more than energy™

February 10, 2016 **BY RESS & OVERNIGHT COURIER**

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Enersource Hydro Mississauga Inc. Application for Distribution Rates Effective January 1, 2016, Board File No. EB-2015-0065 Reply Argument

Please find attached Enersource's reply argument in the above captioned proceeding.

Two hard copies of this letter and reply argument will be sent to the Board in addition to filing this via RESS.

If you have any questions, please do not hesitate to contact me at (905) 283-4098.

Sincerely,

(Original signed by)

Gia M. DeJulio
Director, Regulatory Affairs

cc. Norm Wolff, Executive Vice-President and Chief Financial Officer, Enersource
Jane Scott, Project Advisor, Ontario Energy Board
Richard Lanni, Counsel, Ontario Energy Board
Fred Cass, Aird & Berlis LLP
All Intervenors, On Record

2185 Derry Road West, Mississauga, Ontario L5N 7A6
tel 905.273.9050 fax 905.566.2737 enersource.com

EB-2015-0065

Enersource Hydro Mississauga Inc.

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

REPLY ARGUMENT

February 10, 2016

Introduction

1. Enersource Hydro Mississauga Inc. ("Enersource") filed an application with the Ontario Energy Board (the "Board") on August 17, 2015 under section 78 of the *Ontario Energy Board Act*, *1998* (the "Act"), seeking approval for changes to the rates that it charges for electricity distribution, to be effective January 1, 2016. The application is based on the Board's Price Cap Incentive Regulation ("IR") mechanism.

2. In the application, Enersource seeks Board approval of the following:

   (i) 2016 distribution rates effective January 1, 2016, based on 2015 rates adjusted for a price cap adjustment;
   (ii) rate riders to clear Group 1 deferral and variance account balances effective January 1, 2016 to December 31, 2016;
   (iii) shared tax rate riders effective January 1, 2016 to December 31, 2016;
   (iv) incremental capital rate riders effective January 1, 2016;
   (v) adjusted Retail Transmission Service Rates ("RTSRs"); and
   (vi) 2016 Renewable Generation Funding from provincial ratepayers.

3. Enersource's request for incremental capital funding is made in accordance with the Board's Incremental Capital Module ("ICM"). The ICM funding request is consistent with the evidence in Enersource's most recent Cost of Service application to the Board (EB-2012-0033), where it identified the need for significant capital investment in its system starting within the next four to five years (2016 to 2017 timeframe).[1]

4. In 2013, Enersource established an Asset Management Division to focus on the development of the Distribution System Plan ("DSP") and Long Term Investment Portfolio.[2] The first priority was to develop a Comprehensive Asset Management Policy which enables Enersource to analyze programs and projects both qualitatively and quantitatively and facilitates pacing and prioritizing of capital investments in a manner that considers resource needs and rate impacts.[3]

5. Using the Board's ICM, Enersource calculated an Eligible Incremental Capital Amount of $68.265 million, based on total capital expenditures of $115.425 million, less a materiality threshold of $47.160 million.[4] The Board's Report on New Policy Options for the Funding of Capital Investments, which was released on January 22, 2016, updated the calculation of the materiality threshold for ICM applications.[5] While the effect of the new calculation would be to decrease the

[1] EB-2015-0065 Price Cap IR Application, Tab 2, Manager's Summary (the "Manager's Summary"), pages 21-22.
[2] Manager's Summary, page 22.
[3] Manager's Summary, pages 18 and 22.
[4] Response to Undertaking JT1.17.
[5] EB-2014-0219 Report of the Board, New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016, pages 19-20 and Appendix B.

materiality threshold used by Enersource in this application, Enersource elected not to revise its ICM application on the basis of the new policy.

6. The 2016 capital budget included within the ICM reflects the minimum amount of non-discretionary infrastructure renewal that Enersource must undertake, and that has been approved by its Board of Directors, in order to maintain current overall levels of system safety and reliability.[6]

7. Following an interrogatory phase and a Technical Conference in this proceeding, final submissions were received from the following:

   (i) Board Staff,
   (ii) the Association of Major Power Consumers in Ontario ("AMPCO");
   (iii) the Consumers Council of Canada ("CCC");
   (iv) Energy Probe Research Foundation ("Energy Probe");
   (v) the School Energy Coalition ("SEC"); and
   (vi) the Vulnerable Energy Consumers Coalition ("VECC").

8. Enersource's reply to these submissions is set out under the headings that follow.

Summary of Arguments

9. In its submission, Board Staff took no issue with the non-ICM relief sought by Enersource. Specifically, Board Staff submitted that:

   (i) Enersource has correctly calculated the 2016 price cap adjustment;[7]
   (ii) Enersource's Group 1 Deferral and Variance Account balances should be disposed of on a final basis;[8]
   (iii) Enersource has correctly calculated the amount of tax sharing and the class rate riders;[9]
   (iv) Board Staff has no concerns with the data supporting the updated RTSRs;[10] and
   (v) Enersource has correctly calculated the direct benefit to Enersource's customers related to FIT and microFIT connections and therefore the amount to be collected from all provincial ratepayers.[11]

10. No submissions with respect to the non-ICM relief sought by Enersource were made by intervenors. Thus, there have been no issues raised in this proceeding about the non-ICM relief and Enersource submits that such relief should be approved by the Board.

[6] Manager's Summary, page 25.
[7] Staff Submission, page 17.
[8] Staff Submission, page 18.
[9] Staff Submission, page 17.
[10] Staff Submission, pages 17-18.
[11] Staff Submission, page 17.

11. All of the arguments submitted in this case address Enersource's ICM application. Even though it is clear that certain intervenors reviewed draft submissions of other intervenors,[12] the arguments reveal a disparity of views about the extent to which the Board should grant the relief requested in the ICM application. Board Staff supports projects totalling $53.8 million for ICM treatment;[13] AMPCO's proposed reductions result in an ICM amount of $10.6 million;[14] CCC does not seem to state any specific amount that it believes should be given ICM treatment; Energy Probe says that the ICM request should be reduced to "under less than $17.5 million";[15] VECC apparently takes the position that the ICM amount should be nil and SEC argues that none of Enersource's spending qualifies for ICM treatment although assertions made in the alternative by SEC include an argument that, if the Board allows any of Enersource's "Non-CCRA Projects" as ICM spending, the amount should be $6.095 million.[16]

12. Table 6 in the Board Staff Submission lists the ICM projects (in the total amount of $53.8 million) recommended for approval by Board Staff.[17] The list does not include two of Enersource's programs, Overhead Transformer and Equipment Renewal and Underground Transformer and Equipment Renewal, apparently on the ground that these are not discrete projects.[18]

13. Enersource points out, however, that it is undertaking a specific project effort to replace leaking transformers and transformers containing PCBs.[19] It would be imprudent to delay replacement of these transformers that are leaking or that contain PCBs until end of life or until other issues with their condition warrant replacement. Enersource's effort to replace these PCB or leaking transformers is most certainly a discrete project and the costs of the effort are outside the base upon which rates were derived (2013 cost of service).

14. Board Staff also argues that, of Enersource's total spending on Subtransmission, only $1.96 million is eligible for inclusion in the ICM, on the ground that Enersource has not met the criterion of showing clearly that the balance of the capital expenditures on Subtransmission are outside of the base.[20] Enersource submits that Board Staff has been inconsistent in its consideration of, on the one hand, projects that are incremental to the base and, on the other hand, approval of ICM spending on a project basis, such that expenditures can ultimately be trued-up project-by-project. The envelope amount of $1.96 million referred to in the Board Staff Submission could not be trued-up on a project basis.

[12] Final Argument of the Consumers Council of Canada ("CCC Submission"), page 7; Submissions of the Vulnerable Energy Consumers Coalition ("VECC Submission"), paragraphs 13-14; and Submissions of SEC ("SEC Submission"), paragraph 2;
[13] Staff Submission, page 16.
[14] AMPCO's Final Submissions ("AMPCO Submission"), page 20.
[15] Submissions of Energy Probe ("Energy Probe Submission"), page 10.
[16] SEC Submission, paragraph 32b.
[17] Board Staff Submission, page 16.
[18] Board Staff Submission, page 11.
[19] Response to Board Staff Supplementary Interrogatory 15, DSP, pages 209-210 of 219;Transcript, Technical Conference, January 8, 2016, pages 77-78.
[20] Board Staff Submission, page 13.

15. Subject to these differences with respect to PCB or leaking transformer replacement and Subtransmission spending, Enersource accepts the list of ICM projects set out in Table 6 of the Board Staff Submission. In order to allow for Subtransmission spending to be trued-up on a project basis, Enersource submits that, instead of the envelope amount of $1.96 million put forward by Board Staff, the ICM should include the first three Subtransmission projects in Table 3 of the Board Staff Submission.[21] These three projects (described as Bloor, Lakeshore and Park) total $2.25 million.

16. Attached as Schedule A to this reply argument is a revised version of Board Staff's Table 6 that adjusts for the two areas of difference explained above, namely PCB or leaking transformers and Subtransmission. As can be seen from the bottom line of the revised table at Schedule A, the effect of the revisions to Board Staff Table 6 made by Enersource is to increase the total ICM amount from the $53.8 million recommended by Board Staff to $60.2 million.

17. In Schedule A, Enersource has presented the business case number for each ICM project,[22] the recommended ICM projects from Board Staff's Table 6, Enersource's proposed revisions to Table 6 and an explanation (taken from the respective business cases) of how each project included in the $60.2 million ICM amount has a significant influence on Enersource's operations.

ICM Criteria

18. As confirmed in the Board's Report on the Advanced Capital Module (the "ACM Report"),[23] there are three fundamental criteria for an ICM application, namely, materiality, need and prudence. The ACM Report provides the following additional guidance regarding these three criteria:

    (i) **Materiality:** A "capital budget" will be deemed to be material, and as such "reflect eligible projects", if it exceeds the Board-defined materiality threshold. Incremental capital amounts must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the distributor. Minor expenditures should be considered ineligible, in that a "certain degree" of project expenditure is expected to be absorbed within the total capital budget.

    (ii) **Need:** The distributor must pass the Means Test. Amounts must be based on discrete projects, directly related to the claimed driver and clearly outside of the base upon which rates were derived.

[21] Board Staff Submission, page 12.
[22] The business cases can be found in the 2016 Price Cap IR Application, Supplementary ICM Evidence filed on October 2, 2015.
[23] EB-2014-0219 Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014.

(iii) **Prudence:** The amounts to be incurred must be prudent. The decision to incur the amounts must represent the most cost-effective option, but not necessarily the least initial cost, for ratepayers.[24]

19. In the ACM Report, the Board made clear that the availability of incremental capital funding during an IR term should no longer be limited to non-discretionary projects. In this regard, the Board said that:

> Any discrete project (discretionary or otherwise) adequately supported in the DSP is eligible for ACM funding subject to capital funding availability flowing from the formula results. The same approach shall apply going forward to new projects proposed as ICMs during the Price Cap IR term.[25]

20. The ACM Report goes on to say that, with the establishment of a requirement to file a five year DSP, distributors will be expected to develop well-paced plans to maximize the efficiency and effectiveness of their systems in serving customers and smooth rate impacts where possible.[26] This is precisely what Enersource has done. After considering requirements for System Renewal, System Service and System Access, Enersource reviewed its General Plant investment proposals and re-prioritized many of the planned activities over the DSP time frame.[27]

21. By smoothing General Plant investments over the DSP time frame, Enersource was able to maintain a relatively stable year-to-year investment portfolio that takes into account key factors, including impact on customer rate changes.[28] Enersource submits that its ICM application fulfills the Board's expectations regarding well-paced plans and smoothing of rate impacts and, given that capital funding availability does indeed flow from the formula results, the ICM application should be approved by the Board.

22. Enersource will now address more specifically the application of the three ICM criteria to this application.

Materiality

23. Enersource's "capital budget" clearly exceeds the Board-defined materiality threshold and, hence, in accordance with the ACM Report, it is deemed to be material and to "reflect eligible projects".

24. The evidence filed in support of the ICM application establishes that the incremental capital spending will have a significant impact on Enersource's

[24] ACM Report, page 17.
[25] ACM Report, page 15.
[26] ACM Report, page 15.
[27] Manager's Summary, pages 24-25.
[28] Manager's Summary, page 25.

operations. Enersource explained in the evidence that it identified a significant need for capital investment in its system in its EB-2012-0033 cost of service application and demonstrated the reality of that need with capital expenditures in 2014 that exceeded 2013 capital spending by almost $10 million and expected capital expenditures of $76.7 million in 2015, an increase of $28.2 million over 2013.[29] Enersource can now report that actual 2015 capital expenditures totalled $81.9 million, an increase of $33.4 million over 2013.

25. As confirmed by Enersource's actual capital spending, and set out in the evidence, the continued renewal of Enersource's distribution system is significant and necessary for maintaining and continuing the safe and reliable operation of the system.[30] In addition, the table attached hereto as Schedule A sets out a specific explanation, as extracted from the Supplementary ICM Evidence, filed on October 2, 2015, Business Cases, of how each of the ICM projects listed in the table has a significant influence on the operation of the distribution system.

Need

26. By letter dated August 31, 2015, the Board identified certain points to be addressed by Enersource, including the ICM criteria that amounts be based on discrete projects, directly related to the claimed drivers and clearly outside the base upon which rates were derived. Enersource responded to the Board's letter with a detailed filing of information that answered the points identified in the letter, including discrete business cases for all projects and an explanation that these projects were prioritized based on drivers aimed at meeting the Board's outcomes referred to in the Renewed Regulatory Framework for Electricity, namely, Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance.[31]

27. Energy Probe confirms in its submissions that Enersource has indeed provided a list of discrete projects.[32] Enersource has responded above to the argument by Board Staff that two of the programs are not discrete projects. As set out above, Enersource submits that its specific effort to replace leaking transformers and transformers containing PCBs is assuredly a discrete project.

28. SEC offers its comments on Board Staff's submission regarding certain projects and, in so doing, argues that these projects should not be given ICM treatment because they are "normal course of business activities, already included in the Asset Management Plan".[33] However, similar arguments made in response to an ICM application by Toronto Hydro-Electric System Limited ("Toronto Hydro") were not accepted by the Board.

[29] Manager's Summary, page 23.
[30] 2016 Price Cap IR Application, Supplementary ICM Evidence Summary, page 4.
[31] 2016 Price Cap IR Application, Supplementary ICM Evidence Summary, page 1.
[32] Energy Probe Submission, page 3.
[33] SEC Submission, paragraph 29.

29. In a decision rendered in EB-2011-0144, the Board addressed plans by Toronto Hydro to increase its spending on capital projects over a ten period to an amount that far exceeded historical levels.[34] In this context, the Board discussed the ICM and said that the ICM was developed to address the circumstances of increased capital needs within IR, that the Board's thinking in this area has evolved and that, if Toronto Hydro is facing unusual non-discretionary requirements, then the appropriate course is an ICM application.[35] (Of course, as noted above, it is no longer a requirement for an ICM application that capital expenditures be non-discretionary.)

30. Toronto Hydro subsequently brought an ICM application, but intervenors argued that "business as usual" capital spending does not meet the requirements of the ICM. The Board addressed these arguments in its EB-2012-0064 Partial Decision and Order. The Board ruled that the ICM criteria do not require that capital expenditures be on an "emergency or urgency basis" but, rather, that the work must be undertaken and that the existing capital is insufficient to do so. The Board rejected the notion that projects that might be "routine" or "business as usual" are ineligible categorically for ICM treatment.[36]

Prudence

31. The prudence of Enersource's capital spending is supported by a thorough and extensive set of business plans that have been filed as part of the evidence in this proceeding.[37] The business cases consider alternatives, including maintaining the status quo, and the potential impact of these alternatives. This evidence demonstrates that Enersource has been diligent in its efforts to ensure that its capital spending plans represent the most cost-effective option for ratepayers.

32. Further, Enersource has filed its Capital Planning Overview 2016-2021, which provides a description of the process it uses to assess and prioritize capital spending options. The overall process set out in this document and followed by Enersource ensures that prudent decision-making underlies Enersource's capital planning.[38]

33. Consistent with the Board's guidance regarding the prudence of proposed ICM projects, Enersource has taken into account circumstances where, from a financial and productivity perspective, it is better to replace all equipment in a major rebuild than to make multiple visits to the same location. In doing so, Enersource has made decisions that reflect the most cost-effective option, although not necessarily the least initial cost, for ratepayers. This, again, is in line with the EB-2012-0064 Partial Decision and Order, where the Board agreed that doing only the bare minimum of work may be more expensive and

[34] EB-2011-0144 Decision with Reasons and Order on the Preliminary Issue, January 5, 2012, page 18.
[35] EB-2011-0144 Decision, pages 21, 22 and 23.
[36] EB-2012-0064 Partial Decision and Order, April 2, 2013, pages 17-18.
[37] 2016 Price Cap IR Application, Supplementary ICM Evidence filed on October 2, 2015, Business Cases.
[38] 2016 Price Cap IR Application, Supplementary ICM Evidence, Enersource Capital Planning Overview 2016-2021, filed on October 2, 2015.

counterproductive in the long run and that, as a practical matter, cost-effectiveness means that the prudent solution when carrying out certain work is to complete other important associated work.[39]

Proposed Capital Spending

34. AMPCO has put forward a number of arguments about Enersource's 2016 capital spending. In making these submissions, AMPCO has not correctly stated facts (such as costs) that are on the evidentiary record for this proceeding. Rather than embarking on a lengthy narrative to correct these errors, Enersource has prepared a table setting out facts as stated by AMPCO and the facts actually on the evidentiary record. The table is attached as Schedule B to this reply argument.

35. In response to AMPCO's assertions, Enersource notes that asset condition assessments, as documented in its 2013 and 2014 Asset Condition Assessment ("ACA") reports[40] are used to determine the current condition of Enersource's major assets. However, Enersource, similar to other distributors using best utility asset management practices, looks at other critical business risks, such as employee and public safety, reliability and environmental and regulatory considerations as it develops its system renewal program.

36. As outlined in the evidence,[41] Enersource evaluates its capital investments (including system renewal) against the following business values:

> **Regulatory/Public Policy Responsiveness** – the ability to meet obligations mandated by the government & regulatory bodies;
> **Operational Effectiveness** – the ability to continuously improve productivity and cost performance while delivering on system reliability and quality objectives;
> **Customer Focus** – services are provided in a manner reflective of identified customer preferences; and
> **Financial Performance** – financial viability is maintained and operational effectiveness savings are sustainable.

37. Using asset condition as the sole criterion to determine the level of system renewal would be imprudent and would not align with Enersource's asset management principle of renewing assets that pose the greatest business risks (not just the imminent reliability risk of failure due to being in poor or very poor condition). Instead, in order to effectively prioritize capital projects and programs, Enersource analyzes the work to be done in the context of the business values listed above. The objective is to eliminate, control or mitigate risks associated

[39] EB-2012-0064 Partial Decision and Order, page 17.
[40] Response to AMPCO Interrogatory 8.
[41] Response to Board Staff Supplementary Interrogatory 11; Response to Board Staff Supplementary Interrogatory 15, DSP, page 36 of 219.

with each business value and to ensure that the highest risks are addressed first.[42]

38. For example, a single phase transformer may not pose a substantial reliability risk as only 10-12 residential customers may lose power for up to four hours. However, when a transformer is leaking, it may represent a larger risk if left un-replaced, posing an environmental and public safety risk. There are also regulatory requirements to replace leaking and PCB-contaminated transformers regardless of the working condition of these transformers. Such actions are not prescribed by the ACA report alone.

39. Enersource has more than 1,900 transformers that need to be replaced, either because they are leaking or because they contain PCBs.[43] Obviously, not all of this work can be done in 2016 and Enersource must pace and prioritize the replacement of transformers. As discussed above, though, Enersource has established a discrete and specific program aimed at addressing issues with transformers that leak or contain PCBs.

40. Asset condition assessments, although an effective way to identify the current condition of major assets, cannot be used solely to drive the appropriate level of system renewal under the DSP. It is crucial that all business risks are taken into account when determining appropriate replacement strategy for major distribution assets. The business case for each of the capital projects included in the application includes a detailed list of the business risks addressed by the particular project.[44]

41. In addition, Enersource must also consider pacing its capital spending over time in order to mitigate rate impacts. It would not be prudent to spend inconsistently from one year to the next in each category of capital spending, knowing that over time a certain number of replacements will need to be undertaken. Where replacements can be completed in a systematic and consistently paced manner, Enersource can undertake this capital work in order to manage the business risks at a reasonable level while smoothing the rate impact to ratepayers.

42. Further, there are situations where it will be necessary or cost-effective for Enersource, when replacing assets in poor or very poor condition, to replace associated assets that have not reached poor or very poor condition. Enersource has pointed out above that this approach is in line with the Board's prudence criterion for ICM applications and with the Board's EB-2012-0064 decision.

43. AMPCO's submissions include detailed comments about replacement of poles by Enersource. On this subject, Enersource's 2014 ACA report, dated July 30, 2015, identifies that 18% of wood poles (i.e., 2,330 poles) were found to be in

[42] *Ibid,* page 38 of 219.
[43] *Ibid,* page 210 of 219.
[44] 2016 Price Cap IR Application, Supplementary ICM Evidence filed on October 2, 2015, Business Cases.

either very poor or poor condition.[45] Annual wood pole replacements in the past have ranged from approximately 200 to 500. If Enersource were to act in accordance with the 2014 ACA report,[46] it would need to immediately replace 1,021 wood poles and make 4,101 replacements over the next 10-year period. However, Enersource has proposed the replacement of only 500 wood poles in 2016.

44. The proposal to replace only 500 wood poles is predicated on the information provided in the Distribution System Plan,[47] which is based on a number of inputs, including, but not limited to, asset condition assessment and key factors such as system planning, managing business risks, prioritization and the execution of capital projects in a sustainable manner that balances pacing of capital investments against available resources.

45. As further described in the DSP,[48] overhead distribution renewal (which includes pole replacement), takes into account safety, environmental, regulatory, reliability, reputational and financial risks to determine which investments have the greatest impact on the business values. Projects are selected and prioritized taking into consideration resource constraints such as appropriate funding, internal and external labour availability.

46. Since the main components of the overhead systems are poles, pole mounted transformers, switches, conductors and associated overhead hardware (i.e., insulators, fuses, and lightning arrestors) Enersource considers several criteria when selecting capital projects that would qualify under system renewal. For example, a typical overhead distribution renewal project would be selected where poles were found to be in poor condition, coupled with leaking or PCB-contaminated transformers if such have been identified, and where porcelain insulators, EPAC switches and other components have been found to pose a safety risk to the public or environment and/or have reached the end of their useful life. The condition of the wood poles alone does not determine the renewal project.

47. The wood pole replacement program only lists locations where like-for-like (wood for wood) replacements are done. The concrete pole replacement program, on the other hand, includes locations where either poor wood or concrete poles are being replaced with concrete poles. In this case, the replacement of wood poles with concrete poles was found to be prudent as the concrete poles have a longer useful life and require less inspection and maintenance work compared to the wood poles, and generally, deterioration in the concrete is more evident, by observing the exposure of concrete bars, than deterioration of wood poles.

Payment to Hydro One

[45] Response to AMPCO Interrogatory 9, Appendix A, page 3.
[46] Response to AMPCO Interrogatory 8, 2014 ACA report, Table III, page 28.
[47] Response to Board Staff Supplementary Interrogatory 15, page 2 of 219.
[48] Response to Board Staff Supplementary Interrogatory 15, page 118 of 219.

48. Enersource's ICM application includes an amount paid to Hydro One Networks Inc. ("Hydro One") under a Connection and Cost Recovery Agreement ("CCRA") for Churchill Meadows Transformer Station. At the time when Enersource filed its application, the payment to Hydro One had not been made and Enersource expected to incur a 2016 capital expenditure in the amount of $40.378 million under the CCRA.[49]

49. As events transpired after the filing of the ICM application, Enersource ultimately paid an amount of $40.479 million to Hydro One under the CCRA on December 15, 2015. Intervenors have argued that, because the payment to Hydro One was made in 2015, the CCRA amount should be excluded from the ICM application.[50] Board Staff, however, provides a number of grounds for its conclusion that it is acceptable to treat the payment to Hydro One as part of the 2016 ICM request.[51]

50. At the time when Enersource made its ICM application, the CCRA payment was expected to be a 2016 capital expenditure and, in the end result, a timing difference of less than three weeks meant that the expenditure fell into 2015 rather than 2016. Enersource submits that it would be neither just nor reasonable to exclude the payment from eligible ICM expenditures simply because of this timing difference.

51. At the time when Enersource filed the application in this proceeding, it was appropriate for the CCRA amount (then expected to be paid in 2016) to be put forward as part of an ICM application. The payment does not lose its character as an appropriate ICM amount when, after the application has been filed and the case has proceeded, the timing of the payment changes. Otherwise, an applicant in the position of Enersource, having proceeded with an appropriate request for ICM treatment, would be forced to drop the ICM request and start afresh with a Z-factor request. Obviously, such an outcome would be highly inefficient and wasteful of the resources of the Board and the participants in Board proceedings.

52. Energy Probe attempts to raise concerns that inclusion of the CCRA amount in the ICM application will open up the ICM to claims by distributors for prior-year capital expenditures. Specifically, Energy Probe says that, if the Board were to approve inclusion of the CCRA payment, "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".[52]

53. At the time when Enersource made its ICM application, the CCRA payment was a "forecasted capital expenditure in the subject year" and, thus, on the basis of the reasoning applied by Energy Probe, it was (and is) an appropriate ICM amount. Approval of Enersource's ICM request does not open the doors to

[49] Manager's Summary, page 21.
[50] For example, VECC Submission, paragraphs 7 and 8.
[51] Board Staff Submission, pages 7-8.
[52] Energy Probe Submission, page 4.
[51]Board Staff Submission, page 8.

applications seeking an ICM based on "actual capital expenditures in a previous year" because no such application was ever made in this case by Enersource.

54. Enersource agrees with Board Staff's submission that the payment to Hydro One is acceptable as an ICM project as it meets the required criteria.[51]

55. Board Staff and SEC made submissions about the Capital Cost Allowance ("CCA") rate used in the calculation of the amount paid by Enersource to Hydro One. Enersource calculated the CCA based on the forecasted 2016 payment timeline. It used an 8% CCA rate for Class 47 (that is, the CCA rate that Board Staff says it should have used) and applied the half year rule.[53] Correspondingly, Enersource calculated depreciation expense using a 40 year life and the half year rule.

56. SEC submits that the correct amount of 2016 CCA, using the declining balance method, with a 2016 opening Undepreciated Capital Cost of $38,859,551 (after CCA in 2015) is $3,108,764. SEC goes on to submit that the correct amount to be used is $39,972,416, since depreciation of $505,984 would already have been taken for 2015, while depreciation for 2016 would be $1,011,968. This calculation results in incremental revenue of $5.324 million, which is an increase of $72,000 over the amount calculated by Enersource, $5.252 million. Enersource does not propose to revise the application to adjust for this small difference.

Merger

57. Certain intervenors argue that, in considering this application, the Board should have regard to a "publicly known", but not completed, merger among Enersource, PowerStream Inc. ("PowerStream), Horizon Utilities Inc. and Hydro One Brampton Networks Inc.[54]

58. The Board has already made a decision regarding the relevance of the merger referred to by intervenors. It did so in the context of PowerStream's Custom IR application for approval of rates for the period from January 1, 2016 to December 31, 2020 (EB-2015-0003). The relevance of the merger was considered as a threshold issue in that case and the Board's Decision on the threshold issue was released on October 6, 2015.

59. As noted in the EB-2015-0003 threshold issue decision, intervenors in that case argued that the "impacts of a merger" should be "in scope" for the application and that "the OEB has the obligation to consider … including potential savings that may result, if the merger were to occur".[55] The Board rejected these arguments.

60. In the threshold issue decision, the Board indicated that pre-consolidation rate-setting and MAADs policy are intended to co-exist in setting just and reasonable

[53] Tab 10b of the ICM Model.
[54] See, for example, Energy Probe Submission, pages 7-8.
[55] EB-2015-0003 Decision on Threshold Question and Procedural Order No. 3, October 6, 2015 ("Threshold Decision"), page 4.

rates and that it was inappropriate to introduce a linkage between the two based on a temporal relationship.[56] The Board went on to address specifically the argument that it needed to examine potential cost savings in order to be able to consider the merits of including them in establishing rates. The Board disagreed with this submission and stated that:

> As per the above analysis, the OEB considers that evidence on potential cost savings due to the merger regardless of substance, is outside the scope of this proceeding.[57]

61. Energy Probe asserts that the merger "has not been determined to be out of scope for this proceeding".[58] The Board has already made a decision in the PowerStream case indicating that it is inappropriate to introduce a linkage between a pre-consolidation rate-setting case and a case involving the MAADs policy. Obviously, it is not necessary for the Board to make the same determination repeatedly in every case where a rate proceeding precedes an expected or possible MAADs application. The ruling in EB-2015-0003 applies squarely in this case.

62. In response to an interrogatory from CCC, Enersource stated that this application is filed on a stand-alone basis and is not affected by the proposed merger, which has not been consummated.[59] Further, when asked about "savings" that might result from the merger, Enersource said that:

> This question is out of scope, for the same reasons as those set out in the OEB's *Decision on Threshold Question* in PowerStream EB-2015-0003.[60]

63. No motion was brought to the Board to challenge Enersource's position that questions about the merger are out of scope for the reasons set out in the decision in the PowerStream case. Enersource submits that no weight should be given to assertions made in final argument by intervenors that the merger has not been determined to be out of scope for this proceeding, given that the issue was decided in the PowerStream case and there has been no challenge to Enersource's position that the PowerStream decision applies in this case.

64. Moreover, intervenors seek to argue both sides of the merger issue, depending on how it suits the purposes of their arguments. On the one hand, intervenors assert that the Board should have regard to the merger as it assesses the projects that are the subject of the ICM application. On the other hand, in their submissions that the Board should disallow certain of the ICM projects, intervenors repeatedly rely on the fact that 2017 is a rebasing year for

[56] Threshold Decision, pages 6-7.
[57] Threshold Decision, page 8.
[58] Energy Probe Submission, page 7.
[59] Response to CCC Interrogatory 10.
[60] Response to CCC Interrogatory 13.

Enersource,[61] as if no merger will occur and Enersource will come to the Board in 2017 with a stand-alone rebasing application.

65. Of course, Enersource will utilize its resources prudently and will take into account potential future developments that could affect the need for particular capital assets. However, the prudent management of a utility, and the Board's consideration of the rate-making implications of prudently incurred expenses, cannot be paralyzed because of the potential for future events that have not yet occurred.

Mini-Orlando Municipal Station

66. Energy Probe asserts that the proposed Mini-Orlando municipal station ("MS") will generate additional revenue for Enersource that has not been taken into account in the application and that the project does qualify for ICM treatment.[62] In fact, the project business case for Mini-Orlando MS filed as part of Enersource's supplementary evidence on October 2, 2015 indicates that the construction of the station is required to address <u>current</u> issues with loading of feeders in the "Heartland" area of Mississauga, which are above optimal capacity during the summer months, and, in addition, the concern that there is no backup in the area for equipment failure.[63]

67. When customers are connected downstream of Mini-Orlando MS, Enersource is only then able to conduct an Economic Evaluation pursuant to the Board's Distribution System Code, in order to determine whether the newly-connected customers can be required to pay a contribution to Enersource or whether the net present value of future expected revenue from those customers will meet or exceed Enersource's expected costs. However, the Economic Evaluation does not permit the inclusion of upstream costs such as Mini-Orlando MS. That is, the costs for Mini-Orlando MS are not offset by future revenue from these newly-connected customers. Therefore, the costs for Mini-Orlando MS are socialized across the entire Enersource distribution system and all ratepayers. These circumstances are factored into the ICM model.

68. In its EB-2010-0130 decision with respect to an ICM application by Guelph Hydro Electric Systems Inc., the Board considered whether a revenue offset should reduce the revenue requirement associated with a new municipal transformer station. The Board's finding on this issue was as follows:

> With respect to the issue of whether the revenue offset should reduce the revenue requirement of the New MTS – Clair, the Board notes that the formula used to determine the threshold value incorporates a factor for growth. ….

[61] For example, VECC Submission, at paragraphs 16 and 17, SEC Submission, paragraph 12, Energy Probe Submission, pages 4, 6 and 7.
[62] Energy Probe Submission, page 7.
[63] 2016 Price Cap IR Application, Supplementary ICM Evidence filed on October 2, 2015, Business Cases.

> The issue here is whether additional growth over and above the growth factor "g" should be factored into the revenue requirement for New MTS – Clair. The Board notes that as a result of future new developments, Guelph Hydro will also incur incremental capital costs to connect new customers to the grid. Under a price cap, the incremental revenue generated from load growth act as an offset to the costs that a distributor incurs to connect new customers. Therefore, the Board finds that the incremental revenue requirement of the New MTS – Clair should not be reduced by the revenue offset.[64]

69. For all these reasons, Enersource submits that the Board should not accept Energy Probe's argument regarding revenue associated with Mini-Orlando MS.

70. AMPCO expresses uncertainty about increased costs for certain projects[65] and submits that Enersource should explain the nature of the increase in budget for the Mini-Orlando MS.[66] The increased costs referred to by AMPCO are the effect of including Construction Work in Progress (CWIP) from 2015 in the cost of assets that will go into service in 2016, but the only project of those set out in Schedule A hereto that is affected by this inclusion of CWIP is the Mini-Orlando MS.[67]

71. The Mini-Orlando MS project spans two years (2015 and 2016). The explanation requested by AMPCO for the increased budget for this project is that the budget includes CWIP from 2015, consistent with the Board's ICM treatment of the costs of in-service projects.[68]

Conclusion

72. Enersource therefore requests that the Board make an order approving the following:

    (i) 2016 distribution rates effective January 1, 2016, based on 2015 rates adjusted for a net price cap adjustment of 1.95%;
    (ii) disposition on a final basis of balances in Group 1 deferral and variance account and rate riders to implement such clearance effective January 1, 2016 to December 31, 2016;
    (iii) shared tax rate riders effective January 1, 2016 to December 31, 2016 to implement recovery of $30,982 from ratepayers;
    (iv) adjusted Retail Transmission Service Rates ("RTSRs");
    (v) 2016 Renewable Generation Funding of $105,010 from provincial ratepayers; and

[64] EB-2010-0130 Decision and Order, issue March 14, 2011 and as corrected March 17, 2011, page 16.
[65] AMPCO Submission, page 4.
[66] AMPCO Submission, page 17.
[67] Transcript, Technical Conference, January 8, 2016, page 154.
[68] See for example, EB-2012-0064 Partial Decision and Order, at pages 14-15.

(vi) incremental capital rate riders effective January 1, 2016 to give effect to the ICM request set out in Schedule A to this reply argument and as determined from the corresponding revised revenue requirement calculation of $4,794 (a reduction of $458 compared to $5,252)[69] as tabulated below:

Incremental Capital Adjustment	Revenue Requirement ($000's)
Eligible Incremental Capital	**60,195**
Less: Depreciation Expense	756
Incremental Capital to be included in Rate Base	**59,439**
Return on Rate Base	3,867
Depreciation Expense	756
Incremental Grossed Up PILs	171
Incremental Revenue Requirement	**4,794**

All of which is Respectfully Submitted:

Gia M. DeJulio
Director, Regulatory Affairs
Enersource Hydro Mississauga Inc.

[69] Response to Undertaking JT1.17.

ENERSOURCE HYDRO MISSISSAUGA
UPDATE TO OEB STAFF TABLE 6 - ICM PROJECTS RECOMMENDED FOR APPROVAL BY OEB STAFF

Business Case #	Program	Project	Per OEB Staff	Proposal by Enersource	Variance	Comments	Significant Influence (as set out in Business Case)	Enersource Position
		Payment to HONI	$ 40,479,000	$ 40,479,000				Enersource concurs with Board Staff's recommendation.
2016-C0504-1	Substation Upgrade	Mini Orlando MS	$ 4,995,385	$ 4,995,385	$ -		Based on the existing summer feeder loading, System Planning load forecast and enquiries from developers in the area, additional 27.6kV capacity is urgently needed in the area. To address the capacity demand in the area a new substation needs to be built along Mavis Road, South of 401 Highway. This project is a growth driven investment.	Enersource concurs with Board Staff's recommendation.
2016-C0505-1A	Subdivision Rebuild	Ellengale - Ibbetson Cres/ Shamir	$ 2,000,000	$ 2,000,000	$ -		The underground distribution equipment in the residential rebuild area are rear lot and approximately 49 years old and have reached the “end of useful life”. To improve efficiency and reliability, as a work bundling initiative; the original cables, transformers, switches, elbows and other distribution equipment will also be replaced since they were installed at the same time and have been determined to have reached the “end of their useful life”.	Enersource concurs with Board Staff's recommendation.
2016-C0505-1B	Subdivision Rebuild	Rockwood - Fieldgate/ Maple Ridge	$ 1,500,000	$ 1,500,000	$ -		The front lot underground primary 1/0 cables in the residential rebuild area are approximately 40 years old and have reached the “end of useful life”. This rebuild area contains underground cables that have faulted multiple times and are no longer able to provide reliable power to our customers. Furthermore, underground distribution equipment in this area were rated very poor by Kinectrics through the ACA.	Enersource concurs with Board Staff's recommendation.
2016-C0505-1C	Subdivision Rebuild	Clarkson - Bromsgrove/ Cramer/Sherhill	$ 1,750,000	$ 1,750,000	$ -		The rear lot underground distribution equipment in the residential rebuild area are approximately 45 years old and have reached the “end of useful life”. To improve efficiency and reliability, as a work bundling initiative; the original cables, transformers, switches, elbows and other distribution equipment will also be replaced since they were installed at the same time and have been determined to have reached the “end of their useful life”.	Enersource concurs with Board Staff's recommendation.
2016-C0562-?	Subtransmission Renewal	To be determined	$ 1,955,524	$ -	$ (1,955,524)	Proposed amount from OEB Staff, see proposed projects below.		Enersource agrees with Board Staff's calculation of $1,955,524 but submits that an envelope approach is inconsistent with the true-up Enersource has proposed. Enersource requests Board approval of $2,250,000 for three Subtransmission renewal projects as identified at left to allow for true-up on a
2016-C0562-1A	Subtransmission Renewal	Bloor - Cawthra to Tomken	$ -	$ 600,000	$ 600,000	1 of 3 projects selected to approximate proposed Subtransmission Renewal amount by OEB Staff.	Sections of the pole line are near the end of its expected life and need to be rebuilt to prevent any safety hazards that may arise from failure. Not proceeding with this project would result in an increase in the risk of equipment failure under adverse conditions, leading to reduced reliability and safety hazards to the public and EHM personnel. In addition, not proceeding with this project will result in a lack in contingency in a case of equipment failure in the area.	
2016-C0562-1B	Subtransmission Renewal	Lakeshore - Seneca to Cawthra	$ -	$ 690,000	$ 690,000	1 of 3 projects selected to approximate proposed Subtransmission Renewal amount by OEB Staff.	The Lakeview Water and Waste Water Treatment Plants are located in the vicinity of this work. The addition 16/27.6kV capacity to this area will be utilized to support the new load and contingency requirements. The only 16/27.6 & 2.4/4.16kV east and west corridors from Hurontario St and Cawthra Rd in this area are limited to the above location. This is the only overhead corridor left where an additional 16/27.6kV link can be completed in this area. In addition, large section of the pole line needs to be replaced as 23 poles were identified in the ACA as being in poor condition and have construction with porcelain insulators. This will improve reliability in regards to insulator tracking and reduce the possibility of pole fires.	

ENERSOURCE HYDRO MISSISSAUGA
UPDATE TO OEB STAFF TABLE 6 - ICM PROJECTS RECOMMENDED FOR APPROVAL BY OEB STAFF

Business Case #	Program	Project	Per OEB Staff	Proposal by Enersource	Variance	Comments	Significant Influence (as set out in Business Case)	Enersource Position
2016-C0562-1C	Subtransmission Renewal	Park - Hurontario to Kane	$ -	$ 960,000	$ 960,000	1 of 3 projects selected to approximate proposed Subtransmission Renewal amount by OEB Staff.	The scope of this project involves the rebuilding of 32 poles as the condition of the old wood pole line along Park Street between Hurontario and Kane was identified by the ACA and recent pole inspection data as being in poor shape and the pole line hardware such as porcelain insulators and crossarms has reached the “end of useful life”. Additionally, the number of 16/27.6 & 2.4/4.16kV east and west corridors in the South end of the City that tie Lorne Park TS and Cooksville TS are limited to two, one in the Ontario Hydro ROW just north of the QEW which is full and the other one along Park St. This pole line is the only overhead corridor left where an additional 16/27.6kV link can be installed to allow for contingency system restoration.	project basis. Enersource submits that the delta between the two amounts is immaterial ($2,250,000 versus $1,955,524 for a difference of $294,476).
2016-C0563-1	U/G TX/Replace/ Overhaul	Underground Transformer and Equipment Renewal	$ -	$ 3,485,924	$ 3,485,924	PCB and Non-PCB leaking transformer replacements were not included in 2013 COS and represent a discrete project. The amount requested represents Enersource's original 2016 Budget proposal less the 2013 COS capital budget. Calculation: $4,125,000 less $639,076 equals $3,485,924 (see JT1.2 for amounts).	The program is needed to allow for the planned and unplanned replacement of underground transformers that have failed, are in poor condition (i.e. leaking or rusting), or containing high PCB levels in various parts of the City. Every year a number of transformers fail which results in outages to customers. Sometimes transformers are found to be severely leaking oil and require changing before they fail. Oil spills greater than 100 litres or PCB spills greater than 1 gram must be reported to the Region of Peel and depending on the severity also to the Ministry of Environment. A transformer failure in a residential area may only affect 6 to 12 customers so outage time is minimal. However a transformer failure for an industrial/commercial could prove costly to their business. Transformers are essential elements of the electrical distribution system and when they fail they must be immediately replaced. High content PCB > 50ppm transformers, very poor, and severe leakers are being prioritized. These transformers must be replaced since they do not meet safety standards and will fail in the near future due to overheating. There is also a requirement from Environment Canada that all PCB transformers greater than 50ppm must be removed by 2025.	Enersource rejects Board Staff's recommendation on the basis that these programs are not ongoing capital work. Enersource requests Board approval of discrete PCB and Non-PCB leaking transformer replacements. Enersource proposes to true-up these transformer expenses separately from "non-PCB/non-leaking" transformer replacements.
2016-C0564-1	O/H TX/Replace/ Overhaul	Overhead Transformer and Equipment Renewal	$ -	$ 2,634,814	$ 2,634,814	PCB and Non-PCB leaking transformer replacements were not included in 2013 COS and represent a discrete project. The amount requested represents Enersource's original 2016 Budget proposal less the 2013 COS capital budget. Calculation: $3,000,000 less $365,186 equals $2,634,814 (see JT1.2 for amounts).	The program is needed to allow for the planned and unplanned replacement of overhead transformers that have failed, are in poor condition i.e. leaking or rusting or containing high PCB levels in various parts of the City. Every year a number of transformers fail which results in outages to customers. Sometimes transformers are found to be severely leaking oil and require changing before they fail. Oil spills greater than 100 litres must be reported to the Region of Peel and depending on the severity also to the Ministry of Environment. A transformer failure in a residential area may only affect 10 to 12 customers so outage time is minimal. However a transformer failure for an industrial/commercial could prove costly to their business. Transformers are essential elements of the electrical distribution system and when they fail they must be immediately replaced. High content PCB > 50ppm transformers, very poor, and severe leakers are being prioritized. These transformers must be replaced since they do not meet safety standards and will fail in the near future due to overheating. There is also a requirement from Environment Canada that all PCB transformers greater than 50ppm must be removed by 2025.	

ENERSOURCE HYDRO MISSISSAUGA
UPDATE TO OEB STAFF TABLE 6 - ICM PROJECTS RECOMMENDED FOR APPROVAL BY OEB STAFF

Business Case #	Program	Project	Per OEB Staff	Proposal by Enersource	Variance	Comments	Significant Influence (as set out in Business Case)	Enersource Position
2016-C0597-2	Grid Supply Point Metering	Tomken Upgrade	$ 1,100,000	$ 1,100,000	$ -		Tomken station has wholesale metering equipment which is market compliant. However, the metering equipment is not in an enclosure. Due to this reason, the station is not fully compliant with the wholesale market rules. EHM's MSP provided 4 options to review with HONI regarding their plans for the station and the feasibility of the 4 options. HONI informed EHM that they plan on replacing the PCT building in spring 2016. This leaves EHM with only one viable option which is to move to bus metering with full upgrade on the 44KV buses. The existing HONI owned VTs are also being used by Enersource and will need to be replaced.	Enersource concurs with Board Staff's recommendation.
INCREMENTAL CAPITAL MODULE REQUEST AMOUNT			**$ 53,779,909**	**$ 60,195,123**	**$ 6,415,214**			

AMPCO Submission Page No.	Item	AMPCO Submission	Enersource Evidence	Reference
6	Subdivision Renewal program.	$5.816M	$2.461M	Enersource_Undertaking Responses_20160118, Undertaking No. JT1.14 (Additional).
6	OH Dist Renewal & Sustainment.	$2.461M	$3.301M	Enersource_Undertaking Responses_20160118, Undertaking No. JT1.14 (Additional).
6	Subtransmission Renewal.	$1.955M	$4.200M	Enersource_Undertaking Responses_20160118, Undertaking No. JT1.14 (Additional).
6	Total of above projects and Transformer Replacement of $5.664M.	$15.896M	$15.626M	Calculation based on above.
14	Reference to 2013 Actuals should be 2013 cost of service amounts.			Enersource_Undertaking Responses JT1.2_Additional_Live Spreadsheet_20160118.
14	Subdivision Rebuild comparison of 2016 Budget to the 2012 Asset Management Plan (AMP) overstates the increase.	$5.816M	$2.612M	Enersource_Undertaking Responses JT1.2_Additional_Live Spreadsheet_20160118.
14	Comparison of Overhead Rebuild 2016 budget versus 2013 Cost of Service amounts is incorrect.	2016 budget of $13,401,296 which is $5.54M over 2013 COS of $7,846,796	2016 budget of $6,164,345 which is $3.4M over 2013 COS of $2,727,129.	Enersource_Undertaking Responses JT1.2_Additional_Live Spreadsheet_20160118.
Appendix D	Padmounted Transformer 1 Phase replacements per year.	16	160	EB-2015-0065 Interrogatory Responses, p.95 of 219.