

November 5, 2015

Ms. Kirstin Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: **Hydro Ottawa Limited Custom Incentive Regulation ("Custom IR")  
Application for 2016-2020 Electricity Distribution Rates and Charges –  
Final Argument  
Board File Number EB-2015-0004**

Pursuant to the Ontario Energy Board's (OEB) Procedural Order No.10, please find attached our final argument submitted on behalf of Fred Cass, Council for Hydro Ottawa.

Thank you,

A handwritten signature in black ink, appearing to read "Geoff Simpson", with a long horizontal line extending to the right.

Geoff Simpson  
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cc: Violet Binette, OEB  
Christie Clark, OEB  
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Fred Cass, Aird & Berlis  
EB-2015-0004 Interveners

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**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.

**ARGUMENT IN CHIEF  
OF HYDRO OTTAWA LIMITED**

**A. Introduction**

1. Hydro Ottawa Limited (“Hydro Ottawa”) filed an application on April 29, 2015 for approval of electricity distribution rates to be effective during the five year period from January 1, 2016 to December 31, 2020. Hydro Ottawa’s application was made on the basis of the Board’s Custom Incentive Regulation (“Custom IR”) rate-setting methodology. The application included a proposal for a pole attachment charge and the proposed pole attachment charge is the subject-matter of Issue 4.11 in the Approved Issues List for this proceeding.<sup>1</sup>

2. During the settlement conference held in August of 2015, parties reached a comprehensive settlement of all issues in the Custom IR application except for (i) Issue 4.11 regarding Hydro Ottawa’s proposed pole attachment charge; and (ii) Issue 3.1 regarding Hydro Ottawa’s working capital allowance included in rate base, which was awaiting completion of a lead/lag study. Issue 3.1 was subsequently settled by the parties, while Issue 4.11 proceeded to a hearing. The Board heard oral evidence in relation to Issue 4.11 on September 30 and October 16, 2015.

3. On October 29, 2015, the Board issued Procedural Order No. 10 setting out the following time-line for argument on Issue 4.11: (i) Hydro Ottawa’s argument in chief to be filed by November 5, 2015; (ii) Board Staff and intervenor submissions to be filed by November 12,

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<sup>1</sup> The Approved Issues List is attached as Schedule A to the Issues List Decision dated August 21, 2015.

2015; and (iii) Hydro Ottawa's reply argument to be filed by November 19, 2015. In Procedural Order No. 10, the Board also requested that parties make submissions on whether the Board should set the pole attachment charge on an interim or final basis, in light of the Board's upcoming policy review of pole attachment charges.

4. This is Hydro Ottawa's argument in chief on Issue 4.11, which is submitted in accordance with Procedural Order No. 10.

#### **B. Background to Issue 4.11**

5. The methodology of pole attachment charges was addressed by the Board in the RP-2003-0249 Decision and Order issued on March 7, 2005 (the "2005 Decision").<sup>2</sup> After reaching a conclusion about the appropriate methodology for pole attachment charges in the 2005 Decision, the Board went on to address other issues, including an issue about whether there should be a "province-wide" pole attachment rate.

6. In its discussion of the issue about a province-wide approach to pole attachment charges, the Board commented on the advantages of a province-wide rate, but stated that applications can be made to the Board in circumstances where the province-wide rate is not appropriate. In particular, the Board noted that:

This is not to say there should not be relief available for electricity distributors who feel the province-wide rate is not appropriate for their circumstances. Any LDC that believes the province-wide rate is not appropriate can bring an application to have the rates modified based on its own costing.<sup>3</sup> (Emphasis added.)

7. In this case, Hydro Ottawa proceeded in accordance with the 2005 Decision. Specifically, Hydro Ottawa brought an application for a pole attachment charge based on Hydro Ottawa's own costing. In doing so, Hydro Ottawa submits that it has taken a conservative approach to its cost calculations. It is important to note that, to the extent that, and for as long as, the province-wide pole attachment charge is too low to recover Hydro Ottawa's costs of pole

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<sup>2</sup> One of the headings in the 2005 Decision is "What is the appropriate methodology" and the Board's discussion of methodology under this heading extends from page 4 to page 7 of the 2005 Decision.

<sup>3</sup> 2005 Decision, page 8.

attachments, then Hydro Ottawa's electricity distribution ratepayers end up bearing costs associated with pole attachments.

### **C. The Issue**

8. Issue 4.11, as set out in the Approved Issues List, is as follows:

4.11 Are the costs underpinning the proposed new charges for the specific charge for Access to Power Poles appropriate and is the rate design appropriate?

9. There are two aspects to Issue 4.11. One aspect of Issue 4.11 relates to the costs underpinning the proposed pole attachment charge and the second aspect of the issue relates to rate design.

10. With respect to the first aspect of Issue 4.11, Hydro Ottawa notes that, in the 2005 Decision, the Board indicated that electricity distributors who do not feel that the province-wide rate is appropriate "for their circumstances" can apply for a different pole attachment charge. Thus, to give effect to the 2005 Decision, Hydro Ottawa submits it is essential that, when a distributor applies for approval of a pole attachment charge, the approved rate be based on, in the words of the Board, the distributor's "own costing".

11. The other aspect of Issue 4.11 relates to the rate design of the pole attachment charge. This aspect of Issue 4.11 turns on whether Hydro Ottawa has properly applied the methodology approved by the Board in the 2005 Decision.

12. The Board's Decision and Procedural Order No. 9 issued on October 14, 2015 ("P.O. #9") confirms that the methodology for determining a pole attachment charge is not itself an issue in this case. Specifically, P.O. #9 states that:

The OEB will not hear further evidence or submissions from parties 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.<sup>4</sup>

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<sup>4</sup> P.O. #9, page 4.

Thus, the rate design issue, as referred to in Issue 4.11, is whether the methodology determined in the 2005 Decision has been properly applied in this case.

#### **D. Argument**

##### **(i) Costs Underpinning the Proposed Charge**

13. In the 2005 Decision, the Board considered the costs to be used in the calculation of the pole attachment charge. For the purposes of the calculation, the Board recognized Direct Costs, consisting of Administration Costs and Loss in Productivity, and Indirect Costs, consisting of Depreciation Expense, Pole Maintenance Expense and Capital Carrying Cost.<sup>5</sup> In this case, Hydro Ottawa has presented a detailed breakdown of its costs that underpin the pole attachment charge, using the same cost categories as those that were identified in the 2005 Decision.<sup>6</sup> Hydro Ottawa submits that, as explained under the following sub-headings, these costs provide an appropriate underpinning for the proposed pole attachment charge.

##### **(a) Direct Costs - Administration**

14. Administration Costs are the ongoing operational costs of managing and administering third party attachment permits and occupancy on Hydro Ottawa poles that have third party attachers. These costs capture three sub-categories of activities by Hydro Ottawa, namely, invoicing, updating of the Geographic Information System ("GIS") and permit processing.<sup>7</sup>

15. Hydro Ottawa completed a field survey of its poles in 2003-2004 with the participation of its major third party attachers and, at the conclusion of the survey, provided the relevant survey data to the major third party attachers. The survey data was imported to Hydro Ottawa's GIS and, since the field survey, Hydro Ottawa has used approved third party attacher permits to update its GIS.<sup>8</sup>

16. In Hydro Ottawa's GIS, each pole has a third party attachment field that lists if a specific third party attacher is attached to that pole. When a request for a third party attachment to a

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<sup>5</sup> 2005 Decision, pages 8, 12 and 13.

<sup>6</sup> Exhibit H7, Specific Service Charges, New & Updated Specific Service Charges: Pole Attachments.

<sup>7</sup> IR: H-7-1 (Carriers #12), page 2, part a.

<sup>8</sup> IR: H-7-1 (Carriers #1), page 6, part i.

pole is received, Hydro Ottawa reviews it for completeness and for pole ownership in the GIS. Any missing or incomplete items are brought to the attention of the third party attacher for follow-up action.<sup>9</sup>

17. After an attachment request has passed this intake stage, it is sent for Hydro Ottawa initial field review for feasibility (height, strength, available space, location, and other technical requirements) and for identification of any required make-ready work. The attachment request is returned for further review within the Hydro Ottawa asset and design groups for consideration of any conflicts with existing projects or known upcoming projects. Final Hydro Ottawa review of the technical requirements is also completed before the permit is approved or denied by Hydro Ottawa.<sup>10</sup>

18. After each third party attachment permit is approved, the permit is sent to Hydro Ottawa's GIS group for entry into the GIS. Each pole associated with the permit is updated with the permit data.<sup>11</sup> This was discussed in the following exchange during the Technical Conference in this proceeding:

MS. MILTON: So for the part that is the admin cost, which is this portion of the updating with each permit, you are going to say you go into the system and see if you need to change anything?

MR. MALONE: Yes, on a pole-by-pole basis. I wish there was a different system available to help everyone with that, but we don't know of that yet.<sup>12</sup>

19. Hydro Ottawa also conducts annual post-construction audits, as required by O.Reg. 22/04. This regulation extends to third party attachers on power system structures and requires that the electricity distributor annually audit field installations of all third party attachers for assurance of construction compliance during each annual audit period. Hydro Ottawa provides its third party attachers with the results of this annual audit along with directions setting out any required corrective action and then Hydro Ottawa follows up with further audits where required

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<sup>9</sup> IR: H-1-7 (Carriers #12), page 3, parts b and g.

<sup>10</sup> IR: H-1-7 (Carriers #12), page 3, part g.

<sup>11</sup> IR: H-1-7 (Carriers #12), page 3, part f.

<sup>12</sup> Transcript, Technical Conference, August 13, 2015, page 62.

during the audit period.<sup>13</sup> As stated by a Hydro Ottawa witness in response to a question at the Technical Conference:

And through the recent years, what we're seeing is that we're doing field audits where the attachers are having multiple audits completed because of failing the audit requirements in terms of safety, so we're going back, notifying them, re-sampling, going back out in the field.<sup>14</sup>

20. Hydro Ottawa has a separate database to track the number of attachment permits that are processed each year and Hydro Ottawa maintains data about the number of permits that are reviewed, approved, cancelled or removed.<sup>15</sup> The costs of permit processing, together with annual attachment installation audits, are tracked by dedicated internal tracking work orders.<sup>16</sup>

21. Hydro Ottawa's costs for processing of invoices to third party attachers are tracked through its internal finance scheduling calendar.<sup>17</sup> The processing of invoices is a routine annual event and, over the last few years, Hydro Ottawa has set aside one person for two days to accomplish the invoicing task.<sup>18</sup> The invoicing process was described in the following testimony during the Technical Conference:

MS. MILTON: Does every rate-paying attacher receive one invoice per year?

MR. MALONE: They may receive two depending on the agreement, so I'm thinking of the competitive carriers. It's a double invoice, so you pay for the attachments in advance for the year in advance, and there is a true-up at the end of the year.

So at the end of the year you are paying for any additional attachments that came on during the year, as well as you are paying for the next year as well. So you would see two invoices.<sup>19</sup>

<sup>13</sup> IR: H-1-7 (Carriers #12), page 4, part g.

<sup>14</sup> Transcript, Technical Conference, August 13, 2015, page 66.

<sup>15</sup> Transcript, Technical Conference, August 13, 2015, page 64.

<sup>16</sup> IR: H-1-7 (Carriers #12), page 2, part a.

<sup>17</sup> IR: H-1-7 (Carriers #12), page 2, part a.

<sup>18</sup> Transcript, Technical Conference, August 13, 2015, page 60.

<sup>19</sup> Transcript, Technical Conference, August 13, 2015, page 60.

22. The tracking of Hydro Ottawa's costs for updating the GIS to reflect new attachment permits was also discussed during the Technical Conference. The discussion in that regard was as follows:

MR. MALONE: They have an internal database system for allocation of resources to a CAD technician, and they log their time against any particular activity. Are they updating with respect to poles, are they doing construction proposals for maybe our own internal work, or maintenance programs, or as-builts for our own equipment. So they categorize how they're tracking their time in GIS.

MS. MILTON: So the person who is doing the work actually has to say every day how much time went on this; is that

MR. MALONE: Yes.<sup>20</sup>

23. In short, the Administration Costs underpinning the proposed pole attachment charge are based on a detailed and disciplined approach to identifying and determining Hydro Ottawa's costs for invoicing, updating the GIS and its permit processing.

(b) Direct Costs - Loss in Productivity

24. Hydro Ottawa's Loss in Productivity costs also capture three general sub-categories of activities: Pole Replacement (field verification and returning crew), Wires Down (field verification) and Trees on Wires (field verification). In each instance, these are costs that Hydro Ottawa incurs due to the presence of third party attachments on its poles and, to the extent that these costs are not recovered from the attachers, the costs are borne by electricity distribution ratepayers.

25. When Hydro Ottawa replaces an old pole with a new pole that has third party attachments on it, the old pole cannot be removed until the third party attachments have been transferred to the new pole. Hydro Ottawa has a three-step process to replace poles that have third party attachments: first, Hydro Ottawa installs the new pole and transfers its power equipment from the old pole to the new one; second, after transfer notice has been given to third party attachers, Hydro Ottawa field verifies that transfers of third party attachments are

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<sup>20</sup> Transcript, Technical Conference, August 13, 2015, pages 62-63.

complete before scheduling the removal of the old pole; and, third, Hydro Ottawa proceeds with the removal of the old pole. In some instances, several verification visits occur before the third party attachment is transferred.<sup>21</sup> If there are no attachers on Hydro Ottawa's poles, it can remove old poles when its equipment has been transferred from the old poles to new ones, in which case no return to the site by field crews is required.<sup>22</sup>

26. Hydro Ottawa routinely receives reports, from external sources,<sup>23</sup> of wires that are down or low. These reports are logged into Hydro Ottawa's outage management system and field staff is dispatched to verify each report. If affected wires are not owned by Hydro Ottawa, Hydro Ottawa reports back to the wire owner.<sup>24</sup>

27. Similarly, Hydro Ottawa routinely receives reports, from external sources, of trees on wires. Again, these reports are logged into Hydro Ottawa's outage management system and field staff is dispatched to verify each report. If affected wires are not owned by Hydro Ottawa, Hydro Ottawa reports back to the wire owner.<sup>25</sup>

28. Based on its record-keeping, Hydro Ottawa is able to determine accurately the number of occasions when field verification of Wires Down results in a report of non-Hydro Ottawa wires being down or low and the number of occasions when field verification of Trees on Wire results in a report of trees on non-Hydro Ottawa wires. In 2013, Hydro Ottawa changed out 1,087 poles of which 74.3% had third party attachers. Hydro Ottawa calculated its incremental costs for replacement of poles with third party attachers based on one site visit for verification (even though several field visits are the norm) and one returning crew to remove old poles. Using this data for each of the three sub-categories, Hydro Ottawa has carried out a detailed and disciplined calculation of Loss in Productivity costs underpinning the proposed pole attachment charge.<sup>26</sup>

29 Hydro Ottawa's calculation of Loss in Productivity costs underpinning the proposed pole attachment charge does not take into account lost time arising from staff and contractors working around existing third party attachments on poles or managing public enquiries or

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<sup>21</sup> IR: H-1-7 (Carriers #13), page 3, part b.

<sup>22</sup> IR: H-1-7 (Carriers #13), page 2, part a; Exhibit K2.1, page 11.

<sup>23</sup> Response to Undertaking JTC 1.13.

<sup>24</sup> IR: H-1-7 (Carriers #13), pages 2-3, part a.

<sup>25</sup> IR: H-1-7 (Carriers #13), page 3, part a.

<sup>26</sup> IR: H-1-7 (Carriers #13), pages 3-5, part b.

complaints about old poles which remain in place because third party attachments have not been removed from them.<sup>27</sup>

(c) Indirect Costs

30. As noted in the 2005 Decision, Indirect Costs are those that are common to the users of a pole.<sup>28</sup> The three Indirect Costs recognized in the 2005 Decision are Depreciation Expense, Pole Maintenance Expense and Capital Carrying Cost.<sup>29</sup> As well, the 2005 Decision includes an amount for Net Embedded Cost per pole, which is used to calculate the Capital Carrying Cost. The same sub-categories of Indirect Costs underpin Hydro Ottawa's proposed pole attachment charge.

31. Hydro Ottawa's Net Embedded Cost per pole was calculated by dividing the net book value of Poles, towers and fixtures recorded in Account 1830, according to Hydro Ottawa's 2013 financial records, by the total number of in-service poles. Net book value is calculated by subtracting accumulated depreciation from the cost of the pole assets.<sup>30</sup> Similarly, depreciation expense per pole is calculated by dividing the depreciation expense for Account 1830 by the number of in-service poles

32. The net book value of assets used by Hydro Ottawa in its calculation of Net Embedded Cost per pole is based solely on assets recorded in Account 1830.<sup>31</sup> It does not include costs recorded in Account 1835 for the multi-grounded neutral system, even though third party attachers are making use of that system.<sup>32</sup> In addition, it does not include costs recorded in Account 1806 for rights-of-way and easements associated with poles.<sup>33</sup>

33. Pole Maintenance Expense captures the costs of activities undertaken by Hydro Ottawa for the purposes of maintaining the structural integrity of its distribution poles, specifically, pole testing, repairs and straightening. Hydro Ottawa has a separate pole maintenance account in

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<sup>27</sup> IR: H-1-7 (Carriers #13), page 4, part b.

<sup>28</sup> 2005 Decision, page 4.

<sup>29</sup> 2005 Decision, pages 9, 12 and 13.

<sup>30</sup> IR: H-1-7 (Carriers #6), page 2, part c.

<sup>31</sup> Transcript, Volume 2, pages 77-78.

<sup>32</sup> Transcript, Volume 2, page 78.

<sup>33</sup> Transcript, Volume 2, pages 78-79.

which it records pole maintenance expense on all poles owned by Hydro Ottawa.<sup>34</sup> The pole maintenance costs incurred by Hydro Ottawa were divided by the total number of in-service poles to determine the cost per pole of executing maintenance programs.<sup>35</sup>

34. Tree trimming costs are not included in Hydro Ottawa's calculation of Pole Maintenance Expense.<sup>36</sup> Hydro Ottawa does not trim for the communications space on its poles; it trims for the power space.<sup>37</sup> As well, make-ready costs for Hydro Ottawa to accommodate third party attachment requests on its poles are not included in Pole Maintenance Expense.<sup>38</sup>

35. Capital Carrying Cost was based on the most recent Board-approved weighted average cost of capital ("WACC") as at the time when the proposed pole attachment charge was calculated. This WACC (6.7%) was multiplied by the Net Embedded Cost per pole to produce the Capital Carrying Cost per pole.<sup>39</sup> The WACC used by Hydro Ottawa in the calculation of Capital Carrying Cost did not include an allowance for income taxes. When taxes are factored into the ROE component of the WACC, the carrying cost percentage changes from 6.7% to 8.04%.<sup>40</sup>

36. Hydro Ottawa excluded power-specific assets in the calculation of the pole attachment charge by way of an attacher space allocation factor. The allocation factor was based on a typical 40-foot distribution pole divided into five vertical spaces which are each allocated to Hydro Ottawa and/or third party attachers. This approach yielded an individual third party attacher space allocation factor of 25.9 per cent.<sup>41</sup>

37. Hydro Ottawa's determination of the space allocation factor used an average of three users per pole – Hydro Ottawa and two third party attachers.<sup>42</sup> Hydro Ottawa used an average of two third party attachers per pole even though the number of third party attachers for which Hydro Ottawa receives payment (whether the full RP-2003-0249 rate, a partial rate or the rate provided for in the agreement with Hydro One) was 1.74 per pole as at the end of 2013 when

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<sup>34</sup> Transcript, Technical Conference, August 13, 2015, pages 52-53.

<sup>35</sup> IR: H-1-7 (Carriers #11), page 2, part b.

<sup>36</sup> IR: H-1-7 (Carriers #11), page 2, part d.

<sup>37</sup> Transcript, Technical Conference, August 13, 2015, page 57.

<sup>38</sup> IR: H-1-7 (Carriers #11), page 2, part e.

<sup>39</sup> IR: H-1-7 (Carriers #10), page 1, part a.

<sup>40</sup> Transcript, Technical Conference, August 13, 2015, page 111.

<sup>41</sup> IR: H-1-7 (Carriers #6), page 3, part c.

<sup>42</sup> IR: H-1-7 (Carriers #4), pages 2-3, parts a and b.

Hydro Ottawa drew information from its GIS for the purposes of calculating the proposed pole attachment charge.<sup>43</sup>

(ii) Application of the Board-Approved Methodology

38. As discussed above, Hydro Ottawa's calculation of the pole attachment charge is based on the same cost categories as those that are included in the methodology approved by the Board in the 2005 Decision. Further, Hydro Ottawa's calculation uses those cost categories in the same series of steps as the Board-approved methodology, namely:

- (1) Administration and Loss in Productivity Costs are determined and together represent total Direct Costs;
- (2) Net Embedded Cost per pole is determined for the purpose of calculating Capital Carrying Cost;
- (3) Depreciation Expense, Pole Maintenance Expense and Capital Carrying Cost are determined, added together and allocated based on the appropriate number of attachers, producing total Indirect Costs; and
- (4) Direct Costs and allocated Indirect Costs are added together to give the amount referred to in the 2005 Decision as Annual Pole Rental Charge.

39. Hydro Ottawa's calculation of the pole attachment charge, following this series of steps, is shown in Table 1 below:<sup>44</sup>

**Table 1**

SPECIFIC SERVICE CHARGES

PROPOSED NEW CHARGE. Pole Attachments

		Rate/ Amount	Hours/ Units	O/T Factor	Calculated Cost 2013
Admin	Invoicing	95.00	16,00		1,520.00
	GIS Tracking	95.00	167.00		15,865.00
	Permit	95.00			123,906.00
	Poles with attachments	35,663			

<sup>43</sup> Response to Undertaking J2.1.

<sup>44</sup> Exhibit H7, Specific Service Charges, New & Updated Specific Service Charges: Pole Attachments.

		<i>Total Admin per Pole with attachments per year</i>			3.96
<b>LIP-Pole replacement</b>	<b>Field Verification</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	5.80	1.00		5.80
	Sub-total per field Verification				100.80
	Poles replaced with attachments	808			
	Cost of Field verification				<b>81,410.21</b>
	<b>Returning Crew</b>				
	Labour	95.00	2.00		190.00
	Small Vehicle Time	44.00	1.00		44.00
	Sub-total				234.00
	Poles replaced with attachments	808			
	Cost of Returning Crew				<b>188,987.99</b>
	<b>Total LIP-Pole replacement</b>				<b>270,398.21</b>
<b>LIP-Field Verification</b>	<b>Wires Down</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	33.00	1.00		33.00
	Sub-total				128.00
	Reported wires down	115			
	Cost per wire down reported				14,720.00
<b>LIP-Field Verification</b>	<b>Tree on Wires</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	5.80	1.00		5.80
	Sub-total				100.80
	Reported wires on tree	251			
	Cost per tree on wire reported				<b>25,300.80</b>
	<b>Total Cost due to Loss In Productivity</b>				310,419.01
	Poles with attachments	35,663			
	<i>Total LIP per Pole with attachments per year</i>				<b>8.70</b>

Net Embedded Cost per Pole (Used to Calculate Capital Carrying Costs)					1,678.00
Depreciation Expense per Pole					43.29
Pole Maintenance Expense per Pole					12.61
Capital Carrying Costs per Pole					112.43
<b>Total Indirect Costs per pole</b>					<b>168.33</b>
<b>Allocation Factor</b>	Based on 2 third party attachers	<b>25.9%</b>			
<b>Total Indirect Costs per Pole with attachments per year</b>					<b>43.60</b>
<b>Total Cost per Pole with attachments per year</b>					<b>56.26</b>

40. It appears from the 2005 Decision that Administration Costs and Loss in Productivity are treated as a price component per pole and, accordingly, in the calculation of the proposed pole attachment charge, Hydro Ottawa divided the Administration Costs and Loss in Productivity by the number of in-service poles with attachments. However, Hydro Ottawa recognizes that this component of the pole attachment charge is recovered on the basis of the number of attachments attracting the attachment charge rather than on the basis of the number of poles. Accordingly, Hydro Ottawa sees merit in dividing the Administration Costs and Loss in Productivity by the number of "charge-paying" attachments instead of the number of poles.

41. As noted above, when taxes are factored into the ROE component of Hydro Ottawa's WACC, the carrying cost used in the calculation of the pole attachment charge increases from 6.7% to 8.04%, which results in a corresponding increase in the Capital Carrying Cost per pole underpinning the proposed pole attachment charge.

42. An alternative presentation of the pole attachment charge calculation, taking into account the points made in paragraphs 40 and 41, above, is shown in Table 2 below:

**Table 2**

		Rate/ Amount	Hours/ Units	O/T Factor	Calculated Cost 2013
<b>Admin</b>	Invoicing	95.00	16.00		1,520.00
	GIS Tracking	95.00	167.00		15,865.00
	Permit	95.00			123,906.00
	Poles with attachments	35,663			
	<b>Total Admin per Pole with attachments per year</b>				<b>1.98</b>
<b>LIP-Pole replacement</b>	<b>Field Verification</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	5.80	1.00		5.80
	Sub-total per field Verification				100.80
	Poles replaced with attachments	808			
	Cost of Field verification				<b>81,410.21</b>
	<b>Returning Crew</b>				
	Labour	95.00	2.00		190.00
	Small Vehicle Time	44.00	1.00		44.00
	Sub-total				234.00
	Poles replaced with attachments	808			
	Cost of Returning Crew				<b>188,987.99</b>
	<b>Total LIP-Pole replacement</b>				<b>270,398.21</b>
<b>LIP-Field Verification</b>	<b>Wires Down</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	33.00	1.00		33.00
	Sub-total				128.00
	Reported wires down	115			
	Cost per wire down reported				14,720.00
<b>LIP-Field Verification</b>	<b>Tree on Wires</b>				
	Labour	95.00	1.00		95.00
	Small Vehicle Time	5.80	1.00		5.80
	Sub-total				100.80
	Reported wires on tree	251			

	Cost per tree on wire reported				25,300.80
	Total Cost due to Loss In Productivity				310,419.01
	Poles with attachments	35,663			
	<i>Total LIP per Pole with attachments per year</i>				<b>4.35</b>
	Net Embedded Cost per Pole (Used to Calculate Capital Carrying Costs)				1,678.00
	Depreciation Expense per Pole				43.29
	Pole Maintenance Expense per Pole				12.61
	Capital Carrying Costs per Pole				134.91
	Total Indirect Costs per pole				190.81
Allocation Factor	Based on 2 third party attachers	25.9%			
	<i>Total Indirect Costs per Pole with attachments per year</i>				<b>49.42</b>
	<i>Total Cost per Pole with attachments per year</i>				<b>55.75</b>

43. Hydro Ottawa's proposed pole attachment charge, calculated in the manner shown in Table 2, follows the Board-approved methodology. Hydro Ottawa submits that the rate design of the charge is appropriate and should be approved by the Board.

#### **E. Interim or Final Order**

44. In Procedural Order No. 9 issued in this proceeding on October 14, 2015, the Board indicated that matters relating to the methodology of the pole attachment charge will be addressed in a future policy review. Hydro Ottawa submits that issues about the implementation of any methodology for determination of pole attachment charges arising from the future policy review - including issues about how any future methodology should be implemented in instances, such as this case, where a distributor-specific pole attachment charge has been considered by the Board - are most appropriately addressed in the implementation directions given by the Board with respect to the outcome of the future policy review. Thus, Hydro Ottawa submits that the Board can and should make a final order in this

proceeding subject to a condition that any changes to the determination of pole attachment charges arising from the future policy review will be implemented in accordance with the directions of the Board regarding the implementation of the outcome of the policy review.

45. This approach to potential rate changes arising from a future Board policy review is consistent with the agreement of the parties, as set out in the Settlement Proposal filed on September 18, 2015, regarding the Board's policy on cost of capital. In connection with the potential for a future policy change affecting cost of capital, the Settlement Proposal contains the following provision:

The Parties agree that if the OEB changes its policy governing cost of capital parameters during Hydro Ottawa's Custom IR term, including any changes made in respect of deemed capital structure, then Hydro Ottawa shall follow any mandated direction given by the OEB with respect to the implementation of such changes during the Custom IR plan.<sup>45</sup>

46. Assuming acceptance of the Settlement Proposal by the Board, a final order in this case will be subject to the provision of the Settlement Proposal which, in essence, means that, if the Board changes its policy governing cost of capital parameters, the implementation of the new policy for the purposes of Hydro Ottawa's rates will be subject to such directions as may be given by the Board. Similarly, Hydro Ottawa submits that a final order in this case should include a condition indicating that, if the Board changes its policy regarding pole attachment charges, the implementation of the new policy for the purposes of Hydro Ottawa's rates will be subject to such directions as may be given by the Board.

#### **F. Conclusion and Order Requested**

47. For all of the reasons set out in this argument in chief, Hydro Ottawa submits that the pole attachment charge shown in Table 2 is appropriate. In particular, Hydro Ottawa submits that the following considerations lend strong support to a conclusion that this charge is appropriate:

- (1) Hydro Ottawa's calculation of the pole attachment charge is based on the same cost categories as those in the Board-

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<sup>45</sup> EB-2015-0004 Settlement Proposal filed September 18, 2015, page 19.

approved methodology<sup>46</sup> and it uses those cost categories in the same series of steps as the Board-approved methodology;<sup>47</sup>

(2) Hydro Ottawa has taken a thorough, detailed and disciplined approach to the tracking and recording of information and costs used in the calculation of the pole attachment charge;

(3) Hydro Ottawa's Loss in Productivity costs do not take into account lost time arising from staff and contractors working around existing third party attachments on poles or managing public enquiries or complaints about old poles which remain in place because third party attachments have not been removed from them;<sup>48</sup>

(4) Hydro Ottawa's Net Embedded Costs per pole do not include costs recorded in Account 1835 for the multi-grounded neutral system;<sup>49</sup>

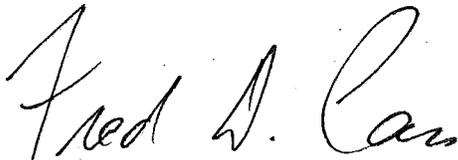
(5) Hydro Ottawa's Net Embedded Costs per pole do not include costs recorded in Account 1806 for rights-of-way and easements associated with poles;<sup>50</sup> and

(6) Hydro Ottawa's calculations are based on two third party attachers per pole even though the average number of third party attachers on Hydro Ottawa's poles is less than two.<sup>51</sup>

48. Hydro Ottawa therefore requests that the Board approve its proposed pole attachment charge, subject to the changes shown in Table 2.

All of which is respectfully submitted.

November 5, 2015.




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<sup>46</sup> See paragraph 13, above.

<sup>47</sup> See paragraph 38, above.

<sup>48</sup> See paragraph 29, above.

<sup>49</sup> See paragraph 32, above.

<sup>50</sup> See paragraph 32, above.

<sup>51</sup> See paragraph 37, above.