

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Sched. B;

AND IN THE MATTER OF an application by Wellington
North Power Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective May 1, 2014..

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

SUBMISSIONS

December 13, 2013

**WELLINGTON NORTH POWER INC.
EB-2013-0178**

SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

These are the Submissions of the Energy Probe Research Foundation (“Energy Probe”) related to the request by Wellington North Power Inc. (“WNPI”) for approval of an Incremental Capital Module (“ICM”) related to the replacement of a substation. The need and amounts related to the ICM are dealt with in Exhibit 5 of the evidence, with changes and updates reflected in the interrogatory responses.

Energy Probe has limited its review of the application to the above noted issue and, as a result, makes no submissions on the other aspects of the application.

B - INCREMENTAL CAPITAL MODULE

Energy Probe submits that the use of the ICM for the replacement of a substation is appropriate. As such, Energy Probe's submissions on the ICM centers on the three eligibility criteria as set out by the Board: need, materiality and prudence. Energy Probe first makes submissions on the issue of whether the MS-2 substation should be given higher priority for replacement than the MS-4 substation.

However, as discussed below in each of the need, materiality and prudence sections, Energy Probe submits that the issue in this application is whether or not the expenditures to replace the MS-2 substation in 2014 are clearly non-discretionary.

a) MS-2 versus MS-4

Both the MS-2 and MS 4 substations are candidates for replacement because of the age and the condition of the assets. WNPI proposes to replace the MS-2 substation in 2014 and expects that the replacement of the MS-4 substation would take place in 2016.

WNPI provided its reasons for proceeding with MS-2 in 2014 rather than MS-4. In particular, WNPI has stated with MS-2 is more heavily utilized than MS-4 and it serves a larger number of customers, including industrial customers in the north end of Mount Forest. Further, the MS-2 replacement can be accomplished in 2014, while the replacement of the MS-4 substation may not be achievable by the end of 2014 due to the planning needed to deal with a number of site specific issues that would need to be dealt with.

Energy Probe submits that WNPI is in the best position to determine which substation should be assigned the highest priority for replacement. However, as noted below, mitigation measures can be implemented which would reduce the need to replace the MS-2 substation in its entirety for a period of 4 to 11 years. At the same time, it does not appear that any mitigation measures would extend the life of the MS-4 station.

As a result, it is submitted that if the Board denies the ICM rate rider associated with the full replacement of the MS-2 substation and given that the MS-4 substation cannot be replaced in 2014, then WNPI should bring forward an ICM request associated with the MS-4 substation in the 2015 rate application.

b) Need

Energy Probe submits that WNPI has provided sufficient evidence and rationale to substantiate the need for the replacement of the MS-2 substation. In particular, the Substation Condition Assessment Study commissioned by WNPI in 2013 supports the need to replace both the MS-2 and MS-4 substations because of age and condition.

However, the issue is whether the replacement of the MS-2 substation needs to, or should, take place in 2014.

As indicated in the Substation Condition Assessment Study prepared by a third party, Costello Utility Consultants (Appendix 5 of the prefiled material), the MS-2 substation has been assigned a rating of "Red" (page 4 of the Costello report). This rating means the substation is in poor condition and mitigation is required immediately, within one year (page 1 of the Costello report).

The Costello report further indicates that the MS-2 substation will improve to "Yellow" once the safety issues identified in the report are resolved and the switchgear deficiencies are corrected (page 4 of the Costello report). The "Yellow" rating means that the substation would be in average condition and that mitigation is required between four and eleven years.

WNPI was asked for the costs for the option of improving the station to a "Yellow" rating (Board Staff Interrogatory #3). WNPI replied that it had already spent \$14,000 to date on substation remediation as a result of the Costello report with more of the repair and maintenance costs expected in late 2013 and 2014. The response also indicates that cost of the perimeter fence - one of the issues identified in the Costello report - could be replaced for \$30,000. No other cost estimates were provided.

Energy Probe submits that the replacement of the MS-2 substation is not required in 2014. Mitigation measures as outlined in the Costello report will extend the time by at least 4 years until further mitigation is required. Therefore, Energy Probe submits that the expenditures associated with the replacement of the MS-2 substation cannot be considered non-discretionary.

c) Materiality

WNPI has updated the calculation of the materiality threshold as part of the interrogatory responses. In particular, WNPI has corrected the growth factor used in the model between 2011 and 2012 (Board Staff Interrogatory #6) and has updated the stretch factor used in the price cap index (Energy Probe Interrogatory #1). Energy Probe submits that both of these adjustments are appropriate.

WNPI agrees that the both the inflation factor and the productivity factor to be used in the calculation of the materiality threshold need to be updated (Energy Probe Interrogatory #2). Energy Probe notes that in the updated calculation filed with the interrogatory responses, WNPI has used an inflation factor of 1.60% and a productivity factor of -0.72%. In conjunction with the stretch factor of -0.45%, this has resulted in a price cap index of 0.43%.

Energy Probe submits that the inflation factor should be updated to the 1.70% that the Board calculated as the inflation value for 2014 rates on November 21, 2013. Similarly, the productivity factor should be updated to 0.00%. Combined with the stretch factor of -0.45%, the price cap index is 1.25%.

Energy Probe submits that the materiality threshold should be calculated based on the updated price cap index of 1.25%. Based on the updated information, Energy Probe submits that the materiality threshold would increase from \$583,551 to \$645,976. This would reduce the eligible incremental capital amount from \$1,412,449 to \$1,350,024. However, since WNPI is claiming a total incremental capital amount of \$1,356,100 instead of the eligible incremental capital amount, there is only a small reduction in the total incremental capital amount to be used in the rate rider calculation to the level of \$1,350,024.

However, as noted earlier, the issue in this case is whether or not the proposed expenditures to replace the MS-2 substation in 2014 are non-discretionary. If these expenditures are not non-discretionary in 2014, then WNPI's request would either fail the materiality test or result in a substantially lower total incremental capital amount, since the maximum allowable capital amount is the difference between the 2014 total non-discretionary capital expenditures and the materiality threshold.

As shown in the table on page 79, the total non-discretionary spend in 2014 excluding the MS-2 substation is \$636,000, which is less than the materiality threshold noted above of \$645,976.

Energy Probe submits that the non-discretionary expenditures associated with the remediation of the MS-2 substation are likely to be substantially less than the \$1,596,100 identified in Energy Probe Interrogatory #3 for the replacement of the substation. In addition, similar to the removal of the \$240,000 that is already built into the capital budget identified in that same interrogatory response, there is not likely to be any incremental non-discretionary costs associated with remediation of the substation that would qualify for ICM treatment.

d) Prudence

WNPI provides three options to deal with MS-2 substation at page 60 of Exhibit 5. Energy Probe submits that Option 1, do nothing, is not acceptable as there is clearly a problem that needs to be addressed sooner rather than later.

The second option is the option supported by WNPI. Option 3 is the same as the proposed option, except that the existing transformer would be continue to be used, instead of a new transformer.

Energy Probe submits that the Board should not consider Option 3, even through WNPI notes that the transformer, which is 41 years old, is still in relatively good condition.

Using the existing transformer is likely to be a short term solution. A few years down the road this transformer would need to be replaced, given that the expected remaining life is only 4 years (VECC Interrogatory #1d). It is likely that the cost to replace the transformer at the point in time would be higher than if a new transformer is installed at the same time as the rest of the substation is replaced.

The remaining life of the transformer, at 4 years, ties in to the movement of the MS-2 substation from the "Red" classification rating in the Costello report to the "Yellow" category which means the mitigation is required between 4 and 11 years.

This brings Energy Probe to Option 4. This option, which was not considered by WNPI, is to remediate the MS-2 substation to deal with the issues identified in the Costello report that would improve the rating from "Red" to "Yellow" and extend the life of the substation by a minimum of four years.

Energy Probe submits that Option 4 is the most prudent option as it represents the most cost-effective option for ratepayers. The life of the existing substation can be extended for at least 4 additional years at a minimal cost. As the Costello reports indicates, once the safety issues are resolved and switchgear deficiencies are corrected, the substation would be in average condition.

e) Calculation of Revenue Requirement and Rate Riders

WNPI has updated the calculation of the revenue requirement and the associated rate riders as part of the interrogatory responses. In particular, WNPI has updated/corrected the depreciation expense (Board Staff Interrogatory #2), and the capital cost allowance (Energy Probe Interrogatory #5) to calculate the revenue requirement.

Energy Probe believes these calculations are appropriate. However, it is submitted that the calculation needs to be updated to reflect the new materiality threshold noted in part (b) above, if the Board were to determine that the replacement of the MS-2 substation should proceed at this time.

D - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs for participating in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

December 13, 2013

**Randy Aiken
Consultant to Energy Probe**