**VECC’s COMMENTS RE: DRAFT REPORT OF THE BOARD – FRAMEWORK FOR DETERMINING WIRELINE POLE ATTACHMENT CHARGES (EB-2015-0304)**

1. **Introduction**

On December 18, 2017 the Ontario Energy Board (OEB) issued a Draft Report setting out a policy for the wireline pole attachment rates charged by local electricity distribution companies (“LDCs”) for attachments of telecommunication and cable companies to distribution poles. The accompanying letter invited interested stakeholders to provide comments on the Draft Report.

The Vulnerable Energy Consumers Coalition (VECC) has reviewed the Draft Report and offers the following comments for the Board’s consideration.

The detailed comments below are divided into two sections where the first addresses the Board’s proposed framework/methodology for determining the wireline attachment rate while the second addresses implementation issues. With respect to the proposed methodology, the Draft Report does not specifically address all the elements of the methodology. Rather, for a number of the elements of the methodology, the OEB relies on the recommendations of Nordicity and, in the Draft Report, only addresses what it deems to be specific key issues. However, for purposes of completeness, VECC’s comments address all elements of the methodology and refer to the Nordicity Group Limited[[1]](#footnote-1) (“Nordicity”) Report and/or the OEB’s Draft Report as appropriate.

1. **Wireline Pole Attachment Rate Methodology**
   1. Pole Population[[2]](#footnote-2)

The Nordicity Report reviews the ten-year history of pole installation for five of the province’s larger utilities (Toronto Hydro, London Hydro, Ottawa Hydro, Hydro One and Horizon) and concludes:

* “There has been no significant growth in the pole population which would have caused significant variation in the capital cost base of the poles.”
* “Noridicity believes any material variation in the average installed cost per pole is mainly due to replacements rather than net growth in the poles infrastructure in the province”[[3]](#footnote-3).

In extrapolating the results from the five utilities to the province overall, Nordicity claims that the five represent over 95% of the total pole population in the province. It is unclear to VECC how this number was determined, as to VECC’s knowledge, the total number of distribution poles owned by each distributor is not a statistic that is regularly reported to the OEB. However, VECC concedes that the five distributors will account for a significant portion of the total pole population in the province.

Of more concern to VECC is the claim that “any material variation in the average installed cost per pole is mainly due to replacements rather than net growth in the poles infrastructure in the province”. While this may the case for five utilities that provided data and for the province, when considered in aggregate, it is not necessarily the case for other LDCs. An example of this can be seen in the recent Settlement Proposal[[4]](#footnote-4) filed with respect to InnPower’s 2017 Rate Application (EB-2016-0085). In VECC’s view, the Board needs to allow for such circumstances when considering applications for LDC specific rates as discussed on page 47 of the Draft Report.

* 1. Poles Structure and Space Allocation[[5]](#footnote-5)

For purposes of determining the wireline pole attachment rate Nordicity has concluded (and the Board has accepted) that a 40-foot poles is fairly representative of a standard pole in Ontario. Furthermore, Nordicity and the Board have adopted the pole specifications (in terms of the breakdown between buried space, clearance space, communication space, separation space and power space) as used in the Board’s 2005 Decision.

Analysis by performed by Nordicity on data provided by the Hydro One, Hydro Ottawa, London Hydro and Horizon found that close to 75% of these utilities’ poles were sized in the range of 35’ to 45’ and that breakdown of the space segments was reasonably close to those used in the Board’s 2005 Decision. Based on this analysis, VECC agrees that a 40-foot poles with the same space segment assumptions as used in the Board’s 2005 Decision is reasonably representative and therefore appropriate to use for purposes of determining the wireline pole attachment rate.

As one of its key issues the Board’s Draft Report addresses[[6]](#footnote-6) the treatment of the separation space and concludes that it should be considered part of the communication space for allocating indirect costs as, according to ESA and CSA standards, the separation space is needed to ensure the safety of communication workers. VECC agrees with this treatment.

* 1. Costing Approach[[7]](#footnote-7)

The Nordicity Report identifies three possible “costing approaches” for determining the cost base for the wireline pole attachment rate: i) Historical Cost, ii) Forward Looking/Replacement Cost and iii) Standard Cost (Benchmarking). Nordicity also notes[[8]](#footnote-8) that “Historical Cost” which refers to original or actual book value, can be based on such costs as experienced in previous years or as determined for future years based on budget estimates.

In its Report[[9]](#footnote-9) Nordicity rejects the position put forward by the rate payer representatives that the costs should be based on the same forecast costs are used by the Board in setting distribution rates. Rather, in its proposed methodology, Nordicity has used an average historical embedded cost of a pole calculated over the eleven year period 2005-2015[[10]](#footnote-10).

In its Draft Report, the Board has proposed a variation of Nordicity approach whereby:

* The embedded cost of the pole is based on a six-year historical average (2010-2015)[[11]](#footnote-11) as the Board considered the six most recent years to be more reflective of current LDC pole costs.
* The resulting costs are escalated to 2018 values using the Board’s inflation factors for incentive rate setting for 2015/16, 2016/17 and 2017/18[[12]](#footnote-12).

The Nordicity Report sets out[[13]](#footnote-13) five reasons for adopting an historical average (as opposed to using forecast embedded costs). These reasons are set out below along with VECC’s comments regarding the validity of each.

1. *Expenditure estimates of planned replacements lack objectivity, reliability and verifiability compared to incurred costs.*

VECC notes that the (forecast) expenditure estimates that would be used to determine the wireline pole attachment rate are the same estimates the Board would be using to determine the distribution rates applicable to the utility’s distribution service customers. In VECC’s view if the Board, in approving distribution rates for a forward test year, has determined that the underlying forecasts/estimates have been appropriately tested and deemed to be sufficiently objective and reliable to form the basis for “just and reasonable” distribution service rates then they should be acceptable for purposes of establishing the wireline pole attachment rate.

1. *The cost of poles is not subject to factors, other than inflation, that may cause significant cost increases and decreases over time such as technological changes, techniques of installation and maintenance, and so forth.*

VECC notes that the 4.8% annual increase in the overall cost per pole over the 2005-2015 period referenced by Nordicity[[14]](#footnote-14) is almost three times the inflation rate over the same period as used by Nordicity[[15]](#footnote-15). In VECC’s view this highlights two points. The first is that use of an historical average over the period 2005-2015 (or the 2010-2015 period used by the OEB) as a representation of 2015 costs totally ignores the fact that there was significant inflation in the cost per pole over the period. The second point is that, if one wants to account for inflation, CPI is not the appropriate adjustment factor.

1. *Regulatory precedents to date do not provide support to include forward-looking cost estimates in pole attachment rate calculations.*

While there may be no regulatory precedents for setting wireline pole attachment rates using forward looking cost estimates, it is common practice on both Ontario and other Canadian jurisdictions to set rates electricity rates for other distribution services using such estimates.

1. *The 10-year (2005-2015) actual data presented in Section 6 provide a reasonable long term view of the trends in the cost structure of poles in Ontario and do not indicate any extraordinary variation in year-over-year historical cost of poles.*

VECC agrees with this point. However, while there is no “extraordinary variation” in the year to year cost of poles, there is (as noted in point (ii) above) a fairly constant increase in the year to year historical cost of poles such that a 10 year average does not reflect the “cost” as of the end of the period concerned. As a result, applying a simple inflationary adjustment based on cost changes between 2015 and 2018 (as proposed by the OEB’s Draft Report) to the average does not adequately account for inflation.

1. *Based on historical trends an annual adjustment factor may be use to account for inflation and normal replacements.*

Again, VECC agrees with this point. However, VECC notes that while the discussion of this issue suggests[[16]](#footnote-16) that an inflation adjustment factor of 4.8% per annum may be used to adjust the pole attachment rate annually, Nordicity’s final recommendations do not call for any such adjustment and the OEB’s Draft WorkForm[[17]](#footnote-17) uses an inflation adjustment factor that is less than half of this value. Equally important, neither the Nordicity Report nor the OEB’s Draft Report/WorkForm make any adjustment to the average historical cost values used in order to account for inflation over the period used to calculate the average.

VECC recognizes that for purposes of establishing a Provincial Rate it is likely necessary to rely on historical previous years’ costs.

However, the proposed methodology fails to properly account for rising costs by using the wrong base (determining the 2015 value based on a six year historical average) and wrong exponent (the inflation factor for incentive rate setting rather than historically observed inflation). As the following graph illustrates this results in a substantial and growing error relative to an exponential growth model which would explain 99.5% of variation in costs over the 10 year period. Indeed, had the same approach been applied to produce and estimate for 2013 based on 2005-2010 data, it would be projecting costs 19% lower than those observed in the first year of the model (2013) and 24% lower by 2015.

Figure 1: The growing error between the cost projections being used by the Board and those expected based on a strong exponential model

If an average historical cost is going to be used (such as the 2010-2015 historical average proposed in the OEB’s Draft Report) then:

* It is necessary to adjust the average to account for the inflation that occurred during the historical period used to calculate the average. Furthermore, as suggested by Nordicity[[18]](#footnote-18), the appropriate adjustment factor to use would be the actual inflation in the cost per pole experienced over the period. In the case of the 2010-2015 period proposed in the OEB’s Draft Report, the average increase in cost per pole is 5% per annum. If, as suggested by Nordicity, there is no abnormality in the historical costs other than inflationary trends, then in VECC’s view, a simpler approach would be to use the most recently available historical year as the starting points (as opposed to an average). In this case that would be the 2015 cost data.
* It is also necessary to account for the inflation that would have occurred between the end of the historical period (i.e., 2015) and 2018 - the year for which the Provincial Rate is being determined). In this case VECC submits that the use of the historical inflation rate for pole costs (as suggested by Nordicity) is more appropriate than the CPI or the inflation factor used for the OEB’s incentive rate program.

However, in VECC’s view while the above approach is acceptable for purposes of establishing the initial Provincial Rate, utilities should be directed, as part of their next cost of service (rebasing) application to determine a wireline pole attachment rate based on their forecast cost structure and pole attachment parameters. Failing this, utilities should be directed as part of their next cost of service (rebasing) application to determine a wireline pole attachment rate based on their most recently reported costs and pole attachment parameters and then apply an inflation adjustment.

* 1. Attachers vs. Attachments[[19]](#footnote-19)

The current wireline attachment rate is charge per attacher (i.e., each entity with attachments on the pole) and not per physical attachment to the pole, Nordicity concluded that LDCs do not all currently have the capability to provide the number of attachments on their poles and therefore proposed to continue to use attachers as the basis for billing. In its Draft Report, the OEB also adopted “attachers” as the billing determinant.

Given the current lack of data on number of attachments, VECC agrees with the continuing use of number of attachers as the billing determinant.

The OEB Draft Report[[20]](#footnote-20) indicates that the Board will require LDCs to begin collecting and tracking attachment data. VECC supports this initiative as, in the long run, attachments as opposed to attachers is likely the better reflects a third party’s usage of the pole.

* 1. Number of Attachers[[21]](#footnote-21)

The Nordicity Report concludes that it is more appropriate to base the number of attachers on the actual number of attachers as opposed to a presumptive average. Based on the data provided by four utilities (Hydro One, Hydro Ottawa, London Hydro and Horizon), Nordicity has determined that the average number of attachers per pole with wireline attachments (excluding power) is 1.3[[22]](#footnote-22). Nordicity also assumes that all of these attachers are located in the communications space[[23]](#footnote-23). The OEB Draft Report has adopted the 1.3 value for purposes of determining the Provincial Rate.

It is understood that the 1.3 includes not only cable and telephone related attachers but also municipal streetlights and traffic light attachments[[24]](#footnote-24) as well as, in some instances, power line attachments by the distributors (and power generators). This gives rise to a number of issues.

First, not all of the non-telecom attachments will be located in the communications space. Clearly, the power lines attachments by other utilities will be located in the power space. Also, it is VECC’s understanding that streetlight attachments are frequently located in the power space. This has implications for the allocation of the indirect costs as it will reduce the number of attachers sharing the communications (and separation) space to something less than 1.3. VECC also notes that the issue is not trivial as utilities can have a significant number of streetlight attachments[[25]](#footnote-25).

VECC does not have access to the detailed data responses provided to Nordicity by the four utilities regarding the number of attachers per pole and therefore it is not clear if the number of attachers using the communication space can be readily identified. If calculation of the number of attachers, the allocation of indirect costs and the ultimate determination of the Provincial Rate cannot be adjusted to account for this issue, it simply provides further support for VECC’s earlier submission that individual utilities should be required (as part of their next rebasing application) to derived a utility specific wireline pole attachment rate based on their specific circumstances.

The second issue is that not all of these attachers actually pay their host utility for being able to attach to the distribution poles. This is particularly true in the case of municipal streetlight attachments. The question then arises as to whether, given the fact these attachers do not pay, should they be included in the attacher count used in determining the wireline pole attachment rate. Although identified as an issue at the first PAWG meeting[[26]](#footnote-26), this issue was not addressed in either the Nordicity Report or the OEB’s Draft Report.

In VECC’s view this issue is similar to the issue discussed in the Board’s Draft Report[[27]](#footnote-27) regarding the treatment of the Bell Canada Agreements with LDCs and the resolution depends on whether there is some form (either formal or informal) of cost sharing arrangement between the utility and municipality regarding the treatment of streetlights. This is an issue that needs to be addressed on a utility by utility basis and again points to the need for individual utilities to apply for a utility specific wireline pole attachment rate as part of their next rebasing application.

* 1. Direct Administration Costs[[28]](#footnote-28)

For Administration costs, the Nordicity Report[[29]](#footnote-29) uses the average of: i) the cost in the 2005 Decision adjusted for inflation to 2015 and ii) the Toronto 2012 Administration costs adjusted for inflation to 2015. In contrast, the OEB’s Draft Report uses the average of the Administration cost reported for Toronto Hydro, Ottawa Hydro and Hydro One in their respective applications. Also, the OEB’s Draft Report escalates the resulting costs to a 2018 value using the Board’s inflation factors for incentive rate setting for 2015/16, 2016/17 and 2017/18.

In VECC’s view the approach used by the OEB is preferable to that of Nordicity. However there are still a couple of issues that need to be addressed. First, the OEB’s calculation (as set out in the Draft WorkForm) appears to use a weighted average based on the number of attachers in each utility. It is not at all clear to VECC that this is the appropriate approach as opposed to: i) a simple average of the three administration costs (each expressed per attacher per pole) or ii) a calculation based on the total Administration cost for these utilities divided by the total number of pole attachers.

Also, it is not immediately clear to VECC that the values in each Application were derived using 2015 costs and therefore a common inflation factor is applicable. However, this is matter than can be readily verified and corrected as needed.

* 1. Direct Loss of Productivity Costs[[30]](#footnote-30)

In its report Nordicity does not include any costs for Loss of Productivity but rather assumes that these costs will be captured if there is proper inclusion of the maintenance costs recorded in Accounts #5120 and #5135 as part of indirect costs of a pole[[31]](#footnote-31). In contrast, the OEB’s Draft Report specifically includes Loss of Productivity costs based on the values used in the Hydro One and Ottawa Hydro applications[[32]](#footnote-32). Again, the OEB’s Draft Report escalates the resulting costs to a 2018 value using the Board’s inflation factors for incentive rate setting for 2015/16, 2016/17 and 2017/18.

VECC notes that Loss of Productivity costs are typically based on incremental costs associated with pole replacement due to the presence of wireline attachments as well as dealing with trees on wires and wires down calls that are related to wireline attachments. The first of these costs categories (i.e., incremental pole replacement costs) is likely captured in pole maintenance account (Account #5120) and therefore could give rise to the concerns about double counting expressed by Nordicity. However, the costs for the last two activities are more likely be recorded in Account #5125 (Maintenance of Overhead Conductors and Devices) and therefore there is no concern about double counting and allowance for these cost needs to be made as part of the Loss of Productivity.

With respect to the Board’s Draft Report treatment of these costs, VECC’s concerns are similar to those outlined above under the discussion of Administration costs – namely the appropriateness of using a weighted average and the need to confirm the initial values were all based on 2015 costs.

* 1. Indirect Capital Costs[[33]](#footnote-33)

Indirect capital costs consist of depreciation and carrying costs (i.e., interest, return on equity and taxes) associated with the pole.

Nordicity calculates the depreciation per pole by applying a deprecation rate of 2.5% to the average embedded (i.e., gross book value) per pole as determined in section 2.3 above. The carrying cost is determined by applying the weighted average carrying cost over the period 2005-2015 for the four utilities – Toronto Hydro, Ottawa Hydro, Hydro One and Ottawa Hydro[[34]](#footnote-34).

In contrast the OEB’s Draft Report uses a deprecation rate of 1.91%based on a weighted average of the historical depreciation rates used the four utilities - Toronto Hydro, Ottawa Hydro, Hydro One and Ottawa Hydro – over the period 2010-2015. For carrying costs, the Draft Report similarly uses the weighted average carrying cost over the period 2010-2015 for the four utilities – Toronto Hydro, Ottawa Hydro, Hydro One and Horizon[[35]](#footnote-35).

Again VECC has issues with the use of historical averages. In VECC’s view it would be more appropriate to use a weighted average of the current (or most recently reported) depreciation rates for the four utilities in determining the Provincial Rate. Having said this VECC notes that there is wide variation across the four utilities in the average depreciation rates as used in the OEB’s WorkForm (1.81% to 2.81%). In VECC’s view this further supports the need for utilities to apply for utility specific wireline pole attachment rates as part of their next rebasing application.

Similarly, in VECC’s view it would be more appropriate to use a weighted average of the current (most recently reported) carrying cost rate for each of the four utilities.

The Nordicity Report specifically notes[[36]](#footnote-36) that the carrying costs shown in its Report are after tax values and suggests that before tax values were used in the its subsequent calculations. However, a review of the calculations indicates that this is not the case and that the indirect pole costs set out in Table 28 (and referenced in the OEB’s Draft Report[[37]](#footnote-37)) do not include an allowance for taxes. Unfortunately, the calculations in the OEB’s WorkForm also use the after tax carrying cost values and do not include any allowance for taxes. Regardless of the approach taken in for determining carrying costs the value(s) used need to be adjusted to include taxes.

* 1. Power Adjustment Factor[[38]](#footnote-38)

The Nordicity Report notes that capital costs recorded in Account #1830 include not only the cost of the pole but also the cost of various power fixtures that are not used by third-party attachers. In order to account for this Nordicity reduces the cost of the pole by 14.7% based on data provided by the utilities participating on the Poles Access Working Group (8%, 15% and 15% for Hydro Ottawa, Hydro One and London Hydro respectively). Nordicity suggests that the differences are due to inconsistencies in accounting practices or the peculiar characteristics of individual LDC pole cost structures[[39]](#footnote-39).

In its Draft WorkForm the OEB has used a power adjustment factor of 15%. No explanation is provided in the Draft Report. However, it is noted that this is the same adjustment factor as was used in the OEB’s 2005 Decision.

VECC agrees with Nordicity’s observation that the power adjustment factor can vary across LDCs due to differences in accounting practices and the pole fixture configurations employed. VECC takes no issue with the use of the 14.7% or 15% adjustment factor in the determination of the Provincial Rate. However, VECC notes that the possible variation across LDCs further supports the need for utility specific wireline pole attachment rates.

Finallly, VECC supports the Board’s plan[[40]](#footnote-40) to require utilities to set up separate sub-accounts to more accurately track these costs and to charge the implementation cost to the direct administration costs allocate to the telecom attachers.

* 1. Allocation of Neutral Wire Costs

The Nordicity Report[[41]](#footnote-41) does not recommend including the capital cost of the neutral wire in the rate determination on the basis that no regulatory precedent exists to do so. The OEB’s Draft Report[[42]](#footnote-42) excludes such costs on the basis that the neutral is a requirement of power utilities.

In VECC’s view the treatment of the Neutral Wire costs in the determination of the wireline pole attachment rate warrants further investigation as part of the Part II review the Board plans on undertaking. To this end the Board should also direct LDCs to separately report the Neutral Wire costs.

* 1. Indirect Maintenance Costs[[43]](#footnote-43)

The Nordicity Report includes a portion of the costs reported in Account #5120 (Maintenance of Poles, Towers and Fixtures) and Account #5135 (Overhead Distribution Lines and Feeders – Right of Way) as indirect pole maintenance costs.

*Account #5120 (Maintenance of Poles, Towers and Fixtures)*

In the case of Account #5120 two LDCs (Hydro One and Ottawa Hydro) provided data regarding the percentage of the maintenance costs related to poles as opposed to power fixtures and other. The two percentages varied widely from 5% to 92%[[44]](#footnote-44). For purposes of determining the wireline pole attachment rate Nordicity proposed that the simple average of the two percentages (48.5%) be used and applied this to the average 2007-2015 maintenance cost for the five utilities (Hydro One, Hydro Ottawa, Horizon, Toronto Hydro and London Hydro)[[45]](#footnote-45).

In contrast, the OEB’s Draft WorkForm uses the same 48.5% adjustment factor but applies it to the average maintenance cost for the same utilities over the period 2010-2015[[46]](#footnote-46). The result is then escalated to a 2018 value using the Board’s inflation factors for incentive rate setting for 2015/16, 2016/17 and 2017/18.

VECC has two concerns with the Board’s approach. First, the 48.5% is the average of two significantly different numbers. While use of this average may be the only means, in the short term, to derive a Provincial Rate, the wide range again emphasizes the need for the Board to direct LDCs to determine a utility-specific wireline pole attachment rate as part of their next rebasing (cost of service) application.

The second concern is that that by using the six year (2010-2015) average as the value for 2015, the Board’s calculation totally ignores any inflation that occurred during the period. A more appropriate approach would to apply an inflationary adjustment to each year’s values so that they are all expressed in terms of 2015$ and then calculate an average.

*Account #5135 (Overhead Distribution Lines and Feeders – Right of Way)*

In the case of Account #5135, Nordicity uses the average reported costs for the five utilities over the eleven years 2005-2015 and then applies an adjustment factor of 6.8% based on the weighted average of the pole-related of Account #5120 maintenance costs reported for Hydro One and Ottawa Hydro referenced earlier. (Note: The weighted average (6.8%) is materially less than the simple average (48.5%) because Hydro One – with a value of 5% - accounts for most of the poles).

In contrast, the OEB Draft Report[[47]](#footnote-47) proposes to use a 1/3 adjustment factor for vegetation costs based on the fact that both the LDC and carriers benefit from vegetation management and LDCs utilize roughly 2 times the space on the pole that the carriers do.

VECC agrees that the OEB approach is more reasonable than the one put forward by Noridicity. With respect to Nordicity’s proposal it is not at all clear what relevance the split of cost for Account #5120 has in the determination of how Account #5135 should be apportioned between the LDC and the carriers. Furthermore, the logic in using 6.8% as opposed to the 48.5% actually used for Account #5120 appears to be based on the claim that the carriers undertake their own repair work when it comes to their customers. However, Account #5135 does not include repair cost but – according to the Board’s Accounting Procedures Manual[[48]](#footnote-48) – just expenses incurred in connection with tree trimming, etc. and other cost incurred in maintaining right of way.

VECC’s principle concern with the OEB’s calculation is that (similar to that noted above regarding Account #5120) it fails to recognize the inflation that will have occurred during the six period used to calculate the average cost.

* 1. Indirect Cost Allocation Methodology[[49]](#footnote-49)

In its Report, Nordicity discusses[[50]](#footnote-50) the two most frequently applied allocation methodologies (equal sharing and proportionate use) and introduces a new “hybrid” methodology. The OEB’s Draft Report indicates[[51]](#footnote-51) that the Board “will adopt Noridicity’s recommendation and move forward with allocating common costs based on the hybrid equal sharing methodology” (emphasis added).

However, it is not clear that Nordicity’s is actually recommending the “hybrid approach”. At page 60, Nordicity Reports states (at page 60) that it “believes a more appropriate approach to applying the equal sharing methodology would be” an alternative which Nordicity calls the hybrid approach. However, in Appendix B Nordicity presents a detailed analysis of the two main allocation methodologies and concludes (on page 70) – “the analysis clearly demonstrates that the equal sharing methodology is the most appropriate to allocate common costs between the two types of attachers on a joint use pole”. Finally, in the conclusions and recommendations section of its Report (section 11) Nordicity states[[52]](#footnote-52) and underlines for emphasis:

Therefore, the equal sharing methodology is recommended to allocate indirect costs in the determination of the pole attachment rate. Consideration of any other methodology would require a detailed assessment of costs such as incremental cost (minimum threshold) and standalone cost (maximum threshold) in the Ontario context.

Based on the foregoing it would appear that Nordicity is recommending the continued use of the equal sharing approach. As result, to the extent the OEB’s has relied on Nordicity’s “recommendation”, its choice of the hybrid method is unfounded.

In outlining its preference for the hybrid method, the OEB’s Draft Report[[53]](#footnote-53) appears to be concerned that addition of another third party attacher will reduce the amount the power attacher pays under the equal sharing method. What the Report fails to note is that in such a case all attachers (both carriers and power) pay less when more attachers are present (regardless of whether they attach to the power or communications space). In contrast, under the hybrid method if the additional attacher is a carrier and attaches to the communications space only the carriers will pay less, while if the additional attacher attaches to the power space (i.e., is another power attacher or a streetlight attachment) then only the existing attacher to the power space will pay less.

Also the Report’s preference for considering power space users and communications space users as two “groups” for purposes of allocation as opposed to considering each attacher separating appears to be founded on the fact that the communication space does not increase if more carriers become attachers. However, while the communications space does not increase the attachment of more carriers does not reduce or impinge on the value that the existing carriers receive from being able to attach to a distribution pole (i.e., there is not a fixed benefit attributable to the communication space such that the benefit to individual carriers declines as more carriers attach). As a result, VECC does not see any basis for considering the power space attachers and communication space attachers as two groups.

Overall, it is VECC’s view that there is no rationale or regulatory precedent for the hybrid methodology and that the Board should continue to use the equal sharing methodology as ultimately recommended by Nordicity.

1. **Implementation**
   1. Provincial vs. Utility Specific Rate

The OEB’s Draft Report[[54]](#footnote-54) indicates that the Board intends on implementing a province-wide rate in 2018. The Report further notes that the province-wide rate will be subject to inflationary adjustment, excluding any productivity adjustments, using the OEB’s I-X adjustment mechanism. The Board states that in making this determination it has balanced the need to ensure the rate is representative of costs with avoiding an overly administrative and costly process for setting an LDC-specific rate for each LDC. At the time of rebasing the Draft Report proposes that utilities can choose to select the provincially approved rate or to use utility specific costs and pursue an LDC-specific pole attachment charge using the OEB’s updated methodology.

VECC concurs that it is not practical to establish LDC-specific rates for all LDCs for 2018. However, in its review of the OEB’s proposed methodology VECC has noted a number of areas where the inputs used by the Board are likely to vary significantly from LDC to LDC. As result, VECC expects there will be a significant number of LDCs for which the Provincial Rate is not at all representative of their costs or pole attachment parameters (e.g. number of attachers, power fixture adjustment factor, etc.). As a result, VECC submits that, at the time of rebasing, LDCs should be required to apply for a utility specific rate using the Board’s methodology.

VECC also notes that the Board should clarify what it means by the “OEB methodology”. For example, does it require all LDCs to use six years of historical costs, are all LDCs required to use the 85% power deduction factor, are all LDCs required to use the 48.5% adjustment factor for Account #5120 and the 1/3 adjustment factor for Account #5135? In VECC’s view the Board should not be overly restrictive. The Board methodology will identify the types of costs to be included in the determination of the wireline pole attachment rate and the methodology to be used for allocating indirect costs. LDC’s should have the flexibility to apply this framework in a manner that best reflects their costs, accounting practices and distribution system characteristics.

Finally, VECC agrees with the Board’s proposal to apply an annual inflation adjustment to the Provincial Rate. However, VECC notes that a similar annual inflation adjustment should also be applied (during the IRM period) to LDC-specific rates approved by the Board.

* 1. Deferral Account

In conjunction with the new Provincial Rate, the Board proposes[[55]](#footnote-55) to implement a variance account that will track the difference between in revenues received under the new charge as compared to the previous pole attachment charge.

VECC assumes that the need for this account due to the fact that the existing distribution rates were set based on a revenue requirement that included a revenue offset based on the previous pole attachment charge and that the variance account will be maintained until each LDC’s next rebasing application, at which time the balance will be refunded to customers.

If this is the Board’s intent, then VECC agrees with the need to implement the variance account.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**

**FEBRUARY 9, 2018**

1. Nordicity Group Limited was the expert consultant retained by the Board to assist with the policy consultation and to produce an expert report. [↑](#footnote-ref-1)
2. See pages 31-33 of the Nordicity Report [↑](#footnote-ref-2)
3. Nordicity Report, page 32 [↑](#footnote-ref-3)
4. Page 17 [↑](#footnote-ref-4)
5. See pages 12-14 & 35-36 of the OEB Draft Report and pages 33-35 of the Nordicity Report [↑](#footnote-ref-5)
6. Pages 35-36 [↑](#footnote-ref-6)
7. See pages 36-37 & 63 of the Nordicity Report and pages 14 & 24-25 of the OEB Draft Report. [↑](#footnote-ref-7)
8. Page 36 [↑](#footnote-ref-8)
9. Page 63 [↑](#footnote-ref-9)
10. Page 48 [↑](#footnote-ref-10)
11. Page 24. Also the value used in the OEB’s Draft Pole Attachment Work Form reconcile with those in [↑](#footnote-ref-11)
12. OEB’s Draft Pole Attachment Work Form, Provincial Rate Tab [↑](#footnote-ref-12)
13. Page 63 [↑](#footnote-ref-13)
14. Page 63, footnote 55 [↑](#footnote-ref-14)
15. Page 58. The referenced increase in the CPI index from 107 to 126.6 over the period to 2005-2015 represents an annual rate of 1.7%. [↑](#footnote-ref-15)
16. Page 63, Footnote 55 [↑](#footnote-ref-16)
17. Provincial Rate Tab [↑](#footnote-ref-17)
18. Page 63, Footnote 55 [↑](#footnote-ref-18)
19. OEB Draft Report, pages 14-15 and Nordicity Report, pages 41-42 [↑](#footnote-ref-19)
20. Page 48 [↑](#footnote-ref-20)
21. OEB Draft Report, page 15 and Nordicity Report, pages 42-45 [↑](#footnote-ref-21)
22. Page 45 [↑](#footnote-ref-22)
23. Page 44 [↑](#footnote-ref-23)
24. OEB Draft Report, page 13 [↑](#footnote-ref-24)
25. EB-2015-0004, J2.3 [↑](#footnote-ref-25)
26. May 20, 2016 Minutes, page 1 [↑](#footnote-ref-26)
27. Pages 43-46 [↑](#footnote-ref-27)
28. OEB Draft Report, page 25 and Nordicity Report, pages 57-58 [↑](#footnote-ref-28)
29. Page 58 [↑](#footnote-ref-29)
30. Nordicity Report, pages 56 & 58-59 and OEB Draft Report, page25 [↑](#footnote-ref-30)
31. Page 58 [↑](#footnote-ref-31)
32. Note: While the OEB Report states that just the values for Hydro One and Ottawa Hydro were used (page 25), the Draft WorkForm actually uses a weighted average of three values and it is assume the third value is that from Toronto Hydro’s application. [↑](#footnote-ref-32)
33. Nordicity Report, pages 50-52 and the OEB Draft Report, page 18 [↑](#footnote-ref-33)
34. Pages 50-52 [↑](#footnote-ref-34)
35. Pages 50-52 [↑](#footnote-ref-35)
36. Page 51, Footnote 49 [↑](#footnote-ref-36)
37. Page 18 [↑](#footnote-ref-37)
38. OEB Draft Report, page 18 and Nordicity Report, pages 46-48 [↑](#footnote-ref-38)
39. Page 48 [↑](#footnote-ref-39)
40. Draft Report, pages 34-35 [↑](#footnote-ref-40)
41. Page 64 [↑](#footnote-ref-41)
42. Page 40 [↑](#footnote-ref-42)
43. Nordicity Report, pages 52-56 [↑](#footnote-ref-43)
44. Page 54 [↑](#footnote-ref-44)
45. Page 52 [↑](#footnote-ref-45)
46. Note: It is not clear from the WorkForm what years are used in the average. Based on the comments on page 24 of the Draft Report it is assumed to be the years 2010-2015. [↑](#footnote-ref-46)
47. Pages 25 and 38-39 [↑](#footnote-ref-47)
48. Page 168. [↑](#footnote-ref-48)
49. Nordicity Report, pages 17-18, 38-41, 59-62 & Appendix B and OEB Draft Report, pages 25-31 [↑](#footnote-ref-49)
50. Pages 17-18 and Appendix B [↑](#footnote-ref-50)
51. Page 30 [↑](#footnote-ref-51)
52. Page 72 [↑](#footnote-ref-52)
53. Page 30 [↑](#footnote-ref-53)
54. Page 32 [↑](#footnote-ref-54)
55. Draft Report, page 1 [↑](#footnote-ref-55)