunications pole attachments on a typical 40' distribution pole.¹ This table is
15 followed by a narrative that explains the input of each direct and indirect cost. The
16 model was developed in accordance with the methodology approved by the OEB in RP-
17 2003-0249 (the "CCTA Decision").

18

19 Based on the information available at this time,² if THESL were to develop a cost-based
20 rate for telecommunications pole attachments, that rate is estimated to be least \$69.87 per /U
21 pole, per year.

¹ THESL's distribution system contains various different pole configurations; the costs may vary depending on the type of pole asset to which an attachment is made.

² THESL would like to preserve its right to undertake any additional analyses or studies that may be required to determine its costs, should the OEB set a cost-based rate in this proceeding or in any future proceeding.

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Item	Type of cost	Cost	Explanation	
DIRECT COST				
* A	Administration Costs	\$ 15.32	2013 estimate	/U
B	Loss in Productivity	\$ 5.66	2013 estimate = \$9.10 and divided between 1.61 pole attachers	
C	Total Direct Costs	\$ 20.98	A + B	/U
INDIRECT COST				
** D	Net Embedded Cost per pole	\$ 1,533.68	2013 Data	/U
E	Depreciation Expense	\$ 48.88	2013 Data	
F	Pole Maintenance Expense	\$ 5.26	2013 Data	
G	Capital Carrying Cost	\$ 106.44	Pre-tax weighted average cost of capital 6.94% applied to net embedded cost per pole (D)	/U
H	Total Indirect Costs per Pole	\$ 160.58	E+F+G	/U
I	Allocation Factor	30.4%	Allocation based on 1.61 attachers	
J	Indirect Costs Allocated	\$ 48.89	H x I	/U
K	Estimated Annual Cost	\$ 69.87	Total Direct + Indirect Costs (C+J)	/U

* Updated to include estimates of shared service costs previously excluded, as described in former footnote 3, with consequential effects on total direct cost (C) and estimated annual cost (K).

** Updated to reflect 2013 audited financial statements, with consequential effects on capital carrying cost (G), total indirect costs per pole (H) and estimated annual cost (K).

1 **DIRECT COSTS**

2 Direct costs represent the on-going costs that are directly attributable to the third party's
 3 presence on the pole. For greater clarity, the direct costs do not include any one-time or
 4 non-recurring costs, such as any make-ready costs incurred by THESL to accommodate
 5 an attachment on its pole. These non-recurring costs depend on the particular

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1 circumstances relating to the attachment (i.e., type of attachment and field conditions),
2 and are recovered from the third party through a one-time charge.

3

4 **A. Administration Costs**

5 The administration costs represent the estimated operational costs of managing and
6 administering third party attachments and licensed occupancy on THESL's distribution
7 plant. These costs capture the following operational expenditures:

/U

- 8 • **Payroll Costs** – expenditures related to compensation of internal employees;
- 9 • **Vehicle Costs** – expenditures related to vehicle/fleet usage and maintenance;
- 10 • **Inventory & Direct Purchases** – expenditures for materials issued and used;
- 11 • **Invoicing/Billing Costs** (direct labour and mailing costs) – expenditures related
12 to processing of customer invoices;
- 13 • **Support Costs** (utility communications, office supplies, employee expenses) –
14 expenditures related to electricity usage, water and gas usage,
15 telecommunications, cellular phone and radio charges, postage, courier and
16 freight & duties, computer supplies, photocopy and stationary supplies, printing
17 expenses, and internal employees expenditures required for their employment
18 such as professional dues, membership fees, transportation, parking, conferences
19 and seminars, education fees and subscriptions; and
- 20 • **Usage Charges** (IT Equipment, Facilities) – expenditures related to using
21 technology assets such as computers, networks and phones and expenditures
22 related to using office and work space within THESL.

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1 **B. Loss in Productivity**

2 The loss in productivity costs reflect the additional expenditures that THESL incurs in
3 carrying out its regular activities, as a result of third party attachers' presence on its poles.

4 These costs include:

- 5 • **Pole Replacements** – When THESL replaces an old pole with a new pole that has
6 telecommunications attachment(s) on it, the old pole cannot be removed until the
7 telecommunications attachment(s) are transferred from the old pole to the new
8 pole. As a result, THESL crews have to make an additional site visit to replace
9 these poles. At the first visit, the crew installs the new pole, and at the second
10 visit, after the attachment(s) have been transferred, the crew removes the old pole.
11 The cost of the additional site visit is based on the estimate of two hours for a
12 typical crew complement; this includes travel time to the worksite, worksite set
13 up, worksite breakdown, and travel time back to the work centre.
- 14 • **Pole Inspection Program (Third Party Portion)** – These costs include the
15 additional expenditures incurred by THESL to carry out the Pole Inspection
16 Program due to the presence of the third party attachments. The estimated
17 percentage of the costs that are attributable to third party attachments was based
18 on the total number of data inputs related to third party attachments divided by the
19 total number of data inputs captured through the Pole Inspection Program.

20

21 **C. Total Direct Costs**

22 The total direct costs are the sum of the administration costs (A) and the loss in
23 productivity costs (B), explained above [i.e., $C=A+B$].

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1 **INDIRECT COSTS**

2 Indirect costs represent THESL's fixed costs associated with pole ownership and
3 maintenance. THESL incurs these costs whether or not a third party's attachments are
4 present on its poles.

5

6 **D. Net Embedded Cost per pole**

7 The net embedded cost per pole is calculated by dividing the net book value of the pole
8 assets, as per THESL's 2013 accounting record, by the total number of poles. Net book
9 value of the pole assets is calculated by subtracting accumulated depreciation from the
10 original cost of the pole assets.

11

12 **E. Depreciation Expense**

13 The depreciation expense per pole is calculated by dividing the pole asset class
14 depreciation expense, as per THESL's 2013 accounting records, by the total number of
15 poles. The depreciation expense represents the monthly amortization of the original costs
16 of the pole assets over their useful life calculated on a straight line basis.

17

18 **F. Pole Maintenance Expense**

19 The Pole Maintenance expense captures the cost of various activities undertaken by
20 THESL for the purposes of maintaining the structural integrity of its distribution poles.
21 To arrive at this cost, the expenditures incurred by THESL in 2013 with respect to each
22 program listed below were divided by the total number of poles to determine the cost per
23 pole of executing each program. The costs per pole of each program were then added to
24 derive the total pole maintenance expense per pole in 2013.

- 25 • **Wood Pole Inspection & Treatment** – Scheduled wood pole inspection for
26 decay reduces the risk of exposure, enhances the reliability of the system and

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1 balances the expenditure of capital replacement. Poles are assessed every ten
2 years, using a variety of visual and non-destructive inspection techniques. The
3 structural integrity of the pole is determined, and treatment is applied based on the
4 size and condition of the pole. A treated pole will generally maintain its structural
5 integrity for a longer period of time, thus reducing the risk of failure.

- 6 • **Pole Inspection Program (Hydro Portion)** – The pole inspection program
7 captures data for the purposes of updating records, assessing the condition of
8 overhead assets, and identifying deficiencies. The program applies to all
9 overhead assets, including third party attachments, and is generally carried out on
10 a three year cycle. The costs of the pole inspection program do not include the
11 loss in productivity costs incurred by THESL due to the presence of the third
12 party attachments. Those costs have been captured above under item B.

14 **G. Capital Carrying Cost**

15 This cost was calculated by applying the most recent OEB-Approved (2011) weighted
16 average cost of capital (WACC) rate of 6.94% to the net embedded cost per pole.

18 **H. Total Indirect Costs per Pole**

19 The total indirect costs are the sum of the depreciation expense (E), the pole maintenance
20 expense (F) and the capital carrying cost (G) [i.e., $H=E+F+G$].

22 **I. Allocation Factor**

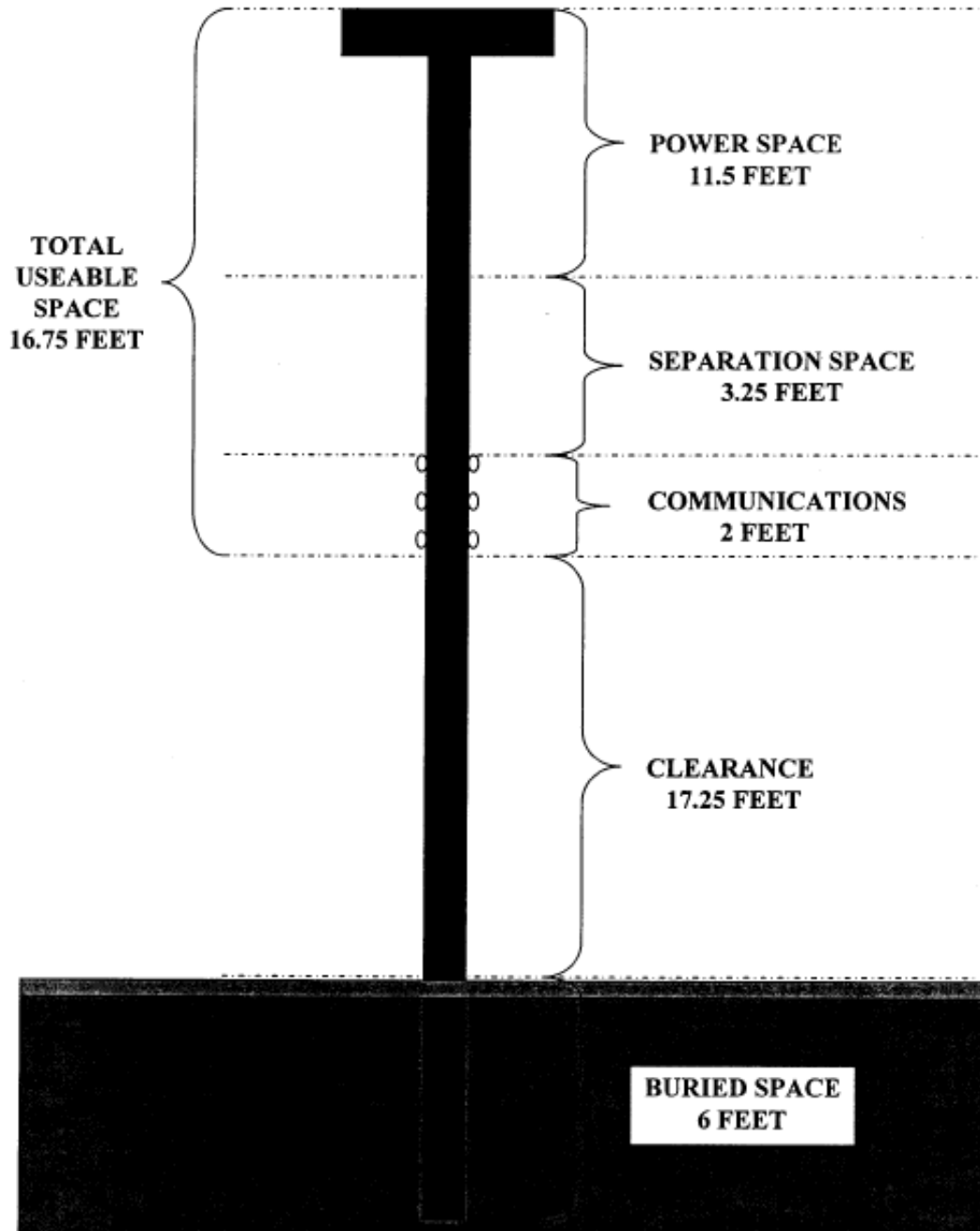
23 The allocation factor determines the percentage of the indirect costs attributable to
24 THESL and to the telecommunications attachers, based on the usage of the pole. To
25 calculate the allocation factor, a typical 40' distribution pole is divided into five defined
26 spaces, as explained below, and as shown in the figure that follows the explanation. Each

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- 1 defined space is then allocated to THESL and/or the telecommunications attachers based
2 on the proportionate usage of space on the pole.
- 3 • **Buried depth (6')** – This space provides foundational support for the pole, and is
4 allocated to both THESL and telecommunications attachers.
 - 5 • **Clearance (17.25')** – This space is allocated to THESL and telecommunications
6 users because both parties can use the space for their equipment.
 - 7 • **Communication Space (2')** – This space is used only by telecommunications
8 attachers, and is allocated solely to these parties.
 - 9 • **Separation Space (3.25')** – This space is required to maintain a minimum
10 clearance from the lowest distribution wire (secondary or neutral) to the highest
11 telecommunications attachment. This space is allocated solely to the
12 telecommunications users because the separation space is required to
13 accommodate their attachments on the pole and provide a safe working space for
14 the telecommunications worker.
 - 15 • **Power Space (11.5')** – This space is allocated solely to THESL as
16 telecommunication users are not able to attach their equipment to this space.

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SPACE ALLOCATION ON A TYPICAL 40 FOOT POLE



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1 The allocation factor is calculated by dividing each defined space by the total number of
 2 users of that space. Where the space is jointly allocated between THESL and
 3 telecommunications, THESL is considered to be one user, and telecommunications is
 4 considered to be 1.61 users, based on the average number³ of third party users per pole.
 5 Therefore, in total, the allocation factor assumes an average of 2.61 users per pole.

6
 7 This model yields an allocation of 51% for THESL and 49% for telecommunications. To
 8 obtain the telecommunications allocation per user, the telecommunications allocation
 9 (49%) is divided by the average number of telecommunications users (1.61), which
 10 produces a telecommunications allocation factor of 30.4%.

11

Space Classification	Space Allocation		Power Allocation		Communication Allocation Total		Communication Allocation Per User	
	[ft]	[%]	[ft]	[%]	[ft]	[%]	[ft]	[%]
Buried Depth	6	15.0%	2.30	5.8%	3.70	9.2%	2.30	5.8%
Clearance	17.25	43.1%	6.61	16.5%	10.64	26.6%	6.61	16.5%
Communication Space	2	5.0%	0.00	0.0%	2.00	5.0%	1.24	3.1%
Separation Space	3.25	8.1%	0.00	0.0%	3.25	8.1%	2.02	5.1%
Power Space	11.5	28.8%	11.50	28.8%	0.00	0.0%	0.00	0.0%
Total	40	100.0%		51.0%		49.0%		30.4%

12 **J. Allocated Indirect Costs**

13 The allocated indirect costs are calculated by applying the allocation factor of 30.4% (I)
 14 to the total indirect costs per pole (H) [i.e., $J=H * I$]

15

³ Calculated by dividing the total number of third party users (based on data from THESL’s Pole Inspection Program), by the total number of poles with third party attachments.

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1 **K. Estimated Annual Cost**

- 2 The estimated annual cost is the sum of the total direct costs (C), and the allocated
3 indirect costs (J) [i.e., $\mathbf{K=C+J}$].