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Ontario Energy Board Commission de l'énergie de l'Ontario



Policy Review of Wireline Pole Attachment Charges (EB-2015-0304)

Presentation to Pole Attachment Working Group

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Objective

- Summarize Outcome Last Meeting
- Nordicity to present Capital Cost
 - 2005 Methodology VS. NPV Methodology
- Nordicity Present Pole Attachment Framework
 - Putting IT All Together
- Structure of Nordicity Report
- Discuss/Resolve Issues Identified By Group
- OEB Pole Attachment Work Flow Tool
- Suggestions for Moving Forward

PA WG Nov. 24, 2016 Meeting Outcome

November 24 Meeting Divided into 2 Parts

- **Presentations In Morning**
 - Reviewed Objective Policy Consultation
 - Reviewed Status and Quality Data Collected
 - Reviewed Impact Input Variables and Data On Rates, Methodology Equal Sharing vs. Proportional

- **Breakout Sessions In Afternoon (2 groups)**
 - Identifying key Issues as they relate to the analysis & model presented by Nordicity.
 - OEB staff participated in the groups as Observers
 - Nordicity participated in the groups a
 - OEB staff provided Break Out “Topics”

PAWG Break Out Session Outcome 1

Topic: Issue # 1: What cost data should be collected and tracked going forward?

- Group 1 - Agreement to categorize different elements of capital costs (account # 1830) and maintenance cost (account # 5120 and account 5135 as applicable) into the following main classes:
 - Power only costs
 - Common costs
 - Not applicable (for rate calculations)
- Group 2 – Agreement to include account 1830, 5120 and 5135 for analysis and, if shown to be reasonable, use Hydro One’s approach to distribute cost of each elements in these accounts into the four categories used in second data request template.
- Overall there was general agreement on the need to allocate costs according to appropriate categories viz. “Power”, “Common”, and “Other

- **Topic - Issue # 2: Should there be a single rate for the whole province?**
 - The members generally agreed that a single rate is simple and easy to administer.
 - A majority of the members of Group 1 and 2 recommended a single province wide with the option to adjust to a particular's LDCs cost structure, if required, using a standard formula; the carriers did not agree with this recommendation.

- **Topic - Issue # 3: Should there be an adjustment to the rate in the future (i.e., adjusted annually for CPI)?**
 - A majority of the members of both groups agree to the principle of a price adjustment
 - However, there was also no clear agreement on what an appropriate adjustment factor might conceivably be

■ **Conclusions**

- General agreement (between LDCs and carriers) on the use of OEB existing embedded costing methodology for rate calculation.
- The participants asked for further analysis and justification for consideration of DCF approach, which is based on poles life cycle (40 year) cost inputs i.e. detailed cash flow (NPV) analysis encompassing poles initial installation cost, year over year replacement factors and associated maintenance expenses and revenues
- Nordicity presentation to follow

Issues Identified In Minutes

- Ref. Page 14, Rate Calculation – Overlapping Revenue, paragraph 5— confirmation of \$2 paid by overlasher to Carriers.
 - Response.....
- Ref. Page 17, Breakout Session # 1 – Group 2, paragraph 3 John Boldt (JB) to confirm 96% is poles.
 - *Response JB e-mail Jan. 24, 2017.*

Issues Identified In Minutes

- Ref. Page 19, Breakout Session # 2 – Group 1, paragraph 4, Clarification by what is meant by double whammy by carriers. To discuss at the next pole attachment meeting. - If you set a standardized pole rate based on higher cost LDCs, those higher cost LDCs get their own rates and lower cost LDCs rely on the standardized rate. This will result in the telecom attachers over-paying and the low-cost LDCs are over-recovering
 - Response.....

Issues Identified In Minutes

- Page 21, Breakout Session # 2 – Summary, Page 23, Breakout Session # 3 – Summary – What is meant by majority.
 - *Response Majority members present*
- Page 24, Breakout Sessions – Conclusion, paragraph 4, clarification to Mr. Harper (MH) comment of the **initial** capital cost or **the net** embedded cost that should be used
 - *Response initial and the net added to minutes (MH)*

Issues Identified In Minutes

- Page 24, Breakout Sessions – Conclusion, paragraph 5, Discussion of carriers comment they are (the Carriers) are paying for more than half of the costs of a pole.
 - Response.....
- Page 25, Breakout Sessions – Conclusion, paragraph 11, they (the Carriers) use 2 feet but are charged for more than half of the costs of a pole and they believe it is not fair. OEB staff notes that Carriers are currently allocated costs based on the equal sharing methodology
 - *Response OEB presentation to follow will address*

Issues Identified In Minutes

- Annex A – Summary of Decisions in Canadian Jurisdictions CRTC – Telephone Poles Ontario and Quebec (CRTC 2010-900) - Bell Canada and Aliant confirmation of 1.7 attachers
 - Response Nordicity total # telecom 1.7 not 2.7
- Annex A – Summary of Decisions in Canadian Jurisdictions CRTC 2016-228 - TELUS Nordicity to confirm 1.32 attachers
 - *Response Nordicity e-mail Jan. 20, 2017.*
- Annex C – Key Outcomes of November 24, 2016 PAWG Meeting # 3 Rate should increase with an escalator – Carriers would like further discussion on this issue.
 - *Response OEB presentation to follow will address*

COMMENTS

PA WG Discussion/Resolution Issues

- The work completed to-date by the working group, Nordicity and staff have identified a number of issues that need further discussion
- These issues can be categorized as follows:
 - Direct Costs – Adm., LOP costs
 - Number of Attachers, Space Allocation
 - Indirect Costs – Capital, Maintenance & Other Costs
 - Overlasher Revenues
 - Charge Adjustment
 - Bell Attachers

Cost Data Inputs

- Data from the recent Pole Rate Attachment Decisions: Hydro One, Hydro Ottawa, Toronto Hydro and PAWG data submitted was used in the following slides to create potential default values
- For example a default value for Adm costs was calculated as follows:

<u>Weighted average</u>	<u>Straight average</u>
$= (\$5.03 \times 1.61 + \$2.28 \times 1.74 + \$0.9 \times 1.3) / (1.61 + 1.74 + 1.3)$	$= (\$5.03 + \$2.28 + \$0.9) / 3$
$= \$2.85 \text{ per attacher}$	$= \$2.74 \text{ per attacher}$

Direct Costs

■ **Administrative Costs**

- Associated with managing and administering pole attachment such as permitting, licencing, payroll, vehicle, OM& A support services
- Default range could be used based on HONI, TH, HO Decisions \$2.74-\$2.85 per pole.

■ **Loss in Productivity**

- Field verification cost associated with wires down, tree on wires, pole replacement, inspection 3rd parties
- Default range could be used based on HONI, TH, HO Decisions \$3.30-\$3.36 per pole
- Going forward data could be collected tracked in 5120 and 5135 or as a separate item as per decisions.

- **Number of Telecom Attachers***
 - Default value could be based on HONI, TH, OH Decisions **1.4-1.5 per pole.** Numbers based on actual data submitted representing 95% pole population.
 - Annex D – Summary Of Canadian Jurisdictions Minutes of 3rd Meeting – **recent decisions < 1.74.**

*Note: Important Input

Space Allocation

- **Telecom Space – “Separation”**
 - Means all parties connecting assets within the telecom space = Separation + Communication Space
 - ESA Guideline for Third Party Attachments clearly defines need for **safety consideration** as required Ontario Regulation 22/04 – Safety of Communication Workers
 - CSA C22.3 No.1 relates to the separation space for min. clearance from lowest Dx wire to highest telecom attachment

Indirect Costs – Capital

- **Deduction Power Specific Assets***
 - HONI, TH use 15%, HO 5% deduction power assets, EDA support RP-2003-0249 15%, other Cdn Utilities and US support 15% as well
 - PAWG Data based on 10 year Avg. 18.2%
 - Default value of 15 – 18.2 % for account 1830 reasonable

Note: Important Input

Indirect Costs – Capital

■ Neutral Costs*

- Not included in 2005 OEB Methodology
- CSA 22.3 No. 5.1 Standards and ESA Guideline require communication facilities be grounded for worker/public safety
- PAWG - HONI data \$294 (28%-1835) and HO \$281 (18.4% -1835) per Pole
- Default values could be based on straight average = \$288/pole (23%), weighted average \$293/pole (28%)
- Treat Neutral cost as common, allocate accordingly

*Note: Important Parameter

Indirect Costs - Maintenance

PAWG LDC Data	Pole (5120) \$/pole	Vegetation * (5125) \$/pole	Neutral (5135) \$/pole	Dx Line Patrol \$/pole
2010-2015	14	77	37.5	7.36
*Allocation %	48.5	33.3	5	50
Third Party Charge	6.8	25.6	1.9	3.68

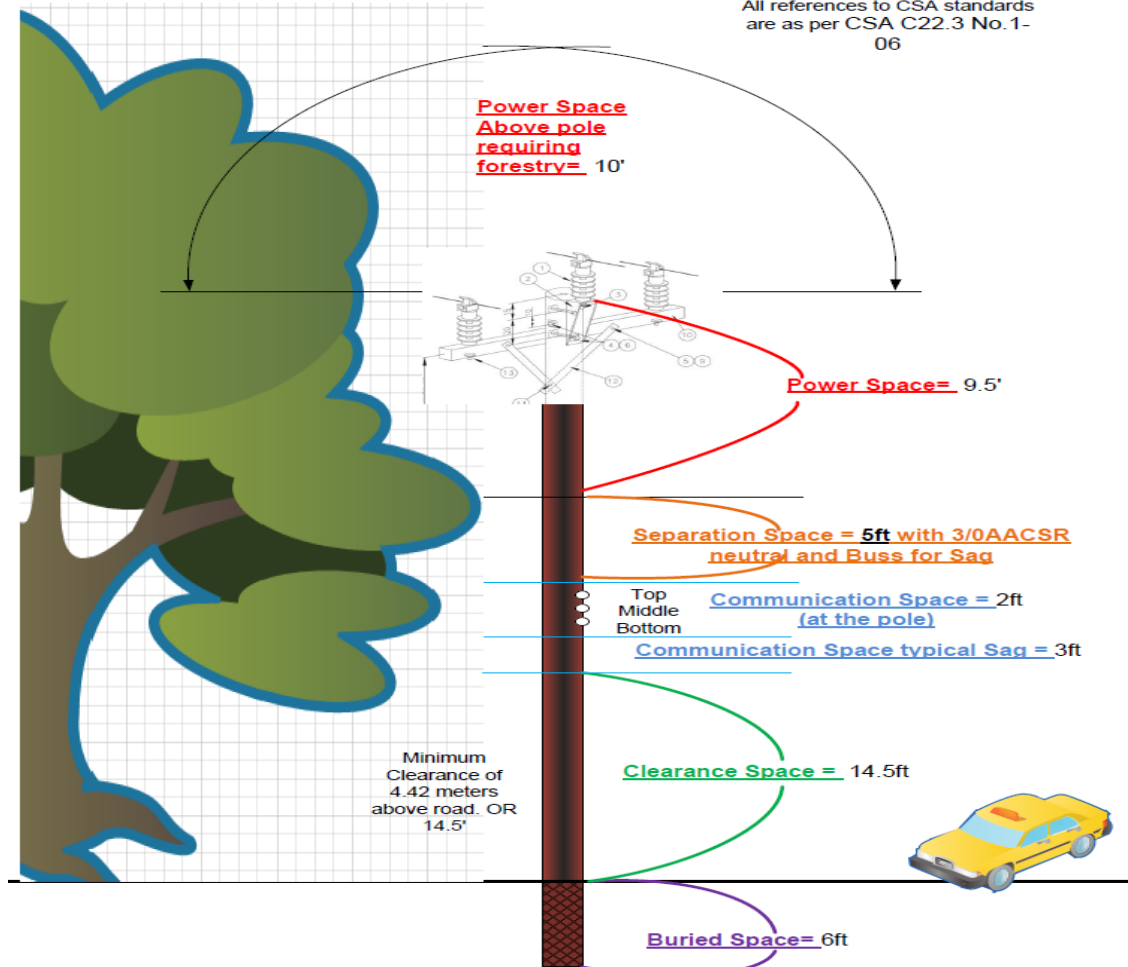
- **Recent Decisions:**
 - HONI (2014) \$4.69/pole - No Vegetation
 - Hydro Ottawa (2013) - \$11.89/pole – No Vegetation
- Total PAWG Data = \$12.4/pole – No Vegetation
- **Default could be \$12.4/pole + \$25.6/pole**

Notes: 5120 allocation using avg. HONI + Hydro Ottawa Submission Data (5%, 92%), 5125, 5135 HONI allocation Submission Data (33.3%, 5%), 5020 HONI allocation (50%). ***Account 5125 important parameter.**

Indirect Costs – Vegetation Illustration

Forestry Allocation on a Typical 40 ft/ 12.20m Pole WITH ATTACHERS: 55m span with 3/0AACSR Neutral Conductor

All references to CSA standards
are as per CSA C22.3 No.1-
06



Indirect Costs – Other

- **LDC RoW**
 - No data requested or collected
 - New easement costs include capital prog. (1830)
 - On-going easements “Rent” should be captured in Adm Costs.
- **Make Ready Costs**
 - No data requested or collected
 - Captured in permitting costs (Adm)
- **Early Pole Replacement**
 - If 2005 methodology used captured in Deprecation rate
 - If NPV methodology used need to incorporate – Nordicty estimate 0.87%.

Overlapping Revenues

- All entities that overlap pay the current Pole Attachment Rate of \$22.35 per pole, in proportion to their current agreement with LDC, E.g. 50% of \$22.35 to end of agreement (Meeting # 3 Minutes, Section 17)
- In addition, these entities pay additional charge of \$2 to the communication carrier's wires they overlap (Meeting #3 Minutes, Section 17)
- It is not known if communication carriers that overlap their own wires pay any additional charges pole attachment charges
- Should these carriers be subject to further charges to pay for additional weight "stress" on Poles that will increase maintenance and decrease life expectancy?
- Should there be a restriction on the # of overlappers?

Charge Annual Adjustment

- OEB Decisions to date have not approved any adjustment formula
- Staff submits one potential formula could be to use the I-X LDC IRM annual rate adjustment and include this charge as part of the LDC 5 year rebase application
- This has the advantage of aligning the charge adjustment to an existing OEB process requiring minimal effort on LDCs and the OEB.
- Comments on this suggestion

Bell Issue

- EB-2015-0141 – Exhibit I, Tab 4 Schedule 2 Pages 2-3, Hydro One responses to the Carriers Interrogatory 2 – confirms that no cross subsidization of cost occurs nor services provided to Bell
- Since no monies are exchanged by Bell and Hydro One, the arrangement does not impact pole attachment arrangement as per OEB Decision in the matter.
- Removing the Bell Attachments from the Hydro One poles would decrease the number of Hydro One attachers per pole and thus allocate higher proportion of cost to carriers.

COMMENTS

OEB Pole Attachment Rate Tool

- OEB has created a Tool based on the 2005 Framework that allows default or actual data to be input to project the pole charge
- The purpose of the Tool is to Standardize the Approach Going Forward
- Demonstration of the Draft Tool