<u>Ontario Energy Board (Board Staff) INTERROGATORY #4 (Prefiled Evidence)</u>

<u>Interrogatory</u>

An Page 2, Hydro One Networks indicates: "approval of amendment applications for broad swaths of service territory where the incumbent utility already has the assets ... could lead to an unnecessary duplication of assets and increase in costs for customers ..."

However, where the incumbent LDC's existing assets may be aging, largely depreciated and in need of modernization, would there be potential advantages to customers and the overall reliability of the electricity system in allowing the construction and modernization of wires assets and infrastructure by distributors seeking to expand into the incumbent LDC's service area? Please discuss.

<u>Response</u>

Aging and depreciation are not indicators of whether an asset is used and useful. LDCs own many assets serving customers that have already exceeded accounting end of life but which are still in-service, performing at acceptable levels, and generating revenues. Financial depreciation (i.e. accounting end of life) is not reflective of asset condition and remaining useful asset life for a particular asset. Accounting end of life is based on average asset life expectancies. Equipment failure and replacements are probabilistic in nature; that is, some assets fail in early life while some live much longer than expected.

Networks' investments in infrastructure are driven primarily by the benefits to the customer. Assets are planned for replacement/reinforcement when they are no longer capable of providing the necessary level of service to customers (either capacity or service quality) or have reached useful end of life. Investments in areas where assets are already performing at acceptable levels, leads to duplications and unnecessary costs which customers will eventually bear.

Furthermore, a declining customer base means loss of revenue, but it does not necessarily mean an associated reduction in the costs. The high fixed cost nature of the business means that capital, operations and maintenance requirements would not change significantly as these assets are required to service the remaining customers. There would be a small reduction in variable costs, including administration of customer accounts, but this would not make up for the loss of revenue.