



**PUBLIC INTEREST ADVOCACY CENTRE**  
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January 15, 2014

**VIA MAIL and E-MAIL**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: Vulnerable Energy Consumers Coalition (VECC)**  
**Espanola Regional Hydro Distribution Corporation EB-2013-0127**  
**Final Submissions of VECC**

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

A handwritten signature in black ink, appearing to be 'Michael Janigan', written over a horizontal line.

Michael Janigan  
Counsel for VECC  
Encl.

cc: Espanola Regional Hydro Distribution Corporation

## ONTARIO ENERGY BOARD

### IN THE MATTER OF

the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B);

**AND IN THE MATTER OF** an Application by Espanola Regional Hydro Distribution Corporation (“Espanola”) for an order or orders approving or fixing just and reasonable distribution rates effective May 1, 2014 under the Board’s Guidelines for an Incentive Regulation Mechanism.

### Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC will address Espanola’s proposed Incremental Capital Module (ICM) and lost revenue due to conservation programs in its submissions.

#### Incremental Capital Module

- Espanola requests the approval of an ICM and rate riders to recover incremental capital costs of \$2,062,500 associated with the design and construction of a new municipal substation (\$1,787,500) and related 44 kV line extension (\$275,000).
- Espanola calculates the 2014 incremental revenue requirement impact of its ICM at \$168,193.<sup>1</sup> Espanola requests approval to recovery this revenue requirement through Option A, which allows for the collection of a combined fixed service charge and variable volumetric charge.
- Espanola indicates that the new municipal substation is required to provide relief for the critical shortage of supply to its customers.<sup>2</sup>
- For incremental capital expenditures to be considered for recovery prior to rebasing, the Board’s Guidelines indicate the amounts must satisfy the following eligibility criteria: **materiality, need and prudence.**<sup>3</sup>
- ***Materiality:*** *The amounts must exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Distributors are to use a Board approved formula to calculate a materiality threshold.*
- The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold. The Board

<sup>1</sup> 2014 Incremental Capital Workform\_20131018

<sup>2</sup> 10. Incremental Capital Module Page 7

<sup>3</sup> Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, July 17, 2013, Page 14

determined that the eligible incremental capital amount sought for recovery should be new capital in excess of the materiality threshold. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital by taking the difference between 2014 total non-discretionary capital expenditure and the materiality threshold.<sup>4</sup>

- Espanola's total non-discretionary capital budget for 2014 is \$2,415,863 which includes the ICM project.<sup>5</sup> Espanola estimates the new substation is 85% of the 2014 capital budget. In response to VECC interrogatory #2, Espanola explains the non-discretionary nature of its 2014 non-ICM expenditures of \$353,363. VECC notes this amount is in line with the average of Espanola's historic capital expenditures and thus has no concerns with the level of Espanola's proposed 2014 non-ICM capital budget.
- Using the Board's formula (Threshold Test), Espanola calculates the materiality threshold as \$293,556 using a price cap index of 0.58%, growth of 0.86% and a dead band of 20%<sup>6</sup> VECC calculates the eligible incremental capital amount as \$2,122,307 (\$2,415,863-\$293,556).
- Espanola agreed the price cap index parameters should be updated to reflect the Board's calculation for 2014 IRM applications.<sup>7</sup> On November 21, 2013 the Board released its report that sets the inflation factor at 1.7% for 2014 and the productivity factor at 0.0%. 2014 stretch factor assignments were also set with Espanola in Group II with a stretch factor of 0.15%.<sup>8</sup>
- Based on an updated price cap index of 1.55% (1.7-0.00-0.15), the revised materiality threshold is \$335,084. This decreases the maximum allowable capital amount to \$2,080,779 (\$2,415,863 - \$335,084).
- VECC submits the incremental capital requested by Espanola (\$2,062,500) is eligible for ICM treatment. As it exceeds the materiality threshold is below the maximum allowable capital.
- ***Need:*** Amounts should be directly related to the claimed driver, which must be clearly non-discretionary. The amounts must be clearly outside the base upon which rates were derived.
- Espanola has three municipal substations for a total capacity of 13,000 kVA. (MS-1 & MS-2 at 5,000 kVA each and MS-3 at 3,000 kVA). The existing stations are all approaching

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<sup>4</sup> Chapter 3of the Filing Requirements for Transmission and Distribution Applications, July 17, 2013, Page 15

<sup>5</sup> Application, Page 9

<sup>6</sup> Application, Page 8

<sup>7</sup> Board Staff interrogatory #5

<sup>8</sup> Report of the Board Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors, November 21, 2013 & corrected on December 4, 2013

typical end of life and will require replacement in the next 10 years.

- Espanola indicates under moderate to heavy load conditions if one of the existing stations failed, there would be insufficient capacity in the remaining two stations to supply the Town.<sup>9</sup> In addition, there is no remaining capacity for any significant load growth, however Espanola noted that on average there has been little load growth in the last 10 years (based on steady annual energy use).<sup>10</sup>
- Espanola is a winter peaking utility however, Espanola indicates summer demand has steadily increased from 2008 with summer peak demands consistently higher than 8000 kW since the summer of 2009 possibly due to increased residential air conditioning as well as air conditioning and refrigeration for new commercial loads.<sup>11</sup> Any serious failure at either MS-1 or MS-2 during summer or winter peak conditions will result in a shortfall of capacity and likely result in prolonged outages.
- In 2008, Costello undertook a Substation Condition Assessment of the three municipal substations as part of an ongoing Asset Management Program. Costello identified deficiencies in the three substations that required attention (station MS-3 had the most serious deficiencies) and recommended that the substations be de-energized and maintained every three to four years.<sup>12</sup>
- Espanola addressed the need for the new substation in its 2012 Cost of Service (COS) rate application indicating planning and construction was on the horizon. Espanola indicated at that time that it intended to utilize the ICM to address the treatment of new capital needs.<sup>13</sup> A Station Contingency Review conducted by Costello in December 2010 included in the evidence provided a contingency analysis of the loss of any of the three stations. The review concluded that a winter-time failure of any substation could result in rotational blackouts and a replacement unit or mobile substation would take at least several days to source and install, thereby affecting most of Espanola's customers. Costello recommended that a new substation (MS-4) be added to allow for unplanned failure of an existing station and system growth.<sup>14</sup> Costello also recommended a modern design typical of substations constructed by other LDCs including compatibility with modern SCADA systems.
- As part of this application, Espanola retained Costello to provide technical information and budgetary estimates for a new municipal substation. With respect to risk of station failures, Costello's report dated October 2013 states Espanola's load presently matches the available station capacity during peak winter conditions and as the existing stations age the risk of unplanned failure and outages increases. Costello recommends that

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<sup>9</sup> Exhibit 12, Page 2

<sup>10</sup> VECC interrogatory #5

<sup>11</sup> VECC interrogatory #5

<sup>12</sup> Exhibit 10, 4. Conclusion

<sup>13</sup> EB-2011-0319 Decision, Page 13

<sup>14</sup> Exhibit 11

Espanola design and construct a new substation to provide backup to the three existing stations and to facilitate new load growth.<sup>15</sup>

- Espanola confirms its capital costs are non-discretionary; are outside the base upon which current rates are derived; and will have a significant influence on the operation.<sup>16</sup> Without the funds Espanola will have to consider funding the capital expenditure from existing working capital which may not be feasible. Espanola indicates if the ICM rate rider is not approved it will have to evaluate the progress of construction and potentially halt construction until it is eligible to rebase in 2016.<sup>17</sup> Espanola also states that if the ICM is not approved, it will have to consider an earlier rebasing date.<sup>18</sup>
- In considering the above, VECC submits Espanola has provided substantive evidence in the past and in the current application to support the need to provide additional capacity on its system should one of its existing municipal substations fail under moderate to heavy load conditions.
- *Prudence: The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost effective option (not necessarily least initial cost) for ratepayers.*
- Costello provided Espanola with three alternatives for additional capacity<sup>19</sup> as follows:

#### **Expand or rebuild one or more of existing stations**

- MS-1 & MS-2 rated 5,000 kVA at maximum design capacity for 4 kV system
- MS-3 station rated 3,000 kVA, addition of 2,000 kVA does not provide sufficient incremental capacity to supply Town in the event of failure on MS-1 or MS-2
- Lengthy outage during construction; remaining 2 stations could not handle peak Town load
- Cost estimated at \$800,000
- Conclusion: Alternative not feasible

#### **Purchase a spare transformer**

- Use as emergency replacement in the event of failure of existing station transformers
- Difficult to have a spare that could easily be installed given different configuration of the three substations; could result in lengthy unplanned outage and rolling blackouts
- Cost estimate not provided
- Conclusion: Alternative not feasible

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<sup>15</sup> Exhibit 12, Page 2

<sup>16</sup> Application, Pages 7 & 9

<sup>17</sup> VECC interrogatory 4

<sup>18</sup> Application, Page 11

<sup>19</sup> Exhibit 12, Page 4

## **Build a new substation**

- A new 5000 kV substation in south-west Espanola
- Timeline: 8 to 9 months to design and construct station

### a) Preferred Alternative

- Low-Profile padmount substation, modern three-phase reclosers that are compatible with SCADA systems, embedded distributed generation and potential smart grid applications
- Cost estimated at \$1,787,500

### b) Lowest Cost Solution

- Install a new substation with same design as existing substations (only fuse protection on three 4.16 kV feeders, design typical of 1950-1970 technology)
- No provision for SCADA, embedded generation or smart grid
- Not consistent with current Ontario LDC practices
- Cost estimated at \$1,450,000

### c) Highest Cost Solution

- Construct substation building, indoor metalclad switchgear, stand-alone protection and control racks, and a SCADA/P&C/Communication rack
  - No significant operational benefits over preferred alternative
  - Cost estimated at \$2,750,000
- Costello also discussed the Do Nothing Option with two immediate impacts: prolonged power interruptions and no significant amount of spare capacity available for any planned load growth which may have an adverse impact on economic development opportunities for Espanola.
  - VECC agrees based on the evidence provided that the alternative to expand or rebuild one or more of the existing stations is not feasible and submits this alternative does not adequately address Espanola's capacity shortage issue.
  - VECC notes a cost estimate is not provided for the alternative to purchase a spare transformer. VECC asks that Espanola provide a cost estimate in its reply submission. VECC notes due to design complexities this option has the potential for unplanned outages and rolling blackouts which is inconsistent with the project objective to have immediate backup station capacity in the event of a failure of one of the existing substations. The risk of an unplanned outage and the resulting impact on customers makes this option undesirable.

- With respect to building a new station, VECC submits that although Espanola's preferred alternative (the new substation at a cost of \$1,787,500) is not the least initial cost for rate payers, it represents the most cost-effective option for ratepayers. In VECC's view constructing a new station based on old technology inconsistent with current Ontario LDC practices does not make sense. Neither does a design that costs more but does not provide any significant operational benefits over the preferred option.
- VECC submits Espanola's ICM request meets the Board's eligibility criteria with respect to materiality, need and prudence.
- Espanola anticipates the estimated nine months of construction (to commence late 2013 or early 2014) will result in an expected in service date of the Fall of 2014.
- Provided the new substation is in-service in 2014, VECC takes no issue with Espanola's ICM request.
- Espanola requests that the ICM rate rider be in place until April 30, 2017. Espanola confirmed its current IRM plan term is 4 years and its next rebasing is in 2016. Espanola agreed to forgo a defined sunset date and establish a rate rider that would be effective until its next cost of service rate order.<sup>20</sup> VECC submits this approach is appropriate.

### **Lost Revenue Adjustment Mechanism (LRAM)**

- In Espanola's 2012 Cost of Service (COS) application (EB-2011-0319) the Board approved an LRAM amount of \$152,728 related to CDM programs implemented from 2006 to 2010 for the period 2006 to 2010. The Board did not approve the recovery of lost revenue due to the persistence from 2006 to 2010 programs in 2011 and 2012 (\$7,544) as it considered it premature to do so and inconsistent with the LRAM Guidelines.<sup>21</sup>
- In this application, Espanola seeks recovery of an LRAM amount of \$7,544 related to persisting CDM savings from pre-2011 programs in 2011 and the first four months of 2012, until April 30, 2012, when Espanola rebased.
- Espanola's approved 2012 load forecast includes an adjustment for CDM related to the 2011 to 2014 CDM period.
- VECC submits Espanola is eligible for its proposed LRAM recovery of \$7,544 related to pre-2010 programs in 2011 until April 30, 2012 as these savings occurred prior to the updated load forecast established in Espanola's 2012 Cost of Service (COS) application.

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<sup>20</sup> Board Staff interrogatory #2

<sup>21</sup> EB-2011-0319 Decision, Page 24

### **Recovery of Reasonably Incurred Costs**

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 15<sup>th</sup> of January 2014.