

February 3, 2016

 **VIA 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: EB-2015-0065 – Enersource Hydro Mississauga Inc.**

**Submission of Vulnerable Energy Consumers Coalition (VECC)**

On behalf of the Vulnerable Energy Consumers Coalition (VECC) we have attached its submission with respect to the above-noted proceeding.

Thank you.

Yours truly,



Michael Janigan

Counsel for VECC

Cc: Enersouce Hydro Mississauga Inc.

**EB-2015-0065**

**Enersource Hydro Mississauga Inc.**

**Application for electricity distribution rates and other charges**

**effective January 1, 2016**

**Submissions of the Vulnerable Energy Consumers Coalition (VECC)**

1. By its 2016 Price Cap IR Application, filed August 17, 2015, the Applicant, Enersource Hydro Mississauga Inc. (“Enersource”) sought relief in the form of Board approval for the following:

1. 2016 distribution rates effective January 1, 2016, based on 2015 rates adjusted for a price cap adjustment;
2. rate riders to clear Group 1 deferral and variance account balances effective January 1, 2016 to December 31, 2016;
3. shared tax rate riders effective January 1, 2016 to December 31, 2016;
4. incremental capital rate riders effective January 1, 2016 until the next cost of service rate application;
5. adjusted Retail Transmission Service Rates (“RTSRs”); and
6. 2016 Renewable Generation Funding from provincial ratepayers
7. In this submission the Vulnerable Energy Consumers Coalition will direct its submissions solely to Enersource’s request for an incremental capital rate rider pursuant to 1(4) above.
8. Enersource’s updated application now requests $74.947M in distribution capital expenditures and the amount of $40.479M for the Churchill Meadows TS as the components of its proposed 2016 ICM projects expenditure of $115.426 M in accordance with Undertaking JT1.17.
9. VECC submits that the relevant principles derived from the Board’s ACM report[[1]](#footnote-1) and previous decisions that should be applied to the assessment of Enersource’s application for ICM treatment of the capital expenditures are the following:
10. Distributors must provide a preliminary estimate of the materiality threshold value and the resulting total eligible capital amount for the year in which the proposed project is planned to enter service.[[2]](#footnote-2) As well there must be a project-specific materiality threshold.[[3]](#footnote-3)However the mere fact that there is a difference between the capital spending plan and the materiality threshold does not green light an ICM.
11. Projects must be discrete projects and not part of annual capital programs.
12. The amounts incurred must be prudent. Being prudent means the project must constitute the most cost-effective option.
13. Projects must be either is unanticipated at the time of the development of the Distribution System Plan and outside the base upon which rates were derived for projects anticipated but for which sufficient rationale was not available at the time of the DSP to establish need and prudence.
14. Projects must have a significant influence on the operation of the distributor and minor expenditures in comparison to the overall capital budget should be considered ineligible.
15. ICM applications are approved for the year they would go into service.
16. Enersource has provided its calculation of the materiality threshold in Undertaking JT1.17 for the 2106 test year. In the result, the materiality threshold that is applicable for the assessment of the Enersource application is $47.161 M. The same Undertaking response puts the total proposed ICM projects expenditure at $115.426M. This gives rise to a claim of $68.265M and a revenue requirement impact of $5.252M.
17. Enersource has provided in Undertaking JT1.2 a list of ICM projects which differ from those projects that are in the total capital budget that give rise to its claim. VECC wishes to highlight a number of the projects set out therein with a view to determining their eligibility for inclusion.
18. VECC notes that the amount of $ 40.479M is claimed by Enersource with respect to a Connection and Cost Recovery Agreement (“CCRA”) associated with a payment to Hydro One Networks for the Churchill Meadows Transformer Station. This agreement was entered into in 2010 and the station went into service in that year. The invoice from HONI for that amount was paid by Enersource on December 15, 2015 according to the evidence at the Technical Conference. (TC Tr. p.5)
19. VECC is of the view that this 2015 expense cannot be included in the 2016 ICM year application. In addition to being an expense that is not in the subject year, its appearance as an unusual or unanticipated expense meriting ICM treatment is somewhat puzzling given the origin and history of the expense. It is difficult to believe that the expense was unexpected at the time of the demand for payment,[[4]](#footnote-4) and VECC suggests that the more likely explanation for its surfacing at this juncture is that the expected revenues from the station have not materialized for the reasons set out in the evidence. (Tab2/P.38)In any event, it is not a qualified ICM eligible expenditure and should be brought into rate base only upon rebasing.
20. Enersource projects a significant component of its proposed ICM project budget in system renewal expense. In its response JT1.2, Enersource earmarks $18.465 M for system renewal In its evidence in its application (Tab2/p.28) Enersource notes the following:

Expenditures for System Renewal are expected to increase by approximately 20% over the next five years. The main reason for increasing costs in this area is due to a significant portion of the distribution equipment that was installed in the 1970’s, 1980’s,

And early 1990’s having aged and reached the end of its expected useful life. The 2015 forecast is $35.2 million which is $3.9 million higher than 2014 due to additional planned subdivision renewals and overhead rebuilds. The 2016 forecast is $34.7 million; $469 thousand lower than 2015 due to lower transformer replacement investments offset by higher sub-transmission renewal projects.

Table 7 provides a detailed breakdown of equipment failure statistics for the period 2010-2014. Underground cable faults represent the vast majority of total failures.

1. However, Table 7 at Tab2 p. 28 actually shows the incidence of underground cable faults which provide the vast majority of total failures to be greatest in 2010, 2011, and 2012 a fact that could have easily informed its capital budget program at the time of the last rebasing.
2. In its 2013 application, Enersource’s evidence was much the same as its current 2016 application (EB-2012-0033,Ex1,Tab2,Sch.1, page 5):

“The need for a modified approach is particularly timely for Enersource’s

customers. As fully detailed in Exhibit 2 Tab 2 Schedule 2 and Exhibit 2 Tab 2 Schedule 2 Appendix 1, i.e., the Asset Management Plan, there is a need for significant capital investment in Enersource’s system starting within the next four to five years, continuing over the next decade and beyond. It reflects the need to replace or substantially refurbish many of Enersource’s electricity system assets that were installed during the City of Mississauga’s boom development years of the 1970’s, 1980’s, and 1990’s. A significant portion of this vintage of assets was paid for by developers and therefore is not included in the current rate base and

does not impact current distribution rates.

 Enersource’s direct capital investments during that same period of boom

 development will also require a similar degree of replacement and/or

 rehabilitation and financial returns from this investment will, in effect, replace the returns generated from the retired plant.[[5]](#footnote-5)

1. While Enersource’s projections for system service expansion may have been affected by its ongoing discussion with City officials concerning plans for growth, (TC Tr. pp 35, 36), it is difficult to reconcile Enersource’s ICM request in this category with the requirement to show there was no ability to plan for these system renewal expenses in the rate base request as the Enersource state of knowledge concerning need appears the same as evidenced by the comparison of applications.
2. The system renewal ICM request may reflect a ramping up of system renewal expenditures that exceed the pacing that would normally flow from its own AMP. We have had the advantage of reviewing the draft submissions of AMPCO in this proceeding and would note that its review of Enersource’s Asset Condition Assessment leads to the conclusion that the accelerated pace is not congruent with the ACA. This seems to provide an explanation for the overshoot of capital expenditures in this area without a substantial change in outlook.
3. VECC has also been favoured with a draft of Energy Probe’s submissions and concurs with its conclusions with respect to the disposition of the following projects:
4. The land purchases for the Webb MS, Mini Britannia and Duke MS should be excluded from the ICM eligible capital for 2016 as the substations are not in service in 2016, and in fact will not be in service until 2018-2019.
5. 13 projects totaling $4,663,530 should be removed from the ICM capital proposal because of materiality concerns. The last rebasing application (EB-2012-0033) had a materiality threshold of $645,000.That amount provides a reasonable criterion for classifying these projects. In the result, they are minor expenditures and have no significant influence on Enersource’s operations.
6. VECC agrees that Section 3.3.2.1 of the Filing Requirements mandates the distributor exercise of providing evidence that incremental revenue will not be funded by other means such as expansion of service. The Mini Orlando MS station project is to respond to growth and as this load is becoming a reality in 2016, the revenues associated for that growth must be accounted for before any ICM eligibility can be determined.
7. There is no benefit accruing to ratepayers or the public interest as a whole to ignore the potential effect of a merger upon the need to initiate projects that may become redundant when the merger is operational. There appear to be obvious areas in IT, billing systems, and general plant expenditures to be made by Enersource where common sense might dictate another course of action. Rather than invest in a capital expense for a project, perhaps the prudent choice would entail at least an inquiry whether that capability may be easily obtainable elsewhere in the merged company. It is difficult to support the commitment of ratepayer dollars to ICM projects when capital expenses could be avoided with such due diligence.
8. VECC notes the importance of a true up of any expenditure incurred as part an ICM approval process which would ultimately include a prudence review of any overspending on ICM projects that have so qualified. VECC also notes the ability of Enersource to file a rebasing application in 2017 to incorporate its capital commitments that were not incorporated into rate base request in its last rebasing application.
9. In VECC’s view, the exclusion of proposed ICM projects as failing to conform to the Board’s criteria, as well as the rather inexplicable uptick in costs caused by the pursuit of Enersource’s capital programs make it difficult to justify this application. The headlong ramp-up of expenditures together with the incorporation of the out-of-period CCRA associated with the Churchill Meadows TS would be best accomplished within the context of the 2017 rebasing of rates and not before.
10. VECC requests the payment of 100% of its reasonable costs of its participation in this proceeding.

**\*\*\*End of Document\*\*\***

1. EB-2014-0219 Report of the Board, “New Policy Options for the Funding of Capital Investments: The Advanced Capital Module”, September 18, 2014 [↑](#footnote-ref-1)
2. ACM Report, p.14 [↑](#footnote-ref-2)
3. Toronto Hydro EB-2012-0064 , pp18.19 [↑](#footnote-ref-3)
4. TC Tr. p.156 Enersource asserts that they had apparently not ascertained the quantum of the Hydro One invoice or that they would be making a payment [↑](#footnote-ref-4)
5. Ex2/Tab2/Sch1/p11 of EB 2012-033 notes a $2,002M increase in expenditures related to reliability driven investments as a result of higher forecasted replacements of distribution system assets as

recommended by the AMP; [↑](#footnote-ref-5)