



100 WELLINGTON STREET WEST, SUITE 500
P.O. BOX 255, TORONTO, ON M5K 1J5
T. 416.594.4500 | F. 416.594.9100
WWW.ROGERSPARTNERS.COM

Anita M. Varjacic
Direct Dial: 416.594.4522
E-mail: anita.varjacic@rogerspartners.com
Assistant: Nancy Buronyi
Dial: 416.594.4515
Assistant: nancy.buronyi@rogerspartners.com

May 27, 2016

Our File Number: 72738

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

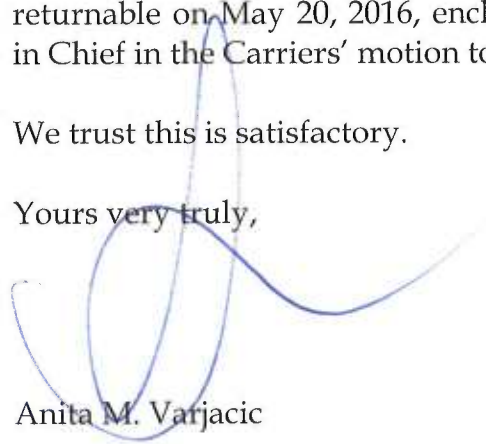
Dear Ms. Walli:

**Re: Hydro One Networks Inc.
Motion for Review and Variance of Decision by Carriers EB-2015-0141**

Further to the Board's direction made orally at the motion in the above matter returnable on May 20, 2016, enclosed, please find Hydro One Networks' Argument in Chief in the Carriers' motion to vary the pole attachment rate.

We trust this is satisfactory.

Yours very truly,



Anita M. Varjacic

/nb
Encl.

c: Hydro One
Intervenors

EB-2015-0141

**MOTION TO REVIEW AND VARY
DECISION EB-2013-0416/EB-2014-0247
AS IT RELATES TO THE SPECIFIC CHARGE
FOR CABLE AND TELECOM COMPANIES
ACCESS TO THE POWER POLES CHARGED
BY HYDRO ONE NETWORKS INC.**

**ARGUMENT IN CHIEF
OF HYDRO ONE NETWORKS INC.**

Introduction

1. The within motion is brought by a number of cable and telecommunications companies and associations (the Carriers) to review and vary the Ontario Energy Board's (OEB or Board) decision issued on March 12, 2015 approving distribution rates and charges for Hydro One Networks Inc. (Hydro One) from 2015 through to 2017. In particular, the motion is to review and vary the joint use charges paid by the Carriers to use Hydro One's poles.
2. The Board approved Hydro One's proposed pole access charges for 2015, 2016 and 2017 as filed in the underlying application. The approved joint use charges were \$37.05 in 2015, \$37.42 in 2016 and \$37.80 in 2017. These charges were an increase over the previously approved \$22.35 pole access charge which had been in place, without change, since 2005.
3. The current charge remains at \$22.35 on an interim basis per order of the Board, pending the outcome of this motion to review and vary.

History of the joint use rate/pole access charge

4. The joint use rates for pole attachments were initially established by OEB order dated March 7, 2005 in RP-2003-0249. In that decision, the Board established a formula and methodology for determining the pole access charge. When calculated in 2005, the cost was \$22.35 per pole. The inputs into the formula were derived from information particular to Milton Hydro's costs in 1995. The Board left open the ability of distributors to apply for a different rate, if appropriate, based on their own utility specific information.
5. Hydro One did so. It applied for increases to the pole access charge/joint use charge in its 2015 to 2019 custom rate application, EB-2013-0416, ten years after the initial rate was established using costs that were now almost 20 years old.
6. The purpose of the within motion to vary is for the OEB to fix Hydro One's pole access charge at a level that is just and reasonable. In this proceeding, in accordance with the Board's direction in procedural order no. 4, the determination of the just and reasonable pole attachment charge is to be made in the context of the methodology that the Board initially approved on March 7, 2005.
7. Hydro One provides these submissions in order to assist the OEB in fixing the final pole access charge at a just and reasonable level in accordance within the previously approved methodology.

Guidance from decision and rate order on pole attachment charge in the Hydro Ottawa Limited Proceeding EB-2015-0004

8. A similar issue was recently considered and determined by the OEB in the Hydro Ottawa Limited decision. In its decision and Order issued February 25, 2016, the Board approved an increase to Hydro Ottawa Limited's pole attachment charge from \$22.35 to \$53.00 per pole in 2016.

9. In reaching that decision, the Board observed that the decision in 2005 was based on a rate using an average number of attachers of 2.5. That was forecast to be the province-wide average at the time. The board noted that it preferred to rely on actual information where that was available, rather than projections. For that reason, the Board based its 2016 decision on the actual number of attachers specific to Hydro Ottawa based on 2013 year end actual results, the most recent, actual data that was available to it.
10. The Board also determined that it would use historical actual costs with no annual inflation adjustment consistent with methodology in its 2005 decision. The Board noted that it would be contrary to OEB practice to use forecast or projected costs when determining specific service charges.
11. The Board further found that administration costs and loss of productivity costs would be included as direct costs and would be determined on a per pole basis and divided by the number of attachers.
12. The Board also found that net embedded costs would be based on 2013 year end net book values.
13. The Board also accepted Hydro Ottawa's proposal for a reduction for power assets in USofA account 1830, from 15 per cent down to 5 per cent.
14. The Board decided on treatment of depreciation, pole maintenance and capital carrying costs in the Hydro Ottawa decision consistent with 2005 methodology.
15. Finally, the Board concluded that the allocation factor should be calculated based on the number of attachers per pole.
16. The findings/directions from the Board noted above, applied to Hydro One based on Hydro One's data for 2014 from Exhibit I, Tab 1, Schedule 2.1 are:
 - a. Average of 1.3 attachers per pole;
 - b. Pole count of 1,575,195;
 - c. Direct costs of \$3.99 per pole;
 - d. Net embedded cost based on 2014 year end net book value of \$944.49¹; and
 - e. The allocation factor is 34.3 %, based on 1.3 attachers per pole.
17. Hydro One first provided amended pole attachment rate calculations in supplementary evidence filed on December 12, 2015 using corrected and updated information as depicted in **Table 1** below.

¹This amount is based on using a 15% reduction in USofA 1830 with 2014 year-end values, which Hydro One believes is the correct approach.

Table 1: Pole Attachment Rate Calculations

Column #1	Column #2	Column #3	Column #4	Column #5	Column #6	Column #7
Inputs	OEB-Approved Rate from 2005 Decision	Hydro One Pre-filed evidence	Carriers Proposal	Hydro One Corrected INPUT using 2012 Actuals	Hydro One Input using 2014 Actuals	Hydro One Input using Forecast 2015 costs
DIRECT COSTS						
Admin Costs	\$0.69	\$0.85	\$0.85	\$0.85	\$0.90	\$0.93
Loss in Productivity	\$1.23	\$1.51	\$1.51	\$1.51	\$1.60	\$1.65
Total Direct Costs	\$1.92	\$2.36	\$2.36	\$2.36	\$2.50	\$2.58
INDIRECT COSTS						
Net Embedded Cost (NEC)	\$478.00	\$745.86	\$745.86	\$840.57	\$953.98	\$1,025.37
Depreciation Cost	\$31.11	\$12.68	\$12.68	\$21.51	\$24.07	\$25.83
Pole Maintenance Cost	\$7.61	\$82.41	\$7.91	\$92.88	\$89.45	\$96.42
Capital Carrying Cost	\$54.49	\$63.32	\$63.32	\$71.36	\$80.99	\$80.69
Total Indirect Costs	\$93.21	\$158.41	\$83.91	\$185.75	\$194.51	\$202.94
ALLOCATION						
# of non-power attachers	2.5	2.5	2.5	2.5	2.5	2.5
Allocation Factor	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%
Indirect allocated	\$20.43	\$34.69	\$18.39	\$40.68	\$42.60	\$44.44
Pole Rate	\$22.35	\$37.05	\$20.75	\$43.04	\$45.10	\$47.02
				<u>2016</u> <u>RATE</u>	<u>\$45.55</u>	<u>\$47.49</u>
				<u>2017</u> <u>RATE</u>	<u>\$46.00</u>	<u>\$47.97</u>
				ASSUMED INFLATION	1.00%	

Hydro One's Position

18. More recently, Hydro One also provided its calculations on the pole access charge, based on the methodology and inputs utilized in the Hydro Ottawa decision with and without forestry costs, and with a 5% or 15% reduction embedded. Those cost tables, as outlined in Hydro One's undertaking response J1 are provided in Tables 2 and 3 outlined below:

Table 2: (5% reduction in USofA 1830)

	Column #1	Column #2	Column #3	Column #4	Column #5	Column #6	Column #7
Inputs	OEB 2005	Hydro One Pre- filed	Hydro Ottawa Decision (EB-2015-0004)	Hydro One (2014) with 1.3 Attachers, based on Hydro Ottawa Decision (5% Reduction for Power-Specific Assets, No Forestry Costs Included)	Hydro One (2014) with 1.3 Attachers, based on Hydro Ottawa Decision (5% Reduction with Forestry Included)	Hydro One (2015) with 1.3 Attachers, based on Hydro Ottawa Decision (5% Reduction for Power-Specific Assets, No Forestry Costs Included)	Hydro One (2015) with 1.3 Attachers, based on Hydro Ottawa Decision (5% Reduction for Power-Specific Assets with Forestry Included)
DIRECT COSTS							
Admin Costs	\$0.69	\$0.85	\$2.28	\$0.90	\$0.90	\$0.93	\$0.93
Loss in Productivity	\$1.23	\$1.51	\$1.96	\$1.09	\$3.09	\$3.18	\$3.18
Total Direct Costs	\$1.92	\$2.36	\$4.23	\$1.99	\$3.99	\$4.11	\$4.11
INDIRECT COSTS							
Net Embedded Cost (NEC)	\$478.00	\$745.86	\$1,479.02	\$1,051.61	\$1,055.61	\$1,182.54	\$1,182.54
Depreciation Cost	\$31.11	\$12.68	\$38.89	\$26.63	\$26.63	\$28.80	\$28.80
Pole Maintenance Cost	\$7.61	\$82.41	\$11.89	\$5.52	\$88.56	\$8.04	\$77.28
Capital Carrying Cost	\$54.49	\$63.32	\$118.91	\$89.62	\$89.62	\$93.07	\$93.07
Total Indirect Costs	\$93.21	\$158.41	\$169.69	\$121.78	\$204.82	\$129.90	\$199.14
ALLOCATION							
# of non-power attachers	2.5	2.5	1.74	1.3	1.3	1.3	1.3
Allocation Factor	21.9%	21.9%	28.8%	34.3%	34.3%	34.3%	34.3%
Indirect allocated	\$20.43	\$34.69	\$48.80	\$41.77	\$70.25	\$44.56	\$68.31
Pole Rate	\$22.35	\$37.05	\$53.03	\$45.76	\$74.24	\$48.66	\$72.41
Note: Pole Counts for 2014 and 2015 have been corrected to reflect year-end numbers for both years.							

Table 3 (15% reduction in USofA 1830)

	Column #1	Column #2	Column #3	Column #4	Column #5	Column #6	Column #7
Inputs	OEB 2005	Hydro One Pre-filed	Hydro Ottawa Decision (EB-2015-0004)	Hydro One (2014) with 1.3 Attachers, based on Hydro Ottawa Decision (15% Reduction for Power-Specific Assets, no Forestry Included)	Hydro One (2014) with 1.3 Attachers, based on Hydro Ottawa Decision (15% Reduction for Power-Specific Assets, Forestry Included)	Hydro One (2015) with 1.3 Attachers, based on Hydro Ottawa Decision (15% Reduction for Power-Specific Assets, no Forestry Included)	Hydro One (2015) with 1.3 Attachers, based on Hydro Ottawa Decision (15% Reduction for Power-Specific Assets, Forestry Included)
DIRECT COSTS							
Admin Costs	\$0.69	\$0.85	\$2.28	\$0.90	\$0.90	\$0.93	\$0.93
Loss in Productivity	\$1.23	\$1.51	\$1.96	\$3.09	\$3.09	\$3.18	\$3.18
Total Direct Costs	\$1.92	\$2.36	\$4.23	\$3.99	\$3.99	\$4.11	\$4.11
INDIRECT COSTS							
Net Embedded Cost (NEC)	\$478.00	\$745.86	\$1,479.02	\$944.49	\$944.49	\$1,058.06	\$1,058.06
Depreciation Cost	\$31.11	\$12.68	\$38.89	\$23.83	\$23.83	\$25.77	\$25.77
Pole Maintenance Cost	\$7.61	\$82.41	\$11.89	\$5.52	\$88.56	\$8.04	\$77.28
Capital Carrying Cost	\$54.49	\$63.32	\$118.91	\$80.19	\$80.19	\$83.27	\$83.27
Total Indirect Costs	\$93.21	\$158.41	\$169.69	\$109.54	\$192.58	\$117.07	\$186.31
ALLOCATION							
# of non-power attachers	2.5	2.5	1.74	1.3	1.3	1.3	1.3
Allocation Factor	21.9%	21.9%	28.8%	34.3%	34.3%	34.3%	34.3%
Indirect allocated	\$20.43	\$34.69	\$48.80	\$37.57	\$66.05	\$40.16	\$63.91
Pole Rate	\$22.35	\$37.05	\$53.03	\$41.56	\$70.04	\$44.26	\$68.01

19. Hydro One submits that the pole attachment rate established in 2005 of \$22.35 per pole is simply too low. It is not reflective of today's actual costs, and thus, is no longer a just and reasonable rate. It has been in place for over 10 years now, without any adjustments and is based on costs that are now over 20 years old.
20. Hydro One has provided sufficient evidence to allow this Board to determine a new pole attachment charge for 2015, 2016 and 2017.
21. Utilizing the methodology outlined in the recent Hydro Ottawa decision, Hydro One believes that the rates should be set using 2014 year end actuals and up to date information on pole count and the average number of attachers per pole. Vegetation management costs should also be included as discussed in the following section.
22. Doing so yields a pole attachment rate of \$70.04 as shown in Table 3 above, column 5. The derivation of the rate was provided in response to Exhibit I, Tab 1, Schedule 2.1., pgs. 7 and 8.

Inclusion of Vegetation Management Costs

23. Hydro One anticipates that the Carriers are likely to argue that vegetation management costs ought to be excluded from the pole attachment rate. That argument is anticipated despite the fact that the Carriers have in fact been paying for vegetation management as part of the pole attachment charge.
24. Rogers Communications has been doing so pursuant to the Agreement for Licensed Occupancy of Power Utility Distribution Poles effective January 1, 2006, renewed in 2014. This agreement remains current and in place. Hydro One has similar agreements with many of the other Carriers. Those agreements clearly indicate that licensees, such as the Carriers, contribute to maintenance line clearing as part of the pole rental rate. There is no basis to depart from that practice now.
25. Hydro One anticipates further comments and submissions on this issue, and others, following receipt of the responding arguments of the Carriers and intervenors.

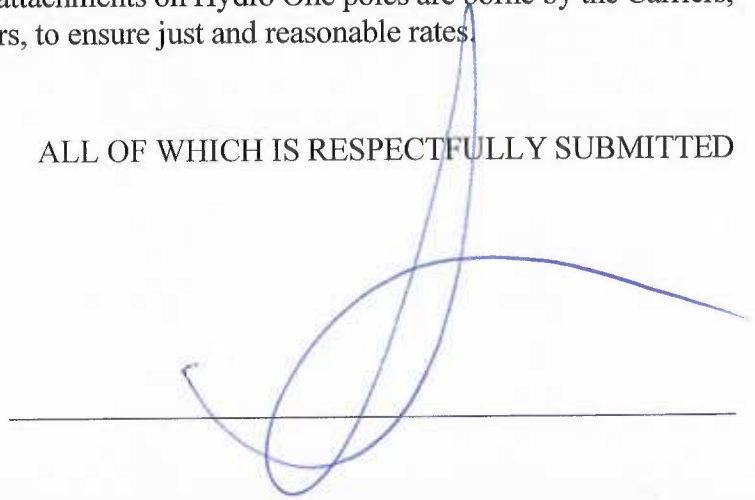
Summary and Conclusion

26. Hydro One acknowledges and agrees that the Board's task is to set a just and reasonable rate for the pole access charge, based on previously approved methodology. Hydro One is mindful of the principles recently outlined in the Hydro Ottawa Limited decision on this issue and the Board's advice that it will have regard for those findings when deciding this case.
27. Taking all of those factors into consideration, Hydro One submits that an appropriate pole attachment rate is \$70.04.
28. Although Hydro One has provided actual 2015 costs in response to a Board staff interrogatory,

Exhibit I, Tab 2, Schedule 2.1, the Company is of the view that the rate should be based on 2014 actuals for actual pole counts, number of attachers and depreciation since 2014 is the most recent year for which information is available prior to the rate period at issue.

29. Hydro One submits that these changes should be reflected in the pole attachment rate to ensure that the cost associated with the Carriers' attachments on Hydro One poles are borne by the Carriers, not Hydro One Distribution Customers, to ensure just and reasonable rates.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

A handwritten signature in blue ink is written over a horizontal line. The signature is stylized and appears to be 'A. Varjadic'.

A. Varjadic, Counsel for Hydro One Networks