

Response to Hydro Ottawa stated question 2 at Transcript of Technical Conference dated August 25, 2015, page 8, line 22

QUESTION: So, in your view, if your evidence is to be followed in this proceeding, should all aspects of the methodology that the Board has ruled on be open for review now?

ANSWER:

Mr. McKeown is not a lawyer or expert on the rules of procedural fairness and the issues that are properly before this Board as a matter of law. Mr. McKeown has set out below and in his evidence dated August 21, 2015 the costing issues that he believes should be considered by this Board in its determination of Hydro Ottawa's pole attachment rate, based on the evidence tendered to date in this proceeding.

Mr. McKeown provides the following response:

The question posed by Hydro Ottawa is premised on the assertion that aspects of my evidence are inconsistent with the Board's approach in Decision and Order RP-2003-0249. The difficulty in comparing my evidence against the Board's determination in RP-2003-0249 is that that decision did not address in detail all aspects necessary to determine a pole attachment rate.

My evidence addresses issues related to identifying costs associated with pole attachments and the allocation of common pole costs for Hydro Ottawa. To the extent that my evidence differs from the inputs and calculations put forth by Hydro Ottawa, it is because:

- (a) In some cases, Hydro Ottawa's approach or calculations are inconsistent with the Board's approach in the RP-2003-0249 Decision;
- (b) The derivation of certain cost inputs was not explored in the RP-2003-0249 Decision; and
- (c) I use a proportional share approach to allocate common or indirect pole costs.

For example, in my evidence, I note that the Board requires the use of average asset costs for determining the rate base. (paragraph 67) In the pole attachment study, Hydro Ottawa has applied a rate of return to the net book value of poles. In the context of determining costs for power rates, the Board applies a rate of return to the net book value of the assets which constitute the rate base. In this respect, the pole calculation is similar or identical to the method used by the Board for determining rates. However, Hydro Ottawa failed to use an average of the net book value for poles.

In addition, in my evidence, I have adjusted Hydro Ottawa's 2013 average pole net book value and 2013 pole depreciation expense to remove power-specific costs of poles.

This is consistent with the Board's approach in RP-2003-0249. In it, the Board relied on Milton Hydro's average net embedded pole cost of \$478 submitted by the CCTA. In accepting the use of this number, the Board stated: "The Board accepts the CCTA's estimated average net embedded pole cost of \$478" (page 9).

The Milton Hydro estimate of \$478 was used by the CRTC in Telecom Decision CRTC 99-13. In its decision, the CRTC stated:

The MEA noted that it agreed with the CCTA claims that items such as cross arms should be excluded from the capital costs of power utility poles and added that it had removed such costs from the figures it proposed. The MEA further added that any cost-based model should be grounded on the costs inherent in the poles in question, i.e., power utility poles. (Emphasis added, paragraph 199)

...the Commission also notes that the MEA, to support its estimates of embedded and net embedded costs of a pole, submitted an analysis of Milton Hydro poles which was appended to the MEA's 17 October 1997 evidence. (paragraph 206)

From Appendix A of the Milton Hydro analysis the following figures for poles are available: the net embedded cost of a pole is \$478 and the annual depreciation expense is \$31.11. (paragraph 207)

... the Commission determines that the estimated net embedded cost of \$478 and depreciation expense of \$31.11 are to be used in the calculation of the pole rental rate. (paragraph 208)

In RP-2003-0249, the Board used Milton Hydro's net book value of poles, which included an adjustment to remove power-specific costs. Therefore, in my view, it was appropriate to make a similar adjustment to Hydro Ottawa's costs in my evidence.

Regarding the number of attachers, my evidence is consistent with the Board's determination to use an average of 2.5 communications attachers per pole.

In my evidence, I have proposed the adoption of the proportionate use methodology instead of the equal sharing methodology for the allocation of common costs among the users of a pole. I note that, in RP-2003-0249, the Board considered both methodologies before stating:

...a case can be made for both the proportionate use and the equal sharing methodology. On balance, however, the Board prefers the equal sharing theory for the reasons stated. (page 7)

My evidence uses the proportional use approach instead of the Board's equal sharing approach and the reasons for this are given in paragraphs in section 5.2 "Equal Sharing v Proportional Use Allocation of Indirect Costs".