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Ontario

BY E-MAIL

January 16, 2018

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Alectra Utilities Corporation
Application for Rates
OEB File Number EB-2017-0024

Please find attached OEB staff's submission on the application filed by Alectra Utilities.

Original Signed By

Martin Davies
Project Advisor, Rates
Major Applications

2018 ELECTRICITY DISTRIBUTION RATES

Alectra Utilities Corporation

EB-2017-0024

ONTARIO ENERGY BOARD

STAFF SUBMISSION

January 16, 2018

INTRODUCTION

Alectra Utilities Corporation (Alectra) filed an application with the Ontario Energy Board (OEB) on July 7, 2017 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), and under the OEB's *Filing Requirements for Incentive Rate-setting Applications* seeking approval for changes to its electricity distribution rates to be effective January 1, 2018 (the Application).

In April 2016, Enersource Hydro Mississauga Inc. (Enersource), Horizon Utilities Corporation (Horizon) and PowerStream Inc. (PowerStream) filed an application (the MAADs application[1]) with the OEB asking for approval to amalgamate to form Alectra Inc. and for Alectra Inc., which is the parent company of Alectra, to purchase and amalgamate with Hydro One Brampton Networks Inc. (Brampton). On December 8, 2016, the OEB approved the MAADs application including a rebasing deferral period of ten years. This is Alectra's first rate application after the merger. It is seeking adjustments based on the Price Cap Incentive Rate-setting option (Price Cap IR) for the Brampton, Enersource and PowerStream rate zones (RZ) and an annual adjustment for the Horizon RZ related to its 2015-2019 Custom Incentive Regulation (Custom IR)[2] rate plan as discussed below.

This submission reflects observations and concerns which have arisen from OEB staff's review of the record of this proceeding and are intended to assist the OEB in evaluating the application and in setting just and reasonable rates.

THE APPLICATION

Alectra has applied for the following:

1. An annual adjustment for the Horizon RZ related to the fourth year of its 2015-2019 Custom IR rate plan term;
2. Price Cap IR adjustments and incremental capital funding for the Brampton, Enersource and PowerStream RZs;

[1] EB-2016-0025

[2] EB-2014-0002

3. Disposition of its Group 1 Deferral and Variance Accounts (DVAs), including LRAMVA, by rate zone, relating to variances accumulated in 2016, prior to the amalgamation of Enersource, Horizon, Brampton and PowerStream.

THE PROCESS

The OEB follows a standardized and streamlined process for incentive rate-setting mechanism (IRM) applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes information from the distributor's past proceedings and annual reporting requirements. A distributor will then review and complete the Rate Generator Model and include it with its application. During the course of the proceeding, the Rate Generator Model will also be updated or corrected, as required.

The Rate Generator Model updates base rates, retail transmission service rates and, if applicable, shared tax savings adjustments. It also calculates rate riders for the disposition of deferral and variance account balances.

An Incremental Capital Module (ICM) is available to distributors filing under the IRM rate-setting option. An ICM is intended to address the treatment of capital investment needs that arise during the rate-settling plan which are incremental to a materiality threshold which is defined below.

Alectra supported its Application with written evidence and completed rate models. The OEB made provision for written interrogatories, responses to which were filed on October 11, 2017. A Settlement Conference was held on October 25th and 26th, 2017, but no settlement was reached. A Technical Conference was held on November 30th and December 1st, 2017. Alectra filed its Argument-in Chief on December 22, 2017.

OVERVIEW OF OEB STAFF'S SUBMISSION

This submission is organized based on the OEB approved Issues List. The following is a summary of the OEB staff's main submissions:

- The update to the Horizon RZ Custom IR application is complete, subject to two updates

- Subject to updating the relevant models, the proposed IRM applications for the Enersource RZ, PowerStream RZ and Brampton RZ are acceptable

- For the Brampton, PowerStream and Enersource RZs, only three of the proposed projects, the Brampton RZ Pleasant TS Capital Contribution and the proposed system access projects in the Enersource and PowerStream RZs (Road Widening Project – QEW (Evans to Cawthra) and Road Authority YRRT Yonge St) meet the OEB's requirements for ICM treatment

- Proposals for deferral and variance accounts, including the balances in the existing accounts and their disposal are appropriate subject to a correction to PowerStream RZ Group 1 account 1588 RSVA power.

- Proposals for two new deferral accounts relating to the Metrolinx Projects, are not appropriate and are not consistent with OEB policy on ICM.

- Proposals for the continuation of existing accounts are appropriate.

- Revisions to LRAMVA are appropriate including the addition of LED municipal streetlighting savings in the PowerStream RZ, the additional 2015 savings in the Enersource and Horizon RZs as verified by the IESO, the withdrawal of 2011 persisting savings in 2012 in the Horizon RZ, and the reduction in savings to all streetlighting projects to account for free ridership.

- New capitalization account balances should be submitted for prudency review every two years and disposition requested, if material, by rate zone.

1.0 CUSTOM INCENTIVE RATE-SETTING (IR) APPLICATION UPDATE

1.1 Is the Year 4 Custom IR Update proposed for the Horizon Utilities rate zone (RZ) complete and in accordance with the framework accepted by the OEB from the EB-2014-0002 settlement agreement and any applicable OEB policies, practices and requirements and, if not, are any proposed departures adequately justified?

Background

As part of this proceeding, Alectra filed its year 4 update to the 2015-2019 Horizon RZ Custom IR application. The scope of the update is defined in the approved settlement proposal from Horizon's Custom IR application (Horizon Settlement)[3] and includes annual adjustments. Specifically, Alectra has applied for OEB approval of the following matters:

- Approval of the calculation for 2016 regulated Return on Equity (ROE) for the purpose of earnings sharing

- Approval of the calculation for 2016 capital additions for the purpose of the 2016 Capital Investment Variance Account (CIVA)

- Approval for the continuation of the implementation of the New Distribution Rate Design for residential customers

- Approval to reduce the 2018 Street Lighting Class revenue-to-cost ratio (RCR) by 6.67% to 106.66% from the 2017 RCR of 113.33%

- Approval for clearance of the balances in Group 1 deferral and variance accounts (DVAs) by class-specific rate riders effective January 1, 2018 to December 31, 2018

- Approval for clearance of the balances in Account 1589 RSVA – Global Adjustment attributed to customers that transitioned between Class A and Class B customers, and vice versa on July 1, 2016, by means of customer-specific bill adjustments

- Approval for clearance of the balances in Account 1580 RSVA – Sub-account Capacity Based Recovery (CBR) Class B attributed to customers that transitioned between Class A and new Class B customers, and vice versa on July 1, 2016, by means of customer-specific bill adjustments

[3] EB-2014-0002 *Settlement Proposal Filed September 22, 2014*

- An adjustment to Retail Transmission Service Rates (RTSR) effective January 1, 2018

- Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) amounts related to Conservation and Demand Management (CDM) activities over a one-year period

Annual Adjustments

Changes in the Cost of Capital

When Alectra filed this Application, the 2018 approved cost of capital parameters were not yet issued by the OEB so the Application is based on the 2017 cost of capital parameters. Alectra stated in its argument in chief that it intends to update the Application with the 2018 cost of capital parameters. OEB staff submits that it is appropriate to use the 2018 cost of capital parameters.

Changes to Working Capital

Alectra has updated its working capital, by adjusting the cost of power as detailed below:

- Retail Transmission Service Rates (RTSRs) were updated to incorporate 2016 demand for Alectra and 2016 Uniform Transmission Rates (UTRs) and 2017 Hydro One Sub-transmission Rates

- The Smart Metering Entity Charge has been updated to incorporate the 2016 residential and GS<50 kW customer count with no change to the rate rider

- The ratio of Regulated Price Plan (RPP) vs. non-RPP volumes has been updated for 2016 actuals

- The Rural or Remote Electricity Rate Protection (RRRP) Charge has been updated to $0.0003/kWh as directed by the OEB[4]

- The charge of $0.0011/kWh for the Ontario Electricity Support Program has been removed from the Wholesale Market Service Charge

[4] Decision and Order, EB-2017-0333, December 20, 2017

Alectra updated the cost of power and global adjustment (GA) based on the OEB's RPP Report[5] up to the period ending April 30, 2018. Alectra then increased the RPP rates and global adjustment by inflation for the period May 1, 2018 to October 30, 2018, and again for the period November 1, 2018 to April 30, 2019. Alectra also applied the global adjustment modifier to all non-RPP customers. OEB staff notes that the RPP prices and the global adjustment modifier are only applied to "specified customers" as defined in the Ontario Fair Hydro Plan Act[6] and calculated based on a proxy Toronto Hydro customer. The 25% reduction in bill and the increase in inflation is based on the total bill of the proxy customer and achieved through the adjustment of the commodity prices.[7] The inflation factor is not applied to the commodity prices.

OEB staff submits that the cost of power calculation cannot simply be inflated because it's dependent on the Toronto Hydro 2018 bill impact. Since RPP prices and the global adjustment modifier have not been calculated for May-December 2018, the cost of power calculation should use the current approved RPP prices and global adjustment modifier for the entire year. In addition, the global adjustment modifier should only be applied to non-RPP customers that fall within the definition of "specified customer" in the Ontario Fair Hydro Plan Act.

Since 2017 UTRs were not available at the time of the filing Alectra used 2016 UTRs as a proxy rate for 2017 UTRs and 2018 UTRs to calculate 2018 RTSRs. OEB staff submits that since then 2017 UTRs have been approved[8] so the RTSRs should be updated accordingly.

Earnings Sharing Mechanism (ESM)

The approved Horizon Settlement states that earnings in excess of the OEB's annual approved ROE would be divided on a 50/50 basis between Alectra and its customers in the Horizon RZ.[9] This is tracked in a deferral account and cleared at the next annual rate

[5] Regulated Price Plan Price Report and the Global Adjustment Modifier for the Period July 1, 2017 to April 30, 2018, June 22, 2017

[6] Ontario Fair Hydro Plan Act, 2017, S.O. 2017, c. 16, Sched. 1

[7] Regulated Price Plan Price Report and the Global Adjustment Modifier for the Period July 1, 2017 to April 30, 2018, June 22, 2017 (page 2)

[8] Decision and Rate Order 2017 Uniform Transmission Rates, EB-2017-0280, November 23, 2017

[9] EB-2014-0002 *Settlement Proposal Filed September 22, 2014*

filing. The 2016 deemed ROE was set at 9.19% by the OEB[10]. Alectra calculated the return on equity, for the purpose of the ESM, to be 9.877%, an excess earning of $1,391,949. In accordance with the Horizon Settlement a credit of $695,975 (representing 50%) should be recorded in the ESM deferral account. Alectra noted that only $662,467 was recorded in the ESM deferral account due to the difference between best estimates at time of the calculation and the actuals. Alectra proposed that the full balance of $695,975 be disposed in 2018 and the difference of $33,508 be reported in the 2017 deferral account balance as a credit.

OEB staff submits that the calculation for the ESM is in accordance with Reporting and Record Keeping Requirement 2.1.5.6 and the Horizon Settlement and that the full balance of $695,975 should be recorded in the 2016 ESM deferral account to avoid future confusion as to the origin of the $33,508 in the 2017 deferral account balance. However if Alectra is unable to do so Alectra's proposed methodology is acceptable.

Capital Investment Variance Account (CIVA)

The Horizon Settlement provided for a variance account to refund ratepayers, at the next rebasing, any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Alectra will determine the impact to revenue requirement of the variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

Alectra reported 2016 capital additions of $44.2M, which are $3.1M higher than the forecasted capital additions of $41.1M. Since the capital additions were above the forecast no entry was made to the CIVA.

Alectra has filed its 2016 capital additions compared to the approved capital additions in the Custom IR. The summary can be found in the table below.

[10] Cost of Capital Parameter Updates for 2016 Applications, October 15, 2015

Capital Additions

2016 Capital Additions	2016 Actuals	Custom IR Application (EB-2014-0002)	2016 Actuals vs. Custom IR
Gross Capital Additions	$51,929,703	$45,802,533	$6,127,170
Less Capital Contributions	$7,634,439	$4,655,000	($2,979,439)
Net Capital Additions	$44,295,265	$41,147,533	$3,147,731

OEB staff submits that the calculation for the purpose of entry to the CIVA is consistent with the approved settlement proposal.

Efficiency Adjustment

The Horizon Settlement included an Efficiency Adjustment that is based on the OEB's *Empirical Research in Support of Incentive Rate-Setting: Benchmarking Update* report (PEG Report)[11]. The Efficiency Adjustment is applied in the event that Alectra is placed in a less efficient cohort in any year relative to the first year. The difference between the cohort's stretch factor is then applied to the given rate year's revenue requirement to provide a dollar adjustment. The Efficiency Adjustment does not work in favor of Alectra moving to a more efficient cohort. Alectra was in Group III at the time of the Horizon Settlement and is again in Group III in the latest PEG Report.[12] OEB staff agrees with Alectra that since there is no change to Alectra's cohort, no Efficiency Adjustment is required.

Special Studies Deferral Account

The Horizon Settlement included a deferral account to record costs related to the development of a Specific Service Charge study to determine the appropriateness of Alectra's Horizon RZ Specific Service Charges. Alectra confirmed that at this time no studies have commenced and therefore no costs have been recorded to date. In response to interrogatory 1.0-VECC-2, Alectra stated that it's evaluating whether the second phase of the OEB's review will include a Specific Service Charges review and whether it would be in line with the intent of the approved settlement proposal.

[11] *Empirical Research in Support of Incentive Rate-Setting 2013 Benchmarking Update for determination of Stretch Factor Assignments for 2015*, August 14, 2014

[12] *Empirical Research in Support of Incentive Rate-Setting*: 2016 Benchmarking Update, July 2017

Continuation of New Distribution Rate Design

The OEB has directed distributors to transition to a fixed monthly distribution charge over a four-year transition period commencing in 2016 and ending in 2019[13]. Alectra has incorporated the third year adjustment for 2018. The 2018 fixed rate is $23.49, an increase of $2.43 from the previous year and a 1.66% total bill impact for low volume customers.

OEB staff submits that the method used to calculate the fixed rate is in accordance with the OEB policy and no mitigation is required.

1.2 Have the revenue to cost ratios for the Horizon RZ been appropriately adjusted to reflect the OEB's decision in the EB-2015-0075 proceeding?

Background

Alectra stated that it had appropriately adjusted the revenue-to-cost ratios for the Horizon RZ to reflect the OEB's Decision and Order in Horizon's 2016 Annual Filing proceeding (2016 Custom IR Update).[14]

As directed by the OEB in the 2016 Custom IR Update, Alectra has reduced the 2018 RCR for the street lighting class by 6.6% to 106.66% as a step change to reach a RCR of 100% by 2019. The reduction in revenue from the street lighting class is compensated by an increase to all rate classes with a RCR below 100%, with the exclusion of the standby rate class, by way of equal percentages. The updated RCRs can be found in the table below:

[13] *A New Distribution Rate Design for Residential Electricity Customers*, EB-2012-0410, April 2, 2015
[14] EB-2015-0075

Revenue to Cost Ratios

Rate Class	2018 Proposed Revenues	2018 Proposed Costs	Revenue vs. Cost $	RCR
Residential	$74,165,633	$72,614,859	$1,550,773	102.14%
GS < 50kW	$16,097,695	$15,962,635	$135,059	100.85%
GS > 50 to 4999kW	$22,661,876	$24,408,883	($1,747,007)	92.84%
Standby	$856,163	$1,164,097	($307,934)	73.55%
LU (1)	$2,611,267	$2,321,357	$289,910	112.49%
LU (2)	$1,043,486	$1,138,761	($95,275)	91.63%
Sentinel Lights	$44,065	$47,452	($3,387)	92.86%
Street Lighting	$1,867,011	$1,750,432	$116,579	106.66%
Unmetered and Scattered Load	$471,050	$409,769	$61,281	114.96%
Total	**$119,818,245**	**$119,818,245**	**$0**	

OEB Staff Submission

OEB staff submits that the proposed rate design is consistent with the OEB's decision on the 2016 Custom IR Update and the OEB's Policies.

2.0 INCENTIVE RATE-SETTING MECHANISM (IRM) SCHEDULES AND MODELS

2.1 Are the IRM Model filings for the Brampton, Enersource and PowerStream rate zones in accordance with OEB policies, practices and requirements, and if not, are any proposed departures adequately justified?

Background

Alectra stated that the IRM Model filings for the Brampton, Enersource and PowerStream RZs were in accordance with applicable OEB policies, practices and requirements.

Alectra had rebased under the Price Cap IR process. The following components are considered in this Application

- Price Cap Adjustment
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design
- Eligible Investments for Connection of Qualifying Generation Facilities

Price Cap Adjustment

Alectra seeks to increase its rates in the Brampton, Enersource and PowerStream RZs, effective January 1, 2018, based on a mechanistic rate adjustment using the OEB-approved ***inflation minus X-factor*** formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to the three RZs are set out in Table 2.1, below. Inserting these components into the formula results in the following increase in the three RZ's rates: **0.90% = 1.20% - (0.00% + 0.30%).**

Table 2.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor[15]		1.20%
X-Factor	Productivity[16]	0.00%
	Stretch (0.00% - 0.60%)[17]	0.30%

The inflation factor of 1.20% applies to all Price Cap IR applications for the 2018 rate year.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR applications for the 2018 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The

[15] *Report of the Board - Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* EB-2010-0379, December 4, 2013
[16] Ibid.
[17] The stretch factor groupings are based on the *Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2016 Benchmarking Update*, prepared by Pacific Economics Group LLC., July 15, 2017

stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve.

The stretch factor assigned to each of the Brampton, Enersource and PowerStream RZs is 0.30%.

Retail Transmission Service Rates

Distributors charge RTSRs to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge UTRs approved by the OEB to distributors connected to the transmission system. Host distributors charge RTSRs to distributors embedded within the host's distribution system.

The most current UTRs and Sub-Transmission RTSRs are as follows:

Hydro One Networks Inc. UTRs[18]

Current Applicable UTRs (2017)	per kWh
Network Service Rate	$3.52
Connection Service Rates	
Line Connection Service Rate	$0.88
Transformation Connection Service Rate	$2.13

Hydro One Networks Inc. Sub-Transmission RTSRs[19]

Current Sub-Transmission RTSRs (2017)	per kWh
Network Service Rate	$3.19
Connection Service Rates	
Line Connection Service Rate	$0.77
Transformation Connection Service Rate	$1.75

[18] *Decision and Rate Order*, EB-2017-0280, November 23, 2017

[19] *Decision and Rate Order*, EB-2016-0081, December 21, 2016

Group 1 Deferral and Variance Accounts

Deferral and Variance Accounts are discussed under Issue 3.1

Residential Rate Design

All residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy (Rate Design Policy) stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.[20] The OEB requires that distributors filing IRM applications affecting 2018 rates continue with this transition by once again adjusting their distribution rates to increase the fixed monthly service charge and decrease the variable charge consistent with the Rate Design Policy.

The OEB expects a distributor to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds $4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Alectra notes that the bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Eligible Investments for Connection of Qualifying Generation Facilities

PowerStream RZ:

Alectra noted that in the 2016 Custom IR Rate Application,[21] the OEB had approved PowerStream's request for the funding of Renewable Generation Connection Provincial amounts included in its detailed DSP, to be recovered through the Independent

[20] As outlined in the Report cited at footnote 1 above.
[21] EB-2015-0003

Electricity System Operator (IESO) relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2016 to 2020.

Alectra requested collection of renewable generation funding of a total of $266,079 in 2018 or $22,173 per month from all provincial ratepayers for the PowerStream RZ.

Enersource RZ:

Alectra noted that the former Enersource Hydro Mississauga Inc. had filed a basic Green Energy Plan as part of its 2013 cost of service application[22], which provided a forecast of the number of projects and costs related to the connection of FIT and microFIT projects until 2016.

As part of this IRM application, Alectra provided an update to the number of scheduled projects for the Enersource RZ to include 2016 actual amounts and an estimate for 2017 and 2018.

Alectra requested collection of renewable generation funding of a total of $133,384 or $11,115 per month in 2018 from all provincial ratepayers for the Enersource RZ.

Brampton RZ:

Alectra noted that in the 2015 Cost of Service Rate Application[23] the OEB had approved Brampton's request for the funding of Renewable Generation Connection Provincial amounts included in its detailed DSP, to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2015 to 2019. Brampton's DSP was reviewed by the OEB and its funding requests for eligible investments for 2015 to 2019 were approved by the OEB.

Alectra is requesting to collect renewable generation funding of a total of $117,963 in 2018 or $9,830 per month from all provincial ratepayers for the Brampton RZ.

[22] EB-2012-0033
[23] EB-2014-0083

OEB Staff Submission

OEB staff submits that the applicable data for inflation and RTSRs will need to be updated in Alectra's models at the time of the OEB's Decision on the Application and the Draft Rate Order process. Subject to all necessary updates being made, OEB staff submits that Alectra's IRM schedules and models are in accordance with OEB policies, practices and requirements, subject to any submissions that may be made by OEB staff in other sections of this submission expressing any specific concerns with them. OEB staff also submits that Alectra's renewable generation funding requests for the three rate zones have been correctly calculated.

2.2 Is Alectra Utilities' application of the Incremental Capital Module (ICM) criteria in accordance with the OEB policies and if not, are any proposed departures adequately justified?

Background

Alectra proposes several projects that it believes are eligible for recovery under the OEB's ICM option[24]. Alectra is proposing to recover $6,800,377 through the ICM in the Brampton RZ, $25,891,795 in the PowerStream RZ and $24,247,022 in the Enersource RZ.

The ICM is a mechanism available to electricity distributors whose rates are established under the Price Cap IR regime as described in Section 3.3.2 of the *Filing Requirements.*[25] The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the rate-setting plan which are incremental to a materiality threshold. The ICM is available for discretionary and non-discretionary projects, as well as for capital projects not included in the distributor's previously filed DSP. It is not limited to extraordinary or unanticipated investments.

The availability of the ICM was litigated in the MAADs Decision, where the OEB stated:

[24] EB-2017-0024 Alectra Utilities Corporation *Argument-in-Chief,* pp. 12-19
[25] Ontario Energy Board *Filing Requirements For Electricity Distribution Rate Applications – 2017 Edition for 2018 Rate Applications- Chapter 3 Incentive Rate-Setting Applications*, July 20, 2017 ("IRM Filing Requirements")

> The 2015 Report extended the availability of the Incremental Capital Module (ICM), an additional mechanism under the Price Cap IR rate-setting option to consolidating distributors on Annual IR Index, to allow adjustment to rates for any prudent discrete capital project that fits within an incremental capital budget envelope, not just expenditures that were unanticipated or unplanned. This provides consolidating distributors with the ability to finance capital investments during the deferred rebasing period without being required to rebase earlier than planned.[26]

Alectra noted that the Brampton, Enersource and PowerStream RZs are on Price Cap IR for the purpose of setting 2018 to 2026 electricity distribution rates and that the ICM is available for each of these rate zones.

Alectra observed that the *Filing Requirements* specify that the amount requested for an ICM claim must be incremental to the distributor's capital requirements within the context of its financial capacities underpinned by existing rates, and that the request must satisfy the eligibility criteria of materiality, need and prudence, as set out in section 4.1.5 of the *Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (the ACM Report)[27]. Changes to the materiality threshold were made in the *Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report* (the Supplemental Report).[28]

In the ACM Report, the OEB explained that the materiality threshold is a capital expenditure threshold which serves to demonstrate the level of capital expenditures that a distributor should be able to manage with its current rates. The ACM Report states that "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".[29]

Alectra submitted that the proposed ICM projects for the Brampton, Enersource and PowerStream RZs are in accordance with OEB policies, practices and requirements as reflected in the ACM Report, the Supplemental Report and the *Filing Requirements.*

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[26] EB-2016-0025/EB-2016-0360 *Decision and Order*, pp. 6-7.

[27] EB- 2014-0219), issued September 18, 2014

[28] EB-2014-0219), issued January 22, 2016

[29] EB-2014-0219 Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 (ICM/ACM Policy), p.17

Alectra submitted that its requested ICM claims satisfied the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the ACM Report:

Materiality

The ACM Report describes the materiality threshold as follows[30]:

> A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-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.
>
> 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 OEB-defined threshold calculation is expected to be absorbed within the total capital budget.

Alectra stated that it had appropriately calculated the materiality thresholds and the corresponding eligible incremental capital amounts which are all within a range acceptable to the OEB as follows:

- Brampton RZ has a maximum eligible incremental capital amount of $7,113,613 and Alectra proposes to recover $6,800,377
- PowerStream RZ has a maximum eligible capital amount of $25,891,795 and Alectra proposes to recover $25,136,316
- Enersource RZ has a maximum eligible incremental capital amount of $39,624,419 and Alectra proposes to recover $24,247,022.

In summary, Alectra proposes to recover 77% of its combined eligible capital for the three rate zones. In addition to the materiality thresholds used for determining the total eligible incremental capital amounts for each rate zone, the OEB requires distributors to meet project-specific materiality thresholds, which have been defined by the OEB as 0.5% of distribution revenue requirement. Alectra stated that this threshold has been calculated for each of the Brampton, PowerStream and Enersource RZs and in each rate zone, the projects each exceed the identified project-specific materiality thresholds as follows:

[30] ICM/ACM Report, p. 17

- The threshold for the Brampton RZ is $340,000 and the one ICM project for this rate zone is in excess of this threshold.

- The threshold for the PowerStream RZ is $997,500 and each of the ten projects for which ICM recovery is sought in this rate zone is in excess of this threshold.

- The threshold for the Enersource RZ is $589,950 and each of the 11 projects for which ICM recovery is sought in this rate zone is in excess of this threshold.

OEB staff notes that Alectra has used the most recent OEB approved revenue requirements to determine the project-specific materiality thresholds. In the case of the Brampton RZ, this is the 2015 approved revenue requirement of $68,017,986[31], for the PowerStream RZ, this is the 2017 approved revenue requirement of $199,501,461[32]and for the Enersource RZ, this is the 2013 approved revenue requirement of $117,989,982[33].

Need

The OEB describes the need threshold as below[34]:

> The distributor must pass the Means Test (as defined in the ACM Report)
>
> Amounts must be based on discrete projects, and should be directly related to the claimed driver.
>
> The amounts must be clearly outside of the base upon which the rates were derived.

Under the ICM Means Test[35], if a distributor's regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then the funding for any incremental capital project will not be allowed. Alectra submitted that based on the accounts of the predecessor utilities, it has satisfied the Means Test in respect of each rate zone and provided evidence in support of its view.

[31] Application, Exh. 2 Tab 2, Sch. 10, p. 10
[32] Application, Exh. 2, Tab 3, Sch 10, p. 20
[33] Application, Exh. 2, Tab 4, Sch 11, p. 32
[34] ICM/ACM Report, p. 17
[35] ICM/ACM Report, p. 15

Alectra further stated that within the Brampton, PowerStream and Enersource RZs, each eligible capital project is a discrete, distinct project, and has been evaluated in the asset management and capital planning process as required in 2018. Alectra stated that unlike recurring capital program work, where costing is typically done at a high level, for each of the eligible capital projects, Alectra has performed detailed, project-specific estimates based on a specific scope of work and detailed design carried out for a particular location. Alectra stated that the costs of the projects for which it seeks recovery through the ICM are incremental to the capital requirements that underpin its existing rates for each rate zone.

Prudence

The OEB describes the prudence threshold[36] as follows:

> 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.

Alectra stated that its eligible capital projects are prudent because in the case of the Brampton RZ, it is for a non-discretionary project and, for the PowerStream and Enersource RZs the projects represent the most cost effective options for ratepayers.

Alectra provided a business case summary that identifies the name, driver, cost and expected in-service date for each project, describes the project and its drivers and sets out the various options considered for the project. In addition, Alectra provided detailed business cases for each eligible capital project containing background information including the location and history of the project, a detailed description of the scope of the project as well as explanations of the options considered, budget and in-service dates for the projects.

[36] ICM/ACM Report, p. 17

OEB Staff Submission

OEB staff submits that two of the proposed ICM projects meet all established tests. Each of the remaining projects fail at least one of the tests and therefore are not in accordance with OEB policies, practices and requirements and, should not be approved. OEB staff is of the view that the proposed projects that meet all of the OEB's ICM criteria are the proposed system access projects in the Enersource and PowerStream RZs (Road Widening Project – QEW (Evans to Cawthra) and Road Authority YRRT Yonge St) .

In OEB staff's view, ICM projects must be distinguishable from other expenditures that are part of normal year-to year capital programs. In other words, the ICM option does not just boil down to allowing an applicant to recover projects fitting within the total eligible incremental capital amount year after year which are not distinguishable from the remainder of the capital program. The ICM is not intended to be a "capital budget top-up".

OEB staff submits that there are some qualifiers that demonstrate this view in both the ICM and ACM Reports[37] and the IRM Filing Requirements.

The OEB's ICM/ACM policy states that projects proposed for incremental capital funding during the IR term must be discrete projects, and not part of typical annual capital programs.[38]

The evidence of Alectra suggests that a number of its proposed ICM projects repackage expenditures that were previously part of its annual capital program. For example, in its response to an OEB staff interrogatory,[39] Alectra stated that PowerStream ICM projects for rear lot and underground cable replacement projects were previously carried out as annual programs.

OEB staff takes the view that to qualify for ICM/ACM treatment, a project must have some element that distinguishes it from an activity that would typically be part of an annual capital program. OEB staff does not believe that a proposed project qualifies

[38] ICM/ACM Policy, p. 13
[39] PRZ-Staff-7

simply by characterizing it as a separate project that meets the materiality thresholds. The OEB's ICM policy requires that, in order to be eligible for ICM recovery, the requested incremental capital amount must clearly have a significant influence on the operation of the distributor.[40] OEB staff submits that a project proposed for ICM/ACM treatment must not only meet the OEB-defined materiality thresholds, but must also clearly have a significant influence on the distributor.

OEB staff notes that the ICM/ACM policy[41] stated that "In addition, the Board has adopted a project-specific materiality threshold as identified in the Toronto Hydro decision." A footnote then states that this decision had determined that "Specific projects were not approved on the basis that they were minor expenditures in comparison to the overall capital budget." OEB further notes that the Toronto Hydro decision being referenced further stated that: "A certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget."[42]

A qualifying project could be a project that is driven by external requirements such as the proposed system access projects in the Enersource and PowerStream RZs (Road Widening Project – QEW (Evans to Cawthra) and Road Authority YRRT Yonge St) and/or a project that has an impact on the distributor beyond that of a normal project, which could also be argued to be the case for these two projects. OEB staff believes that such a project is one that while it met the materiality requirement, went beyond that in its impact on the distributor. OEB staff's view on this matter is based on the following reference from the OEB's policy, which is quoted above by Alectra:

> …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

OEB staff believes that further support for its interpretation of the OEB's policy can be found in the IRM Filing Requirements which state[43].

[40] ICM/ACM Policy, p. 16
[41] ICM/ACM Policy, p.17
[42] EB-2012-0064 *Partial Decision and Order ,*April 2, 2013, p.19
[43] IRM Filing Requirements, p.19.

> Distributors with multiple capital projects should consider the Custom IR option to address capital needs in the context of their Distribution System Plan, rather than submit multiple ICM applications or ICM applications that consistently use up a substantial amount of the eligible available capital amount.

OEB staff submits that the above reference clearly describes the situation that Alectra has outlined. Alectra noted, when discussing the rebasing deferral period that the Alectra rate zones will continue on their current rate plan terms until such terms expire and that once expired, all rate zones will migrate to the Price Cap IR option. Alectra goes on to state that, at that point in time[44]:

> At its option, Alectra Utilities is permitted to apply for (a) inflationary increases to rates, adjusted for an efficiency factor; and (b) funding of incremental discrete capital projects through the Incremental Capital Module ("ICM") mechanism.

OEB staff submits that given the three Alectra rate zones already on Price Cap IR have submitted ICM applications in the first year of the rebasing deferral period and the above reference to Alectra being able to make use of the ICM mechanism on an annual basis, that it is a reasonable inference that Alectra, during the rebasing deferral period, intends to make annual applications for ICM cost recovery which will consistently use up a substantial amount of the eligible available capital amount. OEB staff therefore concludes that the IRM Filing Requirements would suggest that the Custom IR option would be most appropriate option to deal with the circumstances outlined by Alectra in the current application.

OEB staff is not aware that Alectra is contemplating seeking the OEB's permission to file a Custom IR application in advance of the expiration of the deferral period and OEB staff is not suggesting Alectra do so prior to that time. OEB staff however does observe that the IRM Filing Requirements, given the annual ICM filings that Alectra appears to be contemplating, do not support Alectra's proposed approach.

OEB staff concludes that a reading of the IRM Filing Requirements would support the view that given the nature of the ICM filing that has been made by Alectra and the future filings which appear to be contemplated by Alectra, that Alectra should manage these requirements, with the exception of the two projects for which OEB staff believes that recovery is justified, without asking for additional rate relief specific to these projects as well as future projects of this type.

[44] Argument-in-Chief, p.2.

OEB staff believes that only two of the proposed projects, which are the the proposed system access projects in the Enersource and PowerStream RZs (Road Widening Project – QEW (Evans to Cawthra) and Road Authority YRRT Yonge St) qualify for ICM treatment, although OEB staff also has some concerns with these projects which are outlined further below.

OEB staff's submissions on the specific projects proposed for ICM treatment are as below for each of the three rate zones:

Brampton RZ

Background – Pleasant TS Capital Contribution

Alectra completed a Materiality Threshold Test, and calculated that the Maximum Eligible Incremental Capital is $7.1 million for 2018.[45] The 2018 capital budget for the Brampton RZ is $38 million.

In 2005 Hydro One Brampton (now the Brampton RZ of Alectra) entered into an agreement with Hydro One Networks Inc. (Hydro One) to build the Pleasant Transformer Station (TS) and a capital contribution was made in accordance with the Transmission System Code.[46] A discounted cash flow was used to calculate the capital contribution, and that cash flow relied upon the cost of the transformer station as well as revenues to Hydro One resulting from forecasted load over a 25-year horizon. The load forecast used in that initial contribution projected rapid growth following the in-service date in 2009. The load that materialized was far less than forecasted. OEB Staff believes that this was at least partly due to the economic recession of 2008, and that Hydro One Brampton could not have reasonably forecasted the recession.

On the five-year anniversary of the in-service date in 2013, a true-up payment was calculated and a payment made to Hydro One in 2015. The true-up payment reflected the capital contribution already made with an updated discounted cash flow with six

[45] Exhibit 2, Tab 2, Schedule 10, page 8.
[46] Transmission System Code, August 26 2013, Section 6.3.1.

years of historical actual usage as well as an updated forecast of future load[47] that were both much lower than had been forecasted at the time of the initial capital contribution. In addition, the forecast of the remaining 19 years had been revised. That forecast again projected aggressive growth, anticipating that load on the station would increase from 34MW in year six to 66MW in year eight. Again, less load materialized than forecasted.

The ten-year Connection and Cost Recovery Agreement (CCRA) payment amount is again calculated based on an updated discounted cash flow analysis reflecting that the actual load was lower than had been projected at the five-year true-up, and the forecast for future years has been reduced further.[48] Alectra proposes to recover $6.8 million[49] related to the Pleasant TS CCRA true up. The forecasted true-up payment reflects the capital contribution and five-year true-up already made with an updated discounted cash flow with nine years of historical actual usage as well as an updated forecast of future load. Since the amount of the proposed recovery is under the maximum eligible incremental capital, the entire amount proposed is eligible for recovery.

The actual amount of the ten-year true-up payment will require ten years of historical actual usage, and therefore will not be known until the ten-year anniversary of the in-service date in 2018. While there were objections raised regarding the accuracy of the initial contribution and five-year true-up contribution as detailed below, there were no clear objections to the forecast used in this ten-year contribution. OEB staff view the current forecast as reasonable based on historic experience and as a result the amount of the CCRA as prudent.

The need for ICM treatment is also dependent on meeting the Means Test and a discrete and material projects test. The Means Test stipulates that the most recent achieved ROE must be no more than 300 basis points above the approved ROE at the time funding for the project would commence. In 2016, Brampton achieved a ROE 200 basis points below its approved ROE[50] so the Means Test is satisfied. The CCRA payment is clearly discrete and pertains to a single transformer station contracted for in 2005 with a true-up forecasted as a lump sum payment in 2018. Materiality is established by the gross capital

[47] Responses to Interrogatories, BRZ-Staff-04, part b
[48] Responses to Interrogatories, BRZ-Staff-05, part a
[49] Exhibit 2, Tab 2, Schedule 10, page 9.
[50] Exhibit 2, Tab 2, Schedule 10, page 9.

cost of the ICM relative to Brampton's materiality threshold. With a revenue requirement of $68 million in the 2015 Cost of Service application[51], the materiality threshold is 0.5% or $340,000. Based on a project cost of $6.8 million, the materiality threshold is clearly satisfied.

Alectra established prudence on the basis that the CCRA payment is a contractual obligation such that making the payment is therefore the only option. [52] School Energy Coalition (SEC)[53] and Vulnerable Energy Consumers Coalition (VECC)[54] raised concerns about the prudence of the contract to construct the transformer station. These concerns are based on the large discrepancy between the load forecast supporting the decision to construct the transformer station compared to the actual load realized and current forecast used to estimate the true-up payment. Alectra responded that the existing transformer stations were already over capacity in 2005 resulting in an inability to serve existing customers[55], and that the forecast was reasonable given the economic information available at the time Hydro One Brampton entered into the contract.

Hydro One Brampton rebased its rates in 2011 and capital contributions related to the Pleasant TS were included in that application.[56] The Pleasant TS was not raised in the intervenor submissions, the hearing transcript, or the Decision in that case.[57] In the 2015 Cost of Service application, a 5-year true-up payment was included as part of the capital plan.[58] Hydro One Brampton achieved a partial settlement with intervenors in which the capital spending was reduced by $80,000 to reflect the historical lag of actual capital expenditures as compared to budgeted capital expenditures. In all other respects, the capital plan, including the true-up payment was accepted. "Parties accept that the distribution system plan filed in this proceeding, combined with the resources made available to HOBNI in the Test Year under the terms of this Settlement Proposal, together provide an appropriate foundation to HOBNI in the Test Year."[59]

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[51] EB-2014-0083, Draft Rate Order Updated January 12 2015, page 7.
[52] Exhibit 2, Tab 2, Schedule 10, page 10.
[53] Transcript_day1_Alectra Utilities_TC_20171130, pages 104, 105.
[54] Transcript_day1_Alectra Utilities_TC_20171130, pages 109, 110.
[55] Transcript_day1_Alectra Utilities_TC_20171130, page 106.
[56] EB-2010-0132, Exhibit 2, Tab 5, Schedule 4, page 14.
[57] EB-2010-0132, Decision and Order, April 4 2011.
[58] EB-2014-0083, Exhibit 2, Tab 5, Schedule 3, page 30.
[59] EB-2014-0083, Settlement Proposal, October 9 2014, page 14.

OEB Staff Submission

Final costs of the Pleasant TS were known at the time of the 2011 Cost of Service rate application and were included in the approved capital expenditure envelope. OEB staff submits that Alectra's application for an ICM for the Brampton RZ satisfies the criteria, and is in accordance with OEB policies. The full amount proposed for ICM treatment should be approved.

PowerStream RZ

Background

The projects in the table below were proposed for recovery through the ICM funding mechanism in the PowerStream RZ:

PowerStream RZ Projects

Project Description	Capital Expenditures $
Road Authority YRRT Yonge St	$11,243,530
System Access	**$11,243,530**
Station Switchgear Replacement (ACA) 8th Line MS323	$1,394,991
Rear Lot Supply Remediation - Royal Orchard - North	$1,681,034
Cable Replacement – (M49) - Steeles and Fairway Heights	$1,842,953
Cable Replacement – (V08) - Steeles Ave and New Westminster	$2,637,046
Planned Circuit Breaker Replacement - Richmond Hill TS#1	$1,186,729
System Renewal	**$8,742,753**
Rebuild 27.6 kV pole line on Warden Ave into 4 ccts from 16th Ave to Major Mack	$1,372,976
Mill Street MS835 TX Upgrade - Tottenham	$1,298,572
Build double ccts 27.6kV pole line on 19th Ave between Leslie St and Bayview Ave	$1,202,306
Double Circuit existing 23M21 Circuit from Bayfield & Livingstone to Little Lake MS.	$1,276,180
System Service	**$5,150,033**
Total PowerStream Rate Zone Incremental Capital Funding	**$25,136,316**

As indicated earlier in this submission OEB staff believes that all but one of the above-noted projects are not eligible for ICM funding. OEB staff believes that the only project

that meets the ICM criteria is the “Road Authority YRRT Yonge St” project in the amount of $11.2 million. OEB staff submits that the remainder of the projects are part of Alectra’s normal capital programs and thus should not be eligible for the ICM.

OEB staff has some concerns with these projects in addition to whether or not they qualify for ICM treatment.

Road Authority YRRT Yonge St Project

Alectra stated that the Road Authority York Region Rapid Transit (YRRT) VIVA Bus Rapid Transit Y2 and H2 Project is a system access project in the PowerStream RZ.

YRRT’s Bus Rapid Transit developments are being undertaken to meet the transportation needs resulting from projected population growth in York Region and Alectra has been relocating overhead and underground distribution assets in the PowerStream RZ to accommodate the YRRT.

Alectra further stated that system access investments are projects outside of its control and are required to provide customers with access to electricity service and include modifications (including asset relocation) to the distribution system.

Alectra stated that it is obligated to relocate its distribution plant to facilitate transportation infrastructure developments by applicable road authorities in accordance with the *Public Service Works on Highways Act.*[60]

OEB staff submits that this project meets the criteria for ICM eligibility as it is material, the need criteria is met as the amount requested is clearly outside the base upon which the rates were derived and it is reasonable to assume that it is prudent as the prudence criteria is described as meaning “that the distributor’s decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers” and as this is a non-discretionary project the distributor had no choice but to incur the costs, which would be subject to review for prudency before being incorporated into the distributor’s rate base.

[60] *Argument-in-Chief*, p. 17

With respect to the YRRT project, OEB staff is concerned that Alectra is required to pay 100% of the cost of these relocations. Alectra explained that was required by long-standing agreements with CN[61]. Alectra indicated that it had made efforts to renegotiate the terms of such contracts. OEB staff believes that Alectra should be encouraged in its efforts to renegotiate the terms of these relocations.

Rear Lot Supply Remediation and Cable Replacement

OEB staff notes that of the remaining proposed ICM projects, there are three that are new in the sense that they were not included in the DSP filed as part of PowerStream's Custom IR application: the rear lot supply remediation project and the two cable replacement projects[62].

OEB staff further notes that the OEB in its Decision on PowerStream's Custom IR application (PowerStream Custom IR Decision) expressed concerns about PowerStream's approach to projects in both these areas.

Rear Lot Supply Remediation

With respect to rear lot supply remediation, the OEB's Decision stated as follows:

> As a result of the 2013 ice storm and the current assessment that a severe weather event is likely to occur once every 14 years rather than once every 17 years, PowerStream decided to use the most expensive option. However, PowerStream has not provided an analysis of the costs and benefits of this change. One expected component of such an analysis would have been an analysis of the contribution of the rear lot situation to the effects of the 2013 ice storm.
>
> PowerStream also did not consult with customers before deciding to make this change. It is striking that PowerStream testified it visited every affected rear lot, but did not speak to any of the owners of those lots, who would experience both a reliability impact and disruption to the use of their property.
>
> OEB staff expressed concern about the reliability of the standard unit cost that was used to arrive at the proposed program budget. In calculating its standard unit cost, PowerStream multiplied the cost of one historical job using the hybrid option by a factor of 1.47. The OEB

[61] Technical Conference Transcript, Vol. 2 p. 1 L22 to p. 3 L12

[62] PRZ-Staff-7, p. 2

> agrees that based on the evidence available it is difficult to have confidence in PowerStream's forecast unit cost. [63]

Alectra was asked by OEB staff[64] to discuss how it had addressed the above concerns in the current application.

Alectra responded that following the PowerStream Custom IR Decision, it had further analyzed the impact of the rear lot project on customer reliability during the 2013 ice storm and had completed an alternative options analysis for conversion of each location. Alectra then discussed the four options that were considered in the alternative analysis as well as itemizing the costs items that are considered in the additional analysis.

Alectra stated that based on the additional analysis, four design options were being considered for the 35 rear lot locations that exist within the PowerStream RZ, instead of converting all rear lot construction to front lot underground supply. The result is that 27 rear lots will continue to be converted to front lot underground supply, while four will be rear overhead and two each for front overhead and the hybrid option, which is underground primary in the front lot and overhead secondary in the rear lot.

OEB staff submits that as over three quarters of the conversions remain unchanged, this is not a substantive change and there is no cost/benefit analysis of this change provided in the response.

Alectra stated that during the first phase of the conversion PowerStream had issued letters to all impacted customers followed by an open house session in June 2015. For the second phase, letters were also issued to all impacted customers and due to low attendance at the first phase's open house, PowerStream elected to provide customers with a video on its website to explain the scope of work, methods for customer feedback and benefits.

OEB staff notes that the element that appears to still be missing from these efforts that was referenced by the OEB was actually speaking to any of the affected customers directly. OEB staff notes that Alectra does not indicate what customer feedback was received, if any.

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[63] EB-2015-0003 Decision and Order, pp. 19-20.

[64] PRZ-Staff-10

When discussing its response to the OEB's cost concerns, Alectra stated that it had now completed two projects where the rear lot supply service has been converted into the front lot underground service and has a better understanding and experience of each of the options. As well, the budget costs are now based on the actual experience of completing the conversion of rear overhead to front underground and preliminary design.[65]

Alectra further stated that to ensure cost control during implementation, it has implemented a cost review at each project stage, as well as during each construction stage and also imposed appropriate internal controls to monitor and approve project expenditures in the PowerStream RZ.[66] OEB staff notes that Alectra's response did not provide any specific analysis that dealt with the concerns the OEB had expressed in the Custom IR Decision regarding PowerStream's approach to costing these types of projects.

OEB staff therefore submits that the proposed projects are not eligible for recovery under the ICM/ACM mechanism as they have failed to meet the prudence criteria as Alectra has failed to provide sufficient costing information, not only to allay the OEB's concerns in the PowerStream Custom IR Decision but also to adequately demonstrate that the proposed expenditures represent the most cost-effective option for ratepayers. OEB staff also believes that Alectra has not adequately addressed the concerns expressed by the OEB in its PowerStream Custom IR Decision.

Underground Cable Replacement

With respect to the underground cable replacement/injection program, the PowerStream Custom IR Decision stated[67]:

> The OEB agrees with OEB staff that unit costs have gone up substantially and that this increase has not been adequately explained. The OEB considers it reasonable that a decrease equal to 20% of $25.6 million be applied to the 2017 proposed expenditure of $17,862,738. Accordingly, the appropriate capital cost for this program is $12,742,738 in 2017 which represents a decrease of

[65] PRZ-Staff-10

[66] PRZ-Staff-10

[67] EB-2015-0003 Decision and Order, p. 17.

> $5,120,000. PowerStream should more adequately explain the reasons for the significant increase in unit costs over time at its next rate setting opportunity.

Alectra, in its response stated[68]:

> Following the Board decision EB-2015-0003 where the Board expressed concerns regarding PowerStream's Underground Cable Replacement Program especially related to the cost of the program. To address the concerns raised by the Board, PowerStream undertook a review of the rear lot and cable replacement programs. The review identified that the under an annual program structure, the initiatives lacked the project management structure, rigour and accountability of project discipline. Alectra Utilitis in the PowerStream rate zone has since restructured the initiatives and treats each rear lot and cable replacement as a distinct and separate project with a defined scope, schedule and cost that addresses a discrete driver.

OEB staff notes that Alectra's response provides only a general explanation for the significant increase in its costs in this area. In the view of OEB staff, this does not adequately address the OEB's concern expressed in the Custom IR Decision.

OEB staff submits that all three of the new projects in both the rear lot conversion and cable replacement areas have failed to meet the prudence criteria as Alectra has failed to provide sufficient costing information, not only to allay the OEB's concerns in the PowerStream Custom IR Decision but also to adequately demonstrate that the proposed expenditures represent the most cost-effective option for ratepayers.

Other Projects – Projects Included in PowerStream's DSP

The remainder of the projects for which Alectra is seeking ICM recovery in the PowerStream RZ are projects that were included in the DSP filed as part of PowerStream's Custom IR application.[69]

Alectra provided a table summarizing the differences in these projects between the DSP and the current application[70]:

[68] EB-2017-0024 PRZ-Staff-7, p. 2.
[69] EB-2015-0003, Exh G/Tab 2.
[70] EB-2017-0024 PRZ-Staff-7, p.3.

Project Changes – DSP Versus Application

Project	DSP Timing	DSP Capital Expenditure	ICM Timing	ICM Capital Expenditure
Station Switchgear Replacement (ACA) 8th Line MS323	2017-2018	$1,519,005	2017-2018	$1,394,991
Planned Circuit Breaker Replacement - Richmond Hill (Lazenby) TS#1 - Second Bus	2019	$1,119,281	2018	$1,186,729
Rebuild 27.6kV Poleline on Warden Avenue into 4 ccts from 16th to Major Mack	2017	$2,050,441	2018	$1,372,976
Mill Street MS835 TX Upgrade - Tottenham	2016-2018	$5,993,032	2018	$1,298,572
Build 2 ccts pole line on 19th Ave from Leslie St to Bayview Ave	2017	$1,221,747	2018	$1,202,306
Double Circuit Existing 23M21 Circuit from Bayfield & Livingstone to Little Lake MS	2019	$2,395,509	2018	$1,276,180

OEB staff submits that the OEB has already reviewed these projects and made its Decision on them in the Custom IR application.[71] As a result, OEB staff questions whether the ICM mechanism should be used to effectively readjudicate expenditures on which the OEB has already made a Decision. OEB staff's view is that absent extraordinary circumstances, which have not been shown, these expenditures fail to meet the "Need" criteria established by the ICM/ACM Report as these amounts are not clearly outside of the base upon which the rates were derived which is one of the "Need" criteria.

OEB staff further submits that these projects are all relatively small when compared to the forecast 2018 PowerStream RZ capital program of $110 million[72] representing in each case roughly one percent of this capital program. OEB staff notes, in this context, the earlier discussion of projects not being approved on the basis that they were minor expenditures in comparison to the overall capital budget and submits that this basis for exclusion is also applicable to these projects.

CIS Implementation Costs

Although not included in the ICM requests, OEB staff is also concerned about the $6.6 million increase in general plant expenditures from the 2017 cost of service application to

[71] EB-2015-0003

[72] Application, Exh. 2, Tab 3, Sch. 10, p.4

the 2017 forecast, which is stated as primarily due to the advancement of the upgrade to the CIS for the PowerStream RZ.

OEB staff first notes that in its Decision on the PowerStream Custom IR application the OEB stated, when discussing CIS implementation costs that "The OEB considers that this is an area of costs that could well benefit from an examination of potential productivity improvement." [73]

OEB staff submits that cost increases of this kind raise concerns about the extent of the productivity improvement that is being achieved in this area. In response to an interrogatory[74], Alectra stated that this increase was necessary due to product support on the current version of the Oracle Utilities Customer Care and Billing ending in June 2018 and the upgrade ensuring immediate and longer term product support to 2023.

Alectra elaborated on this explanation during the Technical Conference stating that[75]:

> We have an identified end to product support, and so that's the reason for the upgrade advancement. Beyond that, the further – any further CIS projects are part of the transition costs related to the merger that were identified in the MAADs proceeding.

Further to the above, Alectra indicated that transition costs were excluded from the capital forecast to determine the maximum eligible incremental capital. [76]:

OEB staff notes that there was extensive discussion of CIS costs for all four Alectra rate zones during the Technical Conference.[77] Despite this discussion, it is not clear to OEB staff why it was necessary to pay $6.6 million for upgraded product support to 2023 given the merger and that it did not appear that the PowerStream CIS platform is the one on which Alectra's merged system would be based.

However, OEB staff understands Alectra's responses to mean that such additional costs will be to the account of the shareholder and therefore not resulting in higher rates for Alectra's customers. On this basis, OEB staff does not believe that further action by the

[73] EB-2015-0003, p.24
[74] EB-2017-0024 PRZ-AMPCO-4
[75] Transcript, Vol. 2, pp. 10-11.
[76] Undertaking JT2.1
[77] Transcript, Vol. 2, p. 10 L4 to p. 29 L11.

OEB is required at this time, although OEB staff does believe that this continues to be an area that could benefit from an examination of potential productivity improvement at the time Alectra files its next DSP.

Enersource RZ

Background

As indicated above, the Enersource RZ is on a Price Cap IR schedule. An ICM is available to distributors during the Price Cap IR years for capital investment needs that are incremental to the calculated materiality threshold. Alectra has applied for ICM funding of $24.2 million in 2018 for the Enersource RZ for capital additions with a resulting revenue requirement of $1.96 million. Enersource RZ's total forecasted 2018 capital budget is $72.7 million. Alectra submitted that the proposed projects are intended to address various concerns.

In its application, Alectra states:

> Since 2014, key reliability metrics for the Enersource RZ (e.g. SAIDI, SAIFI) have been trending upward, indicating an overall deterioration in reliability performance. Alectra Utilities is committed to addressing this upward trend and reducing the associated operational risks (in particular, adverse impact on the reliability and quality of distribution services provided to customers) as well as the resulting financial impact of increased system disturbances. Further, Alectra Utilities monitors and manages environmental and safety risks by continuing to enhance its asset inspection and testing practices, and to maintain or renew the assets known to pose risks to the environment or to public health and safety.[78]

The proposed ICM projects are set out below:

Enersource RZ ICM Projects

Program	Budget
System Access Projects	
Road Widening Project - QEW (Evans to Cawthra)	$1,294,220
System Access Total:	**$1,294,220**
System Renewal Projects	

[78] EB-2016-0077, Application, Exhibit 2, Tab 4, Schedule 11, Page 1

Program	Budget
Overhead Rebuild - Lake/John	$927,370
Overhead Rebuild - Church	$1,020,107
Leaking Transformer Replacement Project	$8,447,243
Subdivision Rebuild - Credit Woodlands Crt/Wiltshire	$1,548,270
Subdivision Rebuild - Glen Erin & Montevideo (Section 1)	$1,961,142
Subdivision Rebuild - Tenth Line Main Feeder	$1,135,398
Subdivision Rebuild - Folkway & Erin Mills Main Feeder	$1,032,180
Subdivision Rebuild - Glen Erin & Battleford	$2,064,360
Subdivision Rebuild - Walmart Cables	$1,548,270
System Renewal Total:	**$19,684,339**
System Service Projects	
Substation Upgrade - York MS	$3,232,029
System Service Total:	**$3,232,029**
TOTAL ICM PROJECT CAPITAL:	**$24,247,022**

The proposed ICM projects have been evaluated against the OEB's criteria of materiality, need and prudence discussed under Issue 2.2 above. Alectra filed a DSP in this application in support of its ICM request.

Materiality

The Enersource RZ has a materiality threshold of $589,950.[79] OEB staff submits that each of the proposed projects in the table above meets the materiality requirement based on its capital cost.

Discrete Projects

OEB staff submits that the Road Widening Project - QEW (Evans to Cawthra) is a discrete project driven by the Ministry of Transportation's (MTO) redesign of the on and off ramps at Dixie Road and QEW. This mandatory project involves the relocation of 72 poles, removal of 39 poles, and the installation of 3 temporary poles. It also includes the implementation of an underground crossing of the QEW. The MTO will contribute all

[79] Application, EB-2017-0024, Exhibit 2, Tab 4, Schedule 11, Page 32

costs related to the relocation of assets on municipal property, and share costs on a 50/50 basis for asset relocations on MTO lands.

OEB staff submits that the Substation Upgrade - York MS project is a discrete project located at a unique project site in the downtown core. This project is driven primarily by growth in demand in the Meadowvale Business Park Area and by the need to update equipment and the configuration at the station to bring these in line with current standards and improve reliability.

OEB staff is of the view that none of the System Renewal ICM projects listed in Table 2 qualify as discrete projects. OEB staff submits that Alectra's filed evidence does not compellingly support its categorization of the individual Enersource RZ ICM System Renewal expenditure line items as "Discrete Projects". The asset replacement activities comprising the listed System Renewal expenditure line items are not easily distinguishable from asset replacements covered under the different ongoing multi-year Enersource RZ base capital programs (see Table 3 below). These System Renewal expenditure line items could rather be reasonably classified as volume increases to the existing base capital programs for replacing deteriorating assets such as transformers, underground cables and wood pole structures

Some asset replacement activities that would normally be categorized as program expenditures, such as replacement of underground cables and overhead wood pole lines, have been bundled into neighbourhood portfolios and classified as projects. However, the actual individual asset replacements comprising these expenditure line items are similar or identical to other work listed in the DSP under ongoing multi-year base capital System Renewal programs.

OEB staff does not recommend that the following programs be approved as part of the ICM:

- Overhead Rebuild - Lake/John
- Overhead Rebuild - Church
- Leaking Transformer Replacement Project
- Subdivision Rebuild - Credit Woodlands Crt/Wiltshire
- Subdivision Rebuild - Glen Erin & Montevideo (Section 1)
- Subdivision Rebuild - Tenth Line Main Feeder
- Subdivision Rebuild - Folkway & Erin Mills Main Feeder

- Subdivision Rebuild - Glen Erin & Battleford
- Subdivision Rebuild - Walmart Cables

Need and Prudence

The Road Widening Project - QEW (Evans to Cawthra) is a mandatory project driven by the Ministry of Transportation's ("MTO") redesign of the on and off ramps at Dixie Road and QEW. Alectra is required by legislation to relocate electrical infrastructure to accommodate the road work, as well as the final 'cloverleaf' ramp configuration (i.e. provision of off and on ramps in both directions) planned for the area. The proposed solution addresses the mandatory need and can be considered prudent subject to the concerns outlined in the PowerStream RZ discussion.

Need and prudence are more difficult to ascertain for the proposed ICM System Renewal expenditures, based on the submitted evidence. Although the DSP discusses the need for the individual ICM System Renewal expenditure line items identified in Table 2, it does not show how these expenditures have been prioritized in relation to the other planned base capital program expenditures.

The table below[80] lists the planned Enersource RZ System Renewal capital programs for the 2017 – 2022 forecast period. This list combines both base capital and ICM expenditures in 2017 & 2018, and presumably the planned expenditures for years 2019 to 2022 also include both base capital and potentially (yet-to-be-filed) ICM expenditures, although the table does not break out the capital program expenditures into these two categories.

[80] EB-2017-0024, 2018 EDR Application, Exhibit 2, Tab 4, Schedule 11, Table 51, Page 260

Description	2017	2018	2019	2020	2021	2022
Subdivision Renewal Program	13,802	16,102	17,252	18,502	18,502	18,502
Overhead Distribution Renewal and Sustainment	5,268	6,492	7,032	7,032	7,032	7,212
Subtransmission Renewal	3,736	3,736	3,286	3,436	4,186	4,786
Transformer Replacement	9,578	9,578	9,578	7,548	5,438	1,438
Underground Distribution Renewal and Sustainment	4,670	4,670	4,670	4,670	4,670	4,670
Emergency Replacement Program	332	332	332	332	332	332
Total	**37,386**	**40,910**	**42,150**	**41,520**	**40,160**	**36,940**

Enersource RZ System Renewal Projects

The Enersource RZ DSP also includes a more detailed capital expenditure table[81] that breaks out all of the individual material Enersource RZ capital expenditures planned for the period 2017 to 2022, although this table also does not explicitly distinguish between expenditures classified as ongoing base capital and ICM expenditures. The detailed table shows that the planned expenditures for the U/G (Padmount) PCB & Leaking Transformer Replacement Project are identical in each year from 2017 to 2020, as are the annual expenditures for the Overhead Transformer Replacement in the years 2017 to 2019 – such flat expenditure trends are typical of multi-year programs rather than discrete projects.

The need and prudence discussions of the ICM System Renewal expenditures are divided into the three categories.

System Renewal – Overhead Rebuilds

The Lake/John and Church overhead rebuilds have been identified as ICM projects with need primarily driven by the assessed condition of the wood poles determined by resistograph testing. Alectra has confirmed that although to date it has not experienced any pole failures in these areas[82] the rebuilds are intended to prevent failure-related performance and safety issues. OEB staff submits that the filed evidence does not demonstrate urgency of the need driving these expenditures, and does not explain why they could not be deferred or paced over an extended timeline by replacing individual

[81] EB-2017-0024, 2018 EDR Application, Exhibit 2, Tab 4, Schedule 11, Table 55, pp. 265 – 281
[82] IRR ERZ-Staff-41 – Ref: E2/T4/S11, p.41-42

worst-condition structures in these areas under the ongoing base capital Overhead Distribution Renewal and Sustainment program.

System Renewal – Transformer Replacements

The DSP identifies that Alectra has implemented significant changes in its approach to overhead and pad mounted distribution transformer condition assessment and replacement methodologies. In the past, these assets have been operated as "run-to-fail" (which is the typical approach followed by most other Ontario LDCs for assets in this category). The DSP identifies that 90% of overhead and 87% of pad mounted transformer replacements in 2018 will be done pre-emptively rather than at failure, and the ratio of pre-emptive replacements is assumed to be similar for the years 2019 to 2022. Alectra has explained that these methodology changes are needed to address environmental concerns related to leaking transformers that were identified when Alectra modified its transformer condition assessment methodology to include opening pad-mounted transformer doors in 2013[83]. Alectra has categorized the leaking transformers by the extent of observed leakage, yet the ICM Project appears to treat all transformers with any amount of oil leakage as having the same high priority, which results in a very compressed schedule to replace all the identified transformers, including those with very minor leaks.

OEB staff is of the view that Alectra's new transformer asset condition assessment methodology and its abandonment of the run-to-fail operational approach for overhead and pad-mounted distribution transformers combine to drive an $8.45M ICM expenditure item in 2018, with identical or similar expenditures anticipated for this budget item in each of the forecast years from 2019 to 2022.

System Renewal – Underground Cable Replacements

The Enersource RZ ICM includes six subdivision underground cable rebuilds in 2018, which are in addition to four other 2018 subdivision underground cable rebuilds covered under the base capital U/G Subdivision Rebuild program. OEB staff submits that the proposed ICM cable rebuilds are not distinguishable from the base capital rebuilds, and the proposed ICM expenditures appear to largely represent an acceleration of the existing program, for which Alectra has not demonstrated an urgent driving need. Alectra

[83] IRR ERZ-Staff-42 – Ref: E2/T4/S11, p.43-44

has provided evidence that one of the important past causes of underground cable failures, heat shrink splices, has now been effectively mitigated in the Enersource RZ service area[84].

Substation Upgrades

The Substation Upgrade - York MS project is one of two System Service substation upgrade projects originally included in the Enersource RZ ICM, before adjustments were made based on customer feedback. The other project, Substation Upgrade – Webb MS, was deferred by Alectra for two years in response to the identified customer preference for minimal rate increases. Alectra did not provide sufficient evidence to show that the need for and prudence of the spending on the York MS was more critical than the Webb MS upgrade project. Furthermore, as discussed above, Alectra has similarly not shown that other projects in the multi-year substation upgrade base capital program are more urgent than the York MS project.

Base Rates

The Enersource RZ DSP does not explain why some planned capital expenditures are treated as base capital program expenditures and others are classified as ICM project expenditures. Any of the Enersource RZ ICM System Renewal and System Service expenditures listed in Table 2 could also be reasonably classified under one of the existing multi-year base capital programs.

In its response to an interrogatory[85], Alectra indicated that some of the ICM asset replacements are assessed as being higher priority than some of the base capital replacements that address very similar issues. Alectra reiterated in the Technical Conference that some of the individual ICM System Renewal expenditures may be higher priority than work being addressed under base capital, as it has not re-prioritized its overall capital portfolio since the projects included in the ICM were identified.[86]
OEB staff submits that Alectra has not adequately explained why its highest priority Enersource RZ capital expenditures are not included in its planned base capital work, since that level of spending is already anticipated under approved incentive regulation rates.

[84] IRR ERZ-Staff-76
[85] IRR ERZ-Staff-38
[86] Transcript, Vol. 1 November 30, 2017, p. 53, L 23 - L28

Similarly, OEB staff submits that Alectra has not demonstrated that the substations being addressed under the Enersource RZ base capital budget multi-year substation upgrade program are higher priority than the York MS upgrade proposed in the ICM. If the upgrades covered by the program are lower priority than the York MS upgrade, it could be possible to defer one or more of the base capital program station upgrades to create headroom for the York upgrade in 2018 & 2019.

OEB Staff Submission

OEB staff submits that the proposed Enersource RZ ICM represents a significant step increase in System Renewal and System Service expenditures, comprising capital expenditure items which are generally indistinguishable from ongoing multi-year base capital program expenditures. The drivers of the step increase are largely related to asset condition assessment methodology changes (transformer door opening, resistograph measurements) and operational approaches (abandoning run-to-fail for distribution transformers). The associated rate increases are being proposed despite the explicitly expressed customer preference for control of rates.

OEB staff's application of the above considerations yields the reduced list of ICM projects shown in the table below with the summarized reasons for project disqualification shown in the rightmost column.

OEB Staff – Proposed Disqualified Projects

Program	Budget	Reason for Disqualification
Road Widening Project - QEW (Evans to Cawthra)	$1,294,220	
System Access Total:	**$1,294,220**	
~~Overhead Rebuild - Lake/John~~	~~$927,370~~	Not Discrete Project/Need & Prudence not demonstrated
~~Overhead Rebuild - Church~~	~~$1,020,107~~	Not Discrete Project/Need & Prudence not demonstrated
~~Leaking Transformer Replacement Project~~	~~$8,447,243~~	Not Discrete Project/Need & Prudence not demonstrated
~~Subdivision Rebuild - Credit Woodlands Crt/Wiltshire~~	~~$1,548,270~~	Not Discrete Project/Need & Prudence not demonstrated

Program	Budget	Reason for Disqualification
~~Subdivision Rebuild - Glen Erin & Montevideo (Section 1)~~	~~$1,961,142~~	Not Discrete Project/Need & Prudence not demonstrated
~~Subdivision Rebuild - Tenth Line Main Feeder~~	~~$1,135,398~~	Not Discrete Project/Need & Prudence not demonstrated
~~Subdivision Rebuild - Folkway & Erin Mills Main Feeder~~	~~$1,032,180~~	Not Discrete Project/Need & Prudence not demonstrated
~~Subdivision Rebuild - Glen Erin & Battleford~~	~~$2,064,360~~	Not Discrete Project/Need & Prudence not demonstrated
~~Subdivision Rebuild - Walmart Cables~~	~~$1,548,270~~	Not Discrete Project/Need & Prudence not demonstrated
~~System Renewal Total:~~	~~$19,684,339~~	
~~Substation Upgrade - York MS~~	~~$3,232,029~~	Need & Prudence not demonstrated
~~System Service Total:~~	~~$3,232,029~~	
TOTAL RESIDUAL ICM AMOUNT:	**$1,294,220**	

2.3 Is the level of planned capital expenditures proposed in the ICMs appropriate and is the rationale for planning, prioritization and pacing choices appropriate and adequately explained and should the level of expenditures be approved by the OEB, giving due consideration to:

- **customer feedback and preferences**
- **productivity**
- **compatibility with historical expenditures**
- **compatibility with applicable benchmarks**
- **reliability and service quality**
- **impact on distribution rates**
- **impact on OM&A spending**
- **government-mandated obligations**
- **the objectives of Alectra Utilities and its customers**
- **the five-year Distribution System Plans**

Background

Alectra stated that its level of planned capital expenditures for the ICM projects is appropriate. Alectra further states that the proposed ICM projects for which it seeks approval reflect capital investment needs for each of these three rate zones for 2018, which are not funded through existing distribution rates, necessitating recovery through the ICM mechanism.

Customer Engagement

The OEB's *Handbook to Utility Rate Applications*[87] advises that "customer engagement is expected to inform the development of utility plans, and utilities are expected to demonstrate in their proposals how customer expectations have been integrated into their plans, including the trade-offs between outcomes and costs."[88]

Alectra stated that to assist it in meeting this expectation, it had engaged a consultant IRG, to undertake customer engagement for the Enersource RZ DSP as well as for its other rate zones to help it understand the priorities and preferences of its customers. This engagement was done through its website and Alectra stated that there were over 17,500 participants. Alectra further stated that this engagement confirmed that the vast majority of its customers are satisfied with the current level of reliability they experience and expect Alectra to do what is necessary to maintain it. Alectra stated that in principle, most customers were found to support some form of investment program that ensures a consistently reliable and modern distribution system and that also addresses growth and system demands. Alectra, however, noted that customers expressed frustration with their electricity bills and when asked how it could improve service, the most common responses were "nothing" or "lower rates."

OEB Staff Submission

OEB staff notes that the most recent of the Alectra predecessor utilities that filed evidence related to customer engagement on which the OEB has opined was the former

[87] Ontario Energy Board *Handbook for Utility Rate Applications* October 13, 2016 (Handbook)
[88] Handbook, p.11

PowerStream. In the Custom IR Decision the OEB expressed a number of concerns with the customer engagement undertaken, as outlined below:

> (PowerStream)…has also not demonstrated sufficiently that its proposed increased capital investment levels will bring value to its customers and has not engaged customers in a way that provides useful input into the development of its business plans…
>
> The OEB does not consider that PowerStream has provided sufficient evidence of what its capital investment will accomplish in terms of outcomes for customers, and why they are appropriate, to justify approving its capital investment beyond 2017…
>
> … PowerStream has not provided evidence that it took advantage of the opportunities it did have to obtain customer views on the specifics of its proposals before these proposals were decided on…Consequently, PowerStream has not provided adequate evidence of "balancing its customer concerns with the costs and reliability" as expected under the RRFE. Customer engagement should clearly articulate the value proposition of a proposal in real terms so that customers can give informed feedback on the proposal before a distributor decides whether to proceed with the proposal. [89]

OEB staff submits that Alectra's customer engagement efforts, while further advanced than those of PowerStream, have still not sufficiently articulated the value proposition of a proposal in real terms so that customers can give informed feedback on the proposal before a distributor decides to proceed with such a proposal.

OEB staff further submits that there is little evidence provided that customer engagement informed the development of Alectra's plans, as there is insufficient demonstration in Alectra's proposals as to how customer expectations have been integrated into the development of its plans, including the trade-offs between outcomes and costs.

OEB staff submits that the above-referenced inadequacies in Alectra's customer engagement were demonstrated through its responses to interrogatories, as well as Technical Conference questions, as described below.

The information provided to customers through the Customer Feedback Portal in terms of the impact of the projects for which funding is being sought in this application on customer service and rates was limited, as was the information presented on cost versus reliability tradeoffs.

[89] EB-2015-0003 *Decision and Order* August 4, 2016, p. 3 and pp. 11-12

As an example of this, for the PowerStream RZ, the only specific project for which a rate impact was provided to customers was the York Region Rapid Transit road work, for which the impact was stated as a $0.11 per month increase in 2018 to the typical residential customer's bill in the PowerStream service territory[90]. This project was also the only one included in the system access category.

For the system service and renewal categories, there were multiple projects in both categories and there was no specific project-by-project information provided in the application. This was confirmed during discussion at the Technical Conference.[91] Instead, customers in both the residential and GS categories were provided with a set of scenarios for each of these two categories of projects. For example, residential customers in the PowerStream RZ were presented choices related to incremental service investments where reliability would be maintained at the current level or it would decline. Customers were presented with the following alternatives:

> **Maintain:** I would be willing to accept an additional **$0.05 per month** on the PowerStream portion of my bill in 2018 if the level of reliability remains the same as now.
>
> **Decline:** I would be willing to accept an additional **$0.03 per month** on the PowerStream portion of my bill in 2018 knowing that the level of reliability could eventually decline.
>
> **Significant Decline:** I am not willing to accept any additional charges knowing that the level of reliability could decline significantly.
>
> Don't know.

OEB staff submits that this general information does not give customers sufficient information as to what the tradeoffs are with respect to the spending proposed in the PowerStream RZ for the following reasons. First, it is not clear what is meant by "decline" and "decline significantly." Individual customers may have different views as to the meaning of these descriptions. Second, some of the key assumptions are not clearly stated. For example, the cost/reliability tradeoffs presented to customers were based on the projects not being undertaken during the entire five-year span under consideration, rather than being postponed for a shorter period of time[92].

[90] EB-2017-0024 Application Attachment 51, pdf p. 331
[91] Transcript, Vol. 1 November 30, 2017, p. 134 L21 – L25.
[92] Transcript, Vol. 1 p. 137 L11 to L27.

OEB staff's second major area of concern is that Alectra's customer engagement effort does not appear to have informed the development of its plans to any great extent. IRG's report of the results of customer engagement is dated June 23, 2017, which is two weeks before Alectra's application was filed.[93]

Alectra indicated that it removed some items from its ICM request "based on customer feedback" but there is little evidence of direct and specific consumer input into the process[94].

> Based on feedback from customers, as provided in the Innovative Report, PowerStream revised its 2018 capital forecast from $109,773,500 to $108,315,568; and its ICM request from $26,594,248 to $25,136,316. No revision was made to the 2018 forecast or incremental capital funding request for System Service projects. The system renewal forecast and incremental capital funding request for 2018 was reduced by $1,457,932, which represents the removal of the Rear Lot Supply Remediation project at Queen/Greenway.

An OEB staff interrogatory[95] asked Alectra to provide a detailed explanation as to how, based on feedback from its customers, PowerStream RZ had revised its ICM request. This was to include a specific discussion of any interactions with its customers that PowerStream RZ had had in making this determination and how the extent of customer support for the incremental capital funding impacted the magnitude of the reduction.

It was evident from Alectra's response that there was no specific interaction with customers either on the decision to make the reduction, or with the customers directly affected by the reduced funding request[96]:

> PowerStream revised its 2018 capital forecast based on the nature of the feedback received from customers. More specifically, PowerStream considered customer preferences in respect of the type of investments proposed. In both the Online Feedback Portal and Telephone Surveys, there was marginally less support for System Renewal investments amongst PowerStream RZ customers compared to System Service investments. In the PowerStream RZ telephone survey, 48% of Residential customers in the PowerStream RZ selected "*I am not willing to accept any additional charges knowing that the level of reliability could decline significantly"* with regards to System Renewal investments [Customer Engagement Report, Page 26]. In total, 7,093 PowerStream RZ customers completed the Online Feedback Portal, which offered an explanation of the key infrastructure challenges and proposed solutions related to aging infrastructure pressures.

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[93] EB-2017-0024 Application Attachment 51, pdf p. 2

[94] EB-2017-0024 Application E2/T3/S10, p.15.

[95] EB-2017-0024 Application PRZ-Staff-6

[96] EB-2017-0024 Application PRZ-Staff-6

> The views of customers directly affected by the removal of the Rear Lot Supply Remediation project at Queen/Greenway were captured through the telephone surveys conducted as part of customer engagement described in the application. The telephone surveys in the PowerStream RZ used a stratified random sampling approach based on known characteristics of customers including region and consumption by rate class (residential, GS<50kW and GS>50kW). This sample is representative of the PowerStream RZ. Therefore, a representative sample of customers in each region (Aurora, Barrie, Bradford, Markham, Richmond Hill, Vaughan and Other) were included in the customer engagement process. This includes the Queen/Greenway customers.

OEB staff submits that the above response suggests that the customer survey results which were very general in nature were used to make this decision to reduce the overall expenditure level and to remove a project. OEB staff believes that this demonstrates a lack of specific interactions with Alectra's customers, both in terms of developing its capital program or making reductions when they were determined to be necessary and in the absence of consultation with customers who were to be affected by the specific project which was cut.

While OEB staff's discussion in this section has focused on the PowerStream RZ, OEB staff believes that the concerns that have been outlined are equally applicable to the other rate zones. While there is somewhat more project-specific information provided for the Enersource RZ, the overall approach is the same and the differences are not significant enough to change the conclusions that OEB staff have reached arising from its assessment of the PowerStream RZ.

OEB staff notes that there are other criteria included under this issue that have not been specifically discussed. OEB staff has focused its discussion on customer engagement issues because of the concerns expressed by the OEB in the PowerStream Custom IR Decision of 2016[97], about PowerStream's customer engagement, which is the most recent such Decision for one of the current Alectra rate zones.

2.4 Are Alectra Utilities' proposals regarding the ICM true-ups appropriate?

Background

Alectra stated that it intended to carry out the ICM true-ups at its next rebasing in accordance with OEB policy and that it would report on a project basis when doing so.

[97] EB-2015-0003

Alectra further stated, as described in the Brampton RZ discussion under Issue 2.2 that the CCRA payment planned for 2018 is based on an actual load up to the ten-year anniversary in 2018, and an updated forecast to load going forward. The actual payment amount will be determined after the ten-year anniversary.

Alectra has proposed to use the ICM provided variance account to provide for a true-up in the event that the actual payment to Hydro One is less than[98] that approved in the ICM request.

OEB Staff Submission

OEB staff accepts Alectra's ICM true-up proposal subject to one concern.

OEB staff notes that at the 15 year anniversary of the construction of the Pleasant TS in 2023, another true-up payment is possible, if the load is materially higher or lower than what is forecast in 2018. OEB staff further notes that in the event a payment would be due from Alectra to Hydro One, that amount may be eligible for recovery through another ICM. However, in the event that a payment would be due from Hydro One to Alectra, Alectra has stated that its customers would see the benefit at the next rebasing[99], currently expected to be in 2027.

OEB staff submits that Alectra's true-up proposal is not adequate and that a new variance account should be opened in 2018, and remain open until all payments related to the Pleasant TS between Hydro One and Alectra are complete.

The variance account should track the ICM in this application, as well as all true-up payments between Alectra and Hydro One related to the Pleasant TS going forward.

OEB staff notes that the creation of a specific use variance account, in this case specific to Pleasant TS true-up payments; to provide a multi-year multi-payment true-up, in this case for all true-up payments going forward; is not unprecedented. In a Toronto Hydro

[98] Transcript_day1_Alectra Utilities_TC_20171130, page 95, lines 22-27.
[99] Transcript_day1_Alectra Utilities_TC_20171130, page 96, lines 14-20.

ICM,[100] a custom variance account "Variance account for 2015 opening rate base to capture prudence-based ICM disallowances"[101] was created.

2.5 Does the Distribution System Plan (DSP) filed for the Enersource rate zone provide sufficient information to support the proposed ICM for this rate zone?

Background

Alectra stated that OEB-approved DSPs are in place for all of its rate zones other than Enersource. To support its request for incremental capital for the Enersource RZ, Alectra filed a DSP for the Enersource RZ for a five-year term from 2018 to 2022.

OEB staff has only commented on the Distribution System Plan (DSP) filed by Alectra for the Enersource RZ to the extent that it is necessary to make its submissions on the projects proposed for Incremental Capital Module (ICM) treatment by Alectra in the Enersource RZ.

Alectra stated that the Enersource DSP had been developed in accordance with Chapter 5 of the OEB's Filing Requirements and in alignment with the *Renewed Regulatory Framework for Electricity Distributors* (RRFE) and included sufficient information to support the proposed ICM for the Enersource RZ. OEB staff notes that the OEB's *Handbook to Utility Rate Applications* stated that this framework would be referred to as the *Renewed Regulatory Framework* (RRF) going forward.[102]

Alectra retained Vanry Associates to undertake an independent, third party review of the process and methodology used to develop the Enersource RZ DSP. In Vanry's professional opinion, the Enersource RZ DSP represented a well-reasoned, fact-based assessment of the needs of the system, reflecting the desires of customers and the concerns of relevant stakeholders.

[100] EB-2014-0116.
[101] EB-2014-0116, Decision and Order, December 29, 2015, page 52.
[102] *Handbook to Utility Rate Applications,* October 13, 2016, p. 4

Alectra's Argument-in-Chiefconcluded that despite the Vanry Report being filed as part of the application, no party had asked a question of Vanry and, as such, its conclusions remained unchallenged[103].

OEB Staff Submission

OEB staff notes that while Alectra stated that the OEB approves DSPs,[104] the OEB does not approve DSPs but instead approves rates based on the capital underpinned by the DSP.

OEB staff submits that the DSP filed for the Enersource RZ provides sufficient information to allow for an assessment of the appropriateness of the ICM expenditures proposed in the application.

However, OEB staff submits that the Enersource RZ DSP does not sufficiently explain why some planned capital expenditures are treated as base capital program expenditures and others are classified as ICM project expenditures. OEB staff notes that any of the Enersource RZ ICM System Renewal and System Service expenditures in the Enersource RZ ICM proposal could also be reasonably classified under one of the existing multi-year Base Capital programs. Finally, although the DSP discusses the need for the individual ICM System Renewal expenditure line items identified in the ICM proposal, it does not show how these expenditures have been prioritized in relation to the other planned Base Capital program expenditures.

3.0 ACCOUNTING

3.1 Are Alectra Utilities' proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts and the continuation of existing accounts, appropriate?

a) Balances in the existing accounts and their disposition:

[103] Argument-in-Chief, p. 31
[104] Argument-in-Chief, p.26

Background:

Alectra has requested disposition of its Group 1 Deferral and Variance Accounts by rate zone. The proposed balances relate to variances accumulated in 2015 and 2016 for the PowerStream RZ, and for variances accumulated in 2016 for all other rate zones. Subject to the following submission, OEB staff has no further comments.

OEB Staff Submission:

Horizon RZ:

Alectra has requested the disposition of group 1 DVA's as of December 31, 2016 including interest and adjustments to December 31, 2017, for a total credit of $7,370,171. In accordance with the OEB's EDDVAR Report[105] the Group 1 Deferral and Variance Account balance exceeds the disposition threshold of $0.001/kWh. Alectra requests a disposition of these accounts over a one-year period.

Alectra has identified three customers that have moved from a Class B customer to a Class A customer. Alectra also identified two customers that have moved from a Class A customer to a Class B customer. For the disposition of CBR Class B amounts and the Global Adjustment, customers that have changed to/from a Class B customer should only be allocated the portion of the amounts which accrued during which time they were a Class B customer. Alectra has allocated this portion to the five specific customers and has proposed to dispose the amount through twelve equal adjustments to their bills.

OEB staff has no concerns with the applicant's request to dispose of its December 31, 2016 Group 1 DVA balances.

[105] EB-2008-0046, Electricity Distributors' Deferral and Variance Account Review initiative, July 31, 2009

PowerStream RZ

Balance for Disposition:

For the PowerStream RZ, Alectra identified the Group 1 balances for disposition to be a credit of $20,550,622[106]. This number is slightly different from the credit amount of $20,528,056 under the "Total Claim" column of the DVA Continuity Schedule. OEB staff submits that the balance for disposition should be a credit of $22,168,522.
The difference is due to an error in the amounts recorded under "principal adjustments" and "interest adjustments" in 2016, and is described in more detail below.

OEB staff submits that the Group 1 account balances include a proposed disposition in Account 1588 of a debit amount of $2,720,755; whereas, OEB staff submits that this amount should instead be a debit amount of $1,080,289. The difference of $1,640,466 is due to an error in how the amounts are recorded in 2016 of the DVA Continuity Schedule for the "principal adjustments" and "interest adjustments" relating to an IESO settlement true-up. OEB staff submits that the error is due to how the principal and interest adjustments (to account 1588) in 2016, of $820,233 [$811,309 (principal) + $8,924 (interest)], are recorded on the DVA Continuity Schedule. Alectra recorded the aforementioned principal and interest adjustments as debits on the DVA Continuity Schedule, when they should have been recorded as credit amounts since the true-up settlement amount was a payment from[2] the IESO, thereby reducing the cost of power. Had this amount been a payment to the IESO, then the amount would have been a debit.

[106] Argument-in-Chief, p. 32

[2] PRZ-Staff-26, parts 3b. and 3c.

	Claim Amount IRM Model December 15, 2017	**Principal Adjustment Required[1]**	**Projected Interest Adjustment Required[2]**	**Adjusted Balance for Disposition**
Account 1588	$2,720,755	-$1,622,618	-$17,848	$1,080,289
Group 1 Total Claim	-$20,528,056	-$1,622,618	-$17,848	-$22,168,522

1 - correction to principal balance = -$1,622,618 = ($811,309 X 2)
2 - correction to interest balance = -$17,848 = ($8,924 X 2)

OEB staff submits that the total for disposition should be adjusted to a credit of $22,168,522. OEB staff submits that Alectra, in its Reply Submission, should comment on the adjustments contained in the above table.

Proposal to Change Previously Approved Rate Riders:

Alectra has provided two versions of the IRM Rate Generator model[107] (IRM and IRM RGM) for its PowerStream RZ. The IRM version includes an extra Tab 6C. 2016 GA Rate Rider Update, where Alectra PowerStream RZ has proposed to change an approved 2016 GA rate rider expiring September 30, 2018. Alectra PowerStream RZ has stated that it incorrectly applied GA rate riders to its interval metered Class B non-RPP customers who should not have been allocated this rate rider in EB-2015-0003 as they were billed actual GA. Alectra PowerStream RZ has proposed to replace this rate rider with two separate tariffs, one to refund the over-collection from the interval metered Class B non-RPP customers and the other to collect the remaining amount from the non-interval metered Class B non-RPP customers. The latter rate rider is proposed to recover the remaining balance as of December 31, 2017 plus the amount that was incorrectly allocated (and proposed to be refunded) to interval metered Class B non-RPP customers.

Below is information relating to rate riders and recoveries from EB-2015-0003:

[107] JTStaff-5_PRZ-Staff-5

- Total GA disposition was $10,470,102.

- As of December 31, 2017, Alectra estimated that:
    - the total amount that had already been collected was $6,563,265
    - an amount of $3,134,584 was incorrectly collected from the interval metered Class B non-RPP customers
    - the amount that remains to be collected to the sunset date of September 30, 2018 is $3,906,837
    - PowerStream RZ is proposing to collect $7,041,422 from non-interval metered Class B non-RPP customers
    - PowerStream RZ is proposing to refund $3,134,584 to interval metered Class B non-RPP customers

In response to OEB staff interrogatories[108] Alectra indicated that for the PowerStream RZ, interval metered Class B non-RPP customers were allocated the GA rate rider in error, and this issue was identified while documenting the settlement procedures for PowerStream RZ for the current proceeding.

PowerStream RZ's proposal is that the interval metered Class B non-RPP customers would receive a refund of $3,134,584 and the PowerStream RZ's non-interval metered Class B non-RPP customers would pay an additional $3,134,584 to correct for the rate rider calculation error. OEB staff submits that although some intergenerational inequity may exist should the OEB approve PowerStream RZ's proposal that it would not have an impact on the total amount that the utility would recover and that this error can be corrected as part of the residual balance disposition given that the purpose of Account 1595 is to true up approved balances. OEB staff notes that Alectra is not making corrections to previously approved balances.

Enersource RZ

Alectra completed the Deferral and Variance Account (DVA) continuity schedule for the Enersource RZ included in the 2018 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra requests to dispose of a credit of $7,421,393[109] over a one-year period.

[108] PRZ-Staff-23 and PRZ-Staff-Supp-5
[109] JTStaff-2 IRM Model ERZ

OEB staff notes that in its Argument-in-Chief,[110] Alectra indicates a figure of $7,401,082 as filed in its updated Rate Generator Model in response to undertaking JT-Staff-2. OEB staff is unable to reconcile the figure noted by Alectra. In its updated Rate Generator Model, Alectra is requesting to dispose of a credit balance of $7,421,393. In its reply submission, Alectra may wish to explain this difference and confirm the correct balance.

Brampton RZ

OEB staff has no issues with respect to Alectra's proposals related to Group 1 Deferral and Variance Account balances for this rate zone.

Five Decimal Place Volumetric Rate Riders:

Alectra has proposed that the CBR Class B balance be cleared with a volumetric rate rider to five decimal places in 2018 for the Enersource RZ and the Horizon RZ. OEB staff submits that Alectra's proposal is not consistent with the OEB Filing Requirements. The OEB indicates in the Filing Requirements that[111]:

> In the event where the calculation of any rate adder or rate rider results in a volumetric rate rider that rounds to zero at five significant digits (i.e., the fourth decimal place) per kWh or per kW, the entire OEB-approved amount for recovery or refund will typically be recorded in a USoA account to be determined by the OEB for disposition in a future rate setting.

In addition OEB staff submits that the OEB routinely approves rates and rate riders to five decimal places for Toronto Hydro.

Alectra's justification for its proposal for using a rate rider to five decimal places is that it aligns disposition of the CBR balances with the CBR bill adjustments for new Class A and new Class B customers and prevents intergenerational inequity. Alectra has indicated that the billing systems in these rate zones have the capability to bill to five decimal places. OEB staff submits that it does not oppose the approval of rate riders for CBR Class B balances to five decimal places in order to minimize intergenerational inequity.

[110] P. 32

[111] IRM Filing Requirements, p. 26

OEB staff submits that the Group 1 Deferral and Variance Account balances for each of Alectra's rate zones should be disposed on a final basis, subject to any changes identified in this submission.

b) Request for New Deferral Accounts for Metrolinx Crossings Remediation Project in PowerStream RZ and Enersource RZ

Background:

Alectra has requested approval for an accounting order to establish two new deferral accounts, for each of the PowerStream RZ and Enersource RZ, to record the financial impacts resulting from the Metrolinx Crossing Remediation Project. Alectra proposes to apply to the OEB for funding adders related to the projected cost amounts as part of its 2019 rate application or subsequent application. Upon completion of the work related to the Metrolinx Project, Alectra proposes to seek recovery of costs recorded in the deferral account through rate riders.

OEB Staff Submission:

OEB staff submits that there is no provision for such a funding adder under OEB's current policies and that the OEB has an ICM/ACM policy in place which would be appropriate for use once Alectra has better information on the estimated costs of the project. OEB staff further submits that Alectra should follow the OEB policy and accounting guidance in place for ICM/ACM for its Metrolinx Project, and apply for a rate rider as provided under the ICM/ACM policy subject to the projects meeting the ICM criteria. OEB staff does not support the establishment of two new deferral accounts relating to the Metrolinx Crossing Remediation Project. OEB Staff submits that Alectra Utilities should seek an ICM rate rider in the year that the fixed assets go into service.

LRAMVA

Background

Alectra applied to dispose its LRAMVA balances for the Enersource, PowerStream and Horizon rate zones.

1) **Enersource RZ:** Alectra applied for disposition of a debit balance of $2,146,406 which consists of new lost revenues and persisting savings from 2011 to 2015, as well as carrying charges. Enersource did not have a CDM adjustment to its load forecast in its 2008 COS application; thus, the full impact of 2011 and 2012 savings was recorded in the LRAMVA. As Enersource last rebased in 2013, an LRAMVA threshold of 119,146,362 kWh was used as a comparator against 2013 to 2015 actual results.

2) **PowerStream RZ:** Alectra applied for disposition of a debit balance of $1,699,829 which consists of new lost revenues in 2014 and 2015, persisting savings from 2011 to 2013 CDM programs in 2014, persisting savings from 2011 to 2014 CDM programs in 2015, and carrying charges. As PowerStream rebased in 2013, an LRAMVA threshold of 137,099,754 kWh was used as a comparator against 2014 and 2015 actual results.

3) **Horizon RZ:** Alectra applied for disposition of a debit balance of $1,281,317 which consists of new lost revenues from 2013 to 2015, persisting savings from 2011 in 2012, persisting savings from 2011 to 2012 CDM programs in 2013, persisting savings from 2011 to 2013 CDM programs in 2014, and carrying charges. Since Horizon rebased in 2011, an LRAMVA threshold of 28,142,000 kWh was used as a comparator against 2013 and 2014 actual results. Also, since Horizon last rebased in 2015, an LRAMVA threshold of 19,534,205 kWh was used as a comparator against 2015 actual results.

In response to OEB staff interrogatories, additional light-emitting diode (LED) municipal streetlighting demand savings were identified in the PowerStream RZ in 2014 and 2015.[112] Additional savings from 2015 CDM programs were also identified in the Enersource and Horizon RZs from the IESO's 2015 verified results report.[113] Alectra further requested withdrawal of 2011 persisting savings in 2012 in the Horizon RZ.[114] The net effect of these changes was an increase in savings of $132,150 for the Enersource RZ, $317,172 for the PowerStream RZ and $78,044 for the Horizon RZ.

In an undertaking, Alectra adjusted its LED municipal streetlighting demand savings based on the IESO's net-to-gross savings assumptions for municipality streetlighting

[112] Responses to OEB Staff Interrogatories, PRZ-Staff-21
[113] Responses to OEB Staff Interrogatories, ERZ-Staff-19 and HRZ-Staff-14
[114] Responses to OEB Staff Interrogatories, HRZ-Staff-9

projects.[115] This resulted in a reduction to the LRAMVA of $201,422 for the Enersource RZ, $39,596 for the PowerStream RZ and $19,430 for the Horizon RZ.[116]

With the above changes made to the originally filed amounts, Alectra revised the LRAMVA balances for disposition to $2,077,134 for the Enersource RZ, $1,977,404 for the PowerStream RZ and $1,339,931 for the Horizon RZ.

OEB Staff Submission

OEB staff accepts the revisions made by Alectra. OEB accepts the addition of LED municipal streetlighting savings in the PowerStream RZ, the additional 2015 savings in the Enersource and Horizon RZs as verified by the IESO, the withdrawal of 2011 persisting savings in 2012 in the Horizon RZ, and the reduction in savings to all streetlighting projects to account for free ridership.

OEB staff submits that the LRAMVA balances shown in the table below have been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy.

Revised LRAMVA Balances for Disposition

Rate Zone	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
Enersource rate zone	1568	$7,200,687	$5,225,701	$102,149	$2,077,134
PowerStream rate zone	1568	$4,938,275	$3,022,977	$62,106	$1,977,404
Horizon rate zone	1568	$1,999,666	$710,954	$51,220	$1,339,931

[115] Responses to OEB Staff Undertaking, JT.Staff-8 d.

[116] Ibid, Table 1

3.2 What is the appropriate way to account for the change in capitalization policy resulting from the merger for Alectra Utilities and its predecessor companies?

Background:

OEB staff notes that the change to a common capitalization policy for Alectra arose as a consequence of the merger, in that the PowerStream capitalization policy was determined to have to be adopted by the other three merging entities, Hydro One Networks Brampton, Enersource and Horizon. Through interrogatories, the magnitude of the change for the Horizon RZ was disclosed to be in excess of six million dollars per year. Alectra also indicated that there were changes to capitalize more costs for the Enersource RZ and less costs for the Brampton RZ. OEB staff observes that the establishment of deferral accounts related to the capitalization policy change has the potential to benefit customers upon clearance and that the need to make these adjustments as a result of the merger could be seen as a unique factor where this change is concerned.

On December 20, 2017, the OEB issued a Partial Accounting Order approving the accounting details for the new accounts for the Enersource RZ, Brampton RZ and Horizon RZ. The three accounts will record the difference between the revenue requirement calculated using the pre-merger capitalization policies and the revenue requirement calculated with the new capitalization policy. The OEB found that the approved approach will result in the actual financial consequences of the change to the capitalization policy being recorded in the new accounts.

The OEB also found that in order to leave all options open for the disposition of the new accounts, the OEB will not establish an end date for these accounts, and that the accounts will remain open until such time as the OEB orders otherwise.

OEB Staff Submission:

OEB staff notes that Alectra is the largest municipally owned distributor in the province and the first that as a result of a merger intends not to file a cost of service application for a ten-year period. The Partial Accounting Order established deferral accounts for this

change in capitalization. OEB staff submits that this is consistent with the OEB's past approach with respect to capitalization as part of the IFRS transition policy.

Timing of Prudency Review and Disposition

OEB staff submits that the approved Deferral Accounts (Account 1508) are Group 2 accounts. According to the current OEB policy, Group 2 accounts are reviewed for prudency and disposed at rebasing unless the OEB orders otherwise. However, in this case, since Alectra is not expected to rebase for at least ten years, and the expected balances of the amounts recorded in these accounts are expected to be material, OEB staff submits that Alectra file the accumulated balances in these accounts for each rate zone for the OEB review and disposition at two year intervals. OEB staff submits that the accumulated amounts be disposed every two years, if material by rate zone. This would minimize intergenerational inequity.

OEB staff submits that Alectra continue to record amounts in these accounts until Alectra's next rebasing, at which time the consolidated utility's rate base will reflect the company's capitalization policy.

- All of which is respectfully submitted –