

December 14, 2018

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

Dear Ms. Walli:

**RE: EB-2018-0016 – Final Argument of the Consumers Council of Canada – Alectra Utilities Corporation
- 2019 EDR Application**

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

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CC: Alectra, Regulatory Affairs
All Parties

FINAL ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

ALECTRA UTILITIES CORPORATION – 2019 RATES

On June 7, 2018, Alectra Utilities Corporation (“Alectra”) applied to the Ontario Energy Board (“OEB” or “Board”) for approval of its 2019 rates for each of its four rate zones. Specifically, Alectra is seeking approval of the following:

- A Price Cap Incentive Regulation (“IR”) adjustment for the Brampton, Enersource and Powerstream rate zones (“RZs”)
- An annual adjustment for the Horizon Utilities RZ based on the OEB approved 2015-2019 Custom IR rate plan;
- Incremental capital funding for the PowerStream and Enersource RZs based upon the OEB’s incremental capital model (“ICM”) mechanism;
- Disposition of its 2017 Group 1 Deferral and Variance Accounts by RZ;
- Disposition of the balance in its Lost Revenue Adjustment Mechanism Variance Account (“LRAMVA”) resulting from its Conservation and Demand Management activities as of December 31, 2016 for all four RZs.

In the Notice of Application dated the OEB established that cost awards would only be available for the following three issues;

- The balances and disposition of the deferral accounts related to the change in the capitalization policy for each of the Brampton and Enersource RZs;
- The earnings sharing mechanism for the Horizon RZ, including the effect on it from the change in the capitalization policy; and
- The ICMs for each of the Enersource and PowerStream RZs.¹

A Settlement Conference was held on October 16, 2018, but at that time Alectra and the Intervenor were unable to reach a settlement.

In its Procedural Order No. 3, dated November 8, 2018, the OEB decided to defer consideration of the balances in the capitalization deferral accounts for the Enersource and Brampton RZs until the 2020 rate application. The OEB also determined that an oral hearing would be appropriate for two issues; the Horizon RZ ESM and the York Region Rapid Transit (“YRRT”) ICM². The OEB also decided that all other ICM issues would be dealt with through written submissions.

The hearing was held on December 5, 2018. Shortly after the hearing commenced Alectra and the Intervenor reached a settlement with respect to the Horizon Utilities RZ ESM. The Settlement Proposal arising out of that process was filed on

¹ Procedural order No. 2, dated September 24, 2018

² Procedural Order No. 3, dated November 8, 2018, p. 4

December 7, 2018. Alectra and the Intervenor agreed that the allocation of costs between Alectra rate zones to determine the Horizon RZ return on equity and the ESM for 2017; and the interaction between the calculation and the change in capitalization policy should be deferred to the 2020 EDR Application proceeding.

These are the submissions of the Consumers Council of Canada (“Council”) regarding the remaining issues. The Council will address the following issues:

1. The Enersource RZ Rometown Overhead System Rebuild (the “Rometown Project”);
2. The Enersource RZ Replacement of Leaking Transformers (“Leaking Transformers”)
3. The York Region Rapid Transit (“YRRT”) VIVA Bus Transit Y2 and H2 Projects;
4. The Barrie TS Upgrade Feeder and Wholesale Metering Relocation System Service (“Barrie TS”); and
5. The Bathurst Road Widening from Highway 7 to Teston Road (the “Bathurst Road Widening Project”)

SUBMISSIONS:

General Comments:

With respect, the Council is not necessarily taking issue with the ICM work that Alectra is proposing through this Application. The Council accepts that capital spending is an ongoing requirement for distribution utilities. The OEB must, however decide, whether the spending proposed for 2019 requires additional funding beyond that which is provided by rates.

In the OEB’s decision for Alectra’s 2018 rates the Board specifically addressed what constitutes appropriate ICM funding:

- The ICM is intended to address the treatment of a distributor’s capital investment needs that arise during the rate setting plan that are incremental to a materiality threshold. The ICM is a funding mechanism for significant, incremental and discrete capital projects for which a utility is granted rate recovery in advance of its next application. (p. 20)
- The OEB will consider whether each capital project proposed for an ICM is significant with respect to Alectra Utilities’ total capital budget, not with respect to the capital budget by rate zone. (p. 25)
- The OEB is guided by the words “significant influence on the operation of the distributor” and “minor expenditure in comparison to the overall budget in assessing the project specific materiality of each project”. (pp. 25-26)

- In addition, the OEB finds that a discrete project is not simply one that is distinguishable or defined at a new location – or all capital would be eligible. ICM projects need to be different in kind from those that are carried out through typical base capital programs. (p. 27)
- Further the criteria in the ICM policy is clear that capital projects do not need to be non-discretionary or unanticipated to be eligible for incremental funding. (p. 27)
- The OEB agrees that it is important for a distributor to have programs to address aging infrastructure to ensure assets are replaced on a paced and prioritized schedule. Nevertheless, this application is about whether incremental funding for capital will be provided during the IRN term. ICM funding is not available for projects that are not significant to the operations of the distributor. Where the OEB has not approved a project for incremental funding, this should not be interpreted as the OEB saying that it is not prudent to complete the project. (p. 30)

It is in this context that the Council has made its submissions.

1. Rometown Project:

Alectra is seeking approval of \$3.2 million for the Rometown Project. It is Alectra's evidence that in the 2016 Asset Condition Assessment study it was discovered that 34.3 % of the poles in this area were flagged as "Poor" and 28.3% of the poles were "Fair" based on parameters of pole physical condition, mechanical damage, pole leaning and cracks. The proposal is to renew the entire overhead system in the area complete with new concrete and wood poles, framing, insulators, and the replacement of pole mounted transformers³.

Alectra's evidence is that in contrast to the 2019 Pole Replacement Program this project targets a defined system area with known substandard assets, based on identified system renewal needs.

In its original DSP the Rometown Project was identified as an Overhead System Rebuild Project at a capital cost of \$1.85 million. Alectra initially contemplated that it would undertake only a partial replacement of the Rometown overhead system. However, based on its interpretation of its customer engagement results as set out in the Innovation Research Report Alectra determined that it would proceed with full replacement of the poles⁴.

³ Ex. 2/T4/S11/p. 15

⁴ Ex. 2/T4/S11/p. 9

It is Alectra's own evidence that indicates it only questioned its customers about the bill impacts related to the partial replacement (\$1.85 million). Alectra concludes that the views of the customers would not be significantly different under the full replacement scenario, but those questions were never asked. The Council does not accept that going from a partial rebuild to a full rebuild of the Rometown Area has been justified on the basis of the customer engagement process undertaken by Innovative Research.

From the Council's perspective we are not opposed to Alectra undertaking a partial rebuild of the area at a cost of \$1.85 million. However, based on the criteria established by the OEB in the previous proceeding, it should not qualify as an ICM project. Alectra's capital budget for its all of its rate zones is \$257.3 million.⁵ As the OEB concluded in the previous ICM Decision (EB-2017-0024) when it rejected many of the proposed projects, "The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018."⁶

The Council notes that in the previous decision two similar projects were proposed by Alectra for ICM relief. The Lake/John Area Overhead Rebuild (\$.93 million) and the Church Street Area Overhead Rebuild (\$1.02 million) were not approved by the OEB on the basis of materiality⁷.

The Council would also argue that given, in the Enersource RZ, Overhead Rebuild projects are done on a regular basis as part of its routine ongoing work programs this project does not apply. The OEB has not accepted projects that are part of a typical work program as ICM eligible.

The Council submits that the Rometown Area Overhead Rebuild Project should not be approved for ICM funding.

2. Leaking Transformers:

Alectra is seeking approval of \$7.5 million in 2019 to complete a multi-year project to replace a backlog of transformers that were found to be leaking or containing PCB oil. From 2013-2017 Enersource replaced 2,680 transformers that were identified to be leaking oil or containing PCBs. As January 1, 2018 the backlog of remaining identified leaking transformers containing PCB oil was 1,221. Alectra's evidence is that this project is a continuation of a project approved by the OEB for funding in its decision on Alectra's 2018 EDR Application⁸.

⁵ Ex. 2/T3/S10/p. 16

⁶ Decision EB-2017-0024, p. 51

⁷ Decision EB-2017-0024, pp. 55-56

⁸ Ex. 2/T4/S11/p. 16

In the previous proceeding the OEB approved ICM funding for the Leaking Transformer Replacement Project of \$8.45 million.

In that Decision the OEB noted that its expectation is this project will evolved to be a typical ongoing capital program and may not be eligible for any additional incremental funding in subsequent years.⁹ As a result of that decision Alectra reconfigured the implementation of the project so as to accelerate the evolution of the project into the ongoing capital program. The current backlog of transformers is 571 as a result of this acceleration.¹⁰

The Council submits that the remaining backlog of transformers should be rolled into ongoing Transformer Replacement Project in 2019. It is Alectra's position that the Leaking Transformer Replacement Project is considered the same priority as the ongoing Transformer Replacement Program.¹¹ The Enersource RZ has had an ongoing Transformer Replacement Program. If the two programs are considered the same priority they should be rolled into one and each project prioritized. Accordingly the Council does not support ICM funding for the Leaking Transformer Replacement Project for 2019.

3. York Region Rapid Transit – Y2 ad H2 Projects:

Alectra is seeking ICM Funding for its York Region Rapid Transit – Y2 and H2 of \$13.27 million. Through the interrogatory process the 2019 forecast was revised to \$22.712 million as a result of changes to project schedule and sequence of work. Alectra is still seeking, however, ICM relief of \$13.27 million.

The Council recognizes that this work is mandatory. The evidence related to these projects in the current proceeding and in the last proceeding has demonstrated that there is considerable uncertainty around it, that ultimately affect the timing and cost of these projects. The Council continues to believe that the most appropriate way to deal with these road authority projects is to consider them a Z-factors and record the costs in a variance account for final recovery at a future date.

We recognize the OEB rejected this approach in the 2018 ICM Decision on the basis that it did not want to have in place two types of funding mechanisms. The Council urges the OEB to reconsider its position on this issue. Alectra will continue to have future road authority projects, as was evident from the evidence at the hearing. These will likely be similar in terms of being characterized as subject to considerable cost and timing uncertainty. The Council is of the view that variance account treatment will ensure that only the costs incurred will be recovered. If the cost and timing issues remain prevalent significant impacts upon rebasing (when the ICs are trued up) may result.

⁹ Decision, EB-2017-0024, p. 58

¹⁰ ERZ-AMPCO-21

¹¹ ERZ-Staff -87

4. The Barrie TS Upgrade Feeder and Wholesale Metering Relocation System Service ("Barrie TS")

Alectra is seeking \$2.09 million in ICM funding for the Barrie TS Upgrade Feeder and Wholesale Metering Relocation. The expected in-service date is December 2019¹². The Council is of the view that this project should not qualify for ICM funding on the basis of materiality. Alectra's overall capital budget is \$257.3 million. Given the size of the project relative to Alectra's overall capital budget, Alectra should have sufficient funding available to complete the project.

5. The Bathurst Road Widening from Highway 7 to Teston Road (the "Bathurst Road Widening Project")

Alectra is seeking ICM funding for \$5.5 million for its Bathurst Road Widening Project from Highway 7 to Teston Road. The Council submits that this project, like the YRT Project should be subject Variance Account treatment. This is a mandatory project, but subject to uncertainty regarding scope and timing that could ultimately impact cost. Variance Account treatment is the most appropriate way of dealing with projects of this nature.

¹² CCC-17