January 16, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Alectra Utilities Corporation 2018 Electricity Distribution Rate Application – CIR & IRM
AMPCO's Final Submissions
Board File No. EB-2017-0024

Dear Ms. Walli:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(ORIGINAL SIGNED BY)

Colin Anderson
President
Association of Major Power Consumers in Ontario

Copy to: Alectra Utilities Corporation

Association of Major Power Consumers in Ontario
www.ampco.org
65 Queen Street West, Suite 1510
Toronto, Ontario M5H 2M5
P. 416-260-0280
F. 416-260-0442

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Introduction

Alectra Utilities Inc. (Alectra) filed its first electricity distribution rate application on July 7, 2017 for all four rate zones (RZs), for approval of proposed distribution rates and other charges, effective January 1, 2018. Specifically, Alectra applied for:

i) the Price Cap IR adjustment for the Brampton Rate Zone (BRZ), Enersource Rate Zone (ERZ) and PowerStream Rate Zone (PRZ);

ii) an annual adjustment for the Horizon Utilities RZ, related to the third adjustment in the 2015-2019 Custom IR rate plan term;

iii) incremental capital module (ICM) funding for the BRZ, PRZ and ERZ; and

iv) disposition of its Group 1 Deferral and Variance Accounts by rate zone, relating to variances accumulated in 2016, prior to the consolidation of Enersource, Horizon Utilities, Hydro One Brampton and PowerStream.

AMPCO's submissions are focussed on four areas:

- ICM funding request for the BRZ, ERZ and PRZ related to Issues #2.1, 2.3, 2,4 and 2.5;
- Change in capitalization policy resulting from the merger for Alectra Utilities its predecessor companies (Issue 3.2);
- Monthly Billing; and
- Effective Date.

AMPCO worked closely with other intervenors during this proceeding and collaborated with the parties in the preparation of final submissions to minimize duplication.

AMPCO's Objective

AMPCO's objective is industrial electricity rates that are competitive, fair and efficient. AMPCO's members are primarily Large Use customers and GS>1000 kW customers. Two vital concerns of AMPCO members are affordability and reliability of electricity service. Affordability is AMPCO's paramount concern given the rapid rise in Industrial rates in recent years and the resulting detrimental impact on competitiveness. AMPCO submissions are focussed on Alectra's ICM requests in the context of a merged utility, the OEB's ICM policy and affordability to be of assistance to the OEB in determining if Alectra has struck an appropriate balance between risk, performance and cost in its investment plans and ICM requests.

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A) ICM Funding Request

Alectra seeks $56 million in incremental capital in 2018 with a revenue requirement impact of $4.5 million.

Alectra Rate Zone	ICM	Revenue Requirement
Brampton	$6,800,377	$706,794
Enersource	$24,247,022	$1,962,111
PowerStream	$25,136,316	$1,834,693
TOTAL	**$56,183,715**	**$4,503,598**

Context for Discussion

Alectra's ICM request coincides with significant merger savings. Alectra requests approval of an ICM for three rate zones, BRZ, ERZ and PRZ, and approval to recover incremental capital funding totalling $4,503,598. The proposed ICM rate riders will be in place during the 10-year rebasing deferral period. Over the rebasing deferral period Alectra will recover $40.5 million.[1]

Alectra expects that it will file ICM applications periodically through the rebasing deferral period and the current 5-year capital investment forecast for ERZ suggests this will likely be the case. At the same time Alectra is retaining merger savings over the deferral period that will accrue to the benefit of the shareholder. The current projection of savings is $425.9 million over the 10-year period, and there is an element of conservatism in the forecast.[2] Actual savings could be greater.

Customers were not informed of the level of savings expected to result from the merger in the customer engagement process.[3] AMPCO submits the above proposition is challenging for customers to accept. Merger savings on the one hand and then a request for ongoing incremental capital on the other. AMPCO predicts that had customers been made aware of the ongoing merger savings, their reaction to Alectra's request for ICM funding would have been less favourable.

First Distribution System Plan (DSP) for ERZ to be reviewed by the OEB. Of the three Alectra RZs applying for an ICM, two have had a DSP reviewed previously by the OEB (BRZ and PRZ). This application is the first time the OEB is reviewing a DSP for the ERZ. The OEB will determine if the DSP filed for ERZ provides sufficient information to support the proposed ICM.

Value of a consolidated DSP in assessing ICM requests. As part of the merger application EB-2016-0025, then Merge Co. indicated that it would be filing a new DSP for all four rate zones in 2019. Alectra

[1] G-SEC-5 (b)
[2] EB-2016-0025 Transcript Volume 3 Page 46
[3] CCC-18

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confirmed at the Technical Conference that it will be developing a uniform distribution plan.[4] In AMPCO's view, any consideration of an ICM request as sizeable as this application (incremental capital of $56.2 million) should be made with due consideration of the combined distribution system needs of all four rate zones addressed through one DSP.

As part of the merger application, then Merge Co. engaged Vanry & Associates (Vanry) to undertake a Distribution Assets Due Diligence Review. At the oral hearing the Panel directed that Vanry's Final Report[5] be filed.

Vanry believes that certain approaches among the LDCs are sufficiently different that combining the four could lead to the potential for reductions in overall spending. Vanry sees a distinct possibility that a merged LDC, adopting a common set of leading practices, could lead to the overall capital investment program being redistributed among the respective systems in proportions that are different than the current allocations. Vanry explains that this is due in part from different assessments of criticality and in part in recognition of the current variations in system performance and failure rates among the LDCs. In short, a merged entity would expect to see funding flowing to the areas of greatest value, or greatest risk potential. Vanry observed that the range of need among the systems varies sufficiently that spending might flow to the portions of the combined system with the greatest need.[6]

Vanry also concluded the following:

- The capital spending plans at all four RZs are increasing based in part on the application of their ACA processes.[7]
- Given that several of the AM organizations appear to be resource constrained, there is the potential for a combined LDC to be able to produce significantly better Asset Management results through a combination of talent that has sufficient resources to address a broader scope of Asset Management activities.[8]

AMPCO submits Vanry's conclusions support one consolidated DSP.

In determining the ICM requests in this application, Alectra has not optimized its project needs and capital plan across all four rate zones.[9] Rather, Alectra indicates it has optimized the investment portfolios in each rate zone.[10] This approach reflects separate DSPs for each individual RZ. The lack of capital optimization for Alectra as a whole means that Alectra has not addressed competing investment

[4] Transcript Volume 2 Page 97
[5] J1.1 Vanry and Associates Report – Distribution Assets Due Diligence Review Appendix 9-B to Business Plan, Attachment to the Business Plan (B-Staff-1)
[6] EB-2016-0025 Exhibit K3.2 AMPCO Compendium Page 21
[7] ibid
[8] Ibid Page 22
[9] AMPCO IR#
[10] G-AMPCO-4

needs and made recommendations for timing of ICM capital investments in each rate zone to achieve optimal system wide pacing and investment prioritization.

PRZ uses the Copperleaf C55 platform in order to have a consistent methodology for business case development, optimization, forecasting and variance analysis.[11] Alectra agrees that utilization of multi-constraint software like, the Copperleaf C 55 asset management, is currently determined to be the best practice.[12] Utilization of the CopperLeaf system to optimize projects across all four rate zones is currently under consideration at Alectra.[13] Vanry concludes with respect to prioritization across programs, a single model for all four, with consistent drivers and scoring assumptions that are filtered down to the ACA process will be an important step in normalizing renewal spending across the utilities.[14] PRZ is the only rate zone that undertakes a net present project value calculation as part of the capital investment optimization using CopperLeaf.[15]

AMPCO submits that from a customer perspective, capital plans that flow from one combined DSP that optimizes need and spending across all rate zones is an approach that provides the greatest value to customers, for a merged entity with four rate zones. Alectra made the point several times at the Technical conference that there is only one Alectra.[16] As such, there should be only one DSP.

AMPCO's ICM Position

In considering the above, AMPCO's overall position is that the OEB should not approve the 2018 ICMs for the three RZs until Alectra has prepared a consolidated DSP. Any future ICMs should be considered within the context of one DSP to ensure optimal prioritization and pacing across projects and affordability for customers.

In the event the OEB does not agree with AMPCO that a DSP that optimizes spending across all four rate zones should be in place in advance of approval of ICM funding for a specific rate zone, AMPCO has made submissions on the individual ICM project requests for each rate zone.

Program versus Project

The OEB's policy with respect to the adoption of the "Discrete" project criterion states "The Board is of the view that projects proposed for incremental capital funding during the IR term must be discrete projects, and not part of typical annual capital programs.[17]

[11] PRZ-SEC-10
[12] Transcript Vol 2 Page 96
[13] Transcript Vol 2 Page 98
[14] AMPCO Submissions Appendix A Page 42
[15] G-AMPCO-3
[16] Transcript Volume 2 Page 189
[17] EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital

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Both ERZ and PRZ have restructured initiatives[18] to be implemented as individual projects rather than programs in order to meet the OEB definition of discrete. AMPCO does not accept Alectra's distinction between a program and a project for this purpose. It is AMPCO's view that all of the restructured initiatives have historically been part of typical annual capital programs and should not be approved.

Alectra is not Unique

In the Toronto Hydro ICM application, the OEB approved a two-year ICM associated with ongoing capital projects. However, the OEB considered the Toronto Hydro situation to be unique. The OEB found that the aging infrastructure and the associated capital needs of the magnitude faced by THESL can be considered "unusual" in the broader context of Ontario utilities…[19] In AMPCO's view, Alectra's ICM request for ERZ and PRZ is similar to Toronto Hydro's ICM in that the ICM projects are for the most part an extension of recurring annual capital programs recharacterized as projects. AMPCO submits the circumstances of Alectra cannot be considered unusual in the broader context of Ontario utilities and Alectra has not put forward this position.

Prudence

The OEB's ACM/ICM policy expects "Justification that the amounts to be incurred will be prudent. This means that the distributor's decision to incur the amounts represents the most cost-effective option (but not necessarily the least initial cost) for ratepayers."[20] As noted in AMPCO's detailed submissions under the ICMs for ERZ and PRZ, some of the ICM project business cases have not provided cost estimates for other options making it impossible for the OEB make a determination on the recommended option.

Investments: The Advanced Capital Module Page 13
[18] Cable Replacement, Transformer Replacement, Rear Lot Supply Remediation
[19] EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module Page 7
[20] Ibid Page 25

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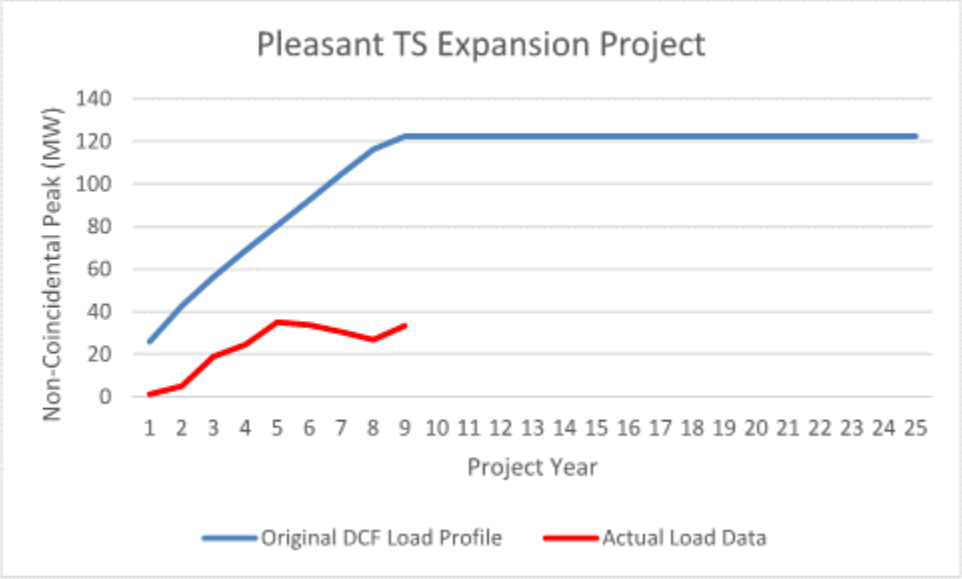
Brampton Rate Zone ICM

Alectra seeks an ICM of $6,800,377 for a true-up payment guided by the Connection and Cost Recovery Agreement (CCRA) between Alectra for the Brampton RZ and Hydro One Utilities Inc. for the construction of the Pleasant Transformer Stations expansion.

The CCRA was based on initial project costs and projected incremental load revenue over a 25-year horizon as inputs to determine the capital contribution payment at the project in-service date. The CCRA includes pre-set true-up points and the economic evaluation is updated to reflect actual loading and the updated load forecast. The 10-year true-up payment is due in 2018. Alectra experienced a lower than forecast energy demand. Alectra estimates a $6.8 million shortfall in revenue versus the forecasted demand to be paid to HONI.[21] The table below shows the significant shortfall in load forecast.[22]

Figure 1 – Pleasant TS Peak Demand Forecast



AMPCO has reviewed the submissions and SEC and VECC and agrees Alectra has not met the burden of proof to demonstrate that the Pleasant TS investment was prudent. Given the extent of the deficient forecasting with respect to anticipated load, AMPCO submits customers are entitled to relief of this payment. AMPCO submits the OEB should not approve the BRZ ICM for the Pleasant TS DESN True-up.

[21] Ex 2-2-10 Page 11
[22] 2-VECC-8

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Enersource Rate Zone ICM

Alectra's 2018 capital budget for ERZ is $72.683 million. Alectra seeks approval of $24,247,022 in incremental capital funding resulting in an incremental revenue requirement of $1,962,111.

The ICM for ERZ consists of a total of 11 projects in the following capital categories and 9 of the projects fall under the System Renewal category[23]:

- 1 System Access;
- 9 System Renewal; and
- 1 System Service.

Table 144 – 2018 Eligible Capital Projects by Category – Enersource RZ

Project Description	Capital Expenditures $
Road Widening Project - QEW (Evans to Cawthra)	$1,294,220
System Access	**$1,294,220**
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	**$19,684,339**
Substation Upgrade - York MS	$3,268,463
System Service	**$3,268,463**
Total Distribution Capital	**$24,247,022**

AMPCO Position

AMPCO submits that the OEB should not approve Alectra ERZ's proposed ICM projects:

[23] Ex 2-4-11 Page 31

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- ICM projects are not discrete and distinguishable from recurring annual capital programs and do not qualify for ICM

- AMPCO observes flaws in the DSP that decreases confidence in the forecast 2018 capital budget

- The Business Case for one of the ICM projects does not include a cost estimate for other options making analysis of the options against the recommended option impossible

ICM projects are not discrete. The nature of the work under these 11 ICM projects is similar to capital programs undertaken in previous years. Road widening projects, overhead rebuilds, leaking transformer replacement, subdivision rebuilds and substation upgrades are not new and are part of ongoing annual capital budgets for the ERZ. AMPCO submits that the projects do not meet the ICM criteria in the OEB's policies. The proposed ICM projects are not discrete and distinguishable from recurring annual capital programs and do not qualify for ICM.

Ramp up in CAPEX in DSP. ERZ last rebased in 2013. 2013 Actual capital spend was $42.5 million. Over the 5-year 2013 to 2017 period, the average annual capital spend is approximately $60 million.[24] Alectra proposes to ramp up capital spending to $72,683 million in 2018, increasing to a high of $77,459 million in 2020. As discussed below AMPCO's view is that this ramp up in spending has not been adequately justified in the DSP.

JT2.28 shows that the average quantity of assets replaced over the 2015 to 2017 period is 1,885 units and it is not clear to AMPCO if this includes the assets replaced under System Service and System Access. If not the quantity of asset units replaced will be higher. In 2017, Alectra replaced 1715 asset units. In 2018, Alectra plans to replace 1,812 assets, 882 under base budget and 930 under the ICM. Clearly Alectra is re-representing base capital work as an ICM. It is not incremental.

2016 incremental capital ICM not approved. In 2016, ERZ applied for an ICM for incremental 2016 CAPEX projects and the request was not approved by the OEB.[25] In support of its 2016 forecast capital budget of $74.6 million[26] that included an ICM of $27.8 million, ERZ relied on an Asset Condition Assessment (ACA) Study undertaken by Kinectrics Ltd.[27] that was not available at the time of its 2013 Cost of Service (COS) application (EB-2012-0033). The new asset age and condition information (based on 2014 asset data) resulted in a higher capital expenditure forecast for 2016 that was 60% higher than the 2016 forecast ($46.209 million) in ERZ's 2013 COS application. [28] The OEB did not approve the ICM funding request in 2016 noting that it cannot decide the ICM based on an Asset Study alone and the lack

[24] Ex 2-4-11 Page 17 Table 131
[25] EB-2015-0065 IRM
[26] Excluding $40.478 Churchill Meadows TS CCRA approved ICM
[27] Kinectrics 2014 Asset Condition assessment dated
[28] EB-2012-0033 Ex 2-2-2 Appendix 1 Page 129, 2016 Forecast Capital = $46.209 million

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of a DSP has impeded assessment of the need and prudence for a request as sizable as Enersource's.[29] In 2016 ERZ had a draft DSP dated December 9, 2015[30] but it did not have a final DSP reviewed by the OEB.

Regardless of disallowance 80% of the ERZ 2016 ICM projects have been completed. Of the 19 ICM projects, 15 have been completed, 3 have been deferred and 1 is under construction.[31]

Review of DSP

Based on AMPCO's review of the DSP it has some concerns regarding the relationship between the Asset Condition Assessment in the DSP prepared by Kinectrics based on 2015 condition data[32], the forecast asset quantities to be replaced in 2018 and the corresponding investment levels.

Alectra made changes to the Health Index formulations for certain asset groups such as wood poles and transformers to reflect new criteria due to new inspection information. These changes impact the Health Index of these asset groups and the quantities proposed for replacement. Alectra has relied on this information to set 2018 capital investment levels. Kinectrics' Health Index results conclude underground cable and wood poles have the highest proportion of assets in poor or very poor condition. Alectra has increased renewal investments in the DSP with respect to underground cables, distribution poles and transformers.

As discussed under the individual projects, AMPCO questions the validity of the results and takes the view that the 2018 capital budget is too high.

Third Part Expert Review of DSP

Alectra retained Vanry Associates to undertake an independent, third party review of the process and methodology used to develop the DSP. In its Argument-in-Chief, Alectra states that despite the report being filed as part of the Application, no party asked a single question of Vanry. Its conclusions are unchallenged.[33]

AMPCO did ask a question about the Vanry Report at the Technical Conference. AMPCO asked Alectra to confirm that it did not adjust any of its proposals as a result of the report and Alectra confirmed this.[34] The DSP is dated June 30, 2017. The Vanry Report is dated July 4, 2017. Alectra filed its application on July 7, 2017, leaving no window to incorporate any of Vanry's recommendations in the DSP.

[29] EB-2015-0065 OEB Decision Page 7
[30] EB-2015-0065 Board Staff IR#15
[31] JT2.27
[32] ERZ-SEC-16
[33] Alectra AIC Page 31
[34] Transcript Volume 2 Page 100

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There are several conclusions/recommendations made by Vanry[35] (see below) that if implemented could have an impact on the asset condition data and recommended asset replacement levels for specific asset groups, some of which are part of the current ERZ ICM (for example underground cable, poles and transformers).

Consider furan analysis as a secondary test to confirm transformer condition. Vanry recommends that Alectra consider furan analysis as an enterprise-wide, end-of-life metric. Furan analysis is used by some utilities as a secondary test to confirm the condition of suspect transformers. Kinectrics identified 1,626 transformers in poor or very poor condition in the ERZ that are included in the Leaking Transformer Replacement project. It is not known at this time what impact furan analysis would have on the Health Index results for transformers and the number of transformers identified for replacement. ERZ has put forward a sizeable spend on transformer replacements. Should the OEB decide that a consolidated DSP for Alectra should be in place before an ICM is approved, Alectra should assess the feasibility of furan analysis and how it impacts the Health Index of transformers and resulting quantities.

Changes to Health Index formulations. ERZ made changes made to the HI formulations. For example, Alectra ERZ expanded the wood pole formulation to include criteria based on new tests/inspections that were not available previously. Vanry cautioned Alectra ERZ to be contemplative and deliberate in making future changes in order to support trending of condition over time. Vanry points out that significant subject-matter expertise has been applied to developing the HI formulations and the process for projecting failure and creating reactive and proactive programs. Alectra presumes this work was done in coordination between the ACA consultant and ERZ so it represents a consensus view. Further discovery is required to understand the changes made and the consensus reached.

Exclude age from Health Index formulations. Vanry recommends that ERZ exclude all criteria that are not measures of condition, such as age and loading, from the Health Index formulations. Vanry concludes that although age is an important criterion in estimating failure probability, it is separate from health and should not be included in the HI formulation. This is a significant shift as ERZ has included age as a criterion in all the formulations. Vanry indicates this is outside industry best practice.

Failure projections in ACA should be calibrated with actual failure data. For future ACA analyses, Vanry recommends reality checking the failure projections against recent failure history and recalibrating them if needed noting that further integration of the actual data with the ACA analyses will be beneficial. AMPCO submits by not doing this, the risk of failure could be overstated leading to more assets proposed for replacement than needed. Vanry noted this in its Assets Due Diligence Review stating if the failure rates are not calibrated to recent experience, they may not be as accurate a predictor of

[35] DSP Appendix G

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spending needs as possible.[36]

Vanry compared the failure curve for XLPE cable used by Enersource to that of PowerStream (both relate to pre-1990s, direct-buried, non-tree-retardant cable) as PowerStream does calibrate its failure probabity estimates to actual failure rates. The result was that the PowerStream failure curve had a substantially lower failure rate as cable ages. The annual projects failures were 35 for Enersource, 9 for PowerStream. Even though there may be different assumptions, Vanry expected the curves and failure projections to be similar. This is a significant issue for comparing spending programs.[37]

AMPCO submits that the above considerations support AMPCO's view that Alectra's ICM for ERZ should not be approved until a consolidated DSP has been prepared for the four RZs. It may be that if some of the above recommendations are implemented, such as removing age from the HI calculations, the resulting investment plan could look very different.

Analysis by ICM Project

1) <u>System Access - Road Widening Project</u>

Alectra has included the QEW (Evans to Cawthra) road widening project ($1,294,220) as an ICM. A similar road widening project is in base budget: Creditview (Britannia to Argentia) ($967,366). The QEW project has a lower priority ranking than the Creditview project.

ERZ is required to relocate or reconstruct its facilities in order to accommodate the specific requirements of the road authorities in accordance with Public Service Works Highways Act.[38] For the past several years, there have been road projects in ERZ's capital budget.

There is inherent uncertainty related to road widening projects. The city establishes a road work program for each year, but frequent and sudden changes can occur which adds uncertainty to the forecast of spending for these types of projects.[39] In the 2013 COS application, the forecast spend for the years 3013 to 2016 was estimated at $3.817 million[40]. Actuals were $1.157 million[41], a variance of $2.66 million or 70%.

Both the QEW (Evans to Cawthra) and Creditview (Britannia to Argentia) road widening projects were deferred from 2017 to 2018.[42] The QEW project was delayed due to the Ministry of Transportation

[36] J1.1.Vanry and Associates Report – Distribution Assets Due Diligence Review Appendix 9-B to Business Plan, Attachment to the Business Plan (B-Staff-1) Page 36
[37] Ibid Page 43
[38] EB-2013-0033 Ex 2-2-2 Appendix 1 Page 111
[39] EB-2013-0033 Ex 2-2-2 Appendix 1 Page 111
[40] EB-2013-0033 Ex 2-2-2 Appendix 1 Page 125
[41] Ex 2-4-11 Page 17 table 132
[42] JT2.33

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timeline requirements. The Creditview project was delayed due to City of Mississauga timeline requirements.

As discussed under the specific projects, AMPCO's view is that Alectra's 2018 capital plan reflects aggressive pole, transformer and cable replacement projects that could be reduced. On this basis, AMPCO submits that some of this work could potentially be deferred to accommodate the QEW project. AMPCO submits the OEB should not approve incremental capital funding for the QEW road widening project.

System Renewal

The significant drivers in System Renewal are increased spending on Subdivision Renewal (underground cable), Overhead Distribution Renewal & Sustainment (poles) and Transformer Replacement. All three categories include incremental ICM funding requests.

2) Subdivision Renewal - Underground Cable Replacement

ERZ's 2018 capital budget includes 10 Subdivision Rebuild projects to proactively replace underground cable: four in base budget ($6,812,387) and six in ICM[43] ($9,289,619) totalling $16,102,006 as shown in the table below. Subdivision Rebuild projects represent the largest percentage of the ICM at 38%.[44] Some base budget Subdivision Renewal projects have a higher priority ranking than ICM Subdivision Renewal Projects.

Subdivision Renewal	
Gananoque - Section 1	$1,961,142
Boughbeeches - Section 1	$1,238,616
Copenhagen - Section 1	$2,374,014
Appledore - Section 1	$1,238,616
Credit Woodlands Crt/Wiltshire	$1,548,270
Glen Erin & Montevideo - Section 1	$1,961,142
Tenth Line Main Feeder	$1,135,398
Folkway & Erin Mills Main Feeder	$1,032,180
Glen Erin & Battleford	$2,064,360
City Centre Drive Cable Renewal	$1,548,270
TOTAL	$16,102,006

[43] Highlighted in yellow
[44] $9,289,619/$24,247,022

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Alectra confirms that the six subdivision renewal projects proposed for ICM are not different in nature from the four that are not proposed for ICM.[45] Subdivision Renewal projects are part of Alectra's typical annual capital program have been for years.[46]

What is new, is a ramp up in spending on Subdivision Renewal compared to historical years where the average annual spend is under $12 million for the 2013 to 2017 period. Alectra's forecast for Subdivision Renewal reaches $18.5 million by 2020.[47] Alectra points to the Health Index of cables and recent cable failures as justification for the ramp up. AMPCO has another view of this data discussed below.

Considerations:

The Health Index of Underground Cable is improving over time. The latest Kinectrics ACA shows that the average health index of the feeder and distribution cables improved from 2014 to 2015 by 5% and 6%, respectively.

Long Term Underground Cable Failures are stable. To support its incremental ICM funding request for Subdivision Renewal, Alectra references 2014 to 2016 cable failures, which show an increasing trend from 112 in 2014 to 233 in 2016. In AMPCO's view, given the sizeable increase in proposed spending in 2018 on underground cable replacement since 2013, it is important to take a longer-term view of cable failures in order to better understand emerging failure trends in the context of longer term failure rate analysis.

The number of cable failures in 2017 was 131[48] which reverses the 2014 to 2016 increasing trend in cable failures. 2017 cable failures are below the number of cable failures in 2011 (193) and consistent with 2012 (139) and 2013 (133) cable failure rates as shown in the Table below.[49] Based on these longer-term cable failure results, AMPCO would describe the 5-year cable failure trend as stable.

	2011	2012	2013	2014	2015	2016	2017
U/G Cable Failures	193	139	133	112	176	233	131

[45] JT.2.6
[46] Ex 2-4-11 Page 19
[47] DSP Page 260
[48] JT2.20
[49] JT2.20

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This longer-term view is consistent with Alectra's evidence which states that locations for yearly rebuild projects are prioritized by using ten years' worth of cable outage data.[50]

AMPCO supports the replacement of underground cables and Alectra's overlay method to identify and target the worst performing areas of the system. However, given the Health Index improvement over time and the long-term view of cable failures, AMPCO does not support the sizeable increase in spending on cable replacement over the next 5 years. In 2017, Alectra replaced 37 km of cable. In 2018, Alectra proposes to replace 84 km of cable. AMPCO submits the Subdivision Renewal budget could be reduced to better contain costs.

Given there isn't anything that distinguishes the Subdivision Renewal ICM work from the recurring annual capital program, AMPCO submits Alectra's request for incremental ICM funding for Subdivision Renewal projects in the amount of $9.3 million should be denied.

Some options in the business cases lack cost estimates. For Credit Woodlands Court and Wiltshore Lane Subdivision Rebuild, Alectra did not provide a cost estimate for Option #3 to renew the 11 transformers to present day standards instead of rebuilding the underground cable.[51] AMPCO submits without knowing the cost of Option #3, the OEB is unable to assess if the recommended option is most cost-effective and cannot approve the ICM on this basis.

3) <u>Overhead Rebuild (Pole Replacement)</u>

ERZ's ICM includes two Overhead Rebuild projects[52] (Lake/John & Church[53]) with a forecast cost of $1,947,478, 8% of the ICM.[54]

OH Distribution Renewal & Sustainment

Equipment Replacement	$1,545,617
Pole Installations	$1,236,494
Munden/Pear Tree	$741,896
Holburne/Ogden	$1,020,107
Lake/John	$927,370
Church	$1,020,107
TOTAL	$6,491,593

[50] DSP Page 194
[51] 2018-C0505-2
[52] Replacement of poles, primary and secondary conductors, down guys, brackets, cross arms, insulators and transformers, as required
[53] Highlighted in Yellow
[54] $1,947,478/$24,

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There are two additional Overhead Rebuild projects in the base budget (Munden/Pear Tree & Holburne/Ogden) totalling $1,762,004. The total budget forecast in 2018 for Overhead Rebuilds is $3,709,481.

Overhead Rebuild work is an ongoing annual capital program to replace overhead lines primarily poles and attachments. Poles are also replaced under other programs such as the Pole Installations and Subtransmission Renewal programs (base budget). It is unclear from the evidence if the Equipment Replacement program (base budget) also includes pole replacement.

ERZ's 2013 capital budget included six Overhead Rebuild Program projects.[55] Overhead Rebuild projects have historically been part of ERZ's capital program. AMPCO submits the two proposed ICM Overhead Rebuild projects do not qualify for ICM as they do not satisfy the OEB's view that ICM projects are not part of typical annual capital programs.

Other Considerations:

Customer Minutes of Interruption from Overhead Equipment is improving over time. The contribution of overhead equipment to Customer Minutes of Interruption (CMI) decreases from 1,098,335 minutes in 2011 to 21,846 in 2016. In 2011, overhead equipment failures represent 21% of the total CMI in 2011 and by 2016 it is 0.4%.[56] The number of pole failures decreases from 14 in 2011 to 5 in 2017.[57]

Customer Minutes By Equipment Failure						
Cause Code	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Overhead Equipment	1,098,335	425,638	521,462	692,494	208,503	21,846
TOTAL	5,219,938	4,869,365	3,763,595	3,808,219	4,459,328	5,936,680
%	21.0%	8.7%	13.9%	18.2%	4.7%	0.4%

Alectra proposes to replace significantly more poles in 2018 than recommended by Kinectrics. Kinectrics' ACA[58] shows that 16% of wood poles and 4% of concrete poles are in poor and very poor condition.[59] Alectra proposes to replace 1.5 times[60] the quantity recommended by Kinectrics.[61] As discussed below AMPCO has some concerns regarding Alectra's Health Index results for poles in the DSP.

[55] Ex 2-2-2 Appendix 1 Page 101
[56] DSP Table 9 Page 66
[57] J2.20
[58] ERZ-SEC-16
[59] ERZ-AMPCO-9
[60] JT2.18
[61] DSP Table 12

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		Population	# poor & very poor condition	# poor & very poor condition	2018 Kinectrics Levelized Asset Replacement	2018 Alectra Asset Replacement (Non-ICM)	2018 Alectra Asset Replacement ICM	Total
Poles	Wood	12,436	1,936	16%	422	401	180	
	Concrete	9,488	353	4%	72	192		
Total		21,924	2,289		494	593	180	773
%					2%	3%	1%	4%

In 2014, the condition assessment of both wood and concrete poles was based on age only and as such the Data Availability Index was 100%. The Health Index for wood and concrete poles was revised since then to include visual inspection data and the Data Availability (DAI) dropped from 100% in 2014 to 55% in 2015[62], as less than 40% of poles were inspected. The current gap for this asset category is pole strength, which is a notable gap.[63] DAI measures the amount of condition parameter data Alectra has for an asset, based on information it currently collects. The lower the DAI the lower the confidence. The higher the data gap the lower the confidence. The Health Index for wood and concrete poles has declined since 2014 by 6%[64] and Alectra has relied on the Health Index of poles to justify its increase in pole replacement spending. Given the low DAI and existing data gap for poles, AMPCO submits the current Health Index for poles is questionable and the quantities set for replacement in 2018 are too high.

The overall budget for Overhead Distribution Renewal & Sustainment has increased from $3.083 million in 2013 to $6.492 in 2018, a 200% increase.[65] AMPCO submits that given the improvement in reliability data related to overhead equipment in 2017 compared to 2011 and the lower credibility for the Health Index for poles, this ramp up in spending has not been justified. AMPCO submits the Cable Replacement budget could be reduced to better contain costs.

4) <u>PCB & Leaking Transformer Replacement Project</u>

Alectra seeks $8,447,243 in incremental ERZ ICM funding[66] for the planned PCB & Leaking Transformer Replacement Project for the replacement of underground and overhead transformers.

An additional $1,131,142 is included in the 2018 base budget for unplanned underground and overhead transformer replacements bringing the total Transformer Replacement budget to $9.6 million in 2018.

[62] ERZ-AMPCO-9
[63] ERZ-AMPCO-9 (c)
[64] ERZ-SEC-16 Page 29
[65] Ex 2-4-11 Page 19
[66] Highlighted in Yellow

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Transformer Replacement

Program - Underground Transformer and Equipment Renewal	$	716,044
PCB & Leaking Transformer Replacement Project - Underground	$	4,784,004
	$	**5,500,048**
Program - Overhead Transformer and Equipment Renewal	$	415,098
PCB & Leaking Transformer Replacement Project - Overhead	$	3,663,239
	$	**4,078,337**
	$	**9,578,385**

Alectra's ERZ evidence is that the difference between the ICM work and the base capital work in 2018 is that the ICM work is a planned proactive project to replace a backlog of leaking transformers at specific locations and the base capital work is a reactive unplanned program to replace failing units. AMPCO does not accept Alectra's distinction between a program and project to justify transformer replacement work as an ICM. The same type of planned and unplanned transformer replacement work was undertaken in EB-2012-0033[67] and EB-2015-0065 under one program.

In 2013, the transformer replacement project was initiated to replace units exhibiting signs of leaks and/or containing PCB oil and the work was budgeted under the existing Transformer Replacement program.[68]

This was also the case in subsequent years. In EB-2015-0065, ERZ's draft DSP contained a table to show quantities of transformers showing signs of leakage and containing PCBs.[69] From 2013 to 2016, ERZ replaced 2,052 transformers[70] under the recurring annual Transformer Replacement program as part of the planned work component.

Table 53. Transformers Showing Signs of Leakage and Containing PCB

Transformer Type	PCB Leaker	PCB Non-Leaker (>2ppm)	Non-PCB Leaker
Single-Phase Pad Mount	3	474	682
Three-Phase Pad Mount	4	23	63
Vault Transformers	42	197	790
Pole Mount Transformers	16	290	357
Total	65	984	1,892

[67] EB-2012-0033 Ex 2-2-2 Appendix A Pages 107 to 108
[68] ERZ Attachment #50 Page 72
[69] EB-2015-0065 Supp-Staff-15 Page 210
[70] Business Case

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Alectra's evidence is that increased frequency and detail of asset inspections and additional analytical methods identified increased renewal investment in transformers and the quantity to be replaced, including transformers with minor leaks.

The above table included in the Draft DSP was updated in the DSP in this proceeding as follows:

Table 74 - Transformers Showing Signs of Leakage and Containing PCB

Transformer Type	PCB Transformers Indicating Leaking Oil	Non-Leaking Transformers with PCB Oil	Transformers (Non-PCB) Indicating Signs of Leaking	Total
Single-Phase Pad Mount	3	95	733	831
Three-Phase Pad Mount	2	6	71	79
Vault Transformers	15	38	717	770
Pole Mount Transformers	0	31	533	564
Total	**20**	**170**	**2,054**	**2,244**

The current backlog of transformers to be replaced now totals 2,244[71], noting the number of high priority transformers with PCB concentrations greater than 2 ppm currently leaking in the field and requiring immediate replacement has decreased from 65 in the Draft DSP in EB-2015-0065 to 20 in the final DSP in this proceeding.

Alectra proposes a 6-year proactive transformer replacement project to be completed in 2021 to address the backlog, with annual expenditures of $8.4 million in each of the years 2017, 2018 and 2019, 2018, $6.4 million in 2020 and $4.3 million in 2021.

Alectra proposes to replace 543 transformers in each of the years 2017 to 2019, 411 in 2020 and 204 in 2021.

[71] Includes Kinectrics' 1,629 poor and very poor transformers

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Based on the scale of the leak observed, Alectra prioritized the 2,244 transformers as major (62), moderate (254) minor (1,758) and non-leaking (170). [72]

In 2017, Alectra ERZ replaced 921 transformers.[73] From this AMPCO reasonably concludes that all of the higher priority major and moderate leak transformers have already been replaced leaving only minor leaking transformers. AMPCO submits the Transformer Replacement ICM project does not qualify for incremental funding.

6) System Service - York MS Substation Upgrade

Alectra ERZ's proposed 2018 ICM includes $3,268,463 for the York MS Substation Upgrade to increase station capacity to meet growth in demand in the Meadowvale Business Park area, and to update substandard equipment. The York MS rebuild is similar to the Ruben MS upgrade completed in the 2013 test year.[74] The forecast York MS spending is split between $1,042,703 in 2017 and $2,225,760 in 2018.

ERZ's 2018 base budget also includes $5,176,186 in other Substation Upgrades for a total 2018 Substation Upgrade spend of $7,401,947. The other work relates to equipment replacements at five substations: Center City North, Bloor, Hensall, Western and Park Royal. York MS is not a unique project. ERZ routinely makes Substation Upgrades.

In response to Undertaking JT2.19, Alectra updated its 2017 year to date forecast as of Oct 2017 which shows spending on York MS has not occurred. The 2017 Q3 year end forecast reflects $186,000 in spending which is significantly less than the $1.04 million planned spend in 2017. The $186,000 expenditure at 2017 year end has not been confirmed.

Given that capital expenditures on York MS have not occurred as planned AMPCO submits the OEB should not approve York MS as an ICM project in 2018.

PowerStream Rate Zone

Alectra seeks approval of $25,136,316 in incremental capital funding resulting in an incremental revenue requirement of $1,834,693.

The ICM for the PRZ consists of a total of 10 projects in the following capital categories[75]:

- 1 System Access;
- 5 System Renewal; and
- 4 System Service.

[72] ERZ-Staff-24 (f)
[73] JT2.18
[74] ERZ-SEC-3
[75] Ex 2-3-10 Page 19

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Table 103– 2018 Eligible Capital Projects by Category – PowerStream RZ

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**

AMPCO Position

AMPCO submits that the OEB should not approve Alectra's proposed ICM for the PRZ:

- ICM projects are not discrete; ICM projects are consistent with recurring annual capital programs and do not qualify for ICM
- There is uncertainty around the Road Authority YRRT project in 2018
- The Business Cases for many of the ICM projects do not include cost estimates for other options making analysis of the options against the recommended option impossible
- 30% of the ICM forecast is for projects that were the subject of disallowances in PRZ's Custom IR application[76]
- 30% of 2018 capital budget for PRZ is allocated to Miscellaneous Projects
- An ICM for PRZ should not be approved until a consolidated Distribution System Plan (DSP) for all four rate zones is in place

[76] EB-2015-0003

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ICM projects are routine and not discrete. Similar to the ERZ, the nature of the work under PRZ's 10 ICM projects is similar to the programs/projects in the 2018 base budget and programs/projects undertaken in previous years. Road widening, station switchgear replacement, rear lot supply remediation, cable replacement, circuit breaker replacement, pole rebuilds, and TX upgrades are typically part of PRZ's ongoing annual capital budget.

PRZ claims that by restructuring initiatives such as cable replacement and rear lot remediation programs to be implemented as distinct individual projects rather than programs, the result is a more clearly defined, scope, schedule and cost estimate.[77] It seems to AMPCO that in order for Alectra to undertake cable replacement and rear lot supply work under a capital program, each location provided to a contractor (or internal staff) would require a clearly defined, scope, schedule and cost estimate.

Alectra confirms that under prior programs it would identify candidate areas and as part of the whole design and scheduling process the contractor would be given a schedule[78] and presumably a scope of work and budget too.

AMPCO does not accept PRZ's distinction between a program and project.

Specific Comments on Individual Projects

1. York Region Rapid Transit (YRRT)

Since 2010, the PRZ has been relocating overhead and underground plant to accommodate road widening and shifting of the boulevard to support YYRT construction. In 2017, a portion of the work was completed. In 2018, a new phase of the work will be completed.[79] AMPCO submits the work to be undertaken in 2018 is related to recurring annual capital work and should not be approved as an ICM. The capital amount for 2018 ($11.243 million) is less than 2017 ($12.705 million).[80]

There is inherent uncertainty related to road widening projects. Although the 2018 phase of the work is expected to be in-service in 2018, there is the possibility that it will not unfold as planned. Alectra has been told by YYRT that the scope of the project for 2018 may increase which would result in an increase in cost to Alectra. Alectra has included the amount in 2018 for which it is certain will be completed.[81]

Given the present uncertainty of the accelerated schedule and increased scope, AMPCO submits this

[77] 3-VECC-16 (a)
[78] Transcript Volume 2 Page 82
[79] G-SEC-3
[80] PRZ Attachment #33 Page 10
[81] ibid

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project should not be approved as an ICM in 2018. Rather the project is a candidate for variance account treatment similar to that requested for the Metrolinx Crossing Remediation Program.

PRZ did not include expenditures related to the GO Electrification project in its 2018 capital funding request. PRZ recommends that expenditures for its Metrolinx Crossing Remediation Program be recorded in a variance account for future disposition given the uncertainty around the schedule and detailed designs from Metrolinx.

2. Station Switchgear Replacement

Similar switchgear replacements have been executed in 2016.[82] AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital work and should not be approved as an ICM.
PRZ's evidence is the type of circuit breakers at 8th Line MS323 have demonstrated historical failures although there is no evidence that the actual circuit breakers at MS323 have a history of failures.

The Business Case included another option to retrofit the Circuit Breakers but the cost to replace the individual breakers was not estimated making it impossible for the OEB to determine that the recommended option to replace the switchgear at 8th line MS323 is the prudent approach if it was inclined to approve the project as an ICM. The OEB's ICM prudence criteria says that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.[83]

3. Rear Lot Supply Remediation

The Rear Lot Supply Remediation for the Royal Orchard North ICM project is similar to and adjacent to the work at Royal Orchard Baythorn which is ongoing in 2017.[84] AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital program work and does not qualify as an ICM.

The Business Case for the Rear Lot Supply Remediation for the Royal Orchard North ICM project includes four options: Rear Lot Overhead, Front Lot Overhead, Hybrid Design and Front Lot Underground. None of the options considered include an estimated cost making it difficult for the OEB to approve the recommended approach if it was inclined to approve the project as an ICM.

[82] Attachment #33 Page 13
[83] EB-2014-0219 Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module Page 17
[84] G-SEC-3

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4. Cable Replacement

The ICM Cable Replacement work at Steeles and Westminster (Vaughan) is similar to the ongoing work in 2017 at Rutherford and Weston (Vaughan). The ICM Cable Replacement at Steeles and Fairview Heights (Markham) is similar to the above work.[85] AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital program work and does not qualify as an ICM.

The Business Case included an option to inject the cable instead of replace the cable. The cost of injecting the cable was not provided. AMPCO submits this information along with a cost/benefit analysis of each option in order to assess if the recommended approach to replace the cable is more cost-effective is needed if the OEB was inclined to approve this project as an ICM project.

5. Circuit Breaker Replacement

The planned ICM Circuit Breaker replacement at Richmond Hill TS Bus B is similar to the ongoing work at the Richmond Hill TS# bus A in 2017.[86] AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital work and should not be approved as an ICM.

The Business Case included an option to replace the sub-standard type HKSA breakers with type HD4 breakers but a cost estimate for this option was not provided.[87] AMPCO submits this information is needed to assess if the recommended approach is the most cost-effective if the OEB was inclined to approve this project as an ICM project.

6. Rebuild Poleline

The following three ICM projects: Rebuild 27.6kV Poleline Warden Avenue project from Hwy 7 from Major Mackenzie, Build Double Circuit 27.6kV Pole Line on 19th Avenue between Leslie Street and Bayview Avenue drive, Double Circuit Existing 23M21 from Bayfield & Livingstone to Little Lake MS306 are distribution lines capacity addition projects. These projects are most similar to the following 2017 projects: Rebuild Warden Avenue from Hwy 7 to 16th Avenue, Build double ccts 27.6kV pole line on 19th Ave between Leslie St and Bayview Avenue, Vaughan TS#4 Feeder Integration (Part 1).[88] AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital work and should not be approved as an ICM.

[85] ibid
[86] ibid
[87] Appendix #33 Page 42
[88] G-SEC-3

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Rebuild 27.6kV Poleline Warden Avenue project from Hwy 7 from Major Mackenzie

The Business Case included two other options: Install one feeder in 2018 and the other in 2019 to supply growth in North Markham and Build two additional feeders to supply growth in North Markham. A cost estimate for the latter option was not provided. AMPCO submits this information is needed to assess if the recommended approach is the most cost-effective if the OEB was inclined to approve this project as an ICM project.

No options beyond the Status Quo option were provided for the other two distribution lines capacity addition projects.

7. Mill Street MS835 TX Upgrade - Tottenham

The system service project Mill Street MS835 Transformer Upgrade in Tottenham is a stations capacity addition project and is similar to the Little lake MS (2017). The major difference is that MS835 involves adding capacity at existing station while Little lake MS involved building a brand new station.[89] AMPCO submits both address station capacity. AMPCO submits the work to be undertaken in 2018 is similar in nature to recurring annual capital work and should not be approved as an ICM.

The OEB-Approved 2017 Capital budget was reduced by 12%. PRZ filed a Custom IR application for 2016 to 2020 rates (EB-2015-0003).[90] The OEB did not approve PRZ's Custom IR application and approved a 2017 capital budget of $115.365 million, a reduction of $16.235 million from the $131.6 million in capital PRZ requested.

PRZ's 2018 proposed capital budget is below the 2017 Board-Approved capital budget. PRZ's 2018 capital budget is $108.3 million[91], 7% lower than the PRZ's 2017 Board-Approved capital budget of $115.365 million. PRZ's 2018 capital spend should be accommodated within the 2018 Price Cap IR adjustment.

Four out of 10 projects in the ICM are the subject of disallowances in PRZ's Custom IR application. The table below shows the disallowances that make up the 12% capital reduction in 2017. A significant portion, close to 30% of PRZ's proposed ICM relates to program disallowances in EB-2015-0003[92]: Cable Replacement and Rear Lot Supply Remediation.

[89] ibid
[90] EB-2015-0003 Ex 2-3-10 Page 13
[91] EB-2015-0003 Ex 2-3-10 Page 15
[92] $7,618,965 (30%) of ICM

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2017 Capital Budget proposed by PowerStream:	**131,600**
OEB Reductions	
System Renewal	
Underground Cable Replacement/Injection Program	-5,120
Pole Replacement Program	-1,380
Rear Lot Supply Remediation Program	-2,200
Mini-Rupter Switch Replacement Program	-405
Unscheduled Replacements of Distribution Equipment	-190
General Plant	
Customer Information System (CIS) Modifications	-6,700
General	
Internal/External Resource Mix For Capital Projects	-240
Total Reductions	-16,235
2017 Revised Capital Budget	**115,365**

The OEB determined that the appropriate capital cost for Cable Replacement work was $12,742,738 in 2017. The forecast capital spend for Cable Replacement in 2018 is significantly below this amount ($6,687,514). Alectra PRZ is requesting incremental capital funding via an ICM for most of the 2018 Cable Replacement work ($4,479,999). Similarly, for the Rear Lot Supply Remediation, a capital budget of $3.8 million was approved for 2017. PRZ's only Rear Lot Supply Remediation in 2018 in the amount of $1,681,034 is included in the ICM.

As discussed above, AMPCO's position is that both the Cable Replacement and Rear Lot Supply Remediation ICM projects reflect work that is characteristic of typical annual capital programs in the PRZ and do not qualify for ICM treatment.

No ICM until a Consolidated DSP for all rate zones has been reviewed by the OEB. As previously stated, AMPCO submits that the OEB should not approve an ICM for individual rate zones until a Consolidated DSP for all four rate zones is in place to ensure the investment levels and spending are optimized to ensure capital is directed to the projects in rate zones with the greatest need. The Rear Lot Supply

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Remediation project included in PRZ's ICM is a unique project to PRZ.[93] This project should be evaluated in the context of the needs of other rate zones.

30% of 2018 capital budget for PRZ is allocated to Miscellaneous Projects.[94] It is unclear from the evidence if any of the Miscellaneous Projects could be deferred to accommodate the 2018 ICM work.

PowerStream RZ

Miscellaneous Projects	**2018**
2018 Budget	$108,315,568
System Access	$7,974,798
System Renewal	$12,947,297
System Service	$3,970,356
General Plant	$3,089,855
TOTAL	$27,982,306
% 2018 Budget	26%

[93] G-AMPCO-1
[94] Attachment #35

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B) Accounting - Change in Capitalization Policy

Alectra made changes to its capitalization policies related to the business consolidation of the predecessor companies Horizon Utilities, Enersource, PowerStream and Hydro One Brampton.

The impact of the change is projected to provide for more capitalization of costs for the Enersource and Horizon RZs and less capitalization of costs for the Brampton RZ. The capitalization policy for the PowerStream RZ did not change post-merger. The change was effective on February 1, 2017, the date that Alectra was formed for the Horizon and Enersource RZs, and March 1, 2017 for Brampton RZ.

Following submissions from the parties on this issue, the OEB added a new issue to the final issues list: What is the appropriate way to account for the change in capitalization policy resulting from the merger for Alectra Utilities and its predecessor companies?[95]

Given that a decision for this proceeding will not be issued in 2017, the OEB found it necessary to establish three new accounts to track the change in capitalization for the Horizon RZ, Enersource RZ and Brampton RZ to ensure all options remain open and available for consideration, and rate retroactivity for the 2017 period is not an issue.[96] The new accounts should be structured to be similar in nature to Account 1576 (IFRS transition).

The impact of the change in Capitalization Policy is provided in the table below. The total average annual impact is $2.6 million.[97]

[95] Issue 3.2 (PO#3)
[96] PO#3 Page 3
[97] JTStaff-7

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Table 1 – Net Impact of Capitalization Policy Change (Three Rate Zones)

Capitalization Policy Impact ($000s)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
Enersource RZ	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	17,920
Horizon Utilities RZ	6,280	6,332	6,379	6,544	6,715	6,715	6,715	6,715	6,715	6,715	65,827
Brampton RZ	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(2,350)	(23,497)
Total OM&A Impact	**5,723**	**5,774**	**5,821**	**5,986**	**6,158**	**6,158**	**6,158**	**6,158**	**6,158**	**6,158**	**60,249**
Enersource RZ	(22)	(67)	(115)	(163)	(211)	(259)	(307)	(354)	(402)	(450)	(2,350)
Horizon Utilities RZ	(79)	(236)	(395)	(557)	(722)	(888)	(1,054)	(1,220)	(1,385)	(1,551)	(8,086)
Brampton RZ	34	101	168	235	302	369	436	504	571	638	3,357
Total Depreciation Impact	**(67)**	**(203)**	**(342)**	**(484)**	**(631)**	**(777)**	**(924)**	**(1,070)**	**(1,217)**	**(1,363)**	**(7,079)**
Enersource RZ	(456)	(419)	(386)	(355)	(327)	(300)	(276)	(254)	(234)	(215)	(3,223)
Horizon Utilities RZ	(1,598)	(1,483)	(1,376)	(1,308)	(1,247)	(1,147)	(1,056)	(971)	(893)	(822)	(11,902)
Brampton RZ	598	550	506	465	428	394	362	333	307	282	4,226
Total PILs Impact	**(1,456)**	**(1,353)**	**(1,256)**	**(1,198)**	**(1,145)**	**(1,054)**	**(970)**	**(892)**	**(821)**	**(755)**	**(10,899)**
Enersource RZ	(115)	(227)	(337)	(443)	(545)	(645)	(742)	(835)	(926)	(1,013)	(5,828)
Horizon Utilities RZ	(343)	(703)	(1,058)	(1,404)	(1,751)	(2,088)	(2,416)	(2,734)	(3,042)	(3,341)	(18,879)
Brampton RZ	167	329	486	639	786	929	1,067	1,200	1,328	1,451	8,381
Total Return on Capital Impact	**(291)**	**(602)**	**(908)**	**(1,208)**	**(1,510)**	**(1,804)**	**(2,091)**	**(2,369)**	**(2,640)**	**(2,903)**	**(16,327)**
Enersource RZ	1,199	1,078	955	832	709	588	467	348	230	113	6,519
Horizon Utilities RZ	4,261	3,910	3,550	3,275	2,995	2,592	2,190	1,791	1,394	1,001	26,959
Brampton RZ	(1,551)	(1,370)	(1,190)	(1,011)	(833)	(658)	(484)	(313)	(144)	22	(7,533)
Total Net Impact	**3,909**	**3,617**	**3,315**	**3,096**	**2,871**	**2,522**	**2,173**	**1,826**	**1,480**	**$1,136**	**25,945**

Given the magnitude of the amount in 2017, AMPCO submits the 2017 amounts should be cleared in 2018 to the benefit of customers. Given the recurring nature of the impact of the change in Capitalization Policy and the magnitude in subsequent years, AMPCO submits the accounts should remain open until the end of the rebasing period and cleared annually.

C) Monthly Billing

AMPCO supports SEC's submissions on Monthly Billing. The Board should order creation of deferral accounts to track the cumulative impact of monthly billing for each of the affected rate zones. Starting in 2019, whenever the cumulative net impact (savings less costs) is a credit, the accounts should be cleared by way of a refund to customers.

D) Effective Date

For the reasons put forward by SEC, AMPCO submits that the OEB should follow its normal practice, and determine that new rates for Alectra arising out of this Application become effective on the first day of the month following the OEB's rate order.