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Our File No. 174515

January 17, 2018

VIA RESS, EMAIL AND COURIER

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attention: Kirsten Walli,
Board Secretary

Dear Ms. Walli:

Re: EB-2017-0024: Alectra Utilities Corporation – BOMA's Argument

Pursuant to the Board's Decision on Issues List and Interim Rates and Procedural Order No. 3 dated November 17, 2017, please find enclosed herewith BOMA's Argument.

Yours truly,

FOGLER, RUBINOFF LLP

Thomas Brett

Thomas Brett
TB/dd
Encls.
cc: All Parties *(via email)*

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EB-2017-0024

ONTARIO ENERGY BOARD

Alectra Utilities Corporation

Application for electricity distribution rates effective January 1, 2018

SUBMISSION OF

BUILDING OWNERS AND MANAGERS ASSOCIATION, GREATER TORONTO ("BOMA")

January 17, 2018

Tom Brett
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Counsel for BOMA

Written Submission of BOMA

Summary

In BOMA's view, the Enersource, PowerStream, and Brampton proposed 2018 ICM investments ("proposal" or "proposed investments") should not be approved by the Board, for several reasons, with two exception projects, C0506 and M5835.

First, the proposed ICM investments are not consistent with the Board's RRFE principles, and the departures from those principles are not adequately justified. In particular, the proposed investments do not reflect ratepayers' stated needs and preferences, in that they are very large capital expenditures in the face of customers' preferences, expressed consistently during the customer consultation for no further rate increases, or rate increases not sufficient to fund the proposed ICM investments. The customers repeatedly opposed the proposed rate increases, while recognizing that their reluctance to do so would likely result in reduced reliability.

Second, almost all the proposed 2018 ICM investments, in particular, the system renewal investments and the system service investments are not discrete projects, but are rather simply the 2018 portion of typical utility capital programs. Those proposed investments include the Enersource subdivision rebuilds, underground cable replacement, and replacement of transformers leaking oil, and PowerStream's underground cable replacement, overhead cable, and rear lot conversion projects, and some system services projects.

Third, some proposed investments of a mandatory or quasi-mandatory nature, such as system access and some system service investments, are improperly placed in the proposed ICM investments, rather than included in Enersource's, PowerStream's and Brampton's base capital

budgets. These placements often conflict with the rate zone's stated priorities. Some lower priority investments in the Enersource and PowerStream prioritized 2018 overall investment programs are placed in the ICM proposals, ahead of higher priority projects. Some of PowerStream's proposed investments conflict with the Board's decision in EB-2015-0003, which did not approve some of PowerStream's renewal projects.

Finally, the ICM investment portfolios are formulated and executed on a three silo basis. Investments are prioritized only within a rate zone, not across rate zones, and not across Alectra. This failure to prioritize on a corporate scale will necessarily result in less efficient capital allocation and reduce overall cost-effectiveness. The Board should be reluctant to approve any ICM requests until priorities can be established on a corporate-wide basis.

Enersource - Issues 2.1, 2.2, 2.3, 2.4, 2.5

The Enersource Distribution System Plan (the "DSP") does not support the proposed Enersource 2018 ICM for the Enersource rate zone. Neither the DSP nor the ICM is in accordance with the Board's RRFE policies, in particular, the need to demonstrate that the DSP and the ICM reflect customer needs and preferences.

The first RRFE principle is that the DSP, the 2018 capital budget, and the proposed 2018 ICM must reflect customer needs and preferences, as determined by ratepayer consultations. The Enersource DSP and the ICM do not comply with this principle.

First of all, like the PowerStream DSP in 2015, the Innovative led customer consultations for the Enersource DSP, and the Enersource, PowerStream, and Brampton proposed 2018 ICMs, were not done early enough to enable the results to be thoroughly integrated into the 2018-2022

Enersource DSP and 2018 Enersource, PowerStream and Brampton ICM proposals. Innovative's Customer Engagement Report was dated June 23, 2017 (Attachment 51). The Alectra Rates Application, including the Enersource DSP and the three divisions' ICM proposals, was filed on July 7, 2017. The application was approved by the Alectra Executive Team on June 20, 2017 (BOMA-2) prior to receipt of the final Innovative Report. The application was, oddly enough, not reviewed or approved by the Alectra Board of Directors. This two to three week period between receipt of the Innovative Report and filing of the application is not nearly long enough to incorporate and integrate customer needs and preferences into the DSP and three ICM submissions, which were already approved by senior management by mid-June.

Second, Alectra's evidence and the Innovative Customer Engagement Report do not fairly reflect the Enersource, PowerStream and Brampton customers' needs and preferences, as reported to Innovative during the consultation process. At a high level, the Innovative report, and the evidence which is based on that report, seriously overstate the customers' acceptance of the proposed DSP and proposed ICMs, and seriously understate the customers' reluctance to accept higher electricity prices required to implement those ICMs, in whole or in part. This misleading interpretation, deliberate or otherwise, of the ratepayers' answers to the telephone survey results in proposals that do not reflect their needs, preferences, and interests. More details on this misinterpretation is provided below.

Third, Alectra's evidence, aside from the Innovative Report, on how its Enersource customer consultations are reflected in the DSP, an important part of the Board's first RRFE principle, and the proposed ICMs, is very skimpy, in part the result of insufficient time to digest the findings of Innovative's report. Instead, it merely reiterated throughout its evidence one or two general statements made in the Innovative Report. While Alectra tried to make much of its informal

contact with its customers, that informal consultation does not compensate for a seriously flawed consultation, for information received in this way is anecdotal, and, while useful, complements, rather than replaces, the results in the structural professionally-managed ratepayer consultation.

Fourth, Innovative did not put to the ratepayers, in any of the questions asking ratepayers about how much they would be prepared to pay to fund incremental ICM investments, the fact that Alectra was forecast to receive several hundred millions of dollars in cash flow from savings it would generate over the next ten years, as part of the Board's recent merger decision (EB-2016-0025; EB-2016-0360), the fact that Alectra was under no obligation to share those savings with the ratepayers, except during the second five-year period of the ten year period, during which it did not have to rebase, and did not intend to, unless the company's return on equity reached 300 basis points over the current Board approval rate, and then only if Board approved. The magnitude of that buffer, three full percentage points, is exceedingly rare in a rate of return in utilities in the Ontario electricity distribution industry. This fact should have been revealed to customers as part of the effort to understand their attitudes and preferences, with respect to rate increases at this time (our emphasis). Had Alectra revealed the multi hundred million dollar forecast savings (CCC-12), ratepayers would almost certainly have had reacted in a more negative fashion than they have to Alectra's proposal. That is of course, is why the savings were not disclosed by Innovative when they conducted the telephone survey and online work book. The fact that the information was disclosed in the merger proceeding is not a valid reason for not making ratepayers aware, in a balanced manner, of the context in which the Innovative questions were posed. Innovative had no serious answer as to why it had chosen not to disclose that particular information.

Alectra claims that, as a result of its consultation with customers, through Innovative, Enersource reduced its 2018 ICM request from $28.6 million to $24.2 million, a reduction of $4.6 million. This reduction is based on Webb Municipal Station investment being deferred from the 2018 proposed ICM portfolio to an undefined future date (Ex 2, T4, Sch 11, p28). However, Innovative did not put the removal of Webb MS investment to ratepayers, nor did it put any individual ICM investment to Enersource and PowerStream ratepayers. It put only groups of projects to ratepayers. Nonetheless, as noted above, there is a serious disconnect between the results of the customer consultation and Alectra's proposed ICM investments. To summarize, the majority of customers did not agree to fund the proposed ICM investments. BOMA finds that the revised 2018 ICM proposals of Enersource and PowerStream do not reflect customer needs and preferences. A more detailed analysis of the disconnect between the customers' responses and the Innovative Report is found starting at p57 below.

Fifth, only part of the customer engagement exercise was implemented in Brampton. Innovative did not include Brampton customers in its extensive telephone survey of residential and general service business customers in both small business and mid-market business of both Enersource and PowerStream. Nor did Innovative carry out one on one meetings with Brampton's large customers, as it did with those of Enersource.

Brampton customers' consultation was only an opportunity to fill out the online questionnaire portion of Innovative's consultation. This was a mistake which meant that the stated needs and preferences of Brampton customers were not properly conveyed to Alectra.

Alectra states that it has incorporated the identified ratepayer needs and preferences into the Enersource DSP, by pacing and deferring some investments. However, as noted below,

Enersource's and PowerStream's pacing of investment was modest over the five-year DSP period and in the proposed ICM investments. That the Webb MS deferred for four years, beyond the end of the five-year DSP (which ends in 2022), demonstrates it was not imminently required in any event.

An important RRFE principle is that utilities should attempt to pace their investments over the term of their DSP, to reduce pressure on customer rates and bills. However, Enersource's pacing effort has been very modest, a reduction of $6.8 million capital expenditures out of a total proposed capital expenditure of $377.7 million over a five-year period, less than two percent of total proposed capex (BOMA-9), and in part, relies on "deferral" of roads related projects over which Enersource has no control, and which is not a pacing of investments at all, but merely a benefit available because the municipality delayed a road construction project that it had planned to build in 2018.

Moreover, the RRFE approach integrates both capital and OM&A expenditures. However, Enersource and PowerStream proposed 2018 ICM investment plans hardly discuss, and discusses not at all in specific terms, the likely OM&A reductions, or foregone increases, in OM&A will flow each such ICM investments. The prefiled evidence contains very little evidence on OM&A reductions, and responses on this topic at the Technical Conference were brief and general. To be consistent with the RRFE and the ICM policy, both qualitative and quantitative impacts must be identified as part of the ICM investment business case. The OM&A consequences, qualitative or quantitative, arising from the proposed ICM expenditure were not identified, except in the most general way (ERZ, p_____).

Finally, the evidence contained almost no reference to energy efficiency initiatives, either as a separate initiative or as an alternative to additional capital investments, and did not discuss the impact the proposed ICM investments would have on continuous productivity improvements. Aside from one passing reference to an investigation into DSM applications at the Enersource City Centre project, there was very little effort to demonstrate the use of targeted DSM as an alternative to additional capital investments, and reduction of loss factors, as for example, is now being implemented on a pilot basis by Toronto Hydro. Distributed generation is accorded equally scant treatment.

Finally, Alectra went to great lengths to discuss its ongoing dialogue with its ratepayers, but those discussions are of necessity, sporadic and anecdotal, and cannot substitute for a professionally structured consultation program. So the efficacy of the company efforts to properly identify its customers' needs and preferences depends mainly on the fairness and credibility of the Innovative report and the degree to which the company accurately reflected the results report in its evidence. The topics were addressed briefly above and are explored in more detail at p51 below.

When Alectra was asked how much weight it gave to the identified customer preference in setting priorities for incremental capital projects (ERZ Staff 34), Enersource provided a very general response. It referred to its prioritized list of 2018 ICM projects, which it produced only in response to BOMA and Board Staff interrogatories (BOMA-118 and BOMA-131, and Board Staff-ERZ-38) and Technical Conference questions, about the need to do mandatory projects first, and the priority of most system service projects over system renewal projects (Ibid). However, Alectra did not explain in any detail what changes, if any, were made to the prioritized list of the 2018 proposed ICM investments, as a result of the consultation, and did not tie the

presence or absence of any specific project to customer preference (they could not because they did not put specific projects to customers, only categories of projects).

The Enersource 2018 ICM Proposal

In BOMA's view, the Enersource proposed 2018 ICM investment program does not meet several of the Board's tests for a valid ICM. These tests include:

(a) the projects that make up the ICM request must be discrete projects, and not part of typical annual capital programs (EB-2014-0219 – Report of the Board, New Policy Options for the Funding of Capital Investments: Supplemental Report, p13) (our emphasis);

(b) the base capital budget, total capital budget, and proposed ICM must be prioritized in a transparent and coherent fashion, with detailed explanation as to how the priority rankings were determined;

(c) each proposed ICM investment must be judged to have a significant influence on the operation of the utility. This test is not met by passing the numeric "project materiality" test. They are two different tests.

Not every capital investment proposal which exceeds the "project materiality" threshold can be said to have a significant influence on a utility with 350,000 customers, let alone Alectra itself, which is now the appropriate utility in respect of which one should address the degree of impact, and the second largest utility in Ontario. While the Board has authorized the maintenance of separate "rate zones" for ratemaking purposes, the business reality is that Alectra Inc. is the

actual corporate entity, in respect of capital markets, customer experience, political influence, and corporate reputation.

The Enersource DSP and the 2018 ICM must show evidence of increased efficiency and productivity initiatives, including reduction in OM&A expenses as an offset to many of the capital investments, and efforts to continually improve these metrics.

As noted above, the ICM must reflect customer needs and preferences to the Board, especially in light of Enersource's long deferred rebasing privilege, and the fact that Enersource was also allowed by the Board in 2016 to defer its rebasing by one year in order to enter into the merger, unencumbered by the complexity and awkwardness of simultaneous rebasing.

The Board has also stated that approvals for 2018 ICMs must, like any ICM, rely in part on spiking of capital expenditures in 2018 or at least a material increase in the level of capital expenditures planned for 2018, and subsequent years, relative to the historical level of expenditures. If Alectra's plan is to ask for multiple ICMs, they ought to be financed with the cash flow generated by the price cap framework.

Notwithstanding Alectra's vigorous denials that they will request an ICM in 2019 and in the following years, from the capital investments proposed in the Enersource DSP, BOMA has concluded that is exactly what they will do. Assuming it succeeds in this case, Alectra intends to ask for ICMs for 2019, 2020, 2021, 2022. BOMA draws this conclusion because the forecast capital investments projected for the remaining (after 2018) four years of the DSP, 2019, 2020, 2021, and 2022, are not materially different from the forecast capital investment proposal for 2018, are therefore not doable, without reliance on an ICM in each year. While in the MAADs decision, the Board granted Alectra a lengthy deferred rebasing period, in order to cover the

merger's transaction costs and reward the merger participants with higher profits, they also allowed the constituent merger partners, PowerStream, Enersource, Horizon, and later Brampton, to maintain their separate rate zones with current rates equal to the rate of the four predecessor companies. The Board allowed the "rate zones" to remain on the price cap I-X formulaic approach for the balance of the deferral rebasing period, and Horizon which is currently on a custom IR plan to shift to a I-X price cap plan at the termination of its custom IR plan in 2018. The Board believes that utilities should not apply for repeated IRMs over the year of the plan to rebasing. To do so makes a mockery of the Board's policy. To that end, the Board stated, in its 2014 Policy Statement, at p2, that:

> *"Distributors that have specific needs for capital should consider whether their specific circumstances would be best addressed through an application for a 5-year Custom IR".*

The problem is that to allow Alectra to have both an extended rebasing period (ten years, in Alectra's case), and to effectively go on extended cost of service, which is what a custom plan mostly is, would be egregiously unfair to ratepayers that the Board has ruled custom IRs out during the rebasing period. However, in BOMA's view, an inflation-X (price cap) approach with relatively large ICM requests year after year is effectively the same thing (our emphasis). The combination of the inflation – a productivity factor and annual substantial ICMs, is highly detrimental to ratepayers. It makes a mockery of the RRFE.

As noted above, it is clear from Table 129 (Ex 2, T4, Sch 11, p4) that in order to finance the programs included in its proposed DSP, and 2018-2022 capital expenditure plan, Enersource (Alectra) proposes to apply for ICMs in each succeeding year of the plan up to and including 2022. The Board should not, therefore, establish a precedent in 2018 for a course of action that would be inconsistent with its merger policy, which is already in the view of many, overly

generous to the utilities. The utilities cannot have it both ways. They cannot both keep the merger savings and apply for a series of ICM modules that, in effect, transform the I-X regime into a custom ICM.

Priorities

In BOMA's view, the results of the prioritization exercise in the Enersource DSP, capital budget, and ICM portfolio, described in BOMA 112 and TC2.1, are confusing, inconsistent and contain other serious defects.

More particularly, the singular priority of mandatory projects is not properly reflected in the Enersource 2018 ICM investment proposal as it relates to the Enersource 2018 total capital investment plan. The Enersource DSP evidence sets out the relative priority of its capital budget, as a whole, and for each type of project, system access, system service, system renewal, and general plan (pp 300-302). Enersource's responses to BOMA 112(a)(i), BOMA 131, TC2.1, and Staff-ERZ-38 show prioritized lists for Enersource's 2018 proposed capital investments and 2018 ICM investments, and provide a list of criteria it uses to prioritize those investments (BOMA 112(a)(iv), p5 of 6). However, Enersource does not describe how it applies these criteria to the overall 2018 capital budget projects to arrive at the proposed 2018 ICM budget.

In discussing the Enersource DSP, Alectra states:

> *"Alectra Utilities considers these projects and programs mandatory, because these investments are required to meet customer service obligations in accordance with the DSC (Distribution System Code) or to remain compliant with other regulatory or legal requirements. This means they will take priority over System Renewal or General Plant investments."* (DSP, p300)

Many of the system access investments are made to comply with requests to the electric utilities from municipalities, and provincial government agencies to relocate lines, switches, or transformers, or other infrastructure, to accommodate changes to roads, rails, and other transportation infrastructure.

Further, in the same document, Alectra states that:

> *"Alectra Utilities considers expansion-related system service projects and programs mandatory and will take priority over other System Renewal or General Plant investments because these investments are required to meet customer service obligations in accordance with the Distribution System Code ("DSC") or to remain compliant with regulatory or legal requirements."* (p302)

These priorities are reflected in the evidence. Table 144 shows all forty-eight Enersource 2018 prioritized capital investments (BOMA.112(a), pp1-3), as well as each of the four categories of assets, system access, system service, system renewal, and general plant, each of which are prioritized as well.

Enersource unprioritized proposed ICM investment portfolio for 2018 in millions of dollars in Table 1 below. Table 2 sets out a prioritized list of the Enersource proposed 2018 ICM investment portfolio.

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

[Ex2, T4, Sch1, p32]

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**

The prioritized ICM portfolio is set out below

Table 1: Ranked List of Proposed ICM projects for the Enersource Rate Zone [TC]

Rank	Project
1	Road Widening Project – QEW (Evans to Cawthra)
2	Leaking Transformer Replacement Project
3	Substation Upgrade – York MS
4	Subdivision Rebuild – Glen Erin & Battleford
5	Subdivision Rebuild – Glen Erin & Montevideo
6	Subdivision Rebuild – Credit Woodlands Crt/Wiltshire
7	City Centre Drive Cables
8	Tenth Line Main Feeder
9	Forkway & Erin Mills Main Feeder
10	Overhead Rebuild – Church
11	Overhead Rebuild – Lake/John

The Enersource proposed ICM investment module at Table 144 above, consists of one system access project (relocation due to road widening QEW Evans to Cawthra), one system service project (York MS), and nine system renewal investments, six of which are "Subdivision Rebuilds", two of which are overhead line transformer rebuilds, and one of which replaces oil leaking distribution transformers. Approximately eighty percent of the total 2018 ICM dollar request of $24.2 million is for system renewal investments.

BOMA has several concerns with the prioritized Enersource 2018 ICM investments.

First, the system access investment, the QEW/Cawthra road change driven project, which is also the first priority in Prioritized ICM 2018 Table is a mandatory project. The QEW Cawthra project is also priority number seven of Enersource's forty-seven proposed capex projects in 2018 (BOMA 112(a)(i)), ranking behind only projects required to connect new customers, which are also mandatory projects. It is first among several road displacement projects ranked seventh, eighth, ninth, and tenth in the overall 2018 Enersource capital budget priorities. Such a high priority mandatory project must be part of the base budget, not a proposed ICM investment, for several reasons. First, it must be done as a matter of law. In the event the Board were to disallow the project as part of the ICM, Alectra would need to displace other projects from the base budget to accommodate the Cawthra project (TC2, p65). Further, the company did not explain why they had placed the highest priority system access project (roads) in the ICM in the first place. It appears that the company is hoping to get additional funding for a lower priority project in the base budget, and for an additional mandatory project in the ICM. This is akin to gaming the system, in BOMA's view. The more transparent and honest approach is to put the mandatory projects in the base budget, in recognition of the fact that they must be done. What room remains in the base, after mandatory projects have been financed, is what is available in the

base. The company should then, if it feels it has a compelling case, apply to the Board for ICM funding, to implement the more discretionary system service, system renewal, and general plant investments, that it believes it requires and that meet the Board's ICM criteria.

While the company disclosed the prioritization of its 2018 capital and ICM investments, and as among the four categories of investments, system access, system service, system renewal, and general plant, the evidence does not explain how the general principles, set out in BOMA 112(a)(iv) are applied in each case to select candidate investments for an ICM.

The evidence also notes the criteria the company takes into account in deciding on its priorities, other than the mandatory discretionary distinction, in prioritizing the projects. BOMA takes it as a given that these (the BOMA 112(a)(iv) criteria) are the only criteria that go into the company's decision. But, to repeat, the evidence does not explain for either the 2018 Enersource proposed ICM investment portfolio or the PowerStream 2018 proposed ICM investment portfolio, how each of the eleven projects were selected for the proposed ICM, as opposed to the other thirty-six capital projects that were not so selected.

Not Discrete Projects

The Enersource prioritized 2018 ICM list of investments contains six subdivision renewal investments. They are:

1. Subdivision Rebuild – Glen Erin & Battleford.

2. Subdivision Rebuild – Glen Erin & Montevideo.

3. Subdivision Rebuild – Credit Woodlands Crt/Wiltshire.

4. City Centre Drive Cables.

5. Tenth Line Main Feeder.

6. Forkway & Erin Mills Feeder.

The Enersource six proposed 2018 ICM investments, listed above, are part of a typical annual capital program, rather than discrete projects and fail a necessary test be included in an ICM (E2, T4, Sch 4, p12). The test is set out more fully in the EB-2014-0219 Report of the Board, the "Advanced Capital Module Report", at p13, where the Board states:

> *"The Board is of the view that projects proposed for incremental funding during the IRM term must be discrete projects, and not part of a typical annual capital program"* (our emphasis).

In BOMA's view, the six proposed subdivision rebuild investments, listed above, are part of an ongoing program of subdivision renewal in different parts of the Enersource rate zone. They are part of a utility's typical annual capital program. Looking forward, there are twenty-four subdivision renewal projects planned over the Enersource DSP five-year period, at a total cost of $105 million. Looking back, the company's evidence (Table 133 of E2, T4, Sch 11, p19), shows that the Subdivision Renewal Program has been ongoing since at least 2012. The following amounts have been invested annually, as part of an effort to gradually upgrade/replace underground infrastructure which is getting close to the end of its useful life, and should be removed as a matter of course.

2012	$8,396 million
2013	$11,276 million
2014	$9,307 million

2015	$13,626 million
2016	$11,389 million
2017 (forecast)	$13,602 million

These programs are slated to continue throughout the five-year plan period at only slightly larger annual amounts than the more recent historical amounts. While the 2018 proposed subdivision rebuild investments are in different geographic areas, they are otherwise undistinguishable from the investments proposed in previous years. They are also no different in substance from the subdivisions' renewal investments, that are included in the 2018 base budget, rather than the proposed ICM budget. The evidence at J2.4 illustrates that point:

> *"The six subdivision renewal projects proposed for ICM are not different in nature from the four that are not proposed for ICM. They are not, however, supported by existing rates".*

The inference from Alectra's comment is that so long as the project is not funded by existing rates, it can be automatically funded by an ICM, so long as it meets the needs, prudence and materiality tests. That is not correct, as it would mean that the company could automatically get approval for all projects that are within the proposed capital expenditure budget, and over the ICM materiality threshold, as calculated according to the formula in the policy.

The fact that the investments are not supported by existing rates is not sufficient to qualify them for ICM support.

The same argument is applicable to the two overhead rebuild projects in the Enersource proposed 2018 ICM, Overhead Rebuild Church, and Overhead Rebuild Lake/John. The two overhead

rebuild projects are another part of a typical annual capital program, and this type of project has been part of Enersource's annual capital program for many years.

Table 133, discussed on the previous page, also shows that the Overhead Distribution Renewal and Replacement program goes back at least to 2012, with gradually increasing budgets over the years 2012 to 2016, with a reduction in forecast for 2017, and, over the term of the DSP, amounts a bit less than actual expenditure to the 2015 and 2016. In fact, the amounts forecast for the four years, 2019 through 2022, are identical at $7,032 million (our emphasis).

The historical program results are as follows:

2012	$2,733 million (actual)
2013	$3,083 million (actual)
2014	$3,061 million (actual)
2015	$8,090 million (actual)
2016	$8,0384 million (actual)
2017	$5,258 million (forecast)

Third, Enersource has simply labelled its planned subdivision and overhead remediation investments as projects to try to differentiate them from its ongoing capital program, but has offered no justification in order to be able to show the investments are discrete and not part of a typical utility annual program. As important, where renewal investments are being proposed, Enersource ratepayers have clearly stated that their preferences are for rates not to increase, or to

increase by amounts substantially less than would be required to finance the proposed 2018 ICM investment program, by far the largest part of which are these system renewal investments.

Enersource says that it "needs" all the capital projects that it proposes, including all eight of its system renewal projects (the six subdivision rebuilds and the two overhead rebuilds). But priorities must be established, and the proposed 2018 ICM investments must be more than simply the 2018 tranche of an annual capital program of Enersource and most other utilities, and must reflect the proposed investments ratepayers are prepared to pay for increased rates. The term "discrete and not part of a typical annual capital program" must be given a clear, ascertainable meaning.

The company went so far as to ask that the road program, where found in the evidence, be changed to project – simply a relabelling exercise.

Distribution Transformers Leaking Oil

Enersource has included $8,447 million in its proposed 2018 ICM investment portfolio, an amount equivalent to about one-third of the total to replace distribution transformers that are leaking oil. That proposed investment is priority number two in its list of eleven ICM investments and fourteenth of forty-six in Enersource's 2018 total capital investment program. The company has forecasted the following amounts for transformer replacement in the years 2018 to 2022 as follows:

2018	9.6
2019	9.6

2020	4.5
2021	5.4
2022	1.4

The expenditures to replace oil leaking transformers and PCB transformers in 2012, 2013, 2014, 2015, 2016, and 2017 were $1.3, $2.9, $12.6, $12.1, $8.5, and $9.6 (forecast), respectively. Investments in new distribution transformers to replace those leaking oil have been made for a number of years, going back at least to 2012 and perhaps before. Enersource has a total of 25,319 distribution transformers, 2,052 of which (or less than ten percent) were leaking as of December 31, 2016. 2017 numbers are not yet available. An undetermined (as yet) number of distribution transformers begin leaking oil each year due to various causes including age related deterioration, impact of adverse weather, defective insulation, physical damage. Each year another group will begin to leak oil, barring some technological breakthrough in the transformer design. The number of new leakers each year has not been disclosed by the company (and perhaps has not been measured), although they do inspect the transformer fleet on a regular basis. The leaking transformer replacement investment is an investment that has been made every year and will need to be made every year going forward. It is a typical annual capital program which is required to meet environmental, economic, reputational, and legal obligations. From 2013 to 2016, 2,052 transformers, identified as leaking oil or containing PCBs (above threshold), were replaced. At 113 sites, or about five percent of total leaking transformer sites required remediation, pursuant to the Ontario Environmental Protection Act, at an average cost of about $50,000 per site.

The investment to replace transformers leaking oil is in addition to Enersource's need to replace any transformer that has failed or been damaged to the point where it can no longer operate. That reactive activity, which is forecast to cost $1.1 million in each year from 2017 to 2019, and $1.4 million in 2022, is included in the Enersource base budget in 2018, but not the proposed 2018 ICM.

Enersource also removes, on a priority basis, transformers containing PCBs that are leaking oil. The company has already replaced most of its transformers that contain oil in which contains more than 50 ppm of PCBs, whether they are leaking oil or not.

As of the end of 2016, only sixteen transformers leaking oil identified as having PCBs over the threshold (50 ppm of PCBs) remained in-service, and BOMA's understanding is that they were all replaced in 2017. The evidence is that a further 170 transformers have PCBs over the threshold, but are not leaking oil (BOMA.71). The Canadian Environmental Protection Act, and the federal PCB Regulation SOR/2008/273, require that all electricity transformers containing oil with a more than 55 ppm of PCBs must be removed by December 31, 2025 (the "PCB regulation"), whether they are leaking oil or not. Alectra had 170 such transformers as of December 31, 2016 (BOMA.71). BOMA assumes all 170 will be replaced by that deadline.

BOMA assumes that all of these transformers that have been replaced in the last several years are replaced with transformers that do not use PCBs. BOMA also assumes that all transformers currently containing PCBs (170 in all) will be removed before 2025, and that the 170 are the only transformers that contain PCBs over the threshold, and that all new transformers Enersource purchases do not contain PCBs, or contain PCBs less than the threshold. As a result, the issue of

whether the replaced transformers which are leaking oil can be discussed without further reference to PCBs.

Under the Ontario Environmental Protection Act; Ontario Regulation 675/98, Enersource must remove and remediate any oil spill of 100 litres or more, that contains a pollutant (including transformer oil) and that causes or is likely to cause harm to the environment or to people.

As noted above, Enersource proposes investments to replace leaking distribution transformers, perform any necessary remediation work as a result of oil leaking from those transformers, as part of its 2018 ICM portfolio. Given the legal and reputational risk of allowing major oil leaks to proliferate unattended, BOMA is of the view that replacing them in the year they occur, or at least the year in which they are classified as moderate or major leaks is mandatory, and the required investment for these transformers should, therefore, be in the 2018 base budget, not the 2018 ICM. It should be set at an amount per year which reflects both a portion of the "backlog" and the next year's new major and moderate leakers. This schedule would result in compliance with the provincial legislation, avoid reputational risk, and promote safety and ratepayer satisfaction. This proposed mandatory investment would displace the projects in the base budget over which Enersource has more discretion.

Moreover, BOMA does not believe annual replacement of leaking transformers is a discrete project, not part of a typical annual capital program. All utilities replace leaking transformers on an ongoing basis. Once discovered, the transformers that are leaking oil, whether overhead, pad, or vault, must be modified or replaced, before they become major leakers, that is have spilled more oil which exceeds the threshold in the Ontario Environmental Protection Act, Ontario Regulation 675/98. Pursuant to Regulation 675/98, Alectra must report all spills of 100 litres or

more of oil into the environment, and, in some cases, make immediate arrangements for remediation of the required site. If the leaks are only internal to the transformer and do not get into the environment, the report and remediation obligation is not triggered. Enersource categorizes its leaks as minor, moderate, or major (see ERZ-Staff-24). The vast majority of leaking transformers are categorized as minor leaks (Ibid).

Enersource proposes to replace the 2,244 transformers noted as leaking as of January 1, 2017, over a five-year period, 2018 to 2022 (approximately 404 transformers per year), at a cost of about $8 million per year. However, it will also want to replace any additional major leaking transformers identified during each of those years, at an average cost of about $20,000 per transformer. Given the fact that the large majority of leaking transformers are minor leaks [ERZ-Staff-24], Enersource ought to be asked to reduce the annual expenditure over the plan period. Enersource categorizes its leaking transformers into major, moderate, and minor. BOMA is aware that Enersource should replace its PCB transformers at the required pace to ensure compliance with the Ontario regulation.

Alectra's current asset management practice is to run overhead transformer assets to failure before replacement (Attachment 47, p69 of 75).

Alectra's evidence that the "project" only started in 2017, after the complete audit was done over the period from 2013 to 2016, is not credible, given that the company replaced 2,052 transformers leaking oil from 2013 to 2016, and remediated soil in 105 instances, at a total cost of $5.1 million for replacement, and $11.5 million for remediation.

The replacement of pole mounted transformers recommended by Kinectrics' 2015 Asset Condition Study was twenty-nine pole transformers per year, over the next ten-year period.

The average health index for the transformers, excluding leakers and transformers with PCBs, is ninety-two percent. Four percent of the transformers, or about 1.7% of the total number, are assessed to be in very poor or poor condition (Kinectrics 2015 Asset Condition Assessment, p57).

If Enersource followed the Action Plan for transformer replacement, set out at p57 of the Kinectrics 2015 Asset Condition Assessment, it would replace 200 transformers (overhead pole, single phase pad mounted and vault) each year. It appears that the study did not address oil leaking transformers or PCB transformers as such, but only as a derating factor for the overall rating. However, it would appear that leaking transformers are included in the make-up of the "flagged for action" transformers, meaning they are part of the number Kinectrics recommends be replaced each year.

As noted above, the drivers for replacing oil leaking transformers is Ontario Regulation 675/98, which requires reporting and remediation where 100 litres of oil leaking into the environment in under a year, and economic, safety, and reputational risks.

There is a financial advantage to moving earlier to replace leaking transformers, no matter how minor the leak, to avoid unnecessary remediation charges, but that advantage must be set against the consumer preference to keep utility rates under control. There is no Ontario legislative deadline for replacing the oil leaking transformers equivalent to the federal PCB regulation.

In summary, it is clear that the proposed investment to replace leaking distribution transformers, both in 2018 ICM investment and over the five-year term of the DSP, anticipated in the Enersource ICMs, is too aggressive, and as a result, would increase the cost of the proposed 2018 ICM substantially if it were not required to be in the base capital budget, and would also increase

likely future ICMs in 2019 and thereafter. Alectra has imposed an artificial deadline of 2021 to replace all transformers leaking oil, identified as of December 31, 2016. However, the company has filed evidence stating that the large majority of those leaking transformers it has identified to date are "minor leakers" (ERZ-34), and have not stated how many leaks have actually entered the environment to the degree that makes remediation economical and otherwise necessary under the Ontario Environmental Protection Act statute/regulation. The Kinectrics 2015 Asset Condition Assessment had suggested about 200 transformers be replaced each year, about one-half what Enersource has proposed, including leakers, and those with PCBs (which are almost all gone in any event). Given that PCBs are almost all removed, that the cost to replace a transformer is about $20,000, and the average remediation cost is about $50,000 (again implied from totals provided in evidence). BOMA takes the issue of oil spills seriously, but before seeking additional funds for replacements in excess of the Kinectrics recommendation, Alectra should file more information on the nature of the leaks, and what percentage exceed the 100 litres per year threshold, and how major leaks are defined. The transformer fleet is relatively young, with a very high (good) health index.

Finally, Enersource considers the proposed leaking transformer replacement investment as its second highest priority, after only the Cawthra roads project. As noted above, expenditures as replacement of oil leaking transformers and remediation of polluted soil should be included in the base budget for 2018 and subsequent years.

Priorities (Continued)

Second, the system service projects are the highest priority after system access projects, but the York Municipal Station project was included in the ICM, unlike other station projects, which

were included in the 2018 base year budget. As a system service project, York Municipal Station upgrade is the third highest priority in the ICM portfolio. Again, the high priority system service investment should be in the base capital budget, ahead of any system renewal projects.

Third, the subdivision rebuild investments ranked fourth, fifth, sixth, seventh, eighth and ninth of eleven in Enersource's 2018 ICM proposal, behind only the "roads project" and the York MS, and the investment in distribution transformers, are also marked nineteenth, twentieth, twenty-third, twenty-fourth, twenty-fifth, and thirty-second in Enersource's 2018 prioritized capital investments list, ahead of many of the forty-seven proposed other capital projects. The highest priority subdivision rebuild projects, those which are ranked behind only system access and system service projects, should be placed in the 2018 base capital expenditure budget, where there is much less risk of disapproval. The standards for inclusion in the base budget are less stringent than those required to qualify for an ICM portfolio.

Moreover, some of the proposed investments would not meet the standard of having a significant effect on the operation of the business (see discussion of individual 2018 ICM proposed investments below for more details).

In addition, in considering the proposed 2018 ICM proposal and overall capital budget, the Board should note that Enersource has also proposed several millions of dollars' worth of smaller capital projects that do not meet the "project materiality" test. Those projects are not included in the 2018 proposed base project. To repeat, in order to claim ICM status for its investments, Alectra has been renaming investments as projects, when these investments are, in fact, the 2018 tranche of the typical annual capital programs. They are typical annual capital expenditures that all utilities make. They have gone so far as to state that where the word "programs" appears in

the evidence, it should be replaced with the word "project". They claim it is a drafting error. BOMA does not accept that explanation. It is a bridge too far to simply rename typical annual capital programs as projects. They argue, for example, that subdivision rebuild project is not part of a typical utility capital program. They are gaming the ICM system. They are simply relabeling investments that they cannot finance with their existing cash flow, generated from their price cap rates, into the proposed ICM. The ICM system was never intended as a "slush fund" to increase the utility's capital budget beyond that which could be supported by the cash flow produced by its inflation minus X price cap formula.

For both the subdivision rebuilds and the two overhead rebuilds, Alectra has simply changed the label from ongoing capital program to project, so as to be able to claim the investment as a discrete project. They have not changed the substance of the activity in any way. For the subdivision and overhead rebuilds, they have continued to do what they have done for years, which is to gradually renew those areas of their distribution grid that are oldest, and have the highest number of faults per feeder. This practice will continue in the future for as long as it is required and they have the budget to do it. The same is true of the overhead rebuilds. The subdivision rebuilds and overhead rebuilds are both capital investments which Alectra seeks to fund through an ICM over the term of the DSP. It is not a proper use of the ICM module.

Finally, the Board must define the word "discrete" in such a way that does not lead one to a silly or tautological conclusion, or does not contradict the remainder of the sentence in the ICM policy. It surely cannot mean any investment is the same as other activities mentioned in the base budget except for the fact that there is not enough money in the base budget to pay for it. Such an interpretation of discrete would render it meaningless.

As for pacing, Alectra states that it "paced" Enersource investments relating to Light Rail Transit construction "beginning in 2018". But Alectra has no control over the timing of the construction of the Light Rail Transit Project, so it cannot pace that investment. The timing of the investment is determined by the provincial authorities. It cannot be counted as "pacing".

Alectra's only legitimate pacing effort for its proposed 2018 ICM portfolio was to remove from the 2018 ICM forecast budget of $28.6 million, the construction of the Webb MS construction budget, resulting in a revised budget of $24.2 (Ibid, p27). The revised ICM 2018 budget is found at p31. The removal of the Webb MS from both the 2018 ICM and the 2018-2022 capital investment budget results in a reduction of $3.725 million to the 2018 ICM to $24 million.

Finally, the Board's ICM Module Policy Statement (EB-2014-0219) states that funding (ICM) should not be available for any (ICM) projects that are not forecasted to be in-service during the subject year (p13). Alectra stated in its pre-filed evidence and in a response to a BOMA IR that so long as it received Board approval of the proposal of its ICM proposal by February 1, 2018, it would have all eleven ICM capital projects in-service by December 31, 2018. In the Technical Conference, it revised that statement to say that if it received Board approval at the end of March, it would still have all eleven projects in service by December 31, 2018. Given that the Alectra Reply is not due until January 30, 2018, BOMA believes there is a good chance that not all eleven ICM investments will be complete and the assets in-service by December 31, 2018. There should be a true-up mechanism established to deal with this eventuality, in the event any ICM is approved for either PowerStream or Enersource, under which ratepayers would be credited in 2019 for any underspend.

Significant Influence on Operation of the Utility

In its most recent statement of Board ACM/ICM policy (EB-2014-0219), the Board sets as a criteria for ICM treatment that the project must have a "significant influence on the operation of the utility". Alectra has not demonstrated that all of the proposed rebuilds and subdivision and overhead reliability have a significant influence on the operation of the utility.

The evidence states that the impacts of outages in the six subdivision rebuilds included in the Enersource proposed 2018 ICM ranges from thirty-four customers to seventy-five customers, ninety-one residential customers and two commercial customers (see, for example, Glen Erin Drive at Montevideo Road, 2018 C0505-1). Cables have failed in the area at a rate of under 1.5 in the last twelve years, which does not seem excessive.

In the case of 2018-C0505-2 "Credit Woodlands", Attachment 47, p17, the Woodlands project, $1.5 million is a combined feeder replacement and leaking transformer replacement project. While the investment is not broken down between the two drivers in Attachment 47, it appears that the intent is to replace eleven distribution transformers, nine of which contain PCBs, of which five are leaking, and replacing 6.5 kilometers of underground cable. As noted earlier, this project should be part of the base budget, especially given the leaking transformers. Each cable failure event would affect ninety customers. Given that "Credit Woodlands" is sixth of eleven in the 2018 ICM priority list, in the event the Board was inclined to approve some part of the Enersource 2018 ICM investment list, BOMA would support option three, for Woodlands, which proposes to replace only the leaking transformers at this time.

2018-C0505-3 "Tenth Line", Attachment 47, p24

This is a system renewal investment with a cost of $1.1 million, which ranks eighth of eleven in the Enersource prioritized ICM 2018 investment. The purpose of this investment is to replace seven kilometers of buried main feeder cable in the area shown on Figure 6 at Attachment 47, p26. This project is one of many such proposed rebuilds and as explained earlier, should be in the base capital budget, as it is part of Enersource's typical annual capital program, and that of most other utilities. BOMA is not clear on why this project is not assigned a higher priority by Alectra, given that feeder cable failure typically has a larger impact on customers than a distribution cable failure. BOMA notes that the dates the failure of the cable are in the evidence does not say over what period of time these feeders' failures occurred. Moreover, no options are provided other than do nothing, or make the investment as described.

In BOMA's view, a failure of a feeder cable rises to the level of a significant impact on the operation of the utility so it meets that particular test. However, like the five subdivision rebuilds proposed in the 2018 Enersource ICM, it is part of a typical annual ongoing capital program.

It proposes a rebuild one particular area, which is described "as part of a much larger area to be rebuilt in the future", and is part of Enersource's, and a utility's, typical annual capital program. Moreover, almost half of these transformers, or about five of them, are presumably already on the list of ICM 2018 oil leaking transformer replacements, given the PCBs content of the oil, so there may be double counting.

2018-C0505-6 "City Centre Drive (Walmart) rebuild". System Renewal, Attachment 47, p36

This investment is the seventh priority in the Enersource prioritized list of eleven ICM investments. The cost is estimated at $1.6 million.

It is numbered ninth of eleven investments in the 2018 ICM prioritized list, and last among the subdivision rebuild projects in the list. The proposed investment is to replace 1.4 kilometers of underground feeder cable. Given that it is a main feeder cable replacement, BOMA is unclear why this project is ranked behind several distribution feeder replacement projects. The significance of having failed five times in thirty-nine years and five times since 2007 to 2017 (Attachment 47, p33) is not determinative, as no context has been provided. It has not documented the "increasing feeder outage trends in the area". The company has relied on the fact that there were two feeder outages in 2016 and declared a trend.

Generally, as noted above, Enersource places too much emphasis on general statements about cable condition, for example, cable failing and not enough on the specific application of the principles and the data to the area being considered for rebuild. BOMA notes that the same general statements are repeated in each business case, and form a significant part of each case.

BOMA is surprised that this project does not warrant a higher priority in the prioritized ICM list and the prioritized overall capital investment list. The project is driven by safety and efficiency concerns, and the condition of the existing asset appears to pose a serious operational risk to utility personnel (Attachment 47, p37). The proposed investment is somewhat discrete and unique with multiple benefits including a safe workplace. BOMA would support ICM funding for this investment.

In discussing many subdivision rebuilds, Alectra stressed the fact that in many cases, the length of cable could be shortened relative to the existing configuration. However, BOMA's view is that "right sizing" the utility infrastructure should be regarded as part of utility best practice, not a justification for ICM funding.

2018-C0561-1 System Renewal, Lakeshore Blvd. / John Street Overhead Rebuild

This investment is ranked tenth of eleven proposed ICM investments. In BOMA's view, the Lakeshore Road pole proposal rebuild is replacing too many assets not in poor or very poor condition. Only fourteen poles are in poor condition. The rest are in fair or good condition.

BOMA would favour a partial replacement of the 0/14 infrastructure of poles in poor or very poor condition, the two defective transformers and the insulators it brackets (option four). However, the project is of a typical annual capital program, and should not qualify for ICM treatment.

2018-C-0561-2 "Church Street Overhead Rebuild", System Renewal, Attachment 47, p51 – Cost $1.0 million

This project is ranked thirty-fifth of forty-eight 2018 investments, and last on the 2018 prioritized ICM list.

The proposed investment consists of replacing sixty-seven poles, fifty of which are judged to be in good (twenty-four) or fair (twenty-six) condition. Only seventeen poles were judged to be in poor condition. Only ten percent of the poles failed resistograph tests. The system in the area was built in the late 1980's. The project seems premature, except for the replacement of the poles in poor condition, and the one leaking transformer (option four on p58). But these

investments do not qualify for ICM treatment, as they are part of the utility's typical ongoing capital (pole replacement) program.

The leaking transformer can be repaired as part of the "transformer" program. BOMA supports option four.

York Municipal Station, ID 2018-C0504-1, Attachment 47, p69

The cost of this System Service/System Renewal project is estimated at $3.3 million in 2018, the preliminary engineering work having been done in 2017. The investment ranks third in the Enersource 2018 ICM investment priority list, and eighteenth of forty-eight in Enersource's 2018 capital project list. It is a relatively high priority project that is required to serve new business growth in Meadowvale Business Park area (p69), and to provide back-up for other municipal stations.

The evidence is not clear when the extra transmission capacity will be needed. At p70, it says only "in the near term". On p72, it states that "the total load in the Meadowvale Business Park area is projected to increase by approximately 20 MVA in the next 5 years ...".

The project is a high priority system service investment and should be included in Enersource's base capital budget. It is akin to a road replacement project, and has some features of a mandatory project, and does not belong in an ICM proposal, which may or may not be approved, in whole or in part.

While any unplanned outage to residential customers is regrettable, an equipment failure which results in some residential customers temporarily losing power does not, in BOMA's view, always rise to the status of "having a significant influence on the operation of the utility". Not

every project which meets the "project materiality" threshold (over 500,000 for Enersource) is a project that can be judged to have a significant impact on the operation of the utility. Enersource has over 350,000 customers, and assets which reduce the likelihood of an outage for 100 residential customers does not meet that bar. The outage of a main feeder that would affect many thousands of customers would rise to that level, as would be outage of a major industrial firm, or a few commercial, or institutional customers.

Finally, as noted above, in discussions of ICM investment proposals, the practice of replacing or reconfiguring all the feeders in a particular area means some healthy cables will be replaced along with some cables in poor condition. The justification for each of the projects listed in Attachment 47 all have the same format and much of the wording is identical, and general; for example, it addresses the weakness of direct buried cable in general across the Enersource franchise. It makes the general distinction between the vulnerability of feeder cables versus distribution cables across the franchise. However, it does not say, for example, how much of the cable being replaced in the selected geographical area is healthy, and how much is already in a poor or very poor condition. The site specific information is the miles of cable replaced, the miles of new cable laid, the map, the reconfiguration of the cable (system in total kilometers) and the number of customers that would be affected by an outage. Much of the rest is "boilerplate", and appears over and over again.

Second, Alectra/Enersource have not addressed the issue of which of the proposed ICM system renewal projects meet the standard of having a significant effect on the operation of the utility, or discuss criteria for the determination of whether a failure has a significant impact. For example, subdivision rebuild projects in an area where an outage would inconvenience seventy to three hundred homes, do not, in BOMA's view, meet that test. Attachment 47 shows that the impact

on customers of a distribution feeder failure caused outage vary considerably from several tens of customers to several hundreds.

PowerStream

PowerStream's list of material capital projects proposed for 2018 is forecast to be $80.4 million, including the ICM proposals. PowerStream's proposed investments, in order of priority from one to thirty-six, are found at BOMA.131 (Table 1, p2).

PowerStream's 2018 ICM list of investments and PowerStream's prioritized 2018 ICM investments are set out in Tables 1 and 2, respectively.

Table 1

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
Rear Lot Supply Remediation - Queen/Greenway	$1,457,932
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	**$10,200,685**
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	**$26,594,248**

PowerStream's 2018 proposed 2018 ICM request of $26.6 million, which represents about twenty-three percent of PowerStream's proposed 2018 capital investment program, is high. Moreover, it is clear that PowerStream will need to apply for additional ICM requests in the next

few years, in order to reach its forecast capital budgets for those years. These proposed large incremental repeated capital requests should be dealt with in another way than through repeated ICM requests for the reasons outlined above.

Given PowerStream's projection in Table 91 (Exhibit 2, Tab 3, Schedule 10, p4) of its proposed capital expenditures for years 2018, 2019 and 2020, of $109.8 million, $104.2 million, and $110.2 million, respectively, PowerStream will require ICM funding in each of 2019 and 2020. Given that the Board's merger policy allowed rebasing for deferral up to ten years (from January 1, 2017), and the fact that utilities enjoying deferred rebasing must remain on price cap IRM through the deferral period, PowerStream may continue to require ICMs for an even longer period.

Table 2

Project Name - Rank in 2018 ICM List	**Rank in Overall 2018 Investment List**
1. Road Authority YRRT Yonge St	7
2. Build double ccts 27.6 kV pole line on 19th Ave between Leslie St and Bayview Ave	11
3. Rebuild 27.6 kV pole line on Warden Ave into 4 ccts from 16th Ave to Major Mack	17
4. Cable Replacement – (V08) – Steeles Ave and New Westminster	18
5. Double Circuit existing 23M21 Circuit from Bayfield & Livingstone to Little Lake MS	19
6. Planned Circuit Breaker Replacement – Richmond Hill TS#1	22
7. Rear Lot Supply Remediation – Royal Orchard – North	23
8. Station Capacity Projects – (MS835 Tx Upgrade – Tottenham)	24
9. Cable Replacement – (M49) – Steeles and Fairway Heights	29
10. Station Switchgear Replacement (ACA) 8th Line MS323	30

The PowerStream prioritized list of ten ICM investments in Table 2 above includes, under the heading "Rank", in the right-hand column, the priority of each of the proposed ICM investments in the priority ranking of the thirty-six PowerStream investments proposed for 2018. This material is drawn from BOMA 131, pp 2-3. Under the heading "Rank" on the left side of the table, the investment's priority in the 2018 ICM list of investments is shown.

While the nature and mix of investments proposed by PowerStream is different than in Enersource, similar issues arise with respect to their priority and qualification as investments financeable through an ICM.

System Access Projects

The YRRT Yonge Street investment ("YRRT") is the highest priority investment in the list of proposed ICM investments in Table 2 above.

The YRRT project is budgeted at $11.2 million out of a total proposed 2018 ICM budget of $26.6 million (Table 1 above). That amount is about forty percent of the total 2018 ICM request. The Road Authority Project is ranked first in the PowerStream ICM list, and is seventh in the PowerStream 2018 investment list (see Table 2 above), and BOMA 131, p2, Table 1. The YRRT is the highest priority project because it is mandatory. The six projects that are ranked above it in the overall proposed 2018 capital budget are either all mandatory projects as well, "transport projects" or emergency repair projects (BOMA 131, p2), except for a Circuit Pole Storm Hardening program and a Pole Replacement Program (Ibid). As a mandatory investment, the YRRT should be in the PowerStream base capital budget, not the ICM portfolio, for the same reason that Enersource's Queensway/Cawthra project should be in the Enersource base budget. The YRRT must be built whether the Board approves it as an ICM project or not. If the Board

were not to approve YRRT as an ICM project, PowerStream will have to make equivalent reductions to the more discretionary portion of its base capital budget. The more transparent and honest way to recognize that the YRRT must be built, is by including it, along with equivalent mandatory "roads investments" in the base budget. By placing a large mandatory project like YRRT, in an ICM request, the utility puts pressure on the Board to allocate an additional $11.2 million in funds for recovery from ratepayers over and above the entire base budget. That increases the burden on ratepayers and is inappropriate. PowerStream must put YRRT in the base budget.

The projects ranked one to six in the PowerStream 2018 list of capital investments are all either roads projects, reactive projects, or storm hardening projects.

However, as shown on Table 2 above, the ICM investment portfolio, includes projects that are also ranked relatively high on the overall project list of thirty-six projects, in particular, Upgrade Circuits on 19th Avenue (ranked eleventh), Rebuild 27.6 kV line, Warden Avenue (ranked twelfth), Cable Replacement, Steeles and New Westminster (ranked eighteenth), and Double Circuit, Little Lake (ranked nineteenth). To repeat, these four projects are ranked eleventh, twelfth, eighteenth, and nineteenth in the PowerStream 2018 capital investment list and because of the relatively high priority, should also be in the base budget, not in the ICM. Generally speaking, it does not make sense to propose activities as part of the 2018 ICM that are among PowerStream's higher priority projects for 2018, especially system service projects, including the three system service investments, noted above, the need for which is due to a near term increase in load. Three of the four projects listed above, all except the Cable Replacement, Steeles and New Westminster, are system service investments. The system service investments to attach

new customers is generally considered quasi-mandatory, and, as such, should be in the base budget.

Alectra has stated that it does not intend to prioritize capital investments across the corporation, even after it has completed its corporate Distribution System Plan in 2019 (for 2020 rates case). In other words, each of the four predecessor companies' service areas, now called rate zones, will not have to prioritize their proposed system renewal investments, some system service investments, some general plant investments, including any proposed ICMs against similar proposed investments for the other three rate zones (divisions) of Alectra. BOMA is of the view that Alectra has chosen an uneconomic method of allocating capital, which will result in higher costs, and higher rates in aggregate than would be the case, if the prioritization were corporate-wide. In fact, the decision not to do so is a major failure of governance and management, and undercuts a substantial part of the economic rationale for merging. BOMA notes that the PowerStream ICM investment list contains projects in each of Vaughan, Markham, Richmond Hill, and Barrie, the four municipal shareholders in Alectra. The pattern is reminiscent, but more serious to the maintenance of the large offices, one in each municipality, to placate the municipal shareholders. The Board should order Alectra to prioritize its capital projects on a corporate-wide basis, following the issuance of its corporate-wide DSP in 2020, if not before.

There are also no general plant projects in the PowerStream ICM request. There should be, since they are the lowest priority projects (thirtieth to thirty-sixth) of investments in the prioritized PowerStream investment list, because they are lower priority than the remainder of the thirty-six capital projects. The only exception to these rankings is the Customer Information System, ranked sixteenth on Table 1 at BOMA 131, p2.

PowerStream has advised that it sees no opportunity to pace its investments over the DSP plan term. BOMA finds that approach unacceptable, given that the importance of pacing investments to lower the impact on ratepayers is required by both the RRFE and the ICM policy. PowerStream has removed one investment from its 2018 ICM list of investments.

PowerStream did not conduct any pacing in its 2016 and 2017 budgets.

PowerStream's evidence is that it reduced its overall 2018 capex by twelve percent from the amount stated in its 2015 DSP; that twelve percent being the amount by which the Board had reduced its 2017 capex in its EB-2015-0003 decision (see that decision at p15). The Board reduced PowerStream's initial capital budget proposal by twelve percent for 2017 from $125.5 million to $109.7 million.

In the application, Alectra has proposed a capital budget of $108.3 million, and a 2018 ICM reduction from $28.6 million of $25.1 million, by the removal of one rear lot remediation renewal project. It did not consult customers in the telephone survey about the renewal of that project.

Alectra has stated that YRRT has advised it that the scope of work for 2018 may be expanded beyond what the $11.2 million that Alectra has currently budgeted, and that a true-up mechanism may be required (see discussion on true-up mechanisms below).

PowerStream Proposed ICM Investments

As noted above, the YRRT project (ID101762) is a multi-year project (2016-2019) to move power line infrastructure from its current route to accommodate the proposed York Region Bus Rapid Transit project, which is being implemented over the next few years. York Region issued

a revised Transportation Master Plan in 2016. The relocation of power infrastructure is requested by the York Region Rapid Transit ("YRRT") Road Authority, under the Public Service Works on Highway Act.

2018 costs for YRRT is estimated at $11.2 million, which is net of capital contributions. This is a mandatory project and must be done in 2018.

The Station Switchgear Replacement investments at MS3B (Project 10.102730) is a System Renewal investment in the Town of Bradford, the engineering work for which commenced in 2017. It is listed as the tenth (last) priority in PowerStream's proposed 2018 ICM investment portfolio and priority number thirty out of thirty-six investments in PowerStream's proposed 2018 capital budget, the lowest priority investment before the various general plant investments. The forecast cost is $1.3 million. It is not clear how much, if any, of these funds have been spent in 2017. Perhaps the company could address this in its reply argument. The company has also not explained what are the actual functional and operational issues with the existing breakers, which have been determined to be substandard. Nor is it clear in the calculation of the outage minutes when a switchgear failure would result in a station outage, rather than only a feeder outage, nor whether spare parts are available from the earlier replacement of Anne Street North and Saunders MS302 switchgear in 2016. As for alternatives to the proposed investment, the company has not compared the alternative overall cost of the new breakers, as well as replacement of the breakers, rather than the construction of a new station building, including all ancillary equipment. The need for the larger project has not been demonstrated, in BOMA's view.

Finally, the proposed investment is not a discrete project, but rather it is part of a typical annual capital station maintenance/upgrade program. Two similar retrofits/replacements were done in 2016 (Attachment 33, p13). Since construction has not yet started, the project could be deferred as part of pacing the investments.

Rear Lot Supply Remediation – Royal-Orchard – North Markham (ID150047) (System Renewal)

This rear lot conversion and cable renewal project (the service is converted from rear lot overhead to front lot underground) is ranked seventh out of ten prioritized 2018 ICM investments (with first being the highest priority) and the twenty-third priority of thirty-six of PowerStream's proposed 2018 investments. The project is estimated to cost $1.9 million in 2018, $2.5 million in 2019, and $0.4 million in 2020, for a total budget of $4.8 million. BOMA assumes that if Board approves the 2018 budget, it will also approve the 2019 and 2020 budgets, as part of 2019 and 2020 ICM requests by Alectra. Perhaps Alectra can confirm this in its Reply. There are thirty-seven areas in the PowerStream rate zone where customers are supplied by rear lot distribution systems (Attachment 33, p16).

The company's evidence is that:

> *"On a prioritized basis, each year, a number of rear lot projects are selected for remediation to address operation and safety concerns, as well as to maintain system reliability and customer service"* (Attachment 33, pp 17),

And

> *"This project [Royal Orchard] is part of the long-term rear lot supply remediation effort"* (Attachment 33, p25).

This evidence clearly demonstrates that this investment is part of a typical annual utility program (PowerStream) that is not a "discrete project", and therefore, not eligible for ICM funding.

Moreover, the project is expensive, at $4.8 million, and impacts only 168 residential customers. Conversion to front lot overhead service should be considered as an alternative. Much of the City of Toronto, including heavily treed areas, and including the part where the author resides (East York Village) is served by front lot overhead service to the apparent satisfaction of local residents, without any apparent detriment to property values.

Cable Replacement (M4) Steeles Ave and Fairway Heights Drive, Markham (1D150141) (System Renewal), Project ID150141, System Renewal

This underground cable and transformer replacement project is priority number nine (next to last) in the 2018 ICM prioritized list of investments, and priority number twenty-nine of thirty-six in PowerStream's overall 2018 capital project list. The forecast 2018 cost is $1.8 million. There are 117 customers in the "cable replacement area", not an especially large number (Attachment 33, p28). The cable is currently 15 kV cable, and is being replaced as part of an ongoing utility voltage conversion program to 27.61 kV initiative, to be completed in 2018. The company does not provide a cost benefit analysis, nor does it explain how it applies the cable prioritization method, set out at Attachment 33, p28, to the case. The number of customers potentially affected is rather small, and the investment could be deferred.

Moreover, the proposed investment is part of two ongoing typical capital programs, a replacement program of relatively poor performing underground cable and a program to replace the 15 kV class cable to 27.6 kV cable throughout PowerStream's service territory. This conversion initiative will allow the eventual removal of the John MS and many other municipal

stations. The cable conversion/replacement project is not a discrete project, as defined by the ICM policy, and does not qualify as an ICM project (Attachment 33, p28). For example, the evidence indicates in addressing whether cable remediation could be achieved by cable injection, that:

> *"The remaining area is not recommended for cable injection because the remaining cable is rated at 15 kV and therefore not suitable when the area is converted from the 13.8 kV system to 27.6 kV system".*

Cable Replacement, Steeles Avenue and Westminster Drive, Vaughan (ID150142) (System Renewal; three-year project) – 2018, 2019, 2020

This project has a higher priority, fourth of ten in the PowerStream 2018 ICM investments priority list and eighteenth of thirty-six in the PowerStream 2018 capital projects list (BOMA 133, p2).

The business case is more or less identical to the business case for the John F-5 and F-6 feeders, but with more underground cable being replaced over three years, 2018, 2019, 2020, at a rate of 5.4 kilometers per year. The 2018 budget is $2.5 million, and the three-year budget is $7.7 million. The same PowerStream system-wide data is provided as for the Steeles/Fairway Heights cable replacement case. But unlike the Steeles/Fairway Heights cable replacement case, no feeder data was provided to demonstrate the condition of the feeders in the area. As in the previous case, the cable is thirty-five to forty years old. Cable under fifty years of age is assigned a zero rating, related to the impact of age in prioritizing cable replacement (Attachment 33, p36, Figure 23) (Feeder Prioritization Method). In other words, if the cable is less than fifty years old, its age is not a consideration in prioritizing its replacement. The delta tan test is relied

upon to choose the project, but not explained, and no details are given on how the replacement priority was determined through the application of the cable prioritization method in Figure 23 (Attachment 33, p35). Given its age, the cable appears to have ten years of useful life remaining. As noted, with respect to other high priority investments, an investment with as high a priority as this one should be in the company's 2018, 2019 and 2020 base budgets, not in 2018, 2019 and 2020 ICM budgets. Given the project is a three-year project, the large project size of $7.7 million and the projected capital expenditures of $2.6 million in 2019 and $2.6 million in 2020, inclusion in a 2018 ICM will, as a practical matter, require an ICM proposal in each of 2019 and 2020 to allow it to be completed. The company has not explained why the project has to be so large that it cannot be completed in 2018.

BOMA considers this the cable replacement project as part of a longer term program to manage substandard cable with high risk of failure (Attachment 33, p34), using a cable replacement prioritization method. The evidence states that "Alectra follows systematic and consistent methodology to manage sub-standard cable at high risk of failure". Annual cable replacement projects are part of PowerStream's annual capital program and that of most other utilities. Moreover, no cost benefit analysis is provided.

Planned Circuit Breaker Replacement, Richmond Hill TS#1 (ID150754) (2017, 2018 System Renewal) ($1.2 million in 2018)

The circuit breaker replacement project at Richmond Hill TS#1 is ranked sixth of ten in PowerStream's 2018 proposed ICM investments, and twenty-second of thirty-six of PowerStream's 2018 proposed capital investments. Given that SF6 breakers are generally considered an advanced technology, it is not clear why PowerStream initially selected a brand,

HKSA, with a TRV rating "inadequate for application at the PowerStream transformer station", when the decision was made. This project is to replace six HKSA breakers at Bus B at Richmond Hill TS with six HDI breakers.

The company does not indicate whether the replacement of another six breakers at Bus A, scheduled for 2017, was completed on time and on budget. The 2018 project is to replace six circuit breakers at Bus B of the station and acquire an additional space on this Bus.

It is not clear on what experience or data the company relies to make the assertion that the HDI model circuit breakers will be "more electrically and mechanically robust" than the HKSA model currently in use on Bus B (Attachment 33, p41). Is it only PowerStream/Richmond Hill that has used the HKSA model breaker, or are they in use in other parts of Alectra? The reduction in maintenance costs, which is claimed as a benefit (Attachment 33, p41) is not quantified. It is not clear how many failures per year occurred in which year(s), for each of the six breakers. Spares should be available from Bus A breakers that were replaced in 2017. In any event, the project appears to be high enough priority that it should be included in the base capital budget.

The investment is part of an ongoing program initiated after receiving a Kinectrics recommendation to replace all of the HKSA breakers in the York Region. Replacement of circuit breakers of the type have since been done for the Vaughan TS#1 and Vaughan TS#2 stations, which includes Vaughan, Richmond Hill.

Finally, the company has not explained the potential maintenance avoidance total of $366,400 CMI per year. No calculation is provided. While the company states that replacement of the six breakers will reduce maintenance costs (Attachment 33, p42), no details are provided.

Rebuild 27.6 kV Pole Line on Warden Avenue into 4 Circuits from 16th Avenue to Major Mackenzie Drive (ID100329)

This system service capacity expansion investment is ranked number three in priority out of ten proposed investments in PowerStream's 2018 proposed ICM portfolio, and seventeenth out of thirty-six investments in PowerStream's prioritized 2018 capital budget.

This proposed investment has two phases, with a 2017 Phase 1 budget of $1.0 million, and a 2018 Phase 2 budget of $1.3 million, for a total two-year budget of $2.3 million. The company has not provided information on the 2017 Phase 1 investment. This investment is required to serve new customers in a currently undeveloped area, is a quasi-mandatory project, is a relatively high priority in PowerStream's capital budget, as well as in the proposed ICM program, and should be included in the 2018 base capital budget. The only issue is whether the second investment needs to be made at this time. BOMA thinks not.

The project will increase the number of feeders serving the area from two to four (16th Avenue to Major Mackenzie Drive), over a two-year period. The new feeders will each have 20 MVA capacity.

In BOMA's view, construction of a single additional circuit in 2018 (20 MVA) followed by a second new circuit in 2019 (another 20 MVA) is the preferred approach. One additional 20 MVA would be more than enough incremental supply to deal with near term 2019 expansion, and the incremental cost of constructing the second circuit later in 2019 or 2020, rather than in 2018, would appear to be reasonable.

The information provided on the longer term requirement is not adequate in our view. The evidence states variously that 66 MVA and 75 MVA will be required to deal with expansion in the area, but does not say by what dates. The only firm data is that 9.5 MVA is projected to be required by 2019 to serve additional commercial load.

Mill Street M5835 Transformer Upgrade – Tottenham (ID101068) (System Renewal; Attachment 33, p53)

This investment is ranked eighth of ten in the PowerStream 2018 proposed ICM investments, and twenty-fourth of thirty-six of the PowerStream proposed 2018 capital investments.

The transformer capacity increase appears to have been designed in 2017, with construction in 2018 forecast at $0.8 million. The 2017-2018 total cost is $1.2 million. It is not clear whether the transformer has already been constructed in 2017, and if so, what the penalty would be if Alectra did not proceed.

BOMA does not understand why a project which, if it does not proceed, could result in rolling blackouts in the event M385 transformers had an outage is not a higher priority, unless it is due to the fact that Tottenham is not one of the municipal owners of Alectra. In addition, if the risk posed by Mill Station exceeds its 152% threshold limit in 2019 is for no more than a decrease of 0.5% of transformer life, as described in the evidence, the decline seems manageable.

On balance, BOMA supports the project as an ICM eligible project. It is distinct, not part of pre-existing programs, and alternatives were thoroughly canvassed. It is a discrete project, rather than part of a utility typical capital program.

Determining Customer Needs and Preferences

Innovative attempts to downplay the impact of the customers' strong statements of resistance to further rate hikes by introducing the idea that the resistance is only customers who are feeling the full impact of the rapid recent electricity price increases, which have suffered some financial hardship, that have reacted negatively. However, data on Table on p19 of the Innovative Report which were derived from the detailed telephone survey suggests that cohorts who say electricity prices have an impact but not a significant impact on their financial circumstances respond much the same way despite their better financial circumstances. Sixty-six percent in favour of either only half the proposed ICM spending or no incremental spending at all.

As for the distinction Innovative tries to make between people who feel "well served" and "not well served" by the Ontario power system, of the residential, small business, and mid-market customers who say they are well served by the Ontario power system, only forty percent want only a fraction of the proposed extra spending or no extra spending at all, even after being told that the reliability would eventually decline (half spending) or would significantly decline (zero extra spending).

BOMA concludes that whatever the customers' financial circumstances, or whether they believe they have been "served well" by the Ontario system or not, is not a determinative factor in their responses.

Enersource Rate Zone – ICM Feedback/Large Customers

Several large use customers participated in the online work book. When asked the question "would you pay X cost for Y amount, knowing that reliability could eventually decline, or

nothing more", 2 of the 7 said they wanted to pay no more, and 5 said they didn't know (Ibid, p21).

The DSP Questions/Enersource

A good example of the Innovative failure to provide a fair and balanced report can be found at p21 (Innovative Report, Appendix 1.0, p21). When asked questions about the Enersource DSP, customers were asked whether they would pay $3.99 per month by 2022 to maintain system reliability as is, or pay $1.40 extra per month by 2022, understanding that the level of reliability would eventually decline, or pay no extra amount knowing by 2022 that the reliability could decline significantly, fifty-nine percent of customers said they would pay no more than $1.40. Only thirty-six percent said they would pay $3.99 (Ibid). Yet the headline on page 21 stated that "preferences are divided; a plurality (thirty-six percent) are willing to pay an additional $3.99 if the level of reliability remain the same". There was no mention of the fact that fifty nine percent (almost three-fifths of the total) would pay no more than $1.40 (half the proposed amount) (twenty-six percent) or half the proposed amount, or none of the amount (thirty-three percent). In other words, when the extra costs to implement the proposed capex increases in the DSP are made clear, a majority rejects the proposed investment. This is a further example of the failure to present a fair and balanced summary of the answers.

The "ICM Portfolio" Questions/Enersource

The same failure to present a fair and balanced summary of the responses can be found at Appendix 1, p26. After being advised that implementing the proposed ICM portfolio in 2018 would result in a monthly increase of 0.42 cents on the typical residential bill, when asked their opinion on the $0.42 rate increase in 2018 rates, only thirty-eight percent of residential customers

said it was reasonable if reliability is maintained. The remaining fifty-seven percent either wanted to know how the funds obtained through the rate increase would be invested, before they offered an opinion (thirty-three percent), while twenty-four percent said that they couldn't afford to pay an extra $0.42 per month in 2018, or found the request unreasonable. Nonetheless, the headline at the top of p26 (Attachment 51, Appendix 1) stated only that "ICM Rate Impact Opinions are Divided; a plurality (thirty-eight percent) say the proposed rate increase is reasonable to maintain reliability in Mississauga", with no mention that the large majority either wanted more information or were against any increase. In BOMA's view, the thirty-eight percent approvals for what is a relatively small increase (forecast to be 1.7% increase of the residential rate), a relatively modest monthly increase, is indicative of the depth of customers' negative feelings about any rate increases at this time.

A further example of the distortion of the results can be found on p29 of the same Appendix, dealing with substations renewal, which accounts for about twenty-five percent of the proposed Enersource 2018 ICM program. The telephone survey data shows that only thirty-three percent of those residential customers surveyed would pay the full amount of $0.11 per month in 2018 to pay for substation renewal investments, twenty percent said they would pay half of that amount ($0.06), while thirty-five percent (the largest cohort) said they would pay no more, even knowing that reliability could significantly decline. However, the headline on p29 mentions only the positive responses, as follows: "one-in-three (thirty-three percent) are willing to pay an additional $0.11 per month if the level of the reliability remains". This headline is obviously egregiously one-sided. On p30, the same questions were put on what Alectra has called a recoded basis, recoded presumably on the basis of the ICM Assessment Flow Chart on p28. Somehow, the positive responses increased dramatically with the total who now supported the

$0.11 per month to maintain substation as is, in 2018, moving from thirty-three percent to forty-eight percent. BOMA finds the "recoding exercise" unintelligible and urges the company to describe exactly what it has in the way of recoding to reach the results in the Table on p31. What is clear is that virtually every recoding exercise results in the more positive responses increasing.

On the next page, the same questions are posed on a "recoded basis". BOMA urges the Board to ignore the recoded answers unless Alectra/Innovative is able to explain exactly what they have done, on a step by step basis, and explain why recoding is not a manipulation of the results. Subsequent to the Technical Conference, BOMA has asked for an explanation of the flow chart and recoding of results, but did not receive the courtesy of a reply.

The same unfair characterization of the survey results is found at p32 of Appendix 1. The headline states "a plurality (thirty-one percent) of residential customers surveyed are willing to accept an additional $0.16 per month [to replace underground cable and overhead cable levels] if levels of reliability remain (square bracketed text is BOMA's). However, the headline did not mention that fifty-six percent would pay either nothing more in rates for that purpose (thirty-seven percent), or only half the proposed increase ($0.08), even knowing that reliability could either decline significantly (0 increase) or eventually decline ($0.08 increase). In addition to being a biased presentation, the results also show the intensity of the opposition to rate increase at this time.

With respect to the proactive replacement of leaking transformers, while the headline states that "a plurality (38%) are willing to accept an additional $0.12 per month in 2018 to replace on schedule", the headline did not mention that thirty-seven percent would be willing to pay only

half that amount, or $0.06 per month, on the 2018 bill, and twenty-five percent either didn't know or refused to answer the question, a total of sixty-two percent in those two categories.

The data in the Table at the bottom of p33 also illustrates the serious affordability problem with electricity rates, when one compares to the answers of respondents based on whether the proposed increases have "an impact" or "no impact" on their finances. Note the high discrepancy with respect to the percentages who answered they would pay no more even forty-two percent versus sixteen percent, even knowing that this decision would lead to a significant decline in reliability.

Small Business Rate Class

As in the case with residential customers, small business customers answer the same "bromide questions" positively (p50). The bromides are questions which are general, leading, structured to elicit a positive response, and do not tie the proposed investment to a cost consequence (examples are provided below). BOMA suggests the Board ignore the answers to the bromide questions, which are further identified below.

With respect to the proposed capital expenditures in the Enersource DSP, only twenty-three percent of small business customers would agree to pay the additional $11.99 on their bill by 2022 to maintain reliability, while sixty-five percent would pay only $3.97 (one-third) of the proposed amount, and thirty-five percent would pay no more in rates to support the DSP, even after being told that paying only $3.97 or zero, would have the result that reliability would eventually decline, or reliability would decline significantly, respectively. Nonetheless, the headline displays the positive bias in the Innovative Report. It states only that "Preferences are

divided; close to 1-in-4 would be willing to pay an additional $11.19 if the level of reliability remains" (Appendix 1, p54).

Small Business and the ICM Proposals

As in the residential part of the telephone survey, the headline/summary statements are not a fair and balanced survey of the responses to the questions posed. For example, at p59, the headline states that "A plurality (36%) believe the proposed rate increase in monthly bills to fund the 2018 ICM investment plan is reasonable". In fact, twenty-eight percent would not agree to paying any more in rates to fund the 2018 ICM program, and an additional twenty-nine percent wanted to know how the funds from the rate increase would be invested before they answered. (The question did not specify how the money would be invested).

At p62, Innovative asked small business customers about the proposed investment in renewed and upgraded substations in the 2018 ICM investment proposal.

Again, the "headline" summary is unfair and unbalanced. It states that a plurality (thirty-eight percent) are willing to pay an additional $0.31 monthly for substation investments. However, it did not say that forty-five percent, a much larger plurality would either be willing to pay only one-half the requested amount of $0.31, or $0.16 monthly, or no extra additional charge whatsoever, even after being told that reliability would eventually decline or could decline significantly, respectively. Another eighteen percent either did not have an answer, or refused to answer the question.

Again, Innovative prepared a recoded result (p63) which BOMA does not find credible or even intelligible from the materials in evidence.

With respect to replacing underground cables and overhead power lines (lines, poles, transformers, and related equipment), again, the headline is misleading. It states a "plurality are willing to accept an additional $0.46 per month if the level of reliability remains". The actual data showed the plurality was thirty-two percent. A balanced summary would also reflect the fact that fifty-two percent of the small business customers surveyed, either would accept only one-half the amount proposed, $0.23 per month on their 2018 rates, or would not accept any additional charges, even after being told that the under $0.23 option reliability would eventually decline, and under the "no additional charge option" reliability could significantly decline, respectively (p65).

The replies display the lack of support for underground and overhead cables, poles and renewal investments in the Enersource 2018 ICM proposal.

With respect to replacing leaking transformers, like the residential customers, a majority, sixty-two percent of small business customers surveyed said they would either pay only $0.17 per month, or half the proposed $0.35 cent per month rate increase to replace the leaking transformers in 2018, didn't know their position, or refused to answer the question. The headline said only that a "plurality" of respondents (thirty-eight percent) were willing to pay the $0.35 per month requested by the company to replace the leaking transformers (leaking oil, not PCBs).

PowerStream Customer Responses – Attachment 51, Appendix F, Appendix 2.0 (with same comparison to Enersource)

Residential Customers

Even though the Board rejected PowerStream's consultation and engagement effort in EB-2015-0003, the Innovative Report suffered from some of the same weaknesses. Innovative's telephone survey dealt only with PowerStream's proposed ICM. While BOMA, for the sake of brevity, does not wish to deal with every PowerStream telephone survey question, with a view to keeping the argument as brief as possible, the examples below demonstrate the bias towards the positive responses in the headline summaries of the results of many questions in the survey.

Like the Enersource respondents, when asked which of a number of initiatives PowerStream should focus as their first priority, fifty-two percent of residential customers stated that "delivering reasonable electricity distribution prices" should be PowerStream's first priority. Seventy-seven percent of residential customers stated that "delivering reasonable electricity prices" should be PowerStream's first, second, or third priority (Ibid, p12). In addition, sixty-seven percent of the residential customers surveyed agreed with the statement that "the cost of my electricity bill has a major impact on my finances and requires that I do without some other important priorities" (Ibid, p12).

In the PowerStream rate zone, seventy-nine percent of residential customers said they were "very satisfied" or "somewhat satisfied" with the service they receive from PowerStream. When asked "is there anything PowerStream can do to improve its service to you", forty-three percent of residential customer answered "Lower the rates/prices/bills" (Ibid, pp 10 and 11, respectively).

In the Enersource rate zone, seventy-nine percent of residential customers were "very satisfied" or "somewhat satisfied" with the service they receive from Enersource (Appendix 1, p9).

Most PowerStream residential customers were satisfied with the reliability of the service, based on the number of outages, power quality and restoration time after an outage occurs (Ibid, p15). Eighty-two percent and eighty percent of PowerStream's residential customers considered their most recent outage a minor inconvenience, or no inconvenience, or don't recall ever experiencing an outage (Ibid, p16). Eighty-six percent of Enersource's residential customers had the same response.

System Access

When asked about whether a proposed monthly bill increase of $0.29 to fund the ICM 2018 program was reasonable, twenty-six percent of residential customers said it was, so long as reliability was maintained while forty percent did not want any rate increase, regardless of the reliability consequences, while twenty-five percent wanted to understand how PowerStream would spend the extra funds before they could accept it. Therefore, in total, sixty-five percent of respondents declined to say the proposed increase was reasonable. Notwithstanding the very negative response to a rate increase, the headline summary stated that a "plurality" (twenty-nine percent) said the proposed increase was reasonable. This statement was obviously not a fair and balanced summary of the responses (Ibid, p18).

On the customer service investments (investments made to deliver increased capacity for new and existing customers), which account for a $0.05 increase in the 2018 monthly residential billing, only three in ten residential customers said they would pay $0.05 per month, as long as reliability remained the same. Fifty-five percent of residential customers said they would pay

only $0.03 per month (eleven percent) or would not pay any more money (forty-four percent) even after being told that reliability could eventually decline (the $0.03 cohort) or reliability could decline significantly (zero increase cohort). The remainder (fifteen percent) either didn't know or refused to answer the question. These negative responses are very high, considering the amount of the proposed increase and show the customers' reluctance to see more rate increases at this time. However, the headline statement was that three-in-ten respondents support an additional $0.05 to maintain liability. Again, not a fair summary (Ibid, p21).

For the group of system renewal investments (Innovative did not ask questions about specific projects), which constitute about thirty-five percent of the total 2018 ICM request (ERZ-Staff-7, p1), PowerStream had proposed an increase of $0.10 per month on residential customers' 2018 bill. Sixty percent of the respondents either agreed to pay no more than half that amount, $0.05 per month (nine percent), or were not willing to pay any extra amount in rates (fifty-one percent), even after being told that those decisions could result in reliability eventually declining (the $0.05 cohort) or significantly declining (zero increase cohort). Only twenty-five percent agreed to pay the $0.10 per month if reliability were retained (Ibid, p24).

The summary at the top of the page "System Renewal Projects", one-in-four were willing to accept an additional $0.10 per month; majority still willing to see significant decline in reliability. This summary was the only one that even approached fair and balanced status. But it was only the best of a bad lot.

The response to this question shows the depth of the opposition to any rate increases among the PowerStream rate zone residential customers.

Small Business Customer Respondents

Sixty-eight percent of small business respondents agreed with the statement that "The cost of my electricity bill has a major impact on the bottom line of my organization and results in some important spending practices and investments being put off" (Ibid, p29). Forty-five percent of respondents stated that "delivering reasonable electricity distribution prices should be PowerStream's first priority, more than twice the next priority" (Ibid, p34).

PowerStream's 2018 ICM proposal would increase small business owners' monthly 2018 rate by $0.68. Fifty-nine percent of small business respondents stated that they would not pay the proposed increase (thirty percent) or declined to agree to the proposal until they were provided information on how the proceeds from the proposed rate increase would be invested (twenty-nine percent). The headline stated only that "a plurality (40%) believe the proposed rate increase is reasonable" (Ibid, p40). The question did not include a question on whether respondents would be willing to pay one-half the proposed increase, or $0.34 more per month, as was the case in the Enersource rate zone.

With respect to the group of system service investments (investments to increase electricity capacity), fifty-five percent of small business customers surveyed stated they would pay only one-half the proposed $0.13 increase for new capacity investments (or $0.06 per month), sixteen percent. Thirty-nine percent stated they would accept no increase in rates to increase capacity for that purpose, even after being told that, as a result, reliability would significantly decline. That response notwithstanding, the summary stated only that forty-two percent were willing to pay the proposed $0.13 if reliability were to remain the same (Ibid, p43).

For its group of proposed system renewal ICM investments, PowerStream has proposed a $0.26 per month average increase in small business customer rates. Fifty-eight percent of the small business customers surveyed declined to pay more than one-half that amount, or $0.13 per month (twenty percent) or no increase in rate at all (thirty-eight percent), even after being told that those positions, if widely adopted, could lead reliability to eventually decline ($0.13 cohort), or cause reliability to decline significantly (zero increase cohort). However, the summary at the top of the page stated "System Renewal Projects: Majority are willing to accept some rate increase...". The summary, as always, puts a positive "spin" on the actual results. In fact, in virtually every case, of both residential and small business, respondents in both the Enersource and PowerStream rate zones, do not agree to pay the amount proposed. In virtually every case, the majority of respondents wish to pay no more than half of what was proposed, or no rate increase at all (Ibid, p46).

Mid-Market Response

Only twenty-nine percent of mid-market customers agreed that PowerStream's proposed $11.26 monthly rate increase in 2018 to fund its proposed ICM program for mid-market customers, provided reliability was maintained, was reasonable. Thirty-two percent said they would not agree to any rate increase, and another thirty-seven percent said they could not accept the proposed increase without knowing more about how the extra funds generated by the rate increase would be spent. The two cohorts who declined to approve the proposed total sixty-nine percent. However, the headline summary at the top of the page simply stated that "a plurality (29%) believe the proposed rate increase is reasonable." That statement does not fairly summarize the actual responses (Ibid, p62).

With respect to system capacity group of 2018 ICM investments, PowerStream's proposed 2018 average monthly rate increase of $2.18, only thirty-two percent of respondents would accept $2.18 provided the reliability remain the same. Fifty-two percent of the respondents would accept either one-half that amount ($1.09 per month) (fifteen percent) or would pay no rate increase whatsoever (thirty-seven percent) to fund the ICM replacement and renewal projects, even after being told that in those circumstances, reliability could eventually decline ($1.09 cohort) or reliability could decline significantly (no rate increase cohort) (Ibid, p65).

With respect to system renewal 2018 ICM investments, only thirty-two percent of respondents are willing to pay the proposed additional $4.32 per month on their 2018 bill, provided reliability would remain the same, while sixty-six percent agreed to pay either only half the amount (twenty-five percent) or none of the proposed increase (forty-one percent). The headline summary stated only that "majority are willing to accept some rate increase; majority not willing to accept some rate increase" (Ibid, p67). This statement is not a fair summary of the responses.

Enersource Mid-Market

When Enersource mid-market customers were asked whether they would be willing to pay $203.48 more monthly on their Enersource delivery rate to maintain reliability, only twenty-eight percent said yes. Sixty-eight percent said either they would be willing to pay $69.27 per month (one-third the proposed amount), (twenty-eight percent of respondents), or they would not be willing to pay any more in rates than they are currently paying (forty percent of respondents), even after having been told that these positions could lead to eventual decline in reliability ($69.27 cohort) or a significant decline in reliability (zero incremental amount).

However, the headline/summary at the top of the page stated only that one in three would be willing to pay the proposed amount to maintain current reliability. Again, not a fair and balanced summary of the results.

Enersource has proposed an average monthly rate increase of $21.76 for mid-market customers to pay for its proposed 2018 ICM. Only thirty-seven percent of respondents agreed with the proposal. Thirty-six percent said they would need to know what the extra money would be spent on before they offered a view, while twenty-nine percent said they would pay no more in rates than they currently spend. However, the headline states "a plurality believe the proposed increase is reasonable" (p92), which represents a spinning of the actual results of the survey, not a fair and balanced summary. Comparable results were obtained in response to similar questions about acceptance of the proposed increase to support the group of substation ICM investments (p95), the group of underground cables and overhead power line replacement ICM investments (p98), the 2018 investments to replace leaking distribution transformers (p101). I have not included these details because of time pressure to complete the argument, but the disconnect between the headline summary and the actual responses with respect to investments for substations, cable replacement, and replacing leaking transformers with new transformers can be seen on pp 98 and 101.

In summary, what emerges from the analysis of the Innovative Report is that:

- Residential, small business and mid-market customers in PowerStream and Enersource rate zones have a deep seated resistance to the proposed ICM driven rate increases at this time. For example, a majority of customers would not agree to pay the amount proposed for the ICM projects as a whole and the component groups of investments making up the

ICM program. Whatever the proposed investment, the responses are broadly the same; at most customers would be prepared to pay fifty percent of such costs, and a large number (much larger in some cases) are not willing to accept any rate increase at all. In virtually all cases, a majority of respondents, when confronted with the rate increases flowing from the groups of ICM investments, refuse to support the proposed costs.

- These conclusions contradict the conclusion that Innovative and Alectra have purported to draw from Innovative's consultation, which is that most of the customers support the proposed ICM investments and are willing to pay the requested rate increases. In particular, this evidence contradicts the position Alectra adopts that a vast majority of customers support spending what is required to maintain reliability.
- Moreover, customers are generally satisfied with their current level of service. They are not prepared to pay for higher levels of service. Customers also are of the view that reliability levels are more than adequate, and a majority do not want to pay more than half of what is being proposed, or any increase at all, even if reliability would, as a result, eventually decline or decline significantly.

This evidence shows that in order to justify its large proposed 2018 ICM investment program, Alectra has deliberately understated and misstated customer resistance to further rate increases.

In other words, the ICM proposals, taken as a whole, do not fairly reflect customers' expressed needs and preferences.

Online Questionnaire

For the sake of brevity, BOMA has not performed a parallel analysis of the residential and small business customers' responses to the online questionnaire. Enersource customers generally

satisfied (eight-five percent) with the time taken to respond to outages, and with the number of outages experienced. The results are generally very similar to the results of the telephone survey. For example, forty-nine percent of customers stated that Alectra's first priority (all four rate zones/divisions) should be delivering reasonable distribution rates" (Attachment 51, Appendix 4.0, Customer Feedback Portal, Online Ratepayer Study, p16).

Residential customers were generally satisfied with the reliability of power delivery, delivered to them, with reliability defined as momentary interruption in power, which can result in the flickering or dimming of lights, the number of power outages you experience, and amount of time it takes to restore power when power outages occur. The results were for the total sample of filled out online questionnaire. The evidence noted that outage average number and duration are trending down (Ibid, p25).

On the other hand, only fifty-three percent and fifty-seven percent of Enersource and PowerStream customers, respectively, said those utilities do a good job in providing information on outage restoration times. Better communications with customers is required (Ibid, p25). And only sixty-one percent are satisfied with the responses they received in telephone and personal meetings with utility personnel. These are complaints which can at least be addressed through proper selection and training of people, not massive capital investments.

Enersource's Five Year Plan

Like the comparable questions on the telephone survey, the general questions at pp 34, 35, 36, 37, and 38 are bromides in that they don't provide reliability/cost trade-offs, and therefore, the answers are not indicative of customers' preferences and needs, which take into account the impact on costs. Customer responses about proposed increase by 2022 are not persuasive,

because the real increases are not known at this time, and 2022 is five years away; too distant to really engage customers' attention. The Board should attach little weight to these answers. The questions are also leading questions; in some cases egregiously. For example, at p37, the respondents mostly agreed that "Enersource should be wise with its spending...". Who would not agree to such a question? Its probative value is zero.

When specific questions were asked on the online questionnaire about the Enersource DSP and the 2018 ICM, with costs attached to each option, the results were very similar to those obtained in the telephone survey.

Brampton ICM

Brampton is seeking a Board approval for an incremental capital funding for the Brampton rate zone in 2018, identified in Attachment 18, through a distribution rate rider (Exhibit 2, Tab 2, Schedule 10, p1).

Hydro One Brampton filed a DSP for the years 2015 to 2019 in its 2015 Cost of Service Application (EB-2014-0083). The parties to a Settlement Proposal in that case agreed to a capital budget in 2015 of $37.9 million. The OEB accepted the Settlement Proposal.

Brampton (Alectra) has a connection and cost recovery agreement ("CCRA") payment of $6.8 million, allegedly due to Hydro One Networks ("HONI") in 2018. The payment relates to the HONI Pleasant Transfer Station ("TS") ten year true-up. Brampton is proposing a 2018 ICM payment of $6.8 million to pay the true-up. The shortfall between planned demand and actual demand of Pleasant TS and TS 7/8 has been substantial. Brampton already made a payment of $7.1 million in 2015, representing the five-year true-up. The proposed 2018 payment of an

additional $6.8 million is the amount owing under the ten-year true-up (the construction of the Pleasant TS 7/8 was completed in 2008). The evidence is that the final amount and payment terms will be negotiated in 2018 (Ibid, p6).

The rate impacts of the rate rider are significant, at 8.57% for residential, and 4.73% for general service under 50 kV.

The unprioritized 2018 Brampton capital investment list is at Attachment 22. It totals $38.1 million.

BOMA views the true-up payment as a mandatory capital expenditure, although the period of time over which the payment may be made is not yet determined. Consistent with its argument with respect to the Enersource and PowerStream proposed ICM portfolios, BOMA believes that the CCRA mandatory expenditure should be part of Brampton's base budget, and not an ICM funded investment. BOMA urges the Board to reject Brampton's proposal to fund the payment through an ICM. Brampton would need to defer some of its system renewal and/or general plant projects to offset the $6.8 million, and/or negotiate an extended payment schedule with HONI.

There are $12.6 million in system renewal investments in the Brampton base budget (Attachment 22, p3) which, if Brampton wished, could be deferred to later years. These are more discretionary projects.

Moreover, there remains an issue of prudency in connection with the initial load forecast for the Pleasant TS expansion in 2006.

The exact amount Brampton must pay HONI is not yet determined. The evidence states that the negotiations between Brampton and HONI would determine the actual negotiated payment. It

may be less in 2018 (TC1, p95). In the event the forecast $6.8 million proves too high, BOMA proposes that the Board order a true-up for the difference between forecast and actual, once the negotiation is complete, as part of 2019 rates. Alectra has recognized the fairness of a true-up in this case. It states:

> *"So we recognize that a true-up may be necessary in this instance"* (Ibid, p96).

The true-up should not be deferred beyond the next rate application.

In BOMA's view, Brampton acted imprudently, making the forecast of load growth for the Pleasant TS expansion, and in constructing the size of the station it did, for several reasons.

First, they did not appear to make a forecast just for the region to be served by the station expansion. All the forecasts, at least the ones filed in evidence, including JT1.5, are for the entire service area of Brampton Hydro.

Second, Brampton assumed that all other stations in Brampton, which accounted for sixty percent of the transmission capacity in Brampton at the time the extension to Pleasant TS was expanded (JT1.6, p4), would have no spare capacity at all, without confirming that this was, or would likely be, the case.

Third, Brampton accepted the HONI contract, in which the true-up payments to HONI to the net capacity position of the entire HONI Brampton system, rather than to just the actual vs. planned consumption for the Pleasant expansion. There was also a disconnect between the peak demand growth HONI Brampton used in its growth forecast, and the alternative load growth indices used in HONI's CCRA.

In light of the lack of pacing and the imprudency exhibited by HONI Brampton, and the fact that it was a subsidiary of HONI at the time the CCRA was negotiated, BOMA's view is that the true-up payment should be for the account of Brampton shareholders.

Conflict of Interest

At the time the forecasts for the Pleasant TS were made through the construction and true-up periods, Brampton Hydro was owned by HONI (J1.1.5). Given that relationship, Brampton Hydro would have had to sign HONI's standard CCRA, even though it was a one-sided agreement. The forecast should be treated as a joint forecast of HONI and Brampton Hydro, a characterization would be more consistent with Brampton's actual position at the time.

Capitalization – Issue 3.2

In Procedural Order No. 3 and Decision on Issues List on November 17, 2017, the Board added a new issue to the final issues as follows:

> *"What is the appropriate way to account for changes in capitalization policy resulting from the merger of Alectra Utilities and its predecessor companies?"*

The Board went on to state:

> *"There was limited information in the application on the change to a common capitalization policy for Alectra Utilities. Through interrogatories, the magnitude of the change for the Horizon RZ was disclosed to be in excess of six million dollars per year. Alectra Utilities also indicated that there were changes to capitalize more costs for the Enersource RZ and less costs for the Brampton RZ. 3 The magnitude of these changes is unknown. Furthermore, the exact date and specific details of the transition to the harmonized capitalization policy are not clear in the evidence.*
>
> *The OEB requires confirmation that the capitalization change has no impact on 2016 earnings for the Horizon RZ, and that any impacts in 2017 are tracked for all rate zones to leave all options open for how the OEB may treat this capitalization change. Having a separate issue on this matter on the issues list ensures all options are open for consideration.*

Based on the dates within this procedural order, a decision for this proceeding will not be issued in 2017. The OEB finds 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.

At this time, the OEB is making provision for any comments on the recording details for these accounts, such as the effective date and how entries should be recorded. The OEB notes that when distributors were required to change their capitalization and depreciation policies on the transition to International Financial Reporting Standards (IFRS), the OEB required these cost changes to be tracked in Accounts 1575 or 1576 for future disposition to customers. An option for the new accounts for Alectra Utilities is that they be similar in nature to Account 1576 (for the IFRS transition).

The nature of any disposition of these accounts is not being determined at this time. The OEB will hear submissions on options for disposition of these accounts as part of final arguments."

The Board's framing of the issue and its statement above makes clear that the "capitalization issue" is not limited to a discussion of the impact on 2017 earning sharing of any of the Horizon, Enersource, and Brampton rate zones.

The evidence is that the impact of the change in capitalization policy for Enersource, Brampton, and Horizon to match that of PowerStream results in an increase in capitalized costs for the Enersource and Horizon rate zones, and results in a corresponding reduction in OM&A expenditures, and an increase in the base depreciation expense and return over the life of the underlying assets.

In its response to HRZ.SEC.6, Alectra states:

"As part of the amalgamation of PowerStream, Horizon Utilities and Enersource, PowerStream was identified as the "acquirer", under the International Financial Reporting Standards ("IFRS") business combination standard. IFRS requires that all entities in the new organization adopt the acquirer's policy. Consequently, Alectra Utilities has adopted PowerStream's capitalization policy for the Horizon Utilities and Enersource RZs. Table 1 below provides the amounts capitalized for Horizon Utilities RZ:

Table 1 – Impact of Capitalization Change – Horizon Utilities RZ

	2017	*2018*	*2019*	*2020*	*2021*
Direct Labour Costs	*$1,726,949*	*$1,794,753*	*$1,821,276*	*$1,857,701*	*$1,894,855*
Benefit Costs	*$436,627*	*$450,321*	*$465,135*	*$474,438*	*$483,927*
Material Handling Costs	*$2,354,025*	*$2,376,376*	*$2,372,349*	*$2,406,103*	*$2,442,165*
Fleet Costs	*$1,762,653*	*$1,710,575*	*$1,720,082*	*$1,805,723*	*$1,894,314*
Total Impact	***$6,280,253***	***$6,332,025***	***$6,378,842***	***$6,543,966***	***$6,715,261"***

However, proposed rates for Enersource, Horizon and Brampton do not reflect the other impacts of the Capitalization Policy Change, including the reduced OM&A costs.

The Alectra Accounting Policy Change Study, filed at JT2.32, Attachment, Capitalization Policy memo, p1, sets out a summary of the forecasted impact the policy will have on Alectra's pre-tax earnings.

BOMA is of the view that the required change in capitalization policy qualifies as a Z-factor for each of Enersource, Horizon, and Brampton, and the resultant increase or decrease in revenue should be included in their respective deferral accounts for 2017 and 2018. 2019 rates should be adjusted to reflect the lower OM&A costs.

For 2017, given that the directional changes, reductions in OM&A for Enersource and Horizon, and increase in OM&A for Brampton, BOMA believes the Board should dispose of the credit or debit balances in the 2017 deferral accounts relative in the 2018 ESM proceeding, or its equivalent. For 2018, rates should be adjusted to reflect the forecast reduction in OM&A costs and any variances going forward from what is forecast in rates should be dealt with through the three deferral/variance accounts.

While the issue as drafted refers to the Horizon rate zone, BOMA submits that there are similar impacts in both the Enersource and Brampton rate zones. The company's evidence on this impact for the change in capitalization policy for each of the three rate zones is set out in the Table at the top of p4 of Attachment 12 to JT.Staff.7.

Finally, BOMA finds the analysis in the Capitalization Policy to be somewhat opaque.

It is not clear what factors have been taken into account in current rates. Is it just return, or depreciation and return? It is clear that the OM&A reductions are not yet included in 2018 rate forecasts.

Metrolinx Deferral Accounts – Issue 3.1

Alectra has proposed two Metrolinx electrification project crossing deferral accounts, one in the PowerStream rate zone and one in the Enersource rate zone. The proposed deferral accounts raise similar issues.

BOMA is not supportive of either of the proposed deferral accounts.

First, most fundamentally, any obligation of Alectra to undertake expenditures at a railroad crossing is a mandatory capital expenditure (even if as yet of undefined magnitude) and should be in the rate zone's base capital budget. As pointed out by Mr. Davies, the request is the equivalent of seeking an approval for capital spending above the ICM threshold (Tr2, p4).

Alectra had no answer to that suggestion, other than to say that since they don't have a schedule on when amounts are due from Metrolinx, and since the project will likely be very much larger than other roads and rails projects, they require a deferral account (Tr2, p5). But the size of the

potential project and the fact that it may traverse the service areas of other utilities is not a valid argument for a deferral account. It may be an argument that Metrolinx (the Province of Ontario) should bear the project cost or the largest part of it.

In other words, if there is to be any spending on the project this year, there needs to be an equal and offsetting reduction to either the base budgets or in the two rate zones. Otherwise, the "deferral account" is being used to circumvent the ICM policy. As noted earlier, given the vagueness of Alectra's comments, it seems unlikely that any material spending will take place on this work in either rate zone in 2018. The Board should require Alectra to prepare a budget for expected 2019 work for the anticipated 2019 rate case. In the unlikely event the utility must spend some capex in 2018, it could apply for a deferral account later in the year, subject to the conditions noted above.

Second, at a high level, it is not clear that the fact that the original contract between Metrolinx and the railways, or between Ontario/Metrolinx and the railway are determinative of what the cost sharing relationship ought to be between Metrolinx and Alectra. Metrolinx is a public agency, like the York Regional Transit Authority, that happens to be owned by the Ontario Government, and in which capacity now holds the contract. However, Metrolinx is also a public authority in Ontario and presumably subject to Power Utilities in Public Property Act.

Third, negotiations are still ongoing between Alectra and Metrolinx as to the sharing of the crossing modification costs in both Enersource and PowerStream rate zones (TC2, p23). The contracts between the railways and Metrolinx or Metrolinx's predecessor are not in evidence.

In BOMA's view, it is premature to establish a deferral or variance account for the Metrolinx Crossing Remediation Project at this time. There is almost no evidence filed on this project in the application.

The evidence, such as it is (Exhibit 2, Tab 3, Schedule 7, pp 1-3) includes the facts that:

- there is no indication of what expenditures have been incurred to date for engineering and planning;
- Metrolinx has signed an agreement with each of Enersource and PowerStream. It is not clear what share of the costs Metrolinx will bear. The agreement is not in evidence;
- Alectra has provided no evidence for its conclusion that it is better to construct the lines underground at the crossings, rather than simply raise the wires higher, using longer poles, nor the cost differential between the two options. There needs to be a more complete discussion of whether going underground is prudent. Nor is there information on the schedules for either option, or what other options were considered;
- the schedule and timeline for Metrolinx construction are not spelled out, and are vague;
- actual construction of the electrification project on the two lines (Stouffville and Barrie) that traverse the PowerStream service area are not scheduled to commence until 2020;
- the amount and timing of the engineering construction work is uncertain. Metrolinx has informed Alectra that "several crossings" in the PowerStream service area will need to be remediated between 2017 to 2019;
- Alectra has not developed a budget for 2017, let alone 2018, 2019, and 2020 for the work;

- Alectra anticipates that ten to fifteen crossings may need to be remediated in 2018, in order to align with Metrolinx's schedule for construction. That statement appears inconsistent with the statement that construction begins in 2020, and Alectra has filed no solid evidence to support it.

The purpose for the variance account is not clear. What is really required, if anything, is a deferral account to ensure that any funds spent in 2018 on the project could be recovered in 2019, which would require a deferral account opened in 2018. However, there is no evidence filed that lays out the scope of the planned construction for 2018, which means it is unlikely there will be any construction this year.

BOMA views the request for a deferral account to some degree as a way to expand the 2018 base budget or the 2018 ICM proposed budget. The company states:

> *"Alectra Utilities anticipates that it will be required to pay for capital work in connection with the Metrolinx Crossing Remediation Project (Metrolinx Properties 2018). The amounts will be material and incremental to the amounts filed in the 2018 incremental Capital Module"* (HRZ-Staff-23, p1).

If PowerStream seriously intends to do work in 2018, why does it not have a business case, plan, or budget? And if 2018 construction is a real probability, this is a mandatory investment, so it should be included in the 2018 base budget as a top priority.

BOMA believes the Deferral Accounts should not be established at this time. PowerStream should prepare a budget for this project for 2019, and apply for inclusion in rates and perhaps a variance account when the project scope and costs have been firmed up.

The application for the account is somewhat confused and difficult to follow.

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

BOMA was unable to find any material discussion of Alectra's true-up policy for utility underspend or overspend of an approved ICM investment. Alectra did admit the need for a true-up in relation to the YRRT project.

In the ICM Report of the Board of September 18, 2014, the Board states that:

> *"Where there is a material difference between what was collected based on the approved ACM/ICM rate riders and what should have been recovered as the revenue requirement for the approved ACM/ICM project(s), based on actual amounts, the Board may direct that over- or under-collection be refunded or recovered from the distributor's ratepayers."* (p26)

However, given the fact of the ten-year rebasing period, given the privilege the distributor is being offered via the ICM mechanism, and the need to protect ratepayers from any underspending of ICM amounts placed in rates but not spent, BOMA recommends that actual versus forecast capital cost for each approved ICM investment be reviewed at the end of each year of the deferral rebasing period, starting in 2019, and that any underspending be credited to the ratepayers at the next following annual rate review. The analysis calculation should be done on a "project" basis, which is the basis on which Alectra has agreed to report progress on an annual basis. It should be asymmetrical capturing only underspending.

Overspending could be examined in the same timeframe. Prompt review of overspending would allow for prudency challenges and disallowances, if the company was found to be imprudent, not in the same sense as in the ICM policy, but in the execution of the work. Reasonable overages could be supported on a case by case analysis.

All of which is respectfully submitted, this 17th day of January, 2018.

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