EB-2017-0024

ONTARIO ENERGY BOARD

Alectra Utilities Corporation

Application for electricity distribution rates and other changes beginning January 1, 2018

Final Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

16 January 2018

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1.0 The Application

1. On November 17, 2017, in Procedural Order No.3 the Board provided an issues list in respect to this proceeding. The approved list considers nine different questions. However, in that same Order the Board confirmed that parties were eligible for costs in regard to only the following matters:

- Earnings sharing for the Horizon rate zone (HRZ)
- Incremental capital module rate riders for the PowerStream, Enersource and Hydro One Brampton rate zones (PRZ, ERZ and BRZ respectively);
- The distribution system plan for the E\RZ
- New deferral accounts requested for the PRZ and ERZ for the incremental capital expenditures for the following projects:
    - Metrolinx Crossings Remediation Project
    - GO Rail Network Electrification Project

2. In our view it is reasonable to conclude from the disjoint between the issues list and the issues for which the Board will entertain costs that it believes it would be assisted only by arguments on the latter. While VECC has in the discovery process reviewed all aspects of the application (specifically the LRAMVA requests) as a practical matter, and in deference to the Board's predetermination of the issues attracting costs, has limited our discussion to the sub set of issues listed above.

3. VECC has had the opportunity to review the arguments of the School Energy Coalition (SEC). We are in agreement with those arguments. As noted by SEC we have attempted to coordinate our submissions so as to minimize overlap and minimize costs. In its argument SEC has laid out succinctly how Alectra has employed ICM/ACM capital funding as a means to "have its cake and eat it too." In our submission the application of the ICM/ACM is largely a way for the amalgamated utility to avoid rate rebasing while simultaneously raising rates under the guise of "reliability."

4. We have also had the opportunity to review the submissions of the Consumer Council of Canada (CCC) and Coalition and that of the Association of Major Power Consumers (AMPCO) and are in general agreement with their positions.

5. Specifically we would reinforce SEC's submissions that the Board should put little weight on evidence showing that customers are in favour of the investments proposed in this application. First, most of the surveying does not meet the scientific criteria of being random and with a sufficiently large sample size to be meaningful. Much of the customer engagement evidence, specifically, the online voluntary feedback suffers from self-selection bias.[1] Self-selection bias is the problem that results when survey respondents are allowed to decide entirely for themselves whether or not they want to participate in a survey. To the extent that respondents' propensity for participating in

[1] See for example, Exhibit 2, Tab 4, Schedule 11, page 23

the study is correlated with the substantive topic the researchers are trying to study, there will be self-selection bias in the resulting data. In most instances, self-selection will lead to biased data, as the respondents who choose to participate do not well represent the entire target population.

6. To the limited extent that random sampling was utilized the problem exists, as SEC has implied, in the certainty the Utility conveys to the respondents <u>prior to their response</u> as to the correlation between investment and reliability outcomes. This we find interesting in that when before the Board utilities such as Alectra are wont to explain how it is nigh impossible to draw a line between any particular investment and its reliability outcome (usually under the ambit that measurements of reliability are at best lagging indicators). Nevertheless when pre-educating consumers prior to their response to related questions the opposite becomes true. Now it becomes possible to tell consumers that without certain investments reliability will certainly decline.

7. We note that in this instance Alectra did not deem it important to explain to consumers that the Board had recently rejected parts of PRZ's capital plan, or that the monies it was requesting for the BRZ were because due to a massive forecast error. Nor was it explained that PowerStream had recently amalgamated and that savings and efficiencies might be found which might help the Utility make more cost effective or even avoid some capital programs. Or that it had recently amalgamated with four utilities and that it might be able to find capital efficiencies to avoid unneeded investments previously contemplated. Rather the entire customer engagement aims to lead customers to believe that there is a direct correlation between investments and reliability and that without the proposed capital spending serious harm might happen. None of which is actually true.

8. Yet it is noteworthy that even against this information asymmetry customers consistently make one point –rates are too high! Rate increases should be minimized! That piece of evidence is so large and so complete that it cannot be glossed in this application.

2.0 Incremental Capital Modules

9. Alectra has proposed to recover costs for Incremental Capital Modules (ICM's) for three of the four rate zones, deeming the HRZ to be ineligible at this time for ICM treatment. The remaining three ICMs broadly fall into three categories: monies for contribution in aid of construction (BRZ); monies for projects previously rejected by the Board (PRZ) and monies arising out of a new distribution system plan (ERZ).

10. Alectra has made much of the Board's MAAD's guidelines to bolster its ICM request noting that the Board extended the availability of the ICM to allow for any prudent discrete project that fits within an incremental capital budget and not just expenditures'

that were unanticipated or unplanned. And this is true (if somewhat to the detriment of ratepayers). In its most recent policy statement on the matter the Board said[2]:

> *The ICM is now available for any prudent discrete capital project that fits within an incremental capital budget envelope, not just expenditures that were unanticipated or unplanned. To encourage consolidation, the 2015 Report extended the availability of the ICM for consolidating distributors that are on Annual IR Index, thereby providing consolidating distributors with the ability to finance capital investments during the deferral period without being required to rebase earlier than planned*.

11. However, Alectra has taken this liberalization of the ICM/ACM policy as carte blanche to undertake any capital program that it deems to be appropriate. We think this is not what was contemplated by the Board. Clearly a project must be, as the Board has said, prudent and discrete. And they can be, as the Board has also said, projects that have been planned and not just those that are unanticipated. And we agree with the Applicant that the projects must be in excess of the Board's threshold. What is perplexing is that many of the proposed ICM projects are neither planned nor unanticipated. They seem to come out of thin air and largely for the purpose, in our view of gold plating the existing distribution system during the rate rebasing free period.

12. In this argument we take issue with Alectra's ICM proposal on the basis of prudency (BRZ) and on whether the project is discrete (ERZ). We also take issue with projects in the BRZ and PRZ on the basis that they are not in previously filed distribution plans covering the 2018 period. Nor are they projects that the Utility has suddenly become aware of and have sudden urgency (leaving aside the transportation related project).

13. It is to this latter point we wish to draw the Board's attention. For some time now the Board has required that electricity distribution utilities to file five year capital plans with their cost of service filing. These capital plans are supported by lengthy Distribution System Plans and Asset Condition Assessments. Much time is spent by the Board in consideration of these plans. In fact, at the Board hires outside experts to assist staff in reviewing the plans. The utilities in turn expend valuable resources – the cost paid for by ratepayers we add – hiring expert third parties to review these plans and to defend their veracity to intervenors like VECC and ultimately to the Board.

14. At to what end? In two of the cases, BRZ and PRZ, the Applicant has simply departed from prior DSP plans and without explanation. In the case of PRZ the relevant decision of the Board was issued only a year and half ago[3]. What do these plans mean if they cannot be relied upon in future proceedings? What then is the benefit to ratepayers, especially low income customers who could put these resources to essential use, of these regulatory exercises?

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[2] Handbook to Electricity Distributor and Transmitter Consolidation, page 17

[3] Board Decision PowerStream EB-2015-0003, August 4, 2016

15. In our submission the Applicant's ICM proposal, especially as they relate to Brampton and PowerStream make a farce of the Board's requirement to file and consider 5 year distribution system plans. In Brampton's case there is significant variance as between the last DSP presented to the Board and the forecast that underpin the threshold test in this application. Those variances are largely unexplained. If not for the questions of intervenors there would seem to have been no account given as to the major departures in the plans of the Utility under its cost of service filing and its newly revised plans as part of an amalgamated company. Worst yet is PRZ, which, with some new dressing, resurrects those parts of its DSP recently rejected by the Board. It's recent DSP but resurrects in new clothes programs dismissed by the Board in PowerStream's recent cost of service application.

16. We think the Board's amalgamation policies unfortunate. In our respectful opinion they do not serve ratepayers well. Rather they serve an axiom that professes that consolidation of utilities is as an unquestioned good. Big is better – notwithstanding evidence to the contrary. The reasons the Board should want consolidation is never fully explained only guidance is given to suit the end.

17. Yet VECC is not attempting to reargue the policy here. What we are suggesting is that some discipline must be adhered to maintain the regulatory protections expected by Ontario consumers. Either a five year Distribution System Plan filed in a cost of servicer case means something – or it does not. If the latter then the least that should be done is to relieve ratepayers from financing such meaningless exercises in future applications.

18. Finally, with respect to distribution plans it is clear that the amalgamated Alectra will need to develop an overarching distribution plan. Older plans like that for the BRZ are set to expire shortly. Others like that provided for the ERZ in this application are clearly deficient in their lack of recognition of an amalgamated utility. This is especially import in the category of general plant, but also impacts all aspects of capital planning at the new Alectra.

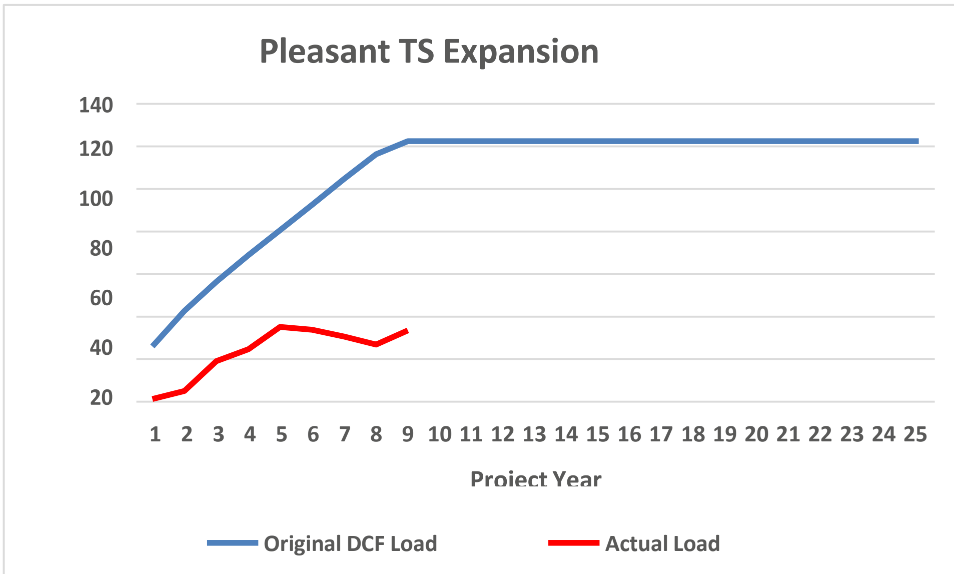
19. In our submission the Board should not approve any ICM's for Alectra before reviewing a comprehensive distribution system plan.

Brampton ICM

20. Brampton's ICM is for a Connection and Cost Recovery Agreements (CCRA) true up payment of $6,800,377 for the Pleasant TS. Alectra is obligated under contract terms to true-up at the predetermined anniversary period. The original contribution to this TS was $4.6 million.

21. The ten-year anniversary true-up for Pleasant TS expansion is due in 2018. Alectra estimates a shortfall of revenue to Hydro One versus the forecasted initial capital contribution at the five-year true-up settlement. The reason for this large true-up is because the load on this station is about half of that estimated when the TS was built.

The table below show graphically the wide disparity between the forecast and actual loads at the station and resulting in a $6.8 million true-up payment to be paid to Hydro One. [4]



Source: 2.0-VECC-8

22. Two issues need to be addressed: (1) Is the $6.8 million actually above the threshold and (2) was the investment prudent?

Does the investment meet the threshold?

23. Alectra calculates the threshold capital expenditure for 2018 for BRZ as $30,955,867. That is, were Alectra's BRZ "normal" capital spending below $31 million the utility would be required to absorb all or part of the requested $6.8 million. As such it is interesting to consider what Alectra's capital spending for this rate zone is forecast to be in comparison to what Brampton Hydro purported would be the case under its long-term capital plan presented in the rate proceeding EB-2014-0083.

24. In the EB-2014-0083 Brampton Hydro filed a comprehensive cost of service application. That application contained in excess of 1,000 pages of evidence supporting capital expenditures over the 2015 to 2019 period. In accordance with Board filing requirements the Utility filed a detailed Distribution System Plan (DSP) underpinned by an equally detailed Asset Condition Assessment (ACA). The capital expenditures forecasts of that plan and the actual/updated forecast given in this application are shown below.[5]

[4] BRZ-Staff-5
[5] 2.0-VECC-9

Table 1 – Capital expenditures in EB-2014-0083

Appendix 2-AB					
Category	2015	2016	2017	2018	2019
System Access	$17,605,940	$14,998,570	$14,444,690	$14,878,370	$15,080,960
System Renewal	$8,803,080	$9,310,580	$10,329,890	$10,120,900	$9,006,760
System Service	$1,472,290	$599,560	$530,230	$623,630	$676,870
General Plant	$9,741,020	$9,288,690	$3,966,470	$3,981,820	$3,740,710
TOTAL EXPENDITURE	$37,622,330[6]	$34,197,400	$29,271,280	$29,604,720	$28,505,300

Table 2 – Capital expenditures EB-2017-0024

Current Forecast					
Category	Actual 2015	Actual 2016	BP 2017	BP 2018	BP 2019
System Access	$21,333,048	$20,792,168	$15,378,476	$20,751,276	$13,560,040
System Renewal	$15,674,384	$8,143,641	$11,979,923	$12,855,011	$9,677,490
System Service	$1,779,131	$825,738	$1,812,259	$529,158	$574,580
General Plant	$3,784,937	$995,861	$11,047,804	$3,934,035	$16,331,610
TOTAL EXPENDITURE	$42,571,500	$30,757,408	$40,218,462	$38,069,480	$40,143,720

Table 3 – Capital expenditure variance

Variance					
Category	2015	2016	2017	2018	2019
System Access	$3,727,108	$5,793,598	$933,786	$5,872,906	($1,520,920)
System Renewal	$6,871,304	($1,166,939)	$1,650,033	$2,734,111	$670,730
System Service	$306,841	$226,178	$1,282,029	($94,472)	($102,290)
General Plant	($5,956,083)	($8,292,829)	$7,081,334	($47,785)	$12,590,900
TOTAL EXPENDITURE	$4,949,170	($3,439,992)	$10,947,182	$8,464,760	$11,638,420

25. In response to 2.0-VECC-8 the Applicant provides reasons for the variance. However, even without considering the more detailed explanations of variances one thing is clear. The variances between 2015 and 2017, which are in opposite directions, appear to be the normal differences one might expect due to timing and scope changes on known projects in the DSP. Over the 2015-2016 period the variance in expected an actual spending is roughly 2% and within what one might expect for a large capital plan over a number of years.

26. The 2018 updated forecast includes the proposed $6.8 million CCRA payment. That is, notwithstanding the obvious long-term shortfall in demand on the Pleasant TS, the Utility apparently did not forecast any amounts for a CCRA payment in 2018 in its 2015 COS filing.

[6] 2.0-VECC-9. The 2015 amount is Brampton's original request the subsequent agreed upon in the Board Approved Settlement was $37,865,475.

27. Leaving this omission aside, one is still forced to ask the question as to why the 2017 through 2019 updated forecast is $23 million ($10.1+$8.5+$11.6 -$6.8 Pleasant CCRA) above the forecast provided in the last cost of service rate application. Put another way the 2018 and 2019 current forecast capital budgets are 38% higher than shown in the DSP provided to the Board in 2015.

28. The onus is on the Applicant to explain this large variance and not just, as has been done in response to interrogatories on a project specific basis. What the Board needs to understand is why Brampton's 2018 and 2019 capital program is so much at odds today with what was planned for in 2015. In our submission Alectra has not provided an adequate explanation.

29. On the face of it what appears to be happening is a gaming of the Board's process. The Board requires that utilities files comprehensive distribution system plans in order to underpin multi-year rate plans. These plans include expensive asset assessment processes and reports and often third party verifications. The exercise is then put under scrutiny in a cost of service application. However, now we see that all that is for naught. It really doesn't matter what Brampton told the Board its plan was in for 2015 through 2019. What matters now, at least to Alectra's shareholder, is that it be allowed to recoup the cost of a major forecast error.

Is the investment prudent?

30. SEC has raised the issue that the Pleasant TS was an affiliate transaction and therefore should be subject to greater scrutiny. We agree with this proposition. In the pre-amalgamation utility the transaction had no losers for the parent company. If the load failed to materialize – as most certainly did – then the parent, Hydro One would still benefit from its expected return on its asset. The only losers would be Brampton ratepayers.

31. SEC has provided the forecast and Actual demands for the Pleasant TS that were provided at BRZ-Staff-5. What this table shows is not just that the forecast was wrong, but that it was **massively wrong**! The actual demands on the Pleasant TS are only 50% of the forecast in 2017.

32. We reiterate that the burden of proof lies with the Applicant. Alectra wants ratepayers to pay for this massive error than they are required to demonstrate why this transaction, done at the time with an affiliate, was prudent. The burden does not lie with the intervenors or the Board.

33. In response to the question why was this forecast so wrong the Applicant explains: "[*T}he five-year true-up revenue shortfall was largely due to the government driven conservation initiatives; natural conservation1; and the economic downturn that occurred in 2008*[7]." Does this generalist answer suffice? Where was the original load expected to be? What growth did occur and what did not? What part of the shortfall

[7] Attachment 21, page 4

was due to expected new load not occurring and what part due to existing load not growing as expected? At JT.1.5 Alectra does include information on load forecast and actual load growth however none of it goes to explain why the original forecast was so much in error.

34. The Applicant has suggested in its Argument-in-Chief that it is incumbent on the parties to ask these questions in discovery and if not, then as is well. But this is incorrect. It is not VECC's burden to show that such a massively incorrect projection was prudent at the time. It is the Applicant's to prove it was and in the context of what subsequently occurred. In our submission the Applicant has not met this burden. In our submission the Board must satisfy itself of the reasons that this affiliate transaction was dramatically over forecast. If that can be done then we would argue that the reasons should be explained to ratepayers so that it is clear why they are required to bear the burden on this mistake.

35. In summary we submit the request to recover the CCRA for the Pleasant TS should fail and for two reasons. Alectra has materially departed from Brampton's original distribution system plan and without explanation. As such, and if judged by the original DSP all or part of this proposal would not have met the materiality threshold. Second, Alectra has not met the burden of proof to demonstrate that the Pleasant TS investment was prudent.

PowerStream ICM

36. The PRZ ICM presents the most interesting proposal in this application. That is because PowerStream was the most recent stand-alone utility to have its rates considered by the Board on a cost of service basis. It is also has the most recent Distribution System Plan considered by the Board. In the colloquial – the paint is still wet on this one.

37. The ICM for the PRZ consists of the following projects:

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**

Source: E3/T3/S10

38. Four of the projects are new projects which were not included in the last DSP filed by PowerStream:[8]

- Road Authority YRRT Yonge Street
- Rear Lot Supply Remediation – Royal Orchard – North
- Cable Replacement – (M49) – Steeles and Fairway Heights
- Cable Replacement – (V08) – Steeles Ave and New Westminster

39. In the last proceeding, EB-2015-0003, PowerStream had proposed an aggressive capital expenditures program[9]. In essence Alectra's ICM proposal for the PRZ restablishes the 2018 capital budget of that proposed in EB-2015-0003 albeit with different programs.

	2015 Proposed	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed	2020 Proposed	Total
General Plant	$24,544,709	$17,631,419	$19,557,978	$13,966,910	$16,840,554	$18,205,522	$110,747,091
System Access	$24,145,118	$28,232,154	$28,469,723	$29,560,667	$28,726,052	$31,866,709	$171,000,423
System Renewal	$42,388,194	$48,714,625	$51,500,169	$52,051,933	$52,970,854	$52,405,780	$300,031,555
System Service	$27,321,977	$38,321,819	$32,071,882	$29,920,325	$26,963,080	$23,022,061	$177,621,144
Grand Total	$118,399,998	$132,900,017	$131,599,752	$125,499,835	$125,500,540	$125,500,071	$759,400,213

As compared to the current actuals/forecast[10]

Category	Actual 2013	Actual 2014	Actual 2015	Actual 2016	COS 2017	Forecast 2017	DSP 2018	Forecast 2018	Forecast 2019	Forecast 2020
SystemAccess	$17,030	$26,229	$25,620	$22,790	$32,024	$32,024	$29,561	$32,213	$30,531	$30,667
SystemRenewal	$22,254	$39,186	$46,997	$42,004	$41,848	$41,848	$51,650	$45,292	$43,320	$49,346
SystemService	$34,780	$17,946	$23,542	$27,529	$30,986	$30,986	$30,426	$20,522	$24,448	$14,659
General Plant	$19,593	$26,148	$22,092	$8,839	$10,927	$17,500	$13,863	$11,747	$5,933	$15,564
Total	**$93,657**	**$109,509**	**$118,251**	**$101,162**	**$115,784**	**$122,357**	**$125,500**	**$109,773**	**$104,231**	**$110,236**

[8] PRZ-Staff-7
[9] EB-2015-0003, Exhibit G, Tab 2, page 3
[10] Exhibit 2, Tab 3, Schedule 10, page 4

40. The Board had expressed a number of concerns with PowerStream's Distribution System Plan including:

> *[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.*
>
> and,
>
> *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.*[11]

41. The Board went on in its decision to reduce the imputed capital in rates noting note specific areas in which PowerStream might reduce its 2017 capital spending[12].

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**

[11] Decision with Reasons, EB-2015-0003, pgs. 10-15
[12] Ibid, page 15.)

42. In this application Alectra has attempted to address the Board's customer input criticism. They state that ["U]*nlike the 2014-15 PowerStream customer engagement, Alectra Utilities' customer engagement included a focus on the customer journey touchpoints and customer outcomes. The purpose of this new focus was to help Alectra Utilities set priorities that are aligned with customer expectations in the PowerStream RZ*."[13]

43. While we applaud Alectra for seeking to redress the customer engagement deficiencies in the PowerStream COS application we do not agree that it has addressed the concerns the Board expressed in regards to PowerStream's capital budgeting. In our view the proposed rear lot and cable remediations are variants of projects the Board has already expressed its concerns. Furthermore there is no compelling evidence that Alectra has, as part of its customer engagement, explained to ratepayers the Board's decision, its concerns and explicitly how this new proposal addresses them.

44. We also have concerns similar to those raised in the Brampton ICM. In this instance, one might take comfort from the declining costs (at least post 2018) but the problem remains the same there is no explanation given as to the relationship between the previously filed distribution plan and the ICM proposal. Some projects appear on the face of it to overlap with project the Board has expressed concern with. Before approving an ICM for the PRZ it would seem reasonable that the Board understand the nexus between the ICM capital project plan (and future ICM's) and the last reviewed Distribution Plan. Yet there is scant evidence on that and what exists is mostly drawn out through the questions of Board Staff and intervenors.

45. In our view Alectra has simply not met the burden of proof as to the need for these project (other than the YRRT) because they have not explained how these projects were (or were not) contemplated in its distribution system plan.

46. It is also our view that the YRRT project should be treated in a like fashion as the MetroLinx projects. That is Alectra should establish deferral and variance accounts to recover the actual costs. VECC explored the reason for not treating the YRRT project in a similar manner to the MetroLinx projects even though they would appear similar in that they are all costly transportation projects whose timetable is outside the control of Alectra. It was Alectra's position that the cost certainty of the YRRT project distinguished it from the Metorlinx project for which it was seeking deferral account treatment.[14]

47. In our submission the Board should treat material projects which are reliant upon government infrastructure programs to be treated in a like manner. Notwithstanding

[13] PRZ-Staff-3

[14] See for example, Technical Conference, December 1, Pages 118-121 for a discussion between VECC and Alectra on the cost estimates of the YRRT project.

Alectra's expectation all such projects suffer from the same degree of uncertainty in both scope and timing.

Enersource ICM

48. The ICM projects with respect to the ERZ are shown below.

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**

Source E2/T4/S11

49. VECC adopts the arguments of SEC with respect to the Enersource ICM proposal. In essence the difficulty with the ERZ proposal is that there is no real distinction to be made between what qualifies as simply normal capital expenditures and an "ICM eligible capital project"

50. VECC is also concerned that the Distribution System Plan is already dated given the amalgamation. For example the following table is taken from the ERZ Distribution System Plan.[15]

[15] Enersource DSP, page 264 of 405

Table 54 - General Plant Expenditures by Capital Program (2017-2022) ($000s)

Description	2017	2018	2019	2020	2021	2022
Engineering & Asset Systems	345	345	315	365	315	315
Rolling Stock	2,427	2,520	2,796	3,101	2,428	1,887
Information Technology	341	572	269	580	150	607
ERP System	50	55	55	60	60	65
Meter to Cash	580	580	620	530	550	500
Grounds & Buildings	2,855	2,400	3,325	3,575	3,050	2,295
Major Tools	200	200	200	200	200	200
Total	**6,798**	**6,672**	**7,580**	**8,411**	**6,753**	**5,869**

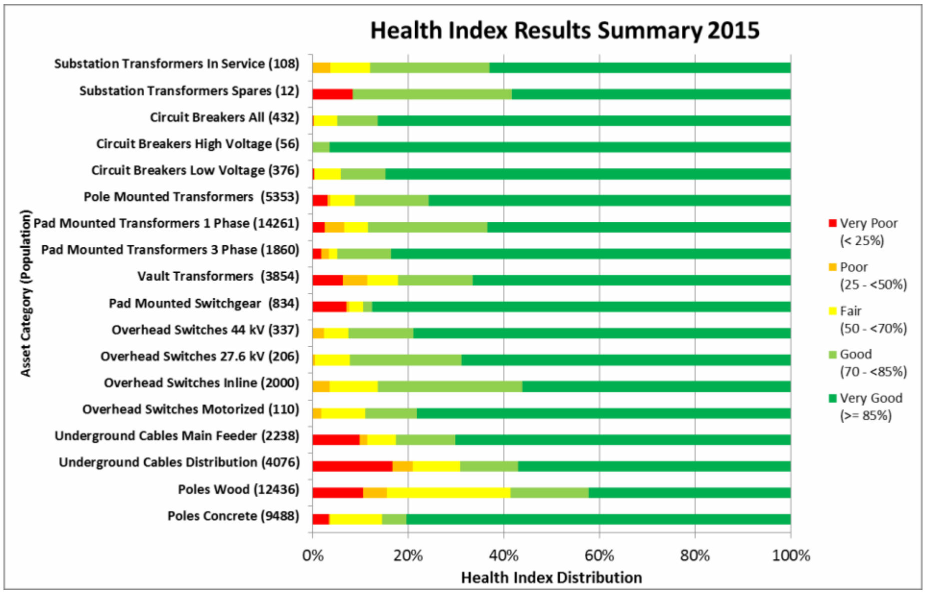
51. There is no discussion in the Enersources DSP as to the coordination of information technology in the new Alectra. Nor is there any discussion as to changes to building requirements, rolling stock or any of the other aspects of the Utility that are likely to change as rationalization occurs in the new company.[16]

52. Compounding the issue as to what is a normal capital program project and what is an "ICM eligible" project is the fact that the distribution system plan doesn't recognize any post amalgamation changes to capital planning. For this reason we do not believe the Board can rely on the capital cost projections for determining the threshold in the ERZ.

53. In our submission Alectra should be invited to reapply for an ICM within the ERZ once it has filed a comprehensive multi-year matching the remainder of the years prior to rate rebasing. In our submission it is unlikely any delay in actual ICM eligible project would jeopardize reliability. As shown graphically below the asset health in the ERZ is robust.[17]

[16] See also the exchange at Technical Conference Transcript December 1, pages 26-30
[17] Exhibit 2, Tab 4, Schedule 11

Figure 1 - Asset Health Index (HI) Summary for 2015



3.0 Earnings Sharing for HRZ

54. VECC has included the issue of the proposed change in capitalization policies under the ambit of the earning sharing mechanism. The capitalization policy change was effective February 1, 2017.[18] The impact of the change in capitalization policy is to provide for more capitalization of costs for the Enersource and Horizon Utilities rate zones and less capitalization of costs to the Brampton rate zone. This will reduce OM&A expenditures in the current year but increase depreciation expense over the life of the underlying assets. [19]

[18] JT.Staff-7
[19] CCC-12

55. Alectra identified the following impacts of the capitalization change[20].

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**

56. SEC has clearly laid out in detail the issues which arise with a change in capitalization policy during the amalgamation rate grace period. In summary the accounting change if not recognized and adjusted by the Board allows the Utility to both collect costs in OM&A and again upon rebasing in rate base.

57. In its Argument-in-Chief much is made of the idea that the capitalization change is a non-cash event and *`had no impact on the underlying economics at any of Alectra Utilities`rate zones*.[21] Yet in the same breath Alectra states:

Arguments against this result will no doubt be made by intervenors. Whether disguised as a claim for Z-Factor treatment or put more directly as a claim to make rates more "just and reasonable", intervenor submissions on the issues list make clear that they will be looking for some form of adjustment. If accepted, this would be tantamount to the recapture of the benefits/costs associated with the merger that are to accrue to shareholders under the Board's MAADs policy.[22]

[20] Ibid
[21] AIC, page 43
[22] Ibid, page 45

58. To wit one might respond – ``the lady doth protest too much, methinks"[23]. If the change is one simply of accounting with no material impact on any matters of rates then the issue is on no importance. And so why object to capturing the cost consequences for review and disposition at a future point?

59. Clearly it matters. There is a net benefit to Alectra's shareholder if the capitalization policy is not recognized until the time of rebasing. Alectra suggests to the Board this is theirs for the taking – part of the compact of being given a grace period of 10 years before an examination of the costs of service of the utility. However, nothing in this policy suggests that material changes in accounting, or for that matter government policy impacting costs, will not be considered by the regulator. The Board must, in our submissions, consider on the merits, whether a change in accounting or government policy (e.g. tax policy) is material and whether an accommodation to the rate plan needs to be made.

60. In this instance if left to stand Alectra would be allowed to calculate the deferred at some future point charge ratepayers twice for the same cost. Once in the rates as established prior to the amalgamation and again as a return on rate base when they are subsequently reset on a cost of service basis. In our submission rates cannot be just or reasonable on that basis. Nor do we think it reasonable to wait 10 years to rectify the matters at the time of rebasing.

61. As such we are in agreement with the SEC proposal that the gross (adjusted for tax) benefit be dispensed to customers through an annual rate riders.

4.0 Deferral Accounts

62. In VECC's submission ALL of the transit related projects should be subject to deferral account treatment. In our submission this would include both MetroLinx projects in the PRA and ERZ, the YRRT in the PRZ and the QEW widening in the ERZ.

63. The reasons for this is that all are in respect to major transportation projects dependent either a government agency or ministry of the Government of Ontario.

5.0 Costs Incurred

64. VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[23] Hamlet Act 3, scene 2