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DECISION AND ORDER

EB-2022-0234

HYDRO ONE NETWORKS INC.

**Application to amend licensed service area in Schedule 1 of
electricity distribution license ED-2003-0043**

BEFORE: Emad Elsayed
Presiding Commissioner

February 9, 2023



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1 OVERVIEW AND PROCESS

Hydro One Networks Inc. (Hydro One) filed a Service Area Amendment (SAA) application on August 18, 2022 requesting an amendment to its Electricity Distribution Licence (ED-2003-0043) to provide for the connection of one new customer located at 626 Principale St. in the Municipality of Casselman (Customer).

Hydro One has been providing a temporary connection to the Customer since January 2022. The temporary connection is for construction purposes. Hydro One's current temporary connection is 300kVA and cannot accommodate an estimated peak post-construction load of 1,300 kW requested by the Customer.

A large portion of the subject property, including the service point, resides within Hydro Ottawa's service territory, and a small portion of the subject property resides within Hydro One's service territory.¹

Hydro Ottawa does not support Hydro One's application. On September 2, 2022, Hydro Ottawa submitted a "Contested Service Area Amendment Application" in response to Hydro One's Application.² Hydro Ottawa proposed to connect the Customer to its system. The Hydro Ottawa proposal involved entering into a Joint Use Agreement with Hydro One to upgrade a Hydro One pole line to carry a Hydro Ottawa distribution line to connect the Customer.

On September 26, 2022, the OEB issued an Interim Order that allowed Hydro One to provide the requested service to the Customer on an interim basis, pending the OEB's disposition of this proceeding.

In its October 7, 2022 Notice of Hearing and Procedural Order No.1, the OEB decided to dispose of this proceeding by way of a written hearing, and made provision for interrogatories.

On November 7, 2022, Hydro One filed supplemental evidence, which contained additional information about required upgrades to Hydro One's pole line that Hydro Ottawa would be required to pay for to connect the Customer to Hydro Ottawa's distribution system.

¹ Hydro Ottawa Interrogatory Responses, November 11, 2022, HONI-5.

² In Procedural Order No. 1 (Oct. 7, 2022), the OEB stated that "It would not be appropriate to treat [Hydro Ottawa's 'Contested Service Area Amendment Application'] as an application in its own right, because the subject property is already in the Hydro Ottawa service area"; p. 4.

After receiving Hydro One's supplemental evidence, Hydro Ottawa stated that should the option of using Hydro One's pole line no longer be the most economical one, it would propose to extend its own pole line to serve the Customer.³

In Procedural Order No.2 dated November 30, 2022, the OEB provided for additional interrogatories on Hydro One's supplemental evidence and on Hydro Ottawa's new evidence on its alternative pole line. The OEB also set dates for submissions from Hydro Ottawa and OEB staff, and reply submissions from Hydro One.

Hydro Ottawa and OEB staff filed submissions on January 12, 2023. Hydro Ottawa submitted that it is economically efficient for it to serve the Customer because although its proposals require higher connection costs, they would result in lower distribution costs. The higher connection costs will be more than offset by the Customer's estimated savings from distribution charges.⁴

OEB staff submitted that it appears reasonable for Hydro One to serve the Customer based on the overall assessment of proposed distribution infrastructure, economic efficiency, distribution rates, service quality and reliability and customer preference.⁵

Hydro One filed its reply submission on January 19, 2023 and reaffirmed that its proposal is superior to Hydro Ottawa's when considering any component of economic efficiency, including incremental capital cost, use of existing distribution infrastructure, and customer preference.⁶

The OEB approves Hydro One's Service Area Amendment application. The OEB finds that amending Hydro One's Electricity Distribution Licence to provide for the connection of the Customer is in the public interest.

³ Hydro Ottawa Interrogatory Responses, December 16, 2022, OEB Staff-6.

⁴ Hydro Ottawa Submission, January 12, 2023, para 8.

⁵ OEB Staff Submission, January 12, 2023, page 1.

⁶ Hydro One Reply Submission, January 19, 2023, para 5-7.

2 DECISION

An SAA is an amendment to Schedule 1 of a distributor's licence, which is the part of the licence that defines the distributor's service area. Section 74(1) of the OEB Act allows the OEB to amend a distributor's licence if it considers the amendment to be "in the public interest, having regard to the objectives of the Board and the purposes of the *Electricity Act, 1998*."

In reaching a decision to this application, the OEB was guided by the principles articulated in its decision with reasons in the combined service area amendments proceeding⁷ and in its filing requirements for SAA applications.⁸ The principles include, among other things, economic efficiency, customer preference, quality of service and reliability.

The OEB's findings supporting its decision are provided below.

2.1 Distribution Infrastructure

The evidence demonstrates that Hydro One can easily connect the Customer to its distribution system while Hydro Ottawa needs to extend its system to serve the Customer.

The Customer's property, including the connection point, lies along a Hydro One 3-phase line with sufficient capacity. Hydro One's proposed minimal capital connection work will include the following changes to the electrical infrastructure:⁹

1. Remove existing temporary service
2. Supply and install cutout switches and fuses
3. Provide current transformer, power transformer and P-base enclosure
4. Supply and install revenue meter
5. Terminate customer primary and complete installation of conductor at the terminal pole

The subject property is located south of Highway 417. Hydro Ottawa has no distribution plant south of Highway 417. Hydro Ottawa needs to extend its system approximately 850 metres south, crossing Highway 417, to connect the Customer. Hydro Ottawa's

⁷ RP-2003-0044 Decision with Reasons dated February 27, 2004.

⁸ *Filing Requirements for Service Area Amendment Applications*, dated March 12, 2007.

⁹ Hydro One SAA Application, August 18, 2022, section 7.1.4 (f).

proposal requires either a Joint Use Agreement with Hydro One for use of a Hydro One pole line or the construction of a new Hydro Ottawa pole line to extend its electrical system south of Highway 417 to connect the Customer.

In its supplemental evidence, Hydro One stated that the pole line Hydro Ottawa proposed to use is already occupied by a joint use tenant, and the tenant requires an upgrade to the line. Hydro One stated that, as a result, Hydro Ottawa's cost estimate based on the use of that pole line is likely too low.¹⁰

In light of the supplemental evidence, Hydro Ottawa stated that should the option of using Hydro One's pole line no longer be the most economical one, it would propose to extend its own pole line to serve the Customer. Depending on the Customer's equipment location and Hydro One's servicing equipment, the new pole line would extend between 750 and 900 metres.¹¹

OEB staff supported Hydro One's proposal and stated that its proposal represents the most effective and optimized use of existing system configuration.¹²

Findings

The OEB finds that Hydro One has the necessary infrastructure to facilitate the connection of the Customer at minimal cost. On the other hand, Hydro Ottawa would either have to use Hydro One's pole line which would require an upgrade or extend its own pole line to serve the Customer which would represent an unnecessary duplication. Either option would be more costly than the Hydro One option.

2.2 Economic Efficiency

Economic efficiency is a key factor in considering a service area amendment application.

In its decision in the combined service area amendments proceeding, the OEB found that "[t]he promotion of economic efficiency in the distribution sector is one of the Board's guiding objectives in the regulation of the electricity sector", and that "economic efficiency should be a primary principle in assessing the merits of a service area amendment application."¹³

¹⁰ Hydro One Supplemental Evidence, November 7, 2022, page 2 of 4.

¹¹ Hydro Ottawa Submission, January 12, 2023, para 58.

¹² OEB Staff Submission, January 12, 2023, page 3.

¹³ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 84.

Hydro One's actual cost was less than \$3,200,¹⁴ which is the most cost-effective option to connect the Customer. Hydro One has stated its intention to provide the permanent connection to the Customer by the end of 2022.¹⁵

Hydro Ottawa provided cost estimates for its two options. The estimated cost of using Hydro One's pole line as a joint use tenant would be around \$715,000, of which \$15,000 is a customer contribution. The estimated cost of extending Hydro Ottawa's own pole line is \$455,000, of which \$15,000 is a customer contribution. Hydro Ottawa indicated that the cost estimates could be lower or higher by up to 50%.¹⁶ For the option of extending its own pole line, Hydro Ottawa estimated that it could complete the system expansion and customer connection by the end of July/August 2023.¹⁷

When discussing why it is economically efficient for Hydro Ottawa to serve the Customer, Hydro Ottawa noted that Hydro One's poles run through its Casselman service territory, and as the incumbent distributor, it also wants its own poles in its territory. Hydro Ottawa further stated that although its proposal would result in duplicated assets, these duplications are minor (less than 20 poles and associated equipment), and the inclusion of these new assets will support the fuller use of Hydro Ottawa's existing Casselman distribution assets.¹⁸

In its reply submission, Hydro One noted that the Distribution System Code permits a distributor to build a part of its distribution system in another distributor's service area under certain conditions. Hydro One also submitted, however, that it is not building to expand its system within Hydro Ottawa's service area but has existing infrastructure that runs along the street of the subject area.¹⁹

Regarding Hydro Ottawa's argument that the inclusion of the Customer in the system will enhance the efficient use of its existing distribution assets, Hydro One stated that the same argument applies to Hydro One, and to any other distributor who attempts to improve the overall ratio of revenue to fixed costs. As such, Hydro One submitted that Hydro Ottawa's argument is irrelevant.

¹⁴ Hydro One Reply Submission, January 19, 2023, para 5.

¹⁵ Hydro One Interrogatory Responses, December 16, 2022, OEB Staff-4, part d.

¹⁶ Hydro Ottawa Submission, January 12, 2023, para 59.

¹⁷ Hydro Ottawa Submission, January 12, 2023, para 60.

¹⁸ Hydro Ottawa Submission, January 12, 2023, para 106.

¹⁹ Hydro One Reply Submission, January 19, 2023, para 58.

OEB staff noted that even at the highest end of Hydro One’s estimate, the cost of connecting the Customer is far less than Hydro Ottawa’s estimate, even at the lowest end of the range.

OEB staff submitted that Hydro One’s proposal to use an existing feeder that lies along the Customer’s property is consistent with the criterion that an SAA does not involve “any unnecessary duplication or investment in distribution lines and other distribution assets and facilities”.²⁰

Findings

The OEB finds that Hydro One’s proposal provides for the optimal use of the existing system configuration with no unnecessary duplication or investment in distribution lines and other distribution assets and facilities. On the other hand, Hydro Ottawa would have to incur a significant incremental cost to expand to the area that is the subject of the SAA application. A comparison of the estimated total costs associated with connecting the Customer by Hydro One and Hydro Ottawa favors Hydro One’s connection by a significant margin.

2.3 Distribution Rates

The Customer will be subject to lower distribution rates if served by Hydro Ottawa. Comparing the total monthly bill provided by each distributor, it appears the Customer can save approximately \$18.5k per month if served by Hydro Ottawa. Hydro One also offered the Customer the option of connecting at a higher (sub-transmission) voltage, which would have resulted in the lowest monthly bill among all options; however, the Customer elected to proceed with the original 8.32 kV connection to the Hydro One line that runs along the subject property.²¹

Hydro Ottawa submitted that although its proposed connection costs are higher than Hydro One’s, the impact is smaller than the distribution rate impact. If Hydro Ottawa serves the Customer, the distribution costs will be at least three times less, amounting to more than \$3 million in savings over a 15-year lease.²²

OEB staff and Hydro One both noted the OEB’s statement, in its decision with reasons in the combined service area amendments proceeding, that the OEB does “not believe that significant weight should be put on differences in current distribution rates even

²⁰ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 84.

²¹ Hydro One Interrogatory Responses, November 11, 2022, OEB Staff-01, part I.

²² Hydro Ottawa Submission, January 12, 2023, para 94-96.

though current rates may be a significant factor in determining customer preference”.²³ As well, current rates, insofar as they are not a predictor of future rates, may misinform customer preference.

Findings

The OEB finds that differences in current distribution rates should not be considered a determinative factor in this SAA application. The Customer could have elected an option offered by Hydro One which would have resulted in the lowest monthly bill but elected to proceed with Hydro One’s existing proposal. It should also be noted that distribution rates can change over time.

2.4 Service Quality and Reliability

Hydro Ottawa stated that the Customer will experience similar service quality and reliability regardless of which distributor serves them. Hydro One stated that its reliability performance results are better when comparing interruptions excluding force majeure events.

OEB staff submitted that a similar level of reliability or quality of service can be expected from both distributors because both proposed connection options will be supplied by the same upstream St. Isidore TS feeder M2.²⁴

²³ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 86.

²⁴ Hydro One SAA Application, August 18, 2022, section 7.5.6.

Findings

The OEB finds that the level of reliability and quality of service would be expected to be the same whether the Customer is served by Hydro One or Hydro Ottawa.

2.5 Customer Preference

The subject site is owned by a developer who is the customer for the purposes of the connection and is deemed an intervenor in this proceeding.²⁵ Hydro One notes that Ford Motor Company of Canada Limited (Ford) signed a 15-year lease for the use of the subject site, and “is expected to be the serving distributor’s account holder once the facility is operating” during the term of the lease.²⁶ Both distributors prepared the Offer to Connect (OTC) addressed to the developer. The developer provided a letter of consent supporting Hydro One’s proposal²⁷ and has signed and accepted Hydro One’s OTC.²⁸

Hydro Ottawa argued that Hydro One has not secured complete customer support from the end-use customer (i.e., Ford). Hydro Ottawa stated that it seems a fair assumption that Ford would prefer to be served by a distributor whose distribution charges are lower.²⁹

Hydro One noted that the definition of a “customer” provided in Hydro Ottawa’s Conditions of Service includes developers of residential or commercial sub-divisions. Hydro One submitted that it is not mandatory nor reasonable for a distributor to secure concurrence from current or future tenants of a property, which could result in unnecessary delays and risk for the developer.³⁰

OEB staff noted that it is the typical practice for distributors to work with the developer rather than the end-use customers for connection requests.

OEB staff submitted that even if the end-use customer prefers Hydro Ottawa being the service provider, it should not be a determinative factor. This is consistent with the OEB’s finding in its decision on the combined service area amendments proceeding that “customer preference is an important, but not overriding consideration when assessing the merits of an application for a service area amendment.” The OEB went on to state

²⁵ Hydro One Interrogatory Responses, November 11, 2022, OEB Staff-01, part a.

²⁶ Hydro One Interrogatory Responses, November 11, 2022, Hydro Ottawa-06; OEB Staff-01 part b.

²⁷ Hydro One SAA Application, August 18, 2022, Attachment 1.

²⁸ Hydro One Interrogatory Responses, November 11, 2022, Hydro Ottawa-01, part e and f.

²⁹ Hydro Ottawa Submission, January 12, 2023, para 112-113.

³⁰ Hydro One Reply Submission, January 19, 2023, para 15.

that “customer choice may become a determining factor where competing offers to the customer(s) are comparable in terms of economic efficiency, system planning and safety and reliability, demonstrably neutral in terms of price impacts on customers of the incumbent and applicant distributor, and where stranding issues are addressed.”³¹

Findings

The OEB finds that the customer identified in this case provided a letter of consent supporting Hydro One’s proposal and has signed and accepted Hydro One’s OTC. It should be emphasized, however, that customer preference is an important, but not an overriding consideration unless all other considerations are comparable.

³¹ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 233.

3 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Schedule 1 of Hydro Ottawa Limited's Electricity Distributor Licence (No. ED-2002-0556) is amended by removing the property located at 626 Principale St. in the Municipality of Casselman from the Hydro Ottawa service area. The property shall be added to the list of properties removed from the Hydro Ottawa Limited service area in Table 3 of Schedule 1 to the licence.
2. Hydro One Networks Inc.'s Electricity Distribution Licence (ED-2003-0043), specifically Appendix B, Tab 4 of the licence, is amended by adding the following:

Name of Municipality: **Municipality of Casselman**

Formerly Known As: Village of Casselman

Area Not Served By Networks: The area served by Hydro Ottawa Limited, as more particularly set out in Licence No. ED-2002-0556.

DATED at Toronto February 9, 2023

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar