

Ontario Energy Board

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

AND IN THE MATTER OF an application by Hydro Ottawa
Limited (“**Hydro Ottawa**”) for an order approving just and
reasonable rates and other charges for electricity distribution
to be effective January 1, 2016 through to December 31,
2020.

Evidence of Allstream Inc. (“Allstream”)

August 21, 2015

1. My name is Adrian Macdonald. I hold the position of Senior Manager, Right-of-way and Building Access with Allstream. I have held this role for eleven years. Prior to that time, I spent 10 years as Senior Manager, Outside Plant for Allstream. In my current role, I am responsible for negotiating agreements allowing Allstream to build and maintain its telecommunications network. Among other things, this involves arranging for Allstream to have leased access to the support structures of other utilities. This includes poles owned by electrical utilities, as well as those owned by incumbent telephone companies. As such, I have knowledge of the rates paid by Allstream for access to support structures, including poles, throughout Canada. In addition, I have an understanding of the characteristics of wireline networks deployed throughout Canada.
2. I have reviewed Hydro Ottawa's claims in this proceeding in support of its application for a new rate for attachments to its distribution poles. Hydro Ottawa's proposed rate would be significantly higher than other regulated rates paid by Allstream.
3. My evidence focuses on the reasonableness of the proposed rate, and in particular net embedded costs claimed by Hydro Ottawa.

Regulated Pole Rates in General

4. To maintain its national telecommunications network, Allstream leases pole access from many different pole owners. In many cases, the rates paid by Allstream for access to such poles are set by regulators. A summary of these rates is set out in Appendix A attached hereto.
5. These regulated rates range from \$9.58 to \$42. However, the highest figure, the recently approved Toronto Hydro rate, is itself an outlier. The average regulated rate is around \$19/year/pole. Hydro Ottawa's proposed rate is significantly higher than even the highest such rate, and is several multiples higher than the average.
6. On my review of the evidence, it is apparent that a major contributing factor to this very high rate is the net embedded cost.

Net Embedded Costs

7. When rates are calculated pursuant to the formula established by the Board in RP-2003-0249, they are meant to compensate the pole owner for an appropriate portion of its direct and indirect costs. A portion of the indirect cost consists of the "net embedded costs" of the poles. This is typical of regulated rates for pole

access. References to the applicable regulatory decisions are set out in a column in Appendix A.

8. In Hydro Ottawa's evidence, it has claimed net embedded costs of \$1678 per pole. As such, the net embedded cost is a very significant driver of the increase sought by Hydro Ottawa.
9. In Allstream's experience, Hydro Ottawa's net embedded costs are unreasonably high. Approved net embedded costs in other regulatory proceedings are typically much lower. These net embedded costs are set out in a column in Appendix A. Hydro Ottawa's claimed costs are more than three times higher than those approved in other proceedings.
10. While the precise amount of net embedded costs will and do differ from entity to entity, Hydro Ottawa's claims are greatly out of scale from those of other utilities. Allstream acknowledges that electricity and telephone poles differ somewhat, and that inflationary pressures may be imposed where regulated rates are based on older costs. However, these factors simply do not account for the difference between the costs claimed in this proceeding and those approved for other entities.
11. As I understand Hydro Ottawa's response to Allstream interrogatory 4(b), Hydro Ottawa believes that the difference between its claimed costs and those approved in RP-2003-0249 are due to a) the use of costs from 1995 in RP-2003-0249 and b) the use of the costs of a small to mid-size municipal utility RP-2003-0249a. With respect to this latter claim, Allstream's experience is that the costs of poles should not differ so significantly between a large urban area and a smaller one.
12. To begin with, the poles themselves are essentially the same from place to place: there is no separate class of pole used in large cities versus small cities or rural areas.¹ In this regard, I do not believe that purchasing bare poles should be more expensive for an entity operating in a large urban environment than a small one.
13. Moreover, in my experience, in denser sections of urban areas, the use of underground support structures becomes more prevalent. Therefore, even if the cost of installation may be higher in a dense area, these areas are less likely to have poles.

¹

Allstream acknowledges that electricity poles and telephone poles differ. However, in neither case do they vary between large cities and smaller cities.

14. Thus, neither the poles themselves nor the installation of those poles should differ significantly based only the population density of the serving territory. Consequently, I do not believe that Hydro Ottawa has provided a reasonable explanation for having net embedded costs that are orders of magnitude greater than those approved in other proceedings.
15. In light of Allstream's experience with leasing access to poles, I am of the view that Hydro Ottawa's proposed rate is excessive. It is much higher than those set for other entities. The net embedded costs, a significant component of the proposed rate, are also exceedingly high and not in keeping with a reasonable cost input.

Appendix A

Entity	Regulated Rate	Net Embedded Cost/Pole	Regulatory Decision
Bell Canada	12.48	231.44	CRTC 2010-900
Bell Aliant	18.53	224.92	CRTC 2010-900
Telebec	16.05	174.31	CRTC 2010-900
TELUS	17.24	203.35	CRTC 2010-900
TELUS Quebec	9.58	157.59	CRTC 2010-900
MTS	16.49	161.20	CRTC 2010-900
OEB Provincial Rate	22.35	478	RP-2003-0249
Alberta	18.35	51.00	EUB 2000-86
Nova Scotia Power Inc.	14.15	342.00	2002 NSUARB 1
New Brunswick	18.00 (subject to increase) ²	N/A	June 19, 2006 NB PUB Decision
Toronto Hydro	42.00	N/A	EB-2014-0116, Decision and Order July 23, 2015

²

Note that the New Brunswick rates are currently being considered by the regulator in that province. However, even the proposed rate and net embedded costs are considerably lower than Hydro Ottawa's.