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BY EMAIL

January 12, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Hydro One Networks Inc.
Service Area Amendment Application
OEB File Number: EB-2022-0234**

Please find attached OEB staff's submission in the above referenced proceeding.

Yours truly,

Original Signed By

Shuo Zhang
Senior Advisor – Distribution Policy & Compliance

Encl.

cc: All parties in EB-2022-0234



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

Service Area Amendment Application

EB-2022-0234

January 12, 2023

Introduction

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 Town of Casselman (Customer). Hydro One has infrastructure that lies along the subject property that can provide the required electrical capacity at a minimal cost.

A large portion of the subject property, including the service point, resides within Hydro Ottawa's service territory, and a small portion of the development 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 enter into a Joint Use Agreement with Hydro One to upgrade Hydro One's pole line to connect the Customer.

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.

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

OEB staff submits 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.

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.

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

Criteria for Assessing Service Area Amendment Applications

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*.”

The OEB articulated the principles for assessing SAA applications in its decision with reasons in the combined service area amendments proceeding⁴ and in its filing requirements for SAA applications.⁵ The principles include, among other things, economic efficiency, customer preference, quality of service and reliability. OEB staff compares Hydro One’s and Hydro Ottawa’s proposals following these principles in the next section.

Submission

Distribution Infrastructure

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 load of 1,300 kW requested by the Customer. Hydro One has stated its intention to provide the final connection to the Customer by the end of 2022.⁶

Hydro One has an existing 3-phase line with sufficient capacity that lies along the Customer’s connection point. Hydro One’s proposed minimal capital connection work will include the following changes to the electrical infrastructure:⁷

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

⁴ RP-2003-0044 Decision with Reasons dated February 27, 2004.

⁵ *Filing Requirements for Service Area Amendment Applications*, dated March 12, 2007.

⁶ Hydro One Interrogatory Responses, December 16, 2022, OEB Staff-4, part d.

⁷ Hydro One SAA Application, August 18, 2022, section 7.1.4 (f).

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 850m south, crossing Highway 417, to connect the Customer. Hydro Ottawa's proposal requires either a Joint Use Agreement with Hydro One for use of a Hydro One pole line or constructing its own 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 already 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.⁸ 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.

In its decision on the combined service area amendments proceeding, the OEB stated that "the assessment involves a consideration of the distribution assets available for the connection, their proximity to the proposed point of connection, and the other costs necessary to effect the connection."⁹ The connection point is contiguous to Hydro One's existing distribution line, while Hydro Ottawa's proposal would result in an incremental investment or duplication of existing distribution infrastructure. Therefore, OEB staff submits that Hydro One's evidence demonstrates that its proposal represents the most effective and optimized use of the existing system configuration.

Economic Efficiency

In its decision on the combined service area amendments proceeding, the OEB expressed the view 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."¹⁰

This section of the submission examines the merits of Hydro One's SAA application based on the economic efficiency-related criteria set out in the decision:

- i. optimization of use of the existing system configuration*
- ii. the lowest incremental cost connection of a specific customer or group of customers*

⁸ Hydro One Supplemental Evidence, November 7, 2022, page 2 of 4.

⁹ RP-2003-0044 Decision with Reasons dated February 27, 2004, section 4.3.

¹⁰ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 84.

- iii. the amendment does not result in any unnecessary duplication or investment in distribution lines and other distribution assets and facilities*
- iv. the maintenance or enhancement of economies of contiguity, density and scale in the distribution network*
- v. the development of smooth, contiguous, well-defined boundaries between distributors*

Regarding the first criterion listed above, as mentioned earlier, in OEB staff's view, Hydro One's proposal is the most effective and optimized use of the existing system configuration.

OEB staff further notes that while Hydro One says it "has already invested in assets to serve Hydro One's customers south of Highway 417, including the large area immediately south of the southern boundary of the Subject Area and the southern limits of the Municipality of Casselman"¹¹, Hydro Ottawa states that it "no longer has customers or facilities south of Highway 417 in Casselman"¹² and "has no current expansion plans for lands adjacent to the area that is the subject of the SAA application."¹³

An assessment against the second criterion requires a comparison of the respective total costs of connection provided by Hydro One and Hydro Ottawa, summarized in Table 1 below.

¹¹ Hydro One Interrogatory Responses, November 11, 2022; p. 6 of 14

¹² Hydro Ottawa Interrogatory Responses, November 11, 2022; p. 3 of 6

¹³ Hydro Ottawa Contested SAA, September 2, 2022; p. 8

Table 1: Connection and Expansion Costs^a

Cost Item	Hydro Ottawa ^b	Hydro One ^c
Basic Connection Cost	n.i.	\$4,439
Other Customer Specific Cost	\$15,000	\$6,972
Total Customer Specific Cost	\$15,000	\$11,411
Less Basic Connection Credit	n.a.	(4,439)
Net Customer Specific Cost	\$15,000	\$6,972
Expansion Cost	\$700,000	\$0
Subtotal Distributor Asset Cost	\$715,000	\$6,972
Customer Contribution	\$15,000	\$6,972
HST on Above	\$1,950	\$906
Total Customer Contribution	\$16,950	\$7,878 ¹⁴

Notes:

- a. HONI figures have been rounded n.i. – no information provided
b. Ref. Hydro One SAA Application, n.a. – not applicable
August 18, 2022; p. 10
c. Ref. Hydro One SAA Application, August 18, 2022; Att. 6; p. 5

OEB staff submits that the evidence and interrogatory responses filed by Hydro One and Hydro Ottawa in relation to all connection costs clearly differentiate their respective total costs to connect the customer, as well as the customer's initial capital contribution.

As shown in the table, Hydro One's overall cost estimate and the cost to be recovered from the Customer as a capital contribution are substantially lower than Hydro Ottawa's. OEB staff understands that Hydro Ottawa's cost estimate is based on upgrading an existing Hydro One feeder that lies along the customer's property boundary. In effect, Hydro Ottawa would become a 'joint use tenant' on the feeder, which while continuing to belong to Hydro One, would also support an extension of an existing Hydro Ottawa 8.32 kV feeder.

As noted above, Hydro One indicated in its supplementary evidence that there is already an existing joint use tenant on the subject feeder. Due to the evolving needs of that tenant, the subject feeder will have to be modified at a cost of "approximately \$137,000".¹⁵ After those modifications are complete, if Hydro Ottawa should also become a joint use tenant on the pole line, Hydro One believes a portion of the line will need to be re-located, in addition to the modifications required to support Hydro Ottawa's feeder.¹⁶

¹⁴ OEB staff notes that in its interrogatory responses (OEB Staff-04, part d), Hydro One stated that "The expectation is that the Customer's final connection will be complete by the end of the calendar year with final incremental capital costs forecast to be no more than **\$3,200** in total."

¹⁵ Hydro One Supplemental Evidence, November 7, 2022; pp. 1 – 2 of 4

¹⁶ Hydro One Interrogatory Responses, December 16, 2022; Ex. I/Tab 1/Sch. 4; p. 3 of 4.

OEB staff also notes that the \$700,000 cost of the expansion investments required for Hydro Ottawa to connect the customer by paying for upgrades to Hydro One’s existing feeder¹⁷ was compared to an alternative approach involving the extension of a Hydro Ottawa-owned feeder that runs along the opposite side of the street from Hydro One’s existing feeder. Hydro Ottawa estimates the cost of this approach at \$440,000 (+/- 50%¹⁸), or some \$260,000 less than their original proposal.¹⁹

Nonetheless, even at the high end (+30%) of Hydro One’s estimate, the cost of connecting the customer is only \$10,241,²⁰ which is far less than the \$235,000 total estimated cost of Hydro Ottawa’s connection (this total cost assumes Hydro Ottawa’s portion of the cost will be \$220,000, which is at the lowest end of the range in Hydro Ottawa’s estimate, plus a capital contribution of \$15,000 from the customer).

OEB staff submits 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”.

The fourth criterion considers whether an SAA proposal maintains or enhances the economies inherent in distribution network “contiguity, density and scale”. OEB staff submits that Hydro One’s proposed connection does not change the scale of the distribution network but does – by integrating a customer into an existing part of its system at minimal cost and physical alteration – enhance the density of its distribution network in the area.

Finally, regarding the fifth criterion, OEB staff notes that the boundaries between the distributors’ service territories are not now “smooth, contiguous and well defined”.²¹ In addition, OEB staff notes that Hydro One provides services to customers in close proximity to the subject site, including a property on the same street (i.e., Principale Street).²² Hydro One’s proposed SAA will have no effect on the status quo.

Distribution Rates

The Customer will be subject to lower distribution rates if served by Hydro Ottawa. Comparing the total monthly bills provided by each distributor, it appears the Customer

¹⁷ Hydro Ottawa Contested SAA, September 2, 2022; p. 10

¹⁸ Hydro Ottawa Interrogatory Responses, December 16, 2022; HONI-8; p. 3 of 4

¹⁹ Hydro Ottawa Interrogatory Responses, December 16, 2022; p. 5 of 5; and Att. A; p. 3 of 11.

²⁰ Hydro One SAA Application, August 18, 2022; p. 4.

²¹ See service area map; HONI 1; Att. 3

²² Hydro One SAA Application, August 18, 2022; p. 6.

can save approximately \$18.5k if served by Hydro Ottawa. Hydro One also offered the Customer an option of becoming a sub-transmission customer which will provide the lowest monthly bill among all options; however, the Customer elected to proceed with Hydro One's lies-along 8.32 kV connection.²³

The OEB was clear in stating that it does “not believe that significant weight should be put on differences in current distribution rates even though current rates may be a significant factor in determining customer preference”.²⁴ As well, current rates, insofar as they are not a predictor of future rates, may misinform customer preference.

OEB staff notes that the Customer could have had even lower distribution rates with Hydro One's alternative option but elected Hydro One's existing proposal. OEB staff submits that the fact that the Customer would be subject to lower distribution rates if served by Hydro Ottawa in comparison to the manner in which Hydro One intends to serve the Customer should not be considered a determinative factor in assessing this contested SAA.

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 notes that the proposed connection options will be supplied by the same upstream St. Isidore TS feeder M2.²⁵ As such, OEB staff submits that a similar level of reliability or quality of service can be expected from both distributors.

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.²⁶ Hydro One notes that Ford Motor Company of Canada Limited 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.²⁷ Both distributors prepared the Offer

²³ Hydro One Interrogatory Responses, November 11, 2022, OEB Staff-01, part I.

²⁴ RP-2003-0044 Decision with Reasons dated February 27, 2004, para 86.

²⁵ Hydro One SAA Application, August 18, 2022, section 7.5.6.

²⁶ Hydro One Interrogatory Responses, November 11, 2022, OEB Staff-01, part a.

²⁷ Hydro One Interrogatory Responses, November 11, 2022, Hydro Ottawa-06; OEB Staff-01 part b.

to Connect (OTC) addressed to the developer. The developer provided a letter of consent supporting Hydro One’s proposal²⁸ and has signed and accepted Hydro One’s OTC.²⁹

OEB staff understands that the developer’s interest may be different from the end-use customer’s. A developer may prefer a connection to a service provider requiring a lower upfront capital contribution; while an end-use customer may prefer an option with lower long-term billing rates. However, it is the typical practice for distributors to work with the developer rather than the end-use customers for connection requests.

Even if the end-use customer prefers Hydro Ottawa being the service provider, OEB staff submits that it should not be a determinative factor. This is consistent with the OEB’s finding in the 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 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.”

~All of which is respectfully submitted~

²⁸ Hydro One SAA Application, August 18, 2022, Attachment 1.

²⁹ Hydro One Interrogatory Responses, November 11, 2022, Hydro Ottawa-01, part e and f.