PUBLIC INTEREST ADVOCACY CENTRE
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November 12, 2015

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2015-0004 –Hydro Ottawa Limited
2016-2020 Electricity Distribution Rate Application
Vulnerable Energy Consumers Coalition – Final Submissions

Please find enclosed the final submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Hydro Ottawa - Geoff Simpson, Chief Financial Officer - RegulatoryAffairs@HydroOttawa.com
All registered parties

EB-2015-0004

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 for an Order approving electricity distribution rates for the period from January 1, 2016 to December 31, 2020.

VECC ARGUMENT

1. INTRODUCTION

Hydro Ottawa Limited (Hydro Ottawa) filed a custom incentive rate application with the Ontario Energy Board (OEB) on April 29, 2015 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Hydro Ottawa charges for electricity distribution, to be effective January 1, 2016 and for each following year through to December 31, 2020. Subsequently, Hydro Ottawa filed responses to interrogatories from parties to the proceeding and a technical conference was held to clarify the interrogatory responses from Hydro Ottawa.

Following the receipt of the responses by Hydro Ottawa to undertakings arising from the Technical Conference, a group of the telecom-related intervenors (collectively referred to as the "Carriers"[1]) and Allstream Inc. both filed evidence related to Hydro Ottawa's proposed pole attachment rate. A technical conference was then held to clarify the evidence filed by these parties following which the registered intervenors and Hydro Ottawa participated in a Settlement Conference.

During the Settlement Conference, all issues on the Issues List were discussed and addressed. The telecom-related intervenors[2] participated only in the discussion of Issue 4.11 (related to Access to Power Poles), and did not participate in the discussion and

[1] Quebecor Media (Quebecor), Rogers Communications Partnership (Rogers), and TELUS Communications Company (TELUS)

[2] Quebecor Media (Quebecor), Rogers Communications Partnership (Rogers), TELUS Communications Company (TELUS) and Allstream Inc. (Allstream)

negotiation of any other issues. No resolution was reached at the Settlement Conference in relation to Issue 4.11: Are the costs underpinning the proposed new charges for the specific charge for Access to the Power Poles appropriate and is the rate design appropriate? On September 18, 2015, Hydro Ottawa filed a settlement proposal on behalf of the participating parties[3]. Hydro Ottawa and the other four intervenors (CCC, Energy Probe, SEC and VECC) who participated in the Settlement reached a comprehensive settlement in relation to the terms of Hydro Ottawa's Custom IR plan for 2016 to 2020 on all the other issues except working capital which was awaiting further evidence.

On September 24, 2015, the OEB issued a Procedural Order[4] directing that an oral hearing would be held on the Settlement Proposal, and the unsettled Issue 4.11. Subsequently, the Board issued Procedural Order No. 9 and made determinations at the commencement of the oral hearing[5] regarding the issues that would be out of scope for the hearing. Specifically, in Procedural Order No. 9 the Board determined[6] that:

> *The OEB will not hear further evidence or submissions from parties on matters related to methodology or cost recovery from third parties by the Carriers, as the OEB has decided that these questions are not relevant to this proceeding and will be addressed in a future policy review. For example, matters related to methodology are therefore out of scope including proportional versus equal sharing, the number of attachers per pole[7] and the issue of pole ownership versus tenancy.*

At the start of the oral hearing, the Board indicated that hearing would be limited to the implementation of the currently approved methodology[8] but that issues regarding the number of attachers, Ottawa Hydro's proposed use of an annual escalator, the use of direct costs per attacher, the use of historical vs. forecast costs and the calculation of power specific assets would be in scope[9].

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[3] Neither the Carriers nor Allstream were parties to the settlement proposal.
[4] Procedural Order No. 8
[5] October 16th, 2015 Transcript, page 22
[6] Page 4
[7] At the start of the oral hearing (page 17), the Board clarified that the reference should have been to number of overlashers as opposed to number of attachers.
[8] October 16, 2015 Transcript, page 13
[9] October 16, 2015 Transcript, pages 13-14 and 22

VECC has approached the issue of the amount of the charge for Hydro Ottawa pole use by important public services provided by wired broadcast and telecommunications carrier, not as an opportunity to collect a windfall from an essential facility, but rather an opportunity to ensure that any cost allocation is fair and reasonable based on the evidence. VECC continues to agree with the Board's Decision and Order in RP 2003-0249 wherein it was noted:

> *"The Board agrees that power poles are essential facilities. It is well established principle of regulatory law that where a party controls essential facilities, it is important that non-discriminatory access be granted to other parties. Not only must rates be just and reasonable, there must be no preference in favour of the holder of the essential facilities. Duplication of poles is neither visible nor in the public interest."*[10]

This is not only because of the nature of the services for which wires are proposed to be attached, but also the practical likelihood that the interface between the industries may result in the shoe being worn by the other foot, with energy services industries having to access essential telecom facilities on a reasonable basis. VECC has thus placed the priority in its representations herein on equitable sharing of costs and the fairness in rates towards its ratepayers.

2. THE CURRENT METHODOLOGY

In its RP-2003-0249 Decision[11] the Board noted that there were two elements to the proposed rate for 3rd party attachers to poles owned by electricity distributors – "The first is the incremental or direct costs incurred by electricity distributors that results directly from the presence of the cable equipment. Second, there are common or indirect costs which are caused by both parties".

In terms of direct costs, the Board indicated that there was general agreement amongst parties at the time as to the inclusion of these costs,[12] and in its determination of the

[10] RP-2003-0249 Decision p.3
[11] Page 4
[12] RP-2003-0249, page 4

rate ultimately approved included allowances for both administration costs and loss in productivity costs[13].

In terms of indirect costs (i.e. the share of the common pole costs that should be borne by 3rd party attachers), this was the area of controversy during the RP-2003-0249 proceeding[14] and various methodologies for its determination were advanced by the participating parties. Ultimately the Board determined that the "equal sharing" methodology should be used[15] and also specified how the spacing on the pole should be assigned as between what would be considered common versus what would be considered as specific to either 3rd party attachers or the local power distributor[16]. In its determination of the indirect costs the Board made provision[17] for Depreciation, Maintenance Expense and Carrying Costs[18]. The Board also determined that the rate would be applicable per attacher to pole, regardless of the number of attachments an individual attacher has on the pole[19].

3. HYDRO OTTAWA'S APPLICATION

In its Application, Hydro Ottawa is proposing a power pole access rate of $57/pole for 2016, and is also proposing that the rate be escalated each of the subsequent years of its 2016-2020 CIR period. When rounded, this results in a rate of $57/pole for 2017 and a rate of $58/pole in 2018-2020[20]. The derivation of the 2016 proposed rate is based on 2013 costs and pole counts and then escalated to 2016 as set out in Table 1 of the response to Carriers #7 b) copied below.

[13] RP-2003-0249, page 12
[14] RP-2003-0249, page 4
[15] Page 7
[16] Pages 9-10
[17] EB-2003-0249, page 12
[18] Based on the pre-tax weighted average cost of capital.
[19] Page 11
[20] Exhibit H/Tab 7/Schedule 1, page 3. Note: The escalation factor initially applied was the same as applied to OM&A (2.1% per VECC #50). However this escalation factor has changed as a result of the Settlement Proposal to 1.91% per October 16, 2015 Transcript, page 83.

Table 1: Pole Rental Cost

		Original $	Revised $	Comment $
A	Direct Cost	12.68	12.68	No change
B	Net Book Value ($M)	80.5	75.3	Appendix 2-BA
C	In-service Poles	47,978	47,978	No change
D	Net Embedded Cost, per Pole	1,678	1,569	B / C
E	Capital Carrying Cost 6.7%	112.42	105.11	D x 6.7%
F	Depreciation	43.29	41.26	Appendix 2-BA
G	Pole Maintenance	12.61	12.61	No change
H	Indirect Costs	168.31	158.98	E + F + G
I	Indirect Costs Allocated	43.59	41.18	H x 25.9%
J	Pole Rental Cost	56.27	53.86	A + I
K	2016 Proposed Rate	**57.00**	**57.00**	Includes 2.1% Inflation factor

The following sections contain VECC's final argument regarding Hydro Ottawa's proposed 2016-2020 charges for access to power poles and Issue 4.11.

4. VECC's SUBMISSIONS RE POLE ACCESS RATE FOR 2016-2020

4.1 Direct Costs

Hydro Ottawa's $12.68 per attacher for direct cost[21] is based on:

- 2013 Administration Costs of $141,291[22],

- 2013 Poles Replacement Loss in Productivity Costs of $270,398[23],

[21] The initial Application (Exhibit H, Tab 7, Schedule 1, Attachment 7 A) used a value of $12.96 which was restated as $12.68 in Carriers #7 b)
[22] Carriers #12 h)
[23] Carriers #13 b)

- 2013 Field Verification Loss in Productivity costs of $40,020[24], and

- 2013 Pole Count for Poles with Attachers of 35,663[25].

During the proceeding, a couple of specific issues arose regarding Hydro Ottawa's determination of the direct cost element of the rate for access to distribution poles. In his evidence, Mr. McKeown observed that:

- The derivation of the cost per pole did not factor in the number of attachers on the pole but rather just divided by the number of poles with attachments[26].
- The cost of replacing poles, including all crew visits, is already included in the recorded accounting cost for poles and therefore recovered through the indirect costs included in the pole attachment rate[27].

However, Mr. McKeown raised no issues regarding the inclusion of Administration costs nor the level of 2013 administration costs to be included and used Hydro Ottawa's 2013 Administration costs ($141,291) in his own calculations[28].

In addition, a more general issue emerged as to whether the direct costs and ultimately the 2016-2020 rates for access to distribution poles should be determined by: a) using 2013 costs and then escalating that figure, as proposed by Hydro Ottawa; b) strictly using 2013 costs and not escalating as proposed by Mr. McKeown[29]; or c) a calculation based on forecast costs for 2016-2020 as discussed during both the Technical Conference and the Oral Hearing[30]. VECC's addresses this issue in Section 4.3 of its submissions.

4.1.1 Determination of Direct Costs per Attacher

In its determination of the direct cost element of the rate for access to distribution poles, Hydro Ottawa has divided the identified direct costs by the number of poles with

[24] Carriers #13 b)
[25] Carriers 13 b). Note: In various places Hydro Ottawa uses 35,633 as the 2013 number of poles with attachers. However during the oral proceeding (page 52) it was clarified that 35.663 was the appropriate number
[26] McKeown Evidence, paragraphs 57-59
[27] McKeown Evidence, paragraph 60
[28] Paragraphs 56 and 115
[29] Technical Conference, August 25, 2015, page 42
[30] Technical Conference, August 25, 2015, pages 30-31 and Oral Proceeding, October 16, 2015, pages 161-168

attachments and used this as the direct cost per attacher. In his evidence, Mr. McKeown argues that since the rate is charged to each attacher on a pole not factoring in the number of attachers to the pole in the derivation of the rate would result in an over recovery of costs. During the oral proceeding, Hydro Ottawa's witness acknowledged[31] that its approach would result in an over-recovery but noted that:

> *"when we did our calculations earlier this year, that was one of the differences between the administrative and loss of productivity where in fact looking at the Board decision administration wasn't divided out and loss of productivity was by the number of attachers*
>
> *So I know you are not going there, but, you know, with your question, yes. You would probably divide by the number of attachers".*

However, VECC notes that in its derivation of the pole access rate Hydro Ottawa chose not to incorporate the number of attachers when dealing with either the Administrative or the Loss in Productivity costs.

Appendix 2 of the Board's RP-2003-0249 Decision sets out the determination of the direct costs included in the pole access rate. It is clear from this Appendix that the Loss in Productivity costs were adjusted for the number of attachers. As result, VECC submits that an adjustment for the number of attachers should be applied to the Loss in Productivity costs used in the calculation of the 2016-2020 pole access rates. Both Hydro Ottawa and the Carriers' witness agree that this is the appropriate approach and it is consistent with the methodology used by the OEB in its RP-2003-0249 Decision. Subsequently, in its Argument in Chief[32], Hydro Ottawa stated that it "*sees merit in dividing the Administration Costs and Loss in Productivity by the number of "charge-paying" attachments instead of the number of poles*" and incorporated this change into its proposed pole attachment charge[33].

However, the situation with respect to Administration costs is more complex. It is clear from following excerpt from the evidence prepared by Mr. Ford and filed by the CCTA as part of their Application[34] in the RP-2003-0249 proceeding that the derivation of the $0.62 in the CRTC 99-13 Decision, and subsequently used by the OEB in its RP-2003-

[31] October 16, 2015 Transcript, page 92-93
[32] Paragraph 40
[33] Paragraphs 43 and 48
[34] Appendix C, page 23

0249 Decision, did not make any adjustment for the number of attachers but rather was calculated on a per pole basis:

> The most recent available measure of administration costs is from NSPI in the 2001 proceeding before the NSUARB. Based on 2000 data, their estimate of the annual cost of support structure administration attributable to cable operators was $0.51 per pole. In Telecom Decision CRTC 99-13, the Commission arrived at an estimate of $0.62 per pole. Using the latter figure along with the increase in the CPI from 1999 to 2003 provides an estimate of the annual administration cost per pole of $0.69.

As noted previously the Board has determined that the scope of the current hearing is limited to the current methodology that has been approved and implemented by the Board[35]. Therefore, in VECC's view the treatment of Administration costs rests on whether the Board views the "approved methodology" as extending to the calculation of Administration costs on per pole basis (using the appropriate inputs for the total Administration costs and number of poles). If yes, then VECC submits the calculation should be done on a per pole basis as initially proposed by Hydro Ottawa. However, if the calculation of the Administration costs on a per pole basis is not part of the "approved methodology" then the VECC submits the appropriate approach would be to make an adjustment for the number of attachers per pole for the same reasons as discussed above with respect to Loss in Productivity costs.

As to whether or not the "per pole derivation" is to be considered part of the methodology, in VECC's view, the answer is yes. During the proceeding, the Presiding Member distinguished between methodology and inputs to a methodology as follows[36]:

DR. ELSAYED: The basis for my comment was that, when you look at the -- any methodology, there is a method to arrive at a certain number at the end. And then there is a number of inputs, depending on circumstances do change. The whole idea of conducting that policy review or looking at things today is that -- and the basis for some of what Hydro Ottawa has applied for is that there are certain things that do change.

[35] October 16, 2015, page 13
[36] page 19

Some of those input parameters do change. The method stays the same.

And that is why, for example, as I mentioned, the number of attachers we consider as a Panel to be within the scope because it is not static. It doesn't stay the same. The method is the same. The method has not changed since 2005. That is the distinction we're trying to make -- or we were trying to make in PO No. 9.

Consistent with this statement, the values to be used for Administration costs, number of poles and number of attachers per pole would be considered as inputs. However, in this particular calculation, the matter of whether or not to divide by the number of attachers would be considered part of the methodology.

VECC notes that its submissions regarding the number of poles and number of attachers per pole are included in Section 4.4.

4.1.2 Loss in Productivity – Cost of Replacing Poles

As part of its Loss in Productivity costs, Hydro Ottawa has included additional costs incurred when distribution poles that are being replaced also have 3rd party attachers. These additional costs consist of additional field trips to: a) verify the 3rd party attachments have been moved to the new poles and, then, b) to remove the old poles[37].

In his filed evidence[38] Mr. McKeown's asserts that the costs associated with Loss in Productivity due to pole replacement should be excluded on the basis that these costs were already recovered through the indirect costs included in the pole attachment rate. However, in response to Technical Conference Undertaking JTC3.6, Mr. McKeown indicated that:

> *"Field Verification and Returning Crew costs associated with pole replacements were removed as direct costs because "the replacement of a pole always requires the deployment of at least two different crews at separate times, regardless of whether the pole has Wireline Attachments or not" (paragraph 10 of the Evidence of Kevin Richard). In other words, the field verification and returning crews must visit the pole sites for reasons unrelated to pole attachments. Therefore, the Field Verification and Returning Crew costs associated with pole replacements are not caused by third party pole attachers and should not be recovered solely from third party pole attachers"*

[37] Carriers 13 a) & b)
[38] Paragraph 59

In other words, they should be excluded because there are no additional costs incurred when there are third party attachments on poles that are being replaced.

In the same undertaking response Mr. McKeown noted that:

> *treating pole replacement costs as a category of costs that should be recovered exclusively from pole attachers is also incorrect because the new installed poles are common costs that should be recovered from all pole users. Poles are not typically replaced because of pole attachers. In fact, Hydro Ottawa's evidence makes clear that pole replacement is caused by reasons unrelated to pole attachers.*

He also observed that:

> *Since direct costs are costs that are incurred directly as a result of pole attachments and there is no causal relationship between pole attachments and incurring pole replacement costs, it is not appropriate to exclusively recover pole replacement costs through rates paid by pole attachers. This is not to say that third party pole attachers should not be responsible for some of the cost but only that they should not be responsible for the recovery of the entire cost.*

VECC agrees that 3rd party attachers should not be held responsible for the entire replacement cost of poles. However, this is not what Hydro Ottawa proposes to include in the rate. Rather Hydro Ottawa's calculation of Loss of Productivity costs[39] due to pole replacement involves determining the incremental costs that it incurs when replacing poles that have 3rd party attachers when compared with the cost of replacing poles that do not have 3rd party attachers. In VECC's view, to the extent there are such costs, they are valid and legitimate costs to be included as Loss of Productivity direct costs.

Having said this, VECC notes that there are then two issues:

i. Are there incremental costs associated with replacing poles that have 3rd party attachers?

ii. To what extent will/are these costs already recovered through the indirect costs that will be charged to 3rd party attachers?

[39] Carriers #13

Mr. McKeown relies on Mr. Richard's evidence[40] that there are no additional pole replacement costs incurred by Hydro Ottawa when there are 3rd party attachers. However, when this question was put directly to the Hydro Ottawa witnesses, they explained[41] that there was additional work involved when 3rd party attachers are present which could result in one or more additional visits to the site. Indeed, during the oral proceeding, Mr. Richard acknowledged it is self-evident "*that for a pole that has these wireline attachments, that there has to be planning, coordination, timing, execution elements that are different when Hydro Ottawa has to work with the wireline attachers as opposed to when it doesn't have those attachers on a pole*[42]."

VECC submits that Hydro Ottawa's staff are in the best position to know, based on the utility's work practices and experience, if there are additional pole replacement costs incurred when 3rd party attachers are present. Furthermore, VECC submits that Hydro Ottawa's estimation of these costs based one visit to verity the 3rd party attachments have been removed and a second to remove the "old" pole is entirely reasonable and may even be conservative given the Company's testimony that sometimes multiple visits (even more than 3) are required[43].

With respect to the question as to whether these costs are already recovered through indirect costs, VECC notes that it is necessary to consider the two components: Field Verification and Pole Removal separately. In the case of the Field Verification costs ($81,410 for 2013[44]), Hydro Ottawa clarified during the oral proceeding[45] that these costs are not included in Account 1830 (i.e., the account used to derive the indirect costs) and therefore are not included or recovered in any way through indirect costs. As a result, VECC submits that it is appropriate to include these costs as Loss in Productivity direct costs.

[40] JTC3.6 and October 16th , 2015 Transcript, page 145
[41] October 16th, 2015 Transcript, pages 75-76
[42] October 16th, 2015 Transcript, pages 123-124
[43] Page 76
[44] Carriers #13
[45] Page 89

In the case of the Pole Removal costs ($188,988 in 2013[46]), Hydro Ottawa has noted that these are included in Account #1830, and therefore are reflected in the indirect costs charged to 3rd party attachers. However, since 3rd party attachers are only allocated a portion of the indirect costs – not all of the Pole Removal costs will be recovered from 3rd party attachers through the allocation of indirect costs. This issue was raised with Mr. McKeown during the August 22nd Technical Conference and when he agreed that the recovery from 3rd party attachers would be less than 100%[47] he undertook to consider a specific proposal put to him as to how this could be dealt with. Indeed, it was in the undertaking[48] response in follow-up to this issue that Mr. McKeown changed his rationale for excluding Pole Replacement costs and, as result, did not provide an answer to the undertaking as posed.

VECC submits that, as suggested at the Technical Conference, whatever the percentage indirect costs that are <u>not</u> recovered from 3rd party attachers[49], this percentage should be applied to the Pole Removal portion of the Pole Replacement costs and included as a direct cost in the calculation of the pole access rate. VECC acknowledges that this results in recovering a portion of the Loss in Productivity pole replacement costs, which are effectively capital costs, in the year they are incurred as opposed to over the life of the poles. However, in VECC's view this is preferable to the alternative which would be to not recover any of the remaining portion these incremental cost for pole replacement from 3rd party attachers.

4.1.3 <u>Loss In Productivity – Field Verification (Wires Down and Trees on Line)</u>

The second part of Hydro Ottawa's Loss In Productivity costs is with respect to costs incurred in logging and verifying (via a field visit) reports of wires down and trees on wires that are not owned by Hydro Ottawa. In such instances, Hydro Ottawa reports back to the actual wire owner about the wires down/wires on trees[50]. Hydro Ottawa has

[46] Carriers #13
[47] Page 40
[48] JTC3.6
[49] In the instance where there are 2.0 3rd party attachers this percentage would be 0.482 = 1 – (2 *0.259))
[50] Carriers 13 a)

calculated the 2013 costs associated with this activity based on the actual number of wires down and trees on wires incidents that occurred during the year[51].

There were no issues raised regarding the inclusion or estimation of these costs during the proceeding and, indeed, Mr. McKeown used them in his recommended methodology[52]. VECC agrees that the costs as estimated by Hydro Ottawa are appropriate for purposes of establishing the pole access rate.

4.2 Indirect Costs

Hydro Ottawa calculates the indirect costs by determining (using 2013 accounting data) the depreciation, maintenance and carrying costs per installed pole and then applies the OEB approved "equal sharing" methodology to the total cost per pole to determine the indirect cost per attacher.

Several issues have arisen during the proceeding (outside of the choice of "methodology" issue) regarding the determination of indirect costs including:

- The total number of poles that should be used in the calculation of the overall cost per pole,
- The number of attachers per pole that should be used in the application of the equal sharing methodology,
- Whether, when using 2013 costs, the year-end or average net book value for the year should be used to determine the net embedded cost per pole,
- The need to account for power-specific fixtures in the determination of the indirect costs to be allocated,
- The value to be used for carrying costs (pre-tax or post-tax weighted cost of capital), and
- Whether Hydro Ottawa's reported costs for poles is reasonable.

In addition, as was the case with direct costs, a more general issue exists as to whether the indirect costs and ultimately the rate for access to distribution poles should be determined: a) using 2013 costs and then escalated, as proposed by Hydro Ottawa; b)

[51] Carriers 13 b)
[52] Mr. McKeown's Evidence, paragraph 115

strictly using 2013 costs and not escalated as proposed by Mr. McKeown[53]; or c) based on forecast costs for 2016-2020 as discussed during both the Technical Conference and the Oral Hearing[54]. As noted earlier, VECC's addresses this issue in Section 4.3 of its submissions. Similarly, issues regarding the number of poles and number of attachers are dealt with in Section 4.4. This section of VECC's argument deals with the cost elements that should be included/used in the determination the indirect costs for purposes of the poles access rate derivation.

4.2.1 Net Embedded Costs

In its Application, Hydro Ottawa has used the 2013 year-end asset values for Account 1830[55] taken from its 2013 financial records for external reporting purposes[56] which were presented in accordance with Canadian GAAP[57]. During the interrogatory process Hydro Ottawa also provided the 2013 year-end asset values under IFRS consistent with the information used in the balance of its 2016-2020 Rate Application and incorporated this value in its revised rate calculation as set out in Table #1 above from Carriers #7 b). Hydro Ottawa has confirmed that it is this revised asset value it is now proposing to use in its determination of the pole access rate[58].

Gross vs. Net Book Value

In his evidence, Mr. McKeown raised three concerns[59] about the net embedded cost value used by Hydro Ottawa. The first being that it was not readily apparent whether the asset value used by Hydro Ottawa in its Application was the gross or the net book value and that net book value was the appropriate. However, Mr. McKeown's evidence does acknowledge that the revised (IFRS-based) asset value uses by Hydro Ottawa is based on net book value[60]. This point is now moot since Hydro Ottawa's revised proposal clearly uses net book value. However, for the record, Carriers #6 clearly

[53] Technical Conference, August 25, 2015, page 42
[54] Technical Conference, August 25, 2015, pages 30-31 and Oral Proceeding, October 16, 2015, pages 161-168
[55] Account 1830 records the cost of installed poles, tower and appurtenant fixtures used for supporting overhead distribution conductors and service wires – the OEBs USOA.
[56] Carriers #6
[57] August 13,2015 Technical Conference, page 39
[58] October 16, 2015 Oral Hearing, page 77
[59] Paragraphs 61-68 and 78-80
[60] Paragraph 64

indicates that the $80.5 M value used in the initial rate calculation was based on net book value (i.e. a gross book value of $147.1 M less $66.6 M in accumulated depreciation).

Use of Year-End vs. Average Book Value

Mr. McKeown's second concern was Hydro Ottawa used year-end 2013 assets values as opposed to the average asset value for the year as is done in determining rate base for rate setting purposes. Mr. McKeown calculates that using average net book value would reduce the net embedded cost for Account 1830 used in the calculation from $75.3 M to $71.6 M[61].

During the oral hearing, Hydro Ottawa explained that they had been planning to do the study for a long time and chose to use 2013 data as this was a year for which they had all the necessary data. In terms of why 2013 year-end as opposed to average, Hydro Ottawa explained that "*using average for 2013 didn't make a lot of sense because it is further away from the period that we are trying to set the rates for"*[62]. However, Hydro Ottawa did indicate that *"if we were to use 2016-2020, we would obviously use the average values*"[63].

While Hydro Ottawa's rationale for using 2013 year-end values has some merit, it does create some inconsistencies in that: a) the depreciation value used is for 2013 overall and would only include partial year value for assets brought into service during the year and b) the escalator used by Hydro Ottawa is for annual changes in costs and, in principle, would need some adjustment if it's being applied to 2013-year end carrying costs for purposes of establishing the 2016 rate. Furthermore, VECC notes that the use of average net book value is a well-established practice for purposes of rate making.

Overall, for purposes of establishing the 2013 net embedded costs, VECC submits that the Board should direct Hydro Ottawa to use the 2013 average net book value.

Make Ready Costs

[61] McKeown Evidence, paragraphs 67-68
[62] October 16, 2015 Oral Hearing, page 77
[63] Page 77

The third concern raised by Mr. McKeown was that there was no recognition in the determination of the rate of the fact that third parties compensate Hydro Ottawa for make ready work (i.e. work performed to condition the pole for use by third party attachers) the cost of which are capitalized in Account #1830.[64]

During the course of the proceeding, Hydro Ottawa clarified that make-ready costs would not be treated as contributed capital[65] in Account #1830. Furthermore, the amount of make-ready costs collected by Hydro Ottawa has averaged less than $10,000 per year over the 2010-2014 period[66].

VECC submits that given the immaterial amount of dollars involved there is no need to recognize these revenues in the derivation of the pole access rate. Further supporting this position is the fact that (as discussed in Section 4.2.2) Account #1830 does not include the costs for all assets actually used by 3rd party attachers.

Hydro Ottawa's Embedded Pole Cost Are Unreasonably High

In his evidence filed on behalf of Allstream Inc., Mr. MacDonald stated[67]:

> *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.*

To support this claim, Mr. MacDonald provided information as to the net embedded costs per pole approved by other regulators.

VECC notes that the Decisions cited involve net embedded costs per pole for both communications companies and power distributors. While no information has been provided, VECC questions whether the two are truly comparable. Indeed are the poles for the two types of businesses even the same height, as power poles must be high enough to carry the power line above communications lines? VECC also notes that the Decisions referenced are not current and that the three power-related decisions are from 2006 or earlier, with no indication as to what year's cost were actually used.

[64] Mr. McKeown's Evidence, paragraphs 78-79
[65] October 16, 2015, page 95
[66] Carriers #17 g)
[67] Paragraph 9

VECC submits that when these facts are combined with Mr. MacDonald's acknowledgement[68] that "*the precise amount of net embedded costs will and do differ from entity to entity*", the evidence offered by Mr. MacDonald is insufficient to conclude that Hydro Ottawa's embedded pole costs are "exceedingly high and not in keeping with a reasonable cost input"[69]. Furthermore, VECC notes that that the embedded costs used in the pole access rate derivation are the same costs used in the setting of Hydro Ottawa's distribution rates and, in that regard, are subject to Board approval as to their reasonableness.

4.2.2 Power-Specific Costs

Hydro Ottawa has used the full net embedded cost of the pole in its derivation of indirect costs (i.e., carrying costs and depreciation) to be allocated as between its distribution activity and 3rd party attachers.

In their respective evidence, both Mr. McKeown[70] and Mr. Richard[71] observe that there are assets in Account #1830 that are used solely by the power distributor and should not form part of the cost base for the indirect costs to be allocated between the power distributor and 3rd party attachers and that the costs used should represent those for a bare pole. In his evidence, Mr. McKeown suggests[72] that to recognize this fact only 85% of the pole costs should be included in the determination of indirect costs. He supports this percentage with cites from Decisions by other regulators.

VECC notes that the RP-2003-0249 OEB Decision does not make specific reference to using the cost for a "bare pole". However, VECC also notes that the Milton Hydro costs used in the Board's Decision[73] are the same as those used in the CRTC's 99-13 Decision where the MEA (who provided the Milton Hydro costs as part of its evidence) indicated that "*it agreed with the CCTA claims that items such as cross arms should be*

[68] Paragraph 10
[69] Mr. MacDonald's Evidence, paragraph 15
[70] Paragraphs 69-70
[71] Paragraphs 7-8
[72] Paragraphs 71-77
[73] The costs used by the OEB in its RP-2003-0249 Decision are taken from evidence prepared by Mr. Donald A. Ford and filed by the CCTA in the RP-2003-0249 as part of its Application (Appendix C), where Mr. Ford used the Milton data from the CRTC proceeding.

excluded from the capital costs of power utility poles and added that it had removed such costs from the figures it proposed"[74].

Overall VECC submits that, to be consistent with the methodology as approved by the OEB in RP-2003-0249, the net embedded pole costs used to establish the indirect costs for purposes of setting pole access rates for 3rd party attachers should reflect the costs of the bare pole (i.e., exclude the cost of power specific assets). VECC notes that there appears to be no information available as to what percentage of total pole costs are represented by power-specific assets from the information submitted for the CRTC proceeding and Hydro Ottawa is unable to provide[75] such information for its specific utility. As result, VECC submits that the Board should adopt the 15% value suggested by Mr. McKeown as a reasonable estimate, given its use in other regulatory decisions.

During the oral hearing, Ottawa Hydro confirmed that there were assets not included in Account #1830 that were used by 3rd party attachers including:

- The utility's neutral and grounding system costs – recorded in Account #1835[76], and
- The utility's easement and right-of-way costs – recorded in Account #1806[77].

None of these costs have been included by Hydro Ottawa in its rate derivation nor are they recovered from 3rd party attachers by some other means[78]. However, there is no information available to determine what portion of the costs in the related accounts should be included in the rate calculations. At best, the Board can, and should, ,recognize that the embedded costs used in the calculation do not reflect the costs for all assets used/shared by the 3rd party attachers. As VECC has submitted above, this fact should more than offset the impact of not recognizing in the rate derivation the make-ready costs paid by 3rd party attachers.

[74] CRTC 99-13 Decision, paragraph 199
[75] Oral Hearing Transcript, October 16, 2105, page 91
[76] Oral Hearing Transcript, October 16, 2015, pages 37 and 78
[77] Oral Hearing Transcript, October 16, 2015, pages 78-79
[78] Oral Hearing Transcript, October 16, 2015, pages 78-79

4.2.3 Depreciation and Maintenance Costs

In his evidence Mr. McKeown noted that the 85% factor should be applied not only to the embedded net book value used in the calculation of the pole access rates but also to the maintenance and depreciation costs[79] otherwise there were no issues raised with the 2013 depreciation and maintenance costs used by Hydro Ottawa.

VECC agrees that to the extent there are assets in Account #1830 that are used solely by the power distributor, the depreciation and maintenance costs associated with those assets should not be included in the indirect cost to be allocated as between the power distributor and 3rd party attachers. As noted above, Hydro Ottawa could not offer any evidence as to the portion of the asset value in Account #1830 that was related to those assets that would also be utilized by 3rd party attachers (i.e. the bare pole) and therefore there is no information as to what the associated depreciation would be. A similar situation exists for maintenance costs. In light of this, VECC submits that using the 85% factor, as recommended by Mr. McKeown, is a reasonable approach.

4.2.4 Carrying Costs

In its Application, Hydro Ottawa has determined the carrying costs contribution to indirect costs by applying a weighted average cost of capital of 6.7% to the 2013 (CGAPP-based) embedded costs[80], where the 6.7% was the approved value from Hydro Ottawa's last cost of service application and, therefore applicable to 2013[81]. In its revised calculation[82], the same 6.7% weighted average cost of capital was applied to the 2013 year end IFRS-based net book value.

In his evidence Mr. McKeown noted[83] that the calculation should be based on the average net book value for 2013 and that 85% of the net book value for Account #1830 should be used in order to account for power-specific assets – both points already discussed above. Mr. McKeown also noted in this evidence that the 6.7% was higher than the weighted average cost of capital used elsewhere in Hydro Ottawa's 2016-2020

[79] Mr. McKeown's Evidence, paragraphs 85 & 95
[80] Carriers #10 a)
[81] Technical Conference, August 13, 2015, page 111
[82] Carriers #7 b)
[83] Paragraphs 85-87

rate application[84]. However, he acknowledged that use of the 6.7% was consistent with the use of 2013 as the "test year" and adopted the 6.7% in his own calculations[85]. During the Technical Conference it was acknowledged that the 6.7% was an after-tax weighted average cost of capital and that the equivalent pre-tax value would be 8.04%[86].

VECC notes that it is clear from Appendix 2 of the Board's RP-2013-0249 Decision that the weighted average cost of capital used to determine carrying costs was a pre-tax value. As result, VECC submits that, for purposes of the current proceeding, the carrying cost component of indirect costs should also be calculated using a pre-tax weighted average cost of capital. VECC notes that Hydro Ottawa has provided the 2016-2020 values consistent with the Settlement Proposal in Undertaking J2.4.

4.3 Use of Historic vs. Forecast Costs

As noted already, in its Application Hydro Ottawa has used 2013 costs to calculate a pole access rate, and then escalated the result using a 2.1%/annum inflation factor to establish the proposed rate for 2016[87]. The proposed rates for the years 2017-2020 were determined by further escalating the 2016 value[88].

In contrast, Mr. McKeown has calculated his proposed rate for 2016 strictly using 2013 costs. Furthermore, when asked during the Technical Conference about his recommendations regarding the rates for 2017-2020, Mr. McKeown stated[89]:

> *MR. McKEOWN: So it's my understanding that 2013 was used as the base for the calculation of the cost and that those costs will produce a rate which will then be applied for the period 2016 to 2020. And so if the Board is to set a cost-based rate using the methodology that I outline, then that rate would apply for the entire period.*

During the technical conference, Hydro Ottawa was asked why it did not use its estimated 2016 costs to determine the rate and the response was[90]:

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[84] Paragraph 87
[85] Paragraphs 87 and 115
[86] Technical Conference, August 13, 2015, page 111
[87] Carriers #7 b)
[88] VECC #50
[89] Technical Conference, August 25, 2015, page 42

MS. COLLIER: Maybe I'll answer. We likely should have. At the time this information was pulled together, it was pulled together using the 2013 CGAAP results

So, from Hydro Ottawa's perspective, it appears that it was not a matter of principle that led it to use 2013 data but rather a matter of data availability at the time the analysis was being done. Indeed, when specifically asked, Hydro Ottawa expressed a preference for using forecast costs to set the pole access charge[91]:

MR. JANIGAN: And, in your view, if the required information is available, would it be more appropriate to similarly base the rates to be charged for access to poles based on the cost forecast for each year 2016 through 2020 rather than simply applying an escalation factor to 2013?

MS. JONES: Yes.

When the same issue was put to Mr. McKeown at the Technical Conference, he responded[92]:

MR. McKEOWN: My view is, if you are setting future rates then it's best to use future costs to the extent that you can do that. To the extent that those projections are reliable.

MR. RUBENSTEIN: And -- but you didn't do that in this report?

MR. McKEOWN: I didn't do that.

MR. RUBENSTEIN: And do you believe that there is enough data on the record in this proceeding to do that?

MR. McKEOWN: No, I don't believe there is.

During the oral hearing, this issue was explored further with Mr. McKeown and he explained his position as follows[93]:

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[90] Technical Conference, August 13, 2015, page 48
[91] Oral Proceeding, October 26, 2015, page 84
[92] August 25, 2015, page 31
[93] October 16, 2015, page 166-167

MR. RUBENSTEIN: So if we have the 2016 net book value of poles on a similar basis that you had for 2013, why shouldn't we use that number?

MR. MCKEOWN: Because we don't -- so as I said, the best approach is to look at future-looking -- forward-looking costs, incremental costs. We don't have that. So the second-best alternative is to look at actual historical costs. So the costs that have been identified, recorded, and can be proven, if you will.

When it was pointed out to Mr. McKeown that forecast costs are used to set rates for Hydro Ottawa's distribution customers he explained the difference in treatment as follows[94]:

MR. RUBENSTEIN: And so I take it at sort of at a general level you understand Hydro Ottawa's application and how it proposed to set costs for distribution ratepayers?

MR. MCKEOWN: At a general level, yes.

MR. RUBENSTEIN: You would agree with me that it is based on setting forecast costs for each year from 2016 through 2020, correct?

MR. MCKEOWN: Yes. If I could just add, though -- and I didn't realize this until I was looking at the Hydro Ottawa materials. The Board has a very sophisticated methodology for allocating those common costs. So you've dealt -- the Board has dealt with the issue of how to include the common costs for the purposes of setting electrical rates. But there is no analogue for pole attachment rates. We don't have a methodology that's as sophisticated and as well-thought-out as the one -- as we have for electricity as we do for poles.

VECC does not find Mr. McKeown's rationale for not using forecast costs to be either logical or compelling, particularly when he expresses a preference for doing so. With regard to the point that the 2016 costs are not truly known and, as a result, not reliable, VECC notes that these same forecast costs are used to set Hydro Ottawa's distribution rates and must be approved by the Board as being appropriate such that they will result

[94] Oral Proceeding, October 16, 2015, pages 162-163

in just and reasonable rates for electricity consumers. VECC submits that if the forecasts are have been sufficiently justified to be used for this purpose then they are also appropriate to be used for setting the pole access rate(s) for 2016-2020.

Mr. McKeown's second issue is that that there is a large common cost (I.e., the cost of the poles) that must be allocated between Hydro Ottawa's electricity customers and 3rd party attachers, and the methodology to do so is inadequate. With respect, the same issues exist for electricity distribution customers, where the bulk of Hydro Ottawa's facilities are used by all its customers and must be allocated. Furthermore, there is a Board-approved methodology for allocating pole costs as between distribution customers and 3rd party attachers just as there is a Board-approved methodology for allocating distribution costs between classes of customers. Mr. McKeown may not agree with the current methodology, but it has been approved by the Board. Indeed, it likely fair to say that not all distribution customers agree with the Board's approved methodology for allocating costs to distribution customer classes. However, this methodology has also been approved by the Board and is used to set rates. Finally, this being said, VECC does not see how/why the robustness of the allocation methodology should impact the choice as to whether one uses actual or forecast costs.

VECC submits that the forecast costs for 2016-2020 (as ultimately approved by the Board) should be used to determine the pole access charges for the period 2016-2020.

4.4 Pole Count and Number of 3rd Party Attachers Per Pole

In its rate derivation Hydro Ottawa used a total pole count for 2013 of 47,978[95] and assumed two 3rd party attachers per pole[96]. In his evidence,[97] Mr. McKeown questioned both of these values.

4.4.1 Total Number of Poles

During the oral proceeding[98] Hydro Ottawa clarified that pole count used in the rate derivation included only wooden poles and if non-wooden poles were added the total

[95] Carriers #7 b)
[96] Carriers #4 a)
[97] Paragraphs 83-84 & 99-108
[98] October 16, 2015, page 46 and Undertaking J2.1

pole count for year end 2013 would be 48,352. This is the same value as Mr. McKeown used in his evidence.

If the pole access rates are to be determined using 2013 costs, VECC submits that this is the total pole count value that should be used and notes that Hydro Ottawa concurs[99].

During the course of the proceeding, Hydro Ottawa provided more recent data regarding its total pole count and indicated that as of August 2015 there were 48,449 poles in-service. Hydro Ottawa also indicated that "*the number of poles for 2016 through 2020 would be basically steady at the number we see for 2015*"[100].

Based on this evidence, VECC submits that if the pole access rates are to be determined using forecast 2016-2020 costs (as recommended by VECC) then the total poled count for each of these years should be set at 48,449.

4.4.2 Attachers Per Pole

In support of its proposed 2.0 third party attachers per pole Hydro Ottawa provided evidence suggesting that the current number of attachers was less than two, and observed that the 2.0 value was "optimistic" but more representative than the 2.5 value used in the Board's RP-2003-0249 Decision. This evidence initially suggested there were a total of 56,347 attachers and 1.58 attachers per pole in 2013[101] but was subsequently revised to 62,153 equivalent full rate attachers and 1.74 full rate equivalent attachers per pole[102]. Hydro Ottawa also noted that as of August 2015 the number of full rate equivalent attachers per pole was 1.71[103]. The change in values for 2013 resulted primarily from recognizing that parties that paid less than the full OEB approved rate (e.g. clearance, partial and overlash attachers) and including them in the count on a pro-rated basis.

In terms of the future, Hydro Ottawa indicated that it was not aware of any plans by any entity which would significantly increase the number of wireline attachments or other

[99] October 16, 2015, page 47
[100] October 16, 2015, page 51
[101] Carriers #4 a)
[102] J2.1
[103] J2.3

attachments on poles[104] and expressed the view that future mergers and acquisitions could reduce the number of attachers[105].

Historical Attachers per Pole

In his evidence and oral testimony, Mr. McKeown questions the number of attachers used in Hydro Ottawa's historic (2013 and 2015) calculations,[106] and also questions Hydro Ottawa's view as to future trends[107].

With respect to the historical data, Mr. McKeown uses the same numbers as Hydro Ottawa has used in Undertakings J2.1, the key difference is that he has treated all attachers as if they pay the full OEB-approved rate. However, this is not the case, as the rates charged for Clearance and Partial/Overlash attachments are respectively 50% and 25% of the full rate. If these attachment are included in the determination of number of attachers per pole as if they pay the full rate then there will be an under recovery of costs from third party attachers. VECC agrees that it was incorrect to exclude them from the calculation as was done originally. However, VECC agrees with Hydro Ottawa's subsequent treatment where they are included in the calculation on a pro-rated basis and submits that this approach is appropriate.

Mr. McKeown also notes the exclusion of Banners, HONI attachments and RCMP attachments[108]. VECC notes that in some cases (Banners and HONI low voltage control cable), there currently are no charges made for the attachments[109]. Furthermore, the number of banners involved (36) and the fact that they are each only attached for a few weeks[110] means that the revenues involved would be minor in the overall calculation. This same observation applies to the RCMP which has only 2 attachments. In the case of HONI control cable, Hydro Ottawa has noted that HONI is removing this equipment[111]. Finally, in the case of HONI's power line attachments VECC notes that these attachments are not made in the communications space but

[104] Carriers #2 f)
[105] Carriers #4 a) and J2.2
[106] Mr. McKeown's Evidence, paragraph 104 and Oral Proceeding, October 16, 2015, page 170
[107] Mr. McKeown's Evidence, paragraphs 105-108 and Oral Proceeding, October 16, 2015, page 171
[108] Oral Proceeding, October 16, 2015, page 171
[109] J2.1
[110] Technical Conference, August 13, 2015, page 18
[111] J2.3

rather in the power space and that including them in the formula would not affect the number of 3rd attachers per pole as used in the calculation of the pole access rate. Rather, including these power line attachments would impact the number of power line attachers use in the equal sharing methodology changing the number for 1.0 (i.e. just Ottawa) to 1.017[112]. This in turn would have a minor impact (roughly 0.1%) on the 25.9% value Hydro Ottawa has calculated as the allocation factor[113].

VECC submits that inclusion of these additional attachers would not materially impact the calculation of the number of 3rd party attachers per pole and clearly not increase the value above the 2.0 proposed by Hydro Ottawa.

Future Third Party Attachers Per Pole

In terms of the future trend in number of 3rd party attachers per pole Mr. McKeown's evidence is the 2.5 is a more appropriate value to use. He supports this by: a) noting the 2.5 value was used in the Board's original RP-2003-0249 Decision[114], b) noting the significant number of pole attachment customers that currently exist and the potential for more[115], c) the Board's intention to commence a proceeding to consider the deregulation of rates charged to wireless attachments[116], and d) the fibre expansion plans of Bell Canada[117].

VECC notes that the Board's original RP-2003-0249 Decision adopted 2.5 attachers per pole on the basis that an increasing number of telecommunications providers would be entering the market. However, even with a dozen existing pole attachment customers[118] the number of attachers per pole in Hydro Ottawa's service area is currently less than 2.0. Furthermore, while the Board anticipated an increasing number of telecommunication providers, its 2013 Decision did not anticipate the number of mergers and consolidations that would occur in the Ottawa area[119]. VECC submits that

[112] There are 602 HONI power attachments. Given that that the number of poles with attachments is 35,663 this would result in (35,663+602)/35,663 = 1.017 power line attachers per pole.
[113] Carriers #4 b)
[114] Paragraphs 99-100
[115] Paragraphs 101-103
[116] Paragraph 107
[117] Paragraph 106.
[118] Carriers #1 c)
[119] Oral Proceeding, October 16, 2015, pages 147-148

to date the trend in 3rd party attachers per pole in Hydro Ottawa's service area has not met the Board's expectations.

With respect to the potential for more telecommunication providers to enter the market, VECC submits that there is also a likelihood of further consolidation of existing providers in the market, as noted by Hydro Ottawa[120], which would offset the effect of new entrants.

Finally, with respect to Mr. McKeown's suggestion that Bell Canada will be making significant expansion in the Ottawa area, there is no firm evidence that this will occur within the test year period, if at all:

- When asked during the Technical Conference for evidence specific to Bell's plans for the Ottawa area Mr. McKeown referred to a June 25, 2015 Press Release attached to his evidence[121] that purportedly made specific reference to Ottawa. However, a careful read of the document indicates that while several Ontario cities are mentioned (Kingston, North Bay and Peterborough); Ottawa is not one of them.
- Mr. McKeown confirmed at the Technical Conference[122] that he was not aware of the status of Bell's build-out in Ottawa and that he could not assure the Board there would be further attachments.
- During the oral proceeding[123] Mr. McKeown confirmed that he had not contacted Bell Canada or the carriers he was retained by about what their pole attachment forecasts were for the 2016-2020 period.
- In contrast, Hydro Ottawa has indicated[124] that they are usually contacted in advance by telecommunication providers when there is a large expansion program and while Bell Canada had just finished some major activity in their area, they were not aware of any future plans that would add significantly to the number of wireline attachers.

Overall, VECC agrees with Hydro Ottawa's assessment that 2.0 third party attachers is an optimistic forecast for the 2016-2020 period. Given the values recently observed for

[120] Carriers #4 a)
[121] Attachment 2
[122] Technical Conference, August 25, 2015, pages 13-14
[123] Oral Proceeding, October 16, 2015, pages 174-175
[124] Oral Proceeding, October 16, 2015, page 68

2013 and 2015, VECC submits that assuming 1.75 third party attachers per pole would be more appropriate. However, given a) there is some uncertainty regarding the future, b) that Hydro Ottawa is slowly converting[125] clearance and partial/overlash attachments to the full OEB rate as circumstances change and c) HONI will pay commence paying full rates for its low voltage control cable once the model pole attachment agreement has been revised and until they are all removed[126], VECC is willing to adopt the 2.0 proposed by Hydro Ottawa[127].

4.5 Summary and Resulting 2016-2020 Pole Access Rates

During the proceeding VECC filed and reviewed with Hydro Ottawa an exhibit[128] setting outing out the calculation of pole access rates for 2016-2020 using forecast costs and Hydro Ottawa's proposed approach. Attachment A to these submissions provides a revised version of this exhibit making the input data corrections suggested by Hydro Ottawa and applying the data input values recommended by VECC.

The resulting pole access rates consistent with VECC's submissions and the costs as set out in the Settlement Proposal are:

- 2016: $51.20
- 2017:`$54.95
- 2018: $58.70 (when rounded to the nearest nickel)
- 2019: $62.45
- 2020: $66.05

5. INTERIM VS. FINAL RATES

In Procedural Order No. 9 the OEB advised the parties to the proceeding that the OEB plans to undertake a policy review of miscellaneous rates and charges commencing this year, which will include a review of pole attachment methodology and treatment of third party revenues. As a result of the pending review, the scope of the hearing regarding

[125] JTC1.17
[126] JTC 1.6
[127] Even if the existing clearance and partial/overlash attachers and HON's control cable were treated as full rate attachers the number of third party attachers per pole would be slightly less than 2.0. This can be seen from the values reported in J2.3
[128] K2.3

the current application excluded matters of methodology. In Procedural Order No. 10, the Board requested that, in light of the upcoming policy review, parties also make submissions on whether the OEB should set the pole attachment rate in this proceeding on an interim rather than final basis.

VECC submits that the Board should set the pole attachment rates in this proceeding on a final basis. The reasons for this are two-fold. First, setting the pole access rates on an interim basis pending the outcome of a planned policy review is not consistent with the Board's stated practice. As the Board indicated in its October 7, 2014 letter to Jay Shepherd, Counsel for the School Energy Coalition in response to his concerns about the then existing working capital policy that it was initiating a review of working capital needs but:

> *As you may be aware, the Board's practice to date has been to apply any changes to policies prospectively. Therefore, the existing policy will remain in effect until the completion of the policy review on WCA. (emphasis added)*

VECC sees no reason why the Board should deviate from this practice when it comes to the pole access rate.

VECC's second reason is regulatory certainty and efficiency. First the pending review of miscellaneous rates and charges will cover more than just the pole access rate. This raises the question of whether interim status should be extended to all other miscellaneous charges pending the outcome of the review. Furthermore, the review of miscellaneous rates and charges is not the only policy review the Board is undertaking. Making the rates "interim" in this case would beg the question as to why the rates for small and large commercial/industrial customers should not also be made interim pending the outcome of the Board's current EB-2015-0043 initiative to develop new distribution rates for these customers.

Taking this one step further, the Board committed in its 2014-2017 Business Plan to a policy review of Cost Capital used in setting distribution rates. Does this mean that all distribution rates should be declared as interim pending the outcome of this review? Clearly, making rates interim pending the outcome of policy reviews that could impact them would be difficult to administer from a regulatory perspective and would create

significant uncertainty for both customers as well as distributors. Finally, priorities change (as evidenced by the fact the Cost of Capital review has yet to commence) and announced policy reviews can take longer than anticipated (as evidenced by the recent Cost Allocation Review for Unmetered Loads). VECC submits that the Board's current practice of applying any policy changes on a prospective basis is a rationale one and should not be changed.

6. REASONABLY INCURRED COSTS

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements

ATTACHMENT A

SPECIFIC CHARGE FOR POLE ACCESS
CONSISTENT WITH VECC'S SUBMISSIONS

Line #	Item	2013	2016	2017	2018	2019	2020	Basis for 2016-2020 Forecast
A1	Administration	$3.97	$4.23	$4.31	$4.39	$4.47	$4.56	- For 2016 the values are calculated by escalating the 2013 value at 2.1%/annum per Carriers #7 b) - For 2017-2020 the values are calculated by escalating 2016 at 1.91%/annum per Oct 16th Transcript, page 83 - A6=Sum A1 to A5
A2	LIP - Pole Repl. Field Verif.	$1.14	$1.21	$1.24	$1.26	$1.29	$1.31	
A3	LIP - Pole Repl. Return Crew	$1.28	$1.36	$1.39	$1.41	$1.44	$1.47	
A4	LIP - Wires Down	$0.21	$0.22	$0.22	$0.23	$0.23	$0.24	
A5	LIP - Trees on Wires	$0.35	$0.38	$0.38	$0.39	$0.40	$0.41	
A6	Total Direct Cost	$6.95	$7.40	$7.55	$7.71	$7.87	$8.04	
B1	NBV - Start of Year (M)	$67.84	$88.69	$96.96	$103.74	$111.31	$117.99	Settlement Proposal - Appendix 2-BA
B2	NBV-Year End (M)	$75.27	$96.96	$103.74	$111.31	$117.99	$124.90	
B3	Average NBV (M)	$71.55	$92.83	$100.35	$107.52	$114.65	$121.45	
B4	Adjusted Average NBV (M)	$60.82	$78.90	$85.30	$91.40	$97.45	$103.23	B3 * 85% (VECC Argument, Section 4.2.2)
C	In-Service Poles	48,352	48,449	48,449	48,449	48,449	48,449	VECC Argument, Section 4.4.1
D	Adj. Avg. NBV / Pole	$1,257.84	$1,628.58	$1,760.55	$1,886.43	$2,011.45	$2,130.70	B4/C
E1	Carrying Cost (%)	8.04%	7.04%	7.07%	7.11%	7.15%	7.17%	VECC Argument, Section 4.2.4 and Undertaking J2.4
E2	Carrying Cost/Pole	$101.13	$114.65	$124.47	$134.12	$143.82	$152.77	D * E1
F1	Depreciation (M$)	$1.98	$2.55	$2.77	$3.00	$3.23	$3.46	Settlement Proposal - Appendix 2-AB
F2	Depreciation/Pole	$34.80	$44.78	$48.67	$52.64	$56.66	$60.75	F1/C * 0.85
G1	Maintenance (K$)	$605.08	$552.59	$563.15	$573.90	$584.86	$596.03	Settlement Proposal - Cost Allocation Models, Tab I3, Account #5120
G2	Maintenance/Pole	$10.64	$9.69	$9.88	$10.07	$10.26	$10.46	G1/C * 0.85
G	Total Indirect Cost/Pole	$146.57	$169.12	$183.02	$196.83	$210.74	$223.98	E2+F2+G2
H	Indirect Cost Allocation per Attacher	$37.96	$43.80	$47.40	$50.98	$54.58	$58.01	G * 25.9% (@ 2 attachers/pole per VECC Argument, Section 4.4.2)
I	**Total Cost per Attacher**	**$44.91**	**$51.20**	**$54.95**	**$58.69**	**$62.45**	**$66.05**	A6+H

Explanation for 2013 Values	A1 - Administration Cost per Pole per Carriers #12 h). No adjustment for number of attachers per VECC Argument - Section 4.1.1
	A2 - $81,410 (per Carriers 13 c)) divided by 35,663 poles with attachments (corrected per October 16th transcript, page 52) and adjusted for 2.0 3rd party attachers per pole per VECC Argument, Section 4.1.1
	A3 - $188,988 (per Carriers 13 c)) divided by 35,663, adjusted for 2.0 3rd party attachers/pole (per VECC Argument Section 4.1.1) and further adjusted by 1-((2 * 0.259)) to account for returning crew costs allocated as part of indirect costs (per VECC Argument Section 4.1.2)
	A4 - $14,720 (per Carriers 13 c)) divided by 35,663 and adjusted for 2.0 3rd party attachers (per VECC Argument, Section 4.1.1)
	A5 - $25,301 (per Carriers 13 c)) divided by 35,663 and adjusted for 2.0 3rd party attachers (per VECC Argument, Section 4.1.1)
	B1 & B2 - June 29, 2015 Update, Exhibit B, Schedule 1, page 2
	B4 - Average NBV adjusted by 85%
	C - J2.1
	E1 - Technical Conference, August 13, 2015 - page 111
	F1 - Carriers 11 b)
	G1 - Carriers 7 c)