EB-2015-0065

Enersource Hydro Mississauga Inc.

Application for electricity distribution rates and other charges effective January 1, 2016.

SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
(“ENERGY PROBE”)

February 3, 2016

ENERSOURCE HYDRO MISSISSAUGA INC.
2016 RATES CASE
EB-2015-0065

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A- INTRODUCTION

Enersource Hydro Mississauga Inc. ("Enersource") filed its 2016 Price Cap IR Application ("Application") in August 2015. As part of that Application, Enersource has applied for a rate rider in accordance with Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications - 2015 Edition for 2016 Rate Applications dated July 16, 2015 ("Filing Requirements"). This Filing Requirements, in turn refer to the EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module dated September 18, 2014 ("ACM Report").

In its original evidence, Enersource calculated a materiality threshold of $44.1 million (Application, page 40) and when combined with total proposed 2016 ICM projects totalling $115.461 million (Application, Table 4), calculated a maximum eligible incremental capital amount of $71.536 million. The incremental revenue requirement associated with this incremental capital was calculated to be $5.621 million (Application Table 8). The total proposed ICM projects of $115.461 million was comprised of $73.985 million for distribution system plan 2016 capital expenditures, $40.378 million for a capital contribution to Hydro One Networks Inc. ("HONI") for the Churchill Meadows TS and $1.278 million for a capital contribution to HONI for the Cardiff TS.

Through the interrogatory and technical conference process, Enersource indicated that it had increased the distribution system plan 2016 capital expenditures to $74.947 million and indicated that no contribution was now required for the Cardiff TS, while the final value of the contribution for the Churchill Meadows TS was $40.479 million. The total proposed 2016 ICM projects expenditure was $115.426 million (Undertaking JT1.17).

In addition, Enersource updated the materiality threshold to reflect the inflation rate used for 2016 rates, as determined by the Board. This increased the level of the materiality threshold to $47.161 million, resulting in the maximum eligible incremental capital amount of $68.265, with a resulting revenue requirement impact of $5.252 million. These figures are also found in the response to Undertaking JT1.17.

In its original evidence, Enersource provided a list of all the projects included in the 2016 capital expenditure forecast and simply subtracted off the materiality threshold to arrive at the maximum eligible incremental capital amount. This evidence did not identify any specific projects that were to be considered eligible for the ICM.

However, as indentified in the ACM Report, the Board indicated that it was of the view that projects proposed for incremental capital funding during the IR term must be discrete projects, and not part of typical annual capital programs (page 13).

As part of the response to Undertaking JT1.2, Enersource provided a list of discrete projects, which total $68,357,615 as the ICM request amount.

The following are the submission of the Energy Probe Research Foundation ("Energy Probe") with respect to the updated request for an eligible incremental capital amount of $68.265 million.

B - SUBMISSIONS

Energy Probe has submissions related to four areas where it believes the evidence does not support the various components of the requested capital amounts in the ICM. These are discussed individually and then summarized below. In addition, Energy Probe is providing submissions on the true up mechanism proposed by Enersource during the technical conference.

i) Capital Contribution for Churchill Meadows

Enersource has included a cost of $40.479 million for a payment made to HONI for a contribution to the Churchill Meadows TS. Enersource received an invoice from HONI for the payment of $40.479 million (Energy Probe Interrogatory #4). This station was placed in service in 2010 (Application, page 26).

The response to Energy Probe Interrogatory #4 indicated that payment of this capital contribution was expected to be made by the end of 2015. Enersource confirmed that this payment was made on December 15, 2015 (TC Tr. page 5).

Energy Probe submits that this capital contribution made by Enersource to HONI in 2015 for a project completed in 2010 is not eligible for inclusion in the 2016 ICM application. It is clearly an out of period expense.

The ACM Report clearly states how the eligible incremental capital amount is to be determined. On page 22 of the report, it is stated:

> *"The determination of the maximum allowable incremental capital amount has not changed from the guidance provided in the Board's recent Filing Requirements other than to remove the reference to non-discretionary.* ***It is now determined by taking the difference between the forecasted total capital expenditures for a subject year and the materiality threshold for that year."***

The maximum allowable incremental capital is the difference between the forecasted total capital expenditures for the **<u>subject year</u>** and the materiality threshold for **<u>that year</u>**.

Clearly the subject year in the Enersource application is 2016, not 2015 and 2016. The Board cannot approve the recovery of the HONI payment as part of the current application because the expenditure will not take place in 2016, the subject year and therefore is, by definition, excluded from the 2016 ICM request.

If the Board were approve the inclusion of such an expense, it would be open to all distributors to come in and seek an ICM based on not only forecasted capital expenditures in the subject year but also on actual capital expenditures in a previous year that were in excess of the subject year materiality threshold. This is precisely what Enersource is asking the Board to approve.

A distributor could effectively seek to recover capital expenditures in the year prior to the subject year by adding them to the forecasted capital expenditures in the subject year. This total, which would represent more than one year of capital expenditures, would then be compared to the materiality threshold, which is a one year figure. This could even be done based on capital expenditures from a rebasing year being in excess of that approved by the Board for that cost of service year in the first IR year following the rebasing year. Clearly this would make a mockery of the Board and its entire incentive rate making mechanism approach.

Energy Probe, therefore, submits that this expenditure is not eligible for ICM treatment since it violates the filing requirements that any ICM amount is defined by the amount of its capital budget for the subject year exceeds the Board-defined materiality threshold for the same subject year.

As will be noted in other parts of this submission, Enersource is scheduled for rebasing next year, for 2017 rates. The inclusion of this capital cost paid to HONI, along with any other capital expenditures will be dealt with as part of that rebasing application.

ii) Land for Substation Upgrades

As shown in the response to Undertaking JT1.2, Enersource is proposing to include $500,000 in the ICM eligible capital for each of 3 discrete land purchases for substation upgrades. These are listed as Webb MS, Mini Britannia and Duke MS in the undertaking response.

Energy Probe submits that these expenditures should be removed from the ICM eligible capital for the 2016 rates year because the substations that will be built on the land do not come into service in the test year. In fact, the first of these substations to go be completed and placed into service would not occur until 2018-2019 (TC Tr., page 33).

Energy Probe submits that the land should not be placed into rate base until it provides a benefit to ratepayers. Ratepayers only receive a benefit from the land when it is used to provide a service to them and this service is only available at the time when the substation has been built and is placed into service.

It is not sufficient to say, in the submission of Energy Probe, that the land should be placed into service as soon as it is purchased because it is needed to construction the substation on. If this were the case, then the cost of a foundation for a building should be included in rate base when it is completed because without the foundation, you cannot build walls. Similarly, you cannot build a roof without walls, nor can you complete plumbing and electrical until the shell of the building is complete. However, you cannot use the building until it is complete and ready for use. That is the point at which it becomes an asset and provides benefits to ratepayers.

The cost for the land for the future substations should be placed into a CWIP account until such time as the asset (which includes the land, building, transformer, etc.) is complete and placed into service. There should be no special or unique treatment for land. It is simply one part of a larger asset.

Further, as noted in the following section, Energy Probe submits that each of these 3 discrete purchases is also below the materiality threshold for Enersource and should be rejected by the Board for that reason.

iii) Projects That Are Not Material

The ACM Report set out the revised criteria that must be met for an ICM (and an ACM) on page 17 of the report. With respect to Materiality, the description of these criteria includes the statement that:

> *"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 materiality threshold calculation is expected to be absorbed within the total capital budget."*

The Board also indicated in the ACM Report that while a distributor would be eligible to identify projects for ACM or ICM treatment if its capital budget for the subject year exceeds the Board-defined materiality threshold, it also adopted *"a project-specific materiality threshold, as identified in the Toronto Hydro decision."* This was the EB-2012-0064 Partial Decision and Order dated April 2, 2013.

In their last rebasing application (EB-2012-0033), Enersource had a materiality threshold of $645,000 (Exhibit 1, tab 4, Schedule 1). Energy Probe, therefore, submits that any discrete project that is less than $645,000 is, by definition, not material and should be excluded from the ICM eligible capital. Clearly, on an overall net capital budget of more than $115.5 million, an expenditure of $645,000 or less is minor and represents approximately 0.5% or less of that budget.

Appendix A provides a table that has been taken from the response to Undertaking JT1.2. The right hand column has been added to highlight the proposed discrete projects that are not material. These projects include $1.5 million for 3 separate land purchases that were dealt with in section (ii) above.

Energy Probe submits that the 13 projects shown in the table that are below the materiality threshold should be removed from the ICM eligible capital amount, as per the Board's ACM Report. These discrete projects, which range in cost from $70,000 to $600,000, total $4,663,530 and represent only 4% of the total capital budget. Enersource should be expected to absorb this amount within the total capital budget of more than $115 million. The revenue requirement impact of these projects is approximately $350,000, again an immaterial amount, which does not have a significant impact on the operation of the distributor and should be dealt with at rebasing (Energy Probe notes Enersource is scheduled to rebase for 2017 rates).

iv) Projects That Are Related to Growth in Revenues

Enersource has included $4,995,385 (Undertaking JT1.2) for the cost associated with the Mini Orlando MS project. Enersource has explained that this project is driven by growth needs in north and central Mississauga to feed future industrial growth and this new load is starting to materialize and Enersource needs to build now to serve it and that the customers are going to be there (TC Tr., pages 31 & 36-38).

As part of the Filing Requirements, a distributor must provide *"Evidence that the incremental revenue requested will not be recovered through other means (e.g. it is not, in full or in part, included in base rates or being funded by the expansion of service to include new customers and other load growth)"* (Section 3.3.2.1 of the Filing Requirements).

The Enersource evidence in this proceeding is clear that the Mini Orlando station will be completed in 2016 and that this new load is starting to materialize. This will generate additional revenues for Enersource which it has not taken into account.

Energy Probe submits that since this project is being funded, at least in part, by the expansion to include new customers and new load growth, it does not qualify under the ICM for inclusion in the eligible capital. Again, as Enersource is scheduled for rebasing in one year, the inclusion of this capital cost, along with the incremental revenues generated from the customer and load growth can be dealt with at rebasing.

v) Projects That May Be Impacted By Merger

Energy Probe notes that the publically known merger that involves Enersource has not been determined to be out of scope for this proceeding. Nor should it be as it clearly could have a significant impact on the timing and need for a number of projects, some of which are included in the ICM projects and some of which are in the 2016 budget but not identified as an ICM project.

While many of the projects (both ICM and non-ICM) scheduled for 2016 are for specific distribution related assets, there is a significant amount of expenditures forecast for general plant for such items as rolling stock, computer equipment, software, tools, buildings and so forth. Enersource has a 2016 capital budget for the general plant accounts of nearly $13 million.

Energy Probe submits that Enersource has failed to provide a general plant budget that is consistent with the merger and what efficiencies will be gained through the sharing of rolling stock, buildings, computer equipment, and so on. It may well be that Enersource does not need to buy all of the trucks, trailers and vans included in the 2016 forecast because it will be able to utilize the fleets of its neighbouring merger partners so as to more efficiently utilize the assets of the merged entity.

Removal of some of these general plant costs would reduce the available incremental capital module request amount.

Energy Probe notes that there is only one discrete project under general plant that is not material. That is an expenditure of $725,000 related to monthly billing. Enersource indicated that this expenditure is comprised of $550,000 for the purchase of additional system infrastructure (hardware and the associated license costs) to increase the system processing power as a result of the increase in billing volume and $175,000 required for system reconfiguration and regression testing (Undertaking JT1.7).

Energy Probe submits that this is a glaring instance where Enersource should not be spending this money, given that one of its merger partners (PowerStream) has just instituted a new billing system. Enersource has failed to indicate why it must increase its capacity for monthly billing when it does not know, or at least has not told us, whether this capacity is available at PowerStream, Horizon or Hydro One Brampton. It would not be prudent for Enersource to spend this money only to have its billing system made obsolete through the consolidation that take place as part of the merger.

Energy Probe submits that the Board should remove the $725,000 associated with monthly billing from the eligible incremental capital since it would not be prudent for Enersource to spend this money, given that they have not provided evidence that, in light of the pending merger, this is the most cost effective option for ratepayers available to them.

vi) True Up

The Enersource evidence on the true-up that was being proposed was not clear. Part of the confusion was related to the fact that Enersource originally did not propose a list of discrete projects for ICM recovery. Rather, it proposed to true up based on the total budget of $115 million. In other words, any under spending would automatically reduce the amount that Enersource could recover through an ICM rate rider with a true-up mechanism.

However, Mr. Macumber was very clear that the true-up would be on a project by project basis. At page 19 of the Technical Conference transcript, the following exchange took place:

> ***MS. GIRVAN: Again, sorry, another follow-up. It gets back to my question before about, if you could explain to us -- and maybe it is after the break or something -- how you plan to true-up the process.***
>
> ***MR. MACUMBER: Our intention was to true-up by project. So by providing the list and business unit and each work order that is created for each project, we would true-up by project.***

After further clarification and examples, (TC Tr. pages 20-26) this project by project true-up was summarized in the following exchange that concluded the discussion on the issue:

> ***MR. MACUMBER: Yes. The concept would be if we spent on another project and it was spent over what we're asking for, that would be included in rates in the future, not trying to do retroactive ratemaking.***
> ***We would true up to what we asked for for each project and, in the future, any other thing that we spent on would follow the natural course of rate-making and would be included as historical spend within a cost of service and a rebasing.***
>
> ***MR. SHEPHERD: So, for example, if you rebase, let's say in 2020, then the revenue requirement for the thing you didn't spend money on – sorry, the overspend, the revenue requirement for the overspend for a project, you wouldn't get it for 2016, 2017, 2018, and 2019, but you would start to get it in 2020.***
>
> ***MR. MACUMBER: Whatever was left of that asset, yes, is our intention, yes.***
>
> ***MR. SHEPHERD: Very clear. I understand.***
>
> ***MS. GIRVAN: I have a clarification question. So it sounds to me like your true-up is asymmetrical. If you don't spend the money on a project, you give it back.***
> ***If you overspend on a project, that will only be included in rates on a go-forward basis when you rebase.***
> ***That is, I think, what you just said.***
>
> ***MR. AIKEN: And maybe before you answer, I can follow up on that as well. The example using the long-term asset planning solution cost of $750,000, my understanding of what you're saying is that if you spent***

> ***500,000, 250,000 would go back to ratepayers as part of the true-up. If you spent a million, the true-up would still be based on the 750,000. And the 250,000 overspending would be recovered in rates in a cost-of-service year.***
>
> ***MR. SHEPHERD: On a go-forward basis only.***
>
> ***MR. AIKEN: Yes.***
>
> ***MR. MACUMBER: Yes, that is what we're proposing.***

Enersource is proposing a true-up mechanism that is based on a project by project basis. Energy Probe submits that this is a logical proposal given the discrete nature of the projects that the Board says have to be identified as ICM related capital expenditures. The true-up should not be on the total ICM expenditure basis, as that would remove any incentive the company may have to control costs in each and every project. By truing up on a project by project basis, and using the asymmetrical approach that Enersource is proposing provide value to ratepayers that a true-up on the total eligible ICM capital cannot. This value is two-fold. The first is that any money not spent on an ICM project, whether the project was not done, or was done at a lower than forecast cost, is returned to ratepayers. The benefit for the distributor is that they get a return on those costs before they rebase. The second benefit or value to ratepayers is that the distributor is incented to control its costs knowing that if they exceed the forecasted cost for a particular project, they will lose the return on that excess cost until they rebase.

Energy Probe submits that the Board should approve the project by project true-up as proposed by Enersource because it provides value to customers and provides incentives to Enersource.

vii) Summary of Submissions

Based on the above submissions, Energy Probe concludes that the incremental capital module request amount should be reduced from just over $68 million to under less than $17.5 million. This reflect the removal of the payment to HONI, the Mini Orlando MS that will generate additional revenues, the removal of discrete projects that do not meet the materiality threshold and the removal of the costs associated with monthly billing as this cost has not been shown to be prudent.

Energy Probe supports the true up on a discrete project by project basis as proposed by Enersource. This provides enhanced value to ratepayers by holding the distributor accountable not only for each of the discrete projects, but for the costs associated with each project.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe limited its participation in this proceeding to the request for the incremental capital module.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

February 3, 2016

Randy Aiken
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