

February 3, 2016

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

Dear Ms. Walli:

RE: EB-2015-0065 Enersource Hydro Mississauga Inc. - 2016 Rates - Final Argument of the Consumers Council of Canada

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Enersource, Regulatory Affairs
Fred Cass, Aird & Berlis
All Parties

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

RE: ENERSOURCE HYDRO MISSISSAUGA INC. 2016 RATES

EB-2015-0065

FEBRUARY 3, 2016

I. INTRODUCTION:

On August 17, 2015, Enersource Hydro Mississauga Inc. (“Enersource”) applied to the Ontario Energy Board (“OEB” or “Board”) for approval of distribution rates and other charges effective January 1, 2016. The application was made pursuant to the Board’s 4th Generation Incentive Regulation model established in its Report, “Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach” dated October 18, 2012 (“RRFE Report”).

As a part of its application Enersource is seeking approval of an incremental capital module (“ICM”) and ICM rate riders effective January 1, 2016, until its next cost of service rate application. The application has a number of other requests including clearance of the clearance of Group 1 deferral and variance accounts, shared tax rate riders, adjusted Retail Transmission Service Rates and 2016 Renewable Generation Funding from provincial ratepayers (Ex. T2/p. 1).

On September 23, 2015, Enersource filed Supplementary Evidence in response to a request from OEB Staff. Following a round of interrogatories a Technical Conference was held on January 8, 2016. On January 18, 2016, Enersource filed its responses to the Technical Conference undertakings.

These are the submissions of the Consumers Council of Canada (“Council”) regarding Enersource’s application. The Council will limit its submissions to the request by Enersource for approval of an ICM.

II. SUBMISSIONS:

A. Incremental Capital Module Requirements:

Under 4th Generation IR local distribution companies (“LDCs”) were initially permitted to apply for an ICM to address incremental non-discretionary capital investment needs that might arise during the IR term (RRFE Report, p. 18).

On September 18, 2014, the Board issued a report entitled, “Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module” (“ACM Report”). In that Report the Board established an Advanced Capital Module (“ACM”) and revised its policy regarding the ICM. The Board eliminated the

requirement that ICM projects be limited to non-discretionary projects. The Board also determined, however, that projects proposed for incremental capital funding during the IR term must be “discrete” projects and not part of typical annual programs (ACM Report, pp. 13-15). The ACM Report specified that full and complete details of the project(s) must be filed as a part of the ICM application (emphasis added).

All ICM projects must satisfy the Board’s eligibility criteria of materiality, need and prudence:

Criteria	Description
Materiality	<p>A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the Board-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.</p> <p>Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the Board-defined threshold calculation is expected to be absorbed within the total capital budget.</p>
Need	<p>The distributor must pass the Means Test (as defined in this ACM Report).</p> <p>Amounts must be based on discrete projects, and should be directly related to the claimed driver.</p> <p>The amounts must be clearly outside of the base upon which the rates were derived.</p>
Prudence	<p>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.</p>

(ACM Report, p. 17)

In addition, the Board adopted a project-specific materiality threshold consistent with that approved in the Toronto Hydro-Electric System Limited ICM application (EB-2012-0064).

B. Enersource’s ICM Proposal:

In its original evidence Enersource set out the calculation of its maximum eligible incremental capital. Its total proposed 2016 capital expenditure amount was \$115.641 million. With a materiality threshold of \$44.105 million, Enersource was seeking approval of an ICM of \$71.536 million (Application/T2/p. 21). Using the Board’s ICM formula that is the maximum amount available to Enersource.

Through the discovery process a number of things changed:

- There is no true-up payable to Hydro One Networks Inc. (“HON”) for the Cardiff TS of \$1.278 million;
- The final amount payable to HON for the Churchill Meadows TS was \$40.479 million and was paid in December 2015;
- The inflation rate was updated to 2.1%;
- Enersource presented a revised capital budget for 2016 by removing projects that will not go into service in 2016 and adding in projects that were started in 2015 and are going into service in 2016 (Ex. JT1.2 and JT1.17); and
- The overall ICM request has changed between the Technical Conference and the filing of the undertakings.

Enersource is now seeking approval of an ICM amount of \$68.357 million. This translates into an incremental revenue requirement impact of \$5.25 million (JT1.17). Enersource has also identified each of the specific projects that are “2016 ICM Projects”. (JT1.2). In addition, Enersource has confirmed that it will true up the forecast and actual amounts on a project-by-project basis. That mechanism will be asymmetrical which means that underspending is returned to ratepayers, and overspending will only be considered upon a cost of service rebasing (Tr. pp. 20-26).

The Council submits that Enersource has not justified its request for an ICM amount of \$68.357 million. We will address each of the areas where we have concerns and comments below.

1. Churchill Meadows Transformer Station:

Enersource is seeking approval to include in its ICM \$40.479 million related to a Connection and Cost Recovery Agreement (“CCRA”) between Enersource and HON. The TS was put into service in 2010. The financial obligation is the result of the fact that the load that was driving the need for the station did not materialize primarily due to the economic downturn in 2008 (Ex. 2-Staff-9). Enersource paid HON in December 2015 (Tr. p. 5).

The Council questions why this cost is part of the 2016 ICM request. In the ACM Report the Board has stated that the maximum allowable incremental capital is the difference between the forecasted total capital expenditures for a subject year and the materiality threshold for that year (ACM Report, p. 22). From the Council’s perspective it would be inappropriate for Enersource to include the amount in 2016 when the expenditure was made in 2015. Enersource intends to rebase in 2017. It is at that time when the Board should consider the appropriateness of including this amount in rates.

2. Discrete Projects vs Ongoing Annual Programs:

The ACM Report made a distinction between “discrete projects” and those that are part of typical annual capital programs. Included in its list of ICM projects Enersource has included the following items: Underground Transformer and Equipment Renewal (Business Case 2016-CO563) and Overhead Transformer and Equipment Renewal (Business Case 2016-CO564). The budgets for these two items are \$4.125 million and \$3 million respectively (JT1.2).

In the Business Cases provided in the Supplementary evidence these have been described as “programs” that are needed to allow for the planned and unplanned replacement of transformers. These appear to be ongoing programs rather than discrete projects in that Enersource has indicated that transformer condition is routinely assessed and transformers continuously replaced. The Council questions the extent to which these programs qualify as discrete projects and why they should not be considered part of the typical annual programs.

3. Project Materiality:

The Board has confirmed that with respect to ICMs it has adopted a project-specific materiality threshold (ACM Report, p. 17). This project-specific materiality approach was applied in the THESL ICM Decision (EB-2012-0064). In that case the Board did not approve some specific projects on the basis that they were minor in comparison to the overall capital budget.

Its original evidence Enersource described its overall Capital Planning Process and the fact that it considers “material” as projects greater than \$600,000 (Application/T2/p. 17). From the Council’s perspective a \$600,000 project within the context of an overall \$115.6 million capital budget would not be considered material.

Enersource has provided in undertaking JT1.2 its most updated list of the ICM projects. The Council submits that those projects in the list that are less than \$600,000 should not be approved by the Board for inclusion in an ICM as they are not considered material.

4. Monthly Billing Costs:

Enersource is proposing to include \$750,000 for monthly billing capital costs in its ICM. This is for the purchase of additional system infrastructure (hardware and the associated licence costs) to increase the system processing power as a result of the increase in billing volume (\$550,000) and system reconfiguration and regressing testing (\$175,000) (Ex. JT1.7).

The Council believes that the Board has allowed for LDCs to file for deferral accounts to record the operating, maintenance and administration costs related to monthly billing for those on 4th Generation IRM, but not for the related capital costs which will be considered at the time of rebasing. Accordingly, Enersource should

not include these costs in its ICM. They should be considered at the time of rebasing. In addition, the Council is of the view that this expenditure is premature in light of the proposed merger (discussed below).

5. Merger:

On April 16, 2015, the Government of Ontario announced that negotiations were underway with respect to a three-way merger between Horizon Utilities Corporation PowerStream Inc. and Enersource and the subsequent acquisition of Hydro One Networks Inc. Brampton from the Province by the new merged entity. On November 19, 2015, Markham City Council approved the merger making it the last of the required relevant municipal approvals. The Council submits that the fact the merger is going forward is relevant to the consideration of Enersource's application for an ICM.

With respect to the proposed merger the following statement can be found on Enersource's website:

As a merged company, we believe we can contribute to gain additional efficiencies through achieving greater economies of scale as well as spreading the cost of administration and other back office operating costs over a larger base of customers and electricity distribution.

In the category of General Plant Enersource is proposing to spend \$12.796 million in 2016 (Application, T2/p. 23). The Council submits that in light of the merger it may well be premature for Enersource to move forward with these expenditures. Some examples of areas that may be premature are:

- Engineering and Asset Systems (system upgrades);
- Rolling Stock (bucket trucks, dump trucks, pickup trucks, trailers, vans);
- Computer Equipment (mobile phone platform, printer platform upgrades);
- ERP System (JDE Version Upgrade, Long Term Asset Planning Solution);
- Meter to Cash (monthly billing, CC&B upgrade); and
- Grounds & Billing (Mavis Building Envelope, Derry HVAC Upgrades)

To move forward with all of these budget items in 2016 without knowing whether they will be required in light of the merger, would not be prudent in our view. The Council encourages the Board, in its assessment of Enersource's ICM proposal, to consider whether they should be approved in light of the proposed merger. Many of the proposed expenditures may not be required (as they may be redundant once the merger takes place). In addition, it would be inappropriate to increase rates now to fund expenditures that may well be funded through merger savings. Reducing the overall amounts in the capital budget related to General Plant ultimately reduces the maximum ICM amount.

6. True-up:

As noted above, Enersource is proposing a true-up mechanism with respect to its ICM proposals. Enersource supports an asymmetrical project-by-project true-up mechanism as described during the Technical Conference (Tr. pp. 20-26). When projects come in under budget or do not go ahead those funds are refunded to ratepayers. When projects come in over budget, those amounts will be considered at the time of rebasing. To the extent the Board approves an ICM for Enersource the Council supports a true-up mechanism as described at the Technical Conference.

C. General Comments:

The Council has set out above a number of specific concerns regarding Enersource's application for an ICM, and the extent to which elements of the proposal do not comply with the Board's ICM requirements. In addition, we have the following comments regarding the application and Enersource's overall capital plan:

1. Enersource updated its overall capital expenditure forecast for 2016, but did not provide a detailed explanation as to what has specifically changed and why. It also does not appear that the business cases have been updated to reflect the updated costs. Enersource has indicated that the difference between the 2016 capital budget previously filed and the new budget reflects the removal of 2016 projects that will not be in service in 2016, offset by projects that started in 2015 and are going into service in 2016 (JTC1.2). As an example, the Mini Orlando MS project has increased from \$2.85 million to \$4.995 million, but it is not clear what is included in the total \$4.995 amount. In addition, Enersource has added a project called BizTalk Upgrade, but it is not clear what this project entails. There does not appear to be a rationale provided as to why this project is required as part of the ICM;
2. In JTC1.2 Enersource has identified ICM Projects that amount to the ICM request of \$68.357 million, but it is not clear what criteria Enersource used to determine which projects were ICM projects vs. those that are part of the normal capital budgeting process;
3. Enersource has included the purchase of three parcels of land on which it plans to build municipal substations. These purchases are below the materiality threshold. In addition, the Council does not support including land purchases in rate base if the stations are not in-service;
4. The Board has stated in the ACM Report that with respect to materiality projects must clearly have a significant influence on the operation of the distributor, otherwise they should be dealt with at rebasing. Enersource identified only three projects that fit into this category amounting to \$6.77 million (JT1.2 Additional).

5. In 2013 Enersource had an actual capital spend of \$48.5 million. In the period 2014-2016 Enersource has significantly increased its capital spend and proposed capital spend. The forecast for 2016 without the inclusion of the HON payment is \$76.7 million. It is not clear what has changed since Enersource's last cost of service rebasing proceeding with respect to asset condition. The Council questions the need to ramp up capital spending beyond the levels approved by the Board with respect to the 2013 proceeding. This is highlighted if one compares Enersource's most recent Asset Condition Assessment ("ACA") (Ex. JT1.12) and its Distribution System Plan ("DSP") (Ex. Supp-Staff-15). The Council has reviewed the detailed submissions made by the Association of Major Power Consumers in Ontario ("AMPCO") regarding Enersource's asset replacement rates and its planned capital spending as set out in its DSP. We support those submissions and the conclusion made by AMPCO that the proposed level of capital spending in 2016 is not consistent with its most recent ACA. Enersource is placing far more emphasis on asset age in determining its replacement strategy rather than focusing on asset condition.

III. COSTS

The Council requests that it be awarded 100% of its reasonably incurred costs for its participation in this proceeding.

All of which is respectfully submitted.