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Ontario

BY EMAIL

August 2, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re:

Hydro One Networks Inc.
Application for Rates
OEB File Number - EB-2017-0049

In accordance with Decision on Pole Attachment Matters and Procedural Order No. 8 dated July 12, 2018, please find attached OEB staff's interrogatories on the updated evidence on pole attachment issues filed by Hydro One Networks Inc. on May 28, 2018 related to the referenced application.

Original signed by

Martin Davies
Project Advisor, Major Applications
Applications Division

Attachment

cc: Parties to EB-2017-0049

Ontario Energy Board (OEB) Staff Interrogatories

5-YEAR CUSTOM INCENTIVE REGULATION APPLICATION
HYDRO ONE NETWORKS INC. (APPLICANT OR HYDRO ONE)

EB-2017-0049

August 2, 2018

Hydro One - Updated Evidence Filed May 28, 2018; Updated Evidence: 2017-06-07, Exhibit H1, Tab 2, Schedule 3

I54-Staff-S1

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 1; HONI_SUB_Pole Attachment Workform_20180528, Tab 3. Direct Costs

Preamble:

In Tab 3 – Direct Costs of the Pole Attachment Workform, Table 4 - Administration Costs, Hydro One has entered zero dollars for both Direct Labour Costs related to billing and permit processing costs as well as for Inventory / direct purchases.

Questions:

a) Please confirm there are no costs related to these sub accounts for all joint-use poles.

b) Are any costs related to these sub accounts being directly billed to carriers?

I54-Staff-S2

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 1; HONI_SUB_Pole Attachment Workform_20180528, Tab 3. Direct Costs

Preamble:

In Section 1.0 of the Supplemental Explanation, page 1, Hydro One provided the breakdown of Admin Costs of $1.59 per attacher, per pole as follows:

GIS Tracking (Joint Use Database Maintenance):
(2018 Joint Use Database enhancement costs = $38,378) + (Annual maintenance costs = 50 hours x $181/hour = $9,050) = $47,428

Joint Use Staff Specific Labour: $1,109,258.50

Total Administration Costs = $47,428+$1,109,258.50 = $1,156,686.50

Administration Cost Per Pole, Per Attacher = (2018 Total Administration Costs/Qty. of Joint Use Poles Extrapolated for 20,181)/2018 Number of Attachers Per Pole

Administration Cost Per Pole, Per Attacher = ($1,156,686.50/537,719)/1.35 = $1.59

Questions:

a) Please confirm that the Joint Use Database enhancement costs of $38,378 are one-time costs. What types of activities are included as part of Hydro One's GIS tracking costs?

b) Please confirm whether there are additional Joint Use Database enhancements planned in the 5-year period. If yes, how will Hydro One take this cost increase into account going forward?

c) Hydro One has submitted a cost for Joint Use Labour of $1,109,258.50. Please provide more detail on the types of labour activities that have been completed that are directly related to carrier pole attachments.

d) Could any of the labour activities identified above be considered "make ready"?

e) Why does Hydro One consider its Administrative Cost to be reasonable?

I54-Staff-S3

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, pages 1-2;Evidence Updated: 2017-0607, Exhibit H1, Tab 2, Schedule 3, page 103

Preamble:

In Section 3.0 of the Supplemental Evidence, Hydro One provided the calculation of the 2018 Net Embedded Cost:

**Net Embedded Cost (NEC) of $1,290.58** = {[2018 Forecasted Year End Acquisition Value, as stated in D2-01-02-01, Page 5 of 5, USoA 1830, Cost, Closing Balance ($3,380,110,026.80) – 2018 Forecasted Year End Acquisition Value, as stated in D2-01-02-01, Page 5 of 5, USoA 1830, Accumulated Depreciation, Closing Balance ($1,002,000,428.80) = $2,378,109,598.00]/Qty. of Poles Extrapolated for 2018 (1,566,272)}* 85%

And in Section 1, Hydro One provided the calculation of the 2016 Net Embedded Cost:

**2016 Net Embedded Cost (NEC) of $1,178.33** = {[2016 Year End Acquisition Value, ($3,079,485,436) – 2016 Accumulated Depreciation ($912,770,751) = $2,166,714,685]/Qty. of Poles December 31, 2016 (1,562,984)}* 85%

Questions:

a) The Net Embedded Cost has increased by 9.5% (by staff's calculations, $1,290.58 - $1,178.33 = $112.25 increase). Please describe the factors that are driving this increase which ultimately drives higher carrying charges.

b) Given Hydro One's pole replacement programs over the next 5 years and planned mergers and acquisitions of smaller utilities, does Hydro One anticipate similar year-over-year increases in the Net Embedded Cost per pole?

c) If Hydro One's Net Embedded Cost does escalate at the same rate over the next 5 years, would the annual inflationary adjustment to the Hydro One's new Pole Attachment charge cover this increase?

I54-Staff-S4

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 2; Updated Evidence: 2017-0607, Exhibit H1, Tab 2, Schedule 3, page 103

Preamble:

In Section 4.0 of the Supplemental Explanation page 2, Hydro One provided Depreciation Cost of $33.45:

4.0 Depreciation Cost of $33.35

- Depreciation Rate = 1.82%
  Depreciation Rate = 1/Hydro One's Useful Life of Poles (as stated in C1-06-01, Attachment 1, Page 22) = 1/55 = 1.82%

and Updated Evidence: 2017-06-07, Exhibit H1, Tab 2, Schedule 3, page 103 Hydro One provided:

2016 Depreciation Cost of $28.47 = [2016 Year End Acquisition Value ($3,079,485,436)*HONI Depreciation Rate (1.7%)*85% allocation factor remove any pole-associated assets]/Qty. of Poles (1,526,984).

In the HONI_SUB_Pole Attachment Workform_20180528, Tab Appendix Provincial Rate, the other utilities that participated in the Pole Attachment Consultation had higher depreciation rates.

Hydro One's supplemental evidence uses a depreciation rate based on a useful pole life of 55 years. In its evidence from 2017 noted above, Hydro One uses a 60 year pole life.

Questions:

a) Please confirm that Hydro One is requesting that depreciation expense be calculated from a useful life of 55 years.

b) Please provide rationale for the decrease in the useful lives of poles from 60 years to 55 years.

c) Does Hydro One have any evidence to show that joint-use poles have a shorter pole life expectancy because of additional stresses placed on them because of third party attachments? Should joint-use poles be depreciated at a different rate than dedicated power poles?

d) Will Hydro One's planned pole replacement program impact the average pole useful life that it assumes?

e) Does pole size impact the useful life of Hydro One poles? Has this been factored into the average pole life that Hydro One assumes for its pole population?

f) What impact does geographical location have on pole life? Has this been factored into the average pole life that Hydro One assumes for its pole population?

g) Are Hydro One poles more susceptible to storm damage than other utilities because of their average age?

I54-Staff-S5

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 2
HONI_SUB_Pole Attachment Workform_20180528, Tab Appendix Provincial Rate.

Preamble:

In Section 6.0 of the Supplemental Evidence, Hydro One provided the calculation of Capital Carrying Cost of $96.66:

6.0 **Capital Carrying Cost of $96.66** = 2018 Forecasted Net Embedded Cost as calculated in Line 3 above ($1,290.58) * 2018 Before Tax Weighted Average Cost of Capital (WACC) (7.49%)

Questions:

a) Please provide the breakdown of the calculation of the pre-tax WACC, and a comparison of the changes in the pre-tax WACC for the bridge and test years.

b) Why is Hydro One's pre tax WACC higher than the WACC of other utilities that participated in the pole attachment consultation? (Please reference File: HONI_SUB_Pole Attachment Workform_20180528, Tab Appendix Provincial Rate)

c) Does Hydro One anticipate this rate decreasing or increasing significantly in the next five years or remaining approximately the same?

I54-Staff-S6

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 2
Updated Evidence: 2017-06-07, Exhibit H1, Tab 2, Schedule 4, page 103

Preamble:

In Section 5.0 of the Supplemental Evidence, Hydro One provided Pole Maintenance Cost of $7.25:

5.0 Pole Maintenance Costs of $7.25

= [USoA 5120, as stated in G1-03-01, Attachment 3, Sheet I3 Trial Balance Data, Cell H392 ($23,422,812.70)/ Qty. of Poles Extrapolated for 2018 (1,566,272) = $14.95]*Allocation to Third Parties Determined by OEB (48.50%) = $7.25

and

Updated Evidence: 2017-06-07, Exhibit H1, Tab 2, Schedule 3, page 104 Hydro One provided:

3. 2016 Pole Maintenance Costs of $4.08

Lines Maintenance

USofA 5120: Maintenance of Poles, Towers and Fixtures

Sub Account 1464 - Trouble Calls ($14.14M) + Subaccount 1467 - OM&A Cost Storm Response ($1.56M) + Subaccount 1469 - Defect Corrections ($1.34M) = $17.04M

$17.04M x 5% (5% of the time work is pole related) = $0.85M

Questions:

a) Why has account 5120 increased from $17.04 M to $23.4 M, a 37% increase in less than 2 years?

b) Please confirm whether the costs in subaccount 1464 as filed represent the breakdown of costs in account 5120.

c) Does Hydro One have any indication that this account will keep increasing at this rate over the next 5 years?

d) In its May 28, 2018 supplemental explanation of evidence, Hydro One has used an allocation factor of 48.5% (as determined by OEB[1]) of account 5120 rather than 5% as per updated evidence filed on June 7, 2017. In Hydro One's view, does the 48.5% represent a more accurate allocation for pole maintenance attributed to communication carriers for its pole population?

e) Going forward, could Hydro One break out maintenance costs by sub account for joint-use poles only?

I54-Staff-S7

Ref: Supplemental Explanation of Pole Attachment Rate Calculations, page 2
Evidence Updated: 2017-0607, Exhibit H1, Tab 2, Schedule 4, page 103

Preamble:

In Section 7.0 of the Supplemental Explanation page 2, Hydro One provided the calculation of the Average Number of Attachers Per Pole.

Average Number of Attachers Per Pole = (2018 Total Number of Permitted Poles for All Attachers /Qty. of Joint Use Poles Extrapolated for 2018) = 726,240/537,719 = 1.35

Questions:

[1] Report of the Ontario Energy Board, Wireline Pole Attachment Charges, EB-2015-0304, March 22, 2018, p. 18

a) Based on Hydro One's proposed pole replacement program and planned mergers and acquisitions of utilities, does Hydro One project the count to increase or decrease in the upcoming 5 years or remain relatively stable?

b) If Hydro One is predicting a change in the count going forward, please provide a range.