

**Alectra Utilities Corporation
Distribution Rates for January 1, 2019
ICM**

Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

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Vulnerable Energy Consumers Coalition**

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1.0 SUMMARY OF THE SUBMISSIONS

- 1.1 VECC's argument is with respect to the remaining "cost eligible" issues related to the incremental capital module (ICM) proposal of Alectra. These projects are:
- (i) PowerStream Rate Zone – YRRT;
 - (ii) PowerStream Rate Zone – Bathurst Avenue;
 - (iii) PowerStream Rate Zone – Barrie Transformer Station;
 - (iv) Enersource Rate Zone – Leaking Transformer Replacement Project; and,
 - (v) Enersource Rate Zone – Rometown.
- 1.2 It is our submission that the Rometown project is ineligible for ICM treatment.
- 1.3 While we believe both the YRRT and Bathurst Avenue projects are eligible for ICM treatment, it is preferable that recovery of the costs of these projects be accommodated through either deferral or variance accounts.
- 1.4 In our submission the Barrie Transformer Station and the Leaking Transformer Replacement Project should be approved for ICM treatment.
- 1.5 It is our submission that the underlying basis of any ICM project eligibility lies in relationship of any given project to a utility's distribution system plan (DSP). In our submission given the 10 year cost of service rate deferral granted Alectra, the Board, should take a cautious approach to granting new ICM projects in the absence of a comprehensive and consolidated DSP.

2.0 ICM ELIGIBILITY

- 2.1 VECC takes no issue with Alectra's calculation of the threshold or means tests employed for ICM eligibility. However, meeting these threshold criteria does convey eligibility for any specific ICM program to be recovered in rates. To consider what projects are specifically eligible we have examined the history of the ICM and ACM policies.
- 2.2 As part of that policy framework the Board set out a number of criteria as shown in the table below. In this application Alectra has, in our view, correctly applied that criteria.

Criteria	Description
Materiality	A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the Board-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the Board-defined threshold calculation is expected to be absorbed within the total capital budget.
Need	The distributor must pass the Means Test (as defined in this ACM Report). Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

2.3 However helpful, this table does not provide guidance as to the nature of the projects that should be considered for ICM (or ACM) treatment. Except in one aspect - the needs guidance is that the projects need to be discrete (singular) and **that the amounts must be clearly outside of the base upon which the rates were derived**. Specifically our view is that ICM/ACM projects need to be considered in light of the most recent Distribution System Plan (DSP) reviewed by the Board. That is, unless a project is truly "unexpected" it should have been identified in the latest utility DSP considered by the Board.

2.4 The ICM option has been available since its introduction in late 2008 for 3rd Generation IR, and continued under the RRFE options. As such it predates the Board policies with respect to filing requirements for consolidated distribution system planning (DSP). When introduced the purpose of the DSP was articulated as *"Good distributor planning is an essential pre-requisite to the performance-based rate-setting approaches established under the renewed regulatory framework for electricity."* While the Board usually does not provide explicit approval of such plans in cost of service proceedings the implicit result is that significant deviations from the filed five year capital forecasts require explanation in any subsequent cost of service filing. If it were not so then the filing of a DSP would appear to serve no regulatory purpose.

2.5 In 2014 the Board published its ACM Report articulating a policy of “Advance Capital Modules” (ACM) and modified some of the policies applicable to ICM request¹. A number of past decision were raised and discussed in the ACM Report including the issue of transformer station projects: ²

“... in approving ICM funding for transformer stations, which have longer lead times for design and construction as compared to most other distribution-related capital projects, the Board had in essence set aside the criteria of extraordinary and unanticipated.”

The ACM Report also referenced past decisions noting:

“The Board thus evolved the ICM policy through this decision by clarifying that projects were not only required to be part of a capital budget that is incremental to the materiality threshold, but must also be driven by capital spending requirements that are extraordinary and unanticipated.”

2.6 The Board eliminated the ICM non-discretionary requirement noting that projects for which insufficient detail was available as part of a DSP may be eligible for an ICM. It is important to note that in doing so the Board was drawing a distinction between unanticipated projects and projects anticipated but for which insufficient detail allowed it to be incorporated into its cost of service proposal. In its Supplemental Report of January 22, 2016 the Board stated:³

The OEB retained an incremental capital module (the ICM) for the IR years for projects not included in a DSP filed with the most recent cost of service application, and for projects that were included in the DSP but which did not contain sufficient information at the time of the cost of service application to address need and prudence.

2.7 In our view some confusion has arisen because of the use of different terms in the various iterations of the Board's policies. That ambiguity has allowed the interpretative leeway for Alectra to propose projects like Rometown. Projects we do not think the Board anticipated in its most recent articulation of the ACM/ICM policies.

2.8 Part of the ambiguity comes from the use of the terms discretionary (non-discretionary), unanticipated and extraordinary. The latter – “extraordinary” - being the most subjective of these terms. Clearly a capital project may be non-discretionary but not unanticipated, or it may be extraordinary but anticipated and even discretionary. Furthermore anticipation (or not) of a project can only occur with the context of the DSP (otherwise begging the question how is it unanticipated).

¹ Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014

² Ibid, pg. 2

³ Report of the OEB EB-2014-0219 New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016

2.9 This is not an issue of semantics. We have examined the Board's policy statements, its recent decisions and the evolution of distribution system planning which is now an integral part of cost of service proceedings. Our conclusion ICM eligibility is inherently linked to distribution system planning.

2.10 Based on past decisions the only "extraordinary" projects which have an inherent eligibility for ICM treatment are major transformer station projects. These projects are costly, usually rely on a third-party for construction/ownership and are subject to contributions to a third party (i.e. Hydro One). Moreover the projects are often intermingled with the service needs of another utility or are otherwise integrated into regional electricity service requirements. Furthermore such projects are sometimes not formally part of a utility's DSP because the capital expenditure is in the form of a contribution and not as part of its asset plan. For this reason the Board has historically looked favourably on such projects as good ICM candidates.

2.11 The current policy allows both discretionary and non-discretionary projects to be considered as ICM projects.⁴

*The Board is of the view that the availability of incremental capital funding during the IR term should no longer be limited to non-discretionary projects. **Any discrete project (discretionary or otherwise) adequately supported in the DSP is eligible for ACM funding subject to capital funding availability flowing from the formula results. The same approach shall apply going forward to new projects proposed as ICMs during the Price Cap IR term.** (emphasis in original)*

2.12 Clearly discretionary projects – supported by a DSP are eligible. So are truly non-discretionary projects, which presumably do not need to meet the DSP identification criteria. It follows that truly non-discretionary projects hold a higher level of deference when determining ICM eligibility. The difficulty lies in the meaning of discretionary. In our view to be meaningful the term of non-discretionary can only be those projects which are driven by a third party requirement that the utility is mandated to follow. For example, for transformer PCB replacements such as that proposed by Alectra would meet the meaning of non-discretionary. The projects are required to meet government safety or environment standards and while timing may be a consideration the need to do the project is in no doubt. Likewise expenditures that are pursuant to the Public Service Works on Highway Act (PSHA) such as the YRRT and Bathurst Street projects in this proceeding. These projects are truly non-discretionary both in the sense of need and more importantly, timing.

2.13 The conclusion we draw is that the simplest projects for which to determine ICM eligibility (provided the threshold and means tests are met) are those that are truly non-

⁴ Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014

discretionary. Other than “extraordinary” (or perhaps better said “exceptional”) transformer station projects all other ICM candidates should have a basis in a utility’s previously reviewed distribution system plan. That is because the DSP gives the Board the basis to understand the need for the project. “Unanticipated” projects may qualify for ICM treatment without reference to a pre-existing DSP, but then the onus lies with the utility to explain to the Board why the project was not anticipated in the existing DSP.

2.14 A good example of this principle is the Leaking Transformer Project. Alectra identified that additional inspection in 2016 resulted in the realization of a large number of transformer that needed replacement. In EB-2017-0024 the Board approved \$8.45 million for this project noting “that it was prudent for Enersource to materially increase its spending on transformer replacements **as a result of the new assessment of asset condition**”⁵ (emphasis added). That is the Board recognized that new data had been gathered revealing a problem not previously understood (or understood in its entirety).

2.15 In its 2016 Handbook to Electricity Distributors and Transmitter Consolidation the Board states:⁶

The ICM is now available for any prudent discrete capital project that fits within an incremental capital budget envelope, not just expenditures that were unanticipated or unplanned. To encourage consolidation, the 2015 Report⁷ extended the availability of the ICM for consolidating distributors that are on Annual IR Index, thereby providing consolidating distributors with the ability to finance capital investments during the deferral period without being required to rebase earlier than planned.”

2.16 We raise this extract to note the purpose of the ICM is considered to be financing the additional capital expenditure. Financing needs are more the case for small utilities that may have difficulty raising money in capital markets or pay excessive rates to borrow from financial institutions. For large utilities like Alectra this is unlikely to be as significant a problem.

2.17 The ICM also embeds capital additions through the rate increase prior to rebasing. For Alectra with a prolonged deferred period ICMs offer the means to increase rate base/rates. As such they dilute the rate protection aspects of the Board’s policy of deferred rebasing. ICM are leaks to the premise of holding the utility’s rates to within the inflation adjusted current rate during the deferral period. It offers an opportunity for “gold plating” assets in pursuit of better returns than allowed by the inflation adjusted deferred rate base period rates.

⁵ Board Decision, EB-2017-0024, pg. 58

⁶ Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016

⁷ The “Report” referred to is the Report of the Board: Rate-Making Associated with Distributor Consolidation, March 26, 2015

- 2.18 The second issue of note is the ICM true-up the mechanics of which are untested for a utility with a 10 year deferred rebasing period. This means the consequence of in-service timing differences as between forecast and actual are left unresolved until many years after the fact. Currently as we understand it Alectra may over collect in some periods if a project is delayed or goes into service under budget (and the reverse is true). This allows for the case of customers compensating the utility in periods for which the assets that are not used or useful. For a project under budget ratepayers may overpay for the asset for years before (and if) this mismatch is resolved. This not only violates the basic “used or useful” tenant of regulation it causes intergenerational inequities as between customers.
- 2.19 In our submission these are troubling aspects of ICM, especially as applied to a utility consolidated capital budgeting would be expected to depart from the prior individual utility plans. In particular it is our submission that the Board should minimize any new capital spending done under the ambit of an ICM until such time as Alectra has filed an integrated distribution system plan. Such a plan should be vetted in a Board proceeding and should form the basis for any ACM or ICMs for the remainder of the deferred rebasing period. Until that time, in our submission, only non-discretionary projects and transformer station related projects should be granted new ICM treatment. Below we speak to these specific projects.

ICM PROJECTS

YRRT

- 3.1 In EB-2017-0024 when the YRRT project was first proposed as an ICM candidate VECC argued that these types of projects should be subject to deferral and variance account treatment. Our reasoning was that project costs are inherently difficult to forecast and the timelines are subject to a third party’s needs. We made the same arguments with respect to other similar transit related projects in that proceeding. To this we should have added that these projects are also distinguished by the nature and magnitude of their capital contributions.
- 3.2 As it turns out our predication of the veracity of the time and cost estimates has been borne out. The tables below show clearly the vast difference between the original estimates of one year ago in EB-2017-0024 and those provided in this proceeding.⁸

Table 1 - YRRT Y2 H2 In-Service Forecast 2016-2019 (as submitted in EB-2017-0024)

\$000s	Y2				Total Y2 Budget
	2016	2017	2018	2019	
Gross	4,893	16,000	12,700	7,300	40,893
Contributed	2,574	8,000	6,350	3,650	20,574

⁸ PRZ-Staff-60

Net	2,319	8,000	6,350	3,650	20,319
H2					
	2016	2017	2018	2019	Total H2 Budget
Gross	517	11,714	12,714	3,165	28,110
Contributed	467	7,008	7,821	2,327	17,623
Net	50	4,706	4,893	838	10,487
Total YRRT					
	2016	2017	2018	2019	Total YRRT Budget
Gross	5,410	27,714	25,414	10,465	69,003
Contributed	3,041	15,008	14,171	5,977	38,197
Net	2,369	12,706	11,243	4,488	30,806

Table 2 – Revised YRRT Y2 H2 In-Service Budget Forecast 2016-2019 as of August 31, 2018

Y2					
	2016 Actual (\$000)	2017 Actual (\$000)	2018 Forecast (\$000)	2019 Forecast (\$000)	Total Y2 Budget
Gross	0	100	12,698	38,572	51,370
Contributed	0	50	7,057	19,478	26,585
Net	0	50	5,641	19,094	24,785
H2					
	2016 Actual (\$000)	2017 Actual (\$000)	2018 Forecast (\$000)	2019 Forecast (\$000)	Total H2 Budget
Gross	0	5,284	15,463	8,630	29,377
Contributed	0	3,036	8,359	5,012	16,407
Net	0	2,248	7,104	3,618	12,970
Total					
	2016 Actual (\$000)	2017 Actual (\$000)	2018 Forecast (\$000)	2019 Forecast (\$000)	Total YRRT Budget
Gross	0	5,384	28,161	47,202	80,747
Contributed	0	3,086	15,416	24,490	42,992
Net	0	2,298	12,745	22,712	37,755

- 3.3 As we examined in the hearing this extreme variation was notwithstanding specific purchase orders in the order \$10 million in 2017 for which Alectra said “*specifically outline a completion period.*”⁹ The variation is significant and is in both in timing and costs.
- 3.4 Alectra subsequently provided samples of the “purchase orders” which underpinned the (misplaced) confidence the Utility had in its original estimates.¹⁰ It is difficult to ascertain what if any cost control value these purchase order provide. Alectra was asked directly whether the projects was subject to a master agreement which covered potential overruns due to changes in scope or timelines. No such agreement was produced¹¹. Instead Alectra stated it simply relied upon the provisions of the Public Service Works on Highway Act (PSWHA).
- 3.5 The PSWHA provides for a default of 50-50 sharing of labour, but it also allows for overarching agreements. There is, if fact provision for arbitration of any dispute between the Utility and the Road Authority. The difficulty we had was in determining what due diligence the Utility had undertaken in order to protect its ratepayers from unwarranted costs changes in scope or timelines outside the control of Alectra. In this case some of the cost increase appears to be related to delays by the Road Authorities or YRRT.
- 3.6 In our submission Alectra has not demonstrated the due diligence that would be expected. We believe that if similar circumstances had arisen with respect to a private developer - rather than being subject to the PSHA – there would have been some cost overrun protections negotiated. Ultimately it is only when this project is completed that the Board will have the opportunity to determine the prudence of the action taken by Alectra to protect itself from the cost impacts caused by third parties.
- 3.7 Were the YRRT subject to deferral account treatment the Board would be able to scrutinize the costs and ask questions with respect to the appropriate contributions when account disposition was sought – presumably when the various YRRT projects were all completed. As it is now such an exercises is years away as part of a rebasing and we doubt neither the information nor the employees familiar with the project will be easily found.
- 3.8 In response to VECC’s argument for deferral account treatment the Board in EB-2017-0024 noted that “[T]o adopt deferral accounts to address the funding of capital would make the ICM materiality threshold calculation meaningless because there would be two different funding mechanisms for incremental capital.”
- 3.9 In our respectful submission this statement is misguided. Deferral accounts do not *fund* projects. Rather they provide a mechanism for the cost recovery of a project (or other cost). No adjustment to the rate is made until disposition of the account is approved. We do not think Alectra requires the funding mechanism for the YRRT (as opposed to cost

⁹ See Exhibit K1.9 VECC Compendium – Tab 1 extract from Technical Conference EB-2017-0024

¹⁰ See Undertaking J1.1

¹¹ Volume 1, pg.56 and

recovery). However, even if it were to need the funding mechanism this could be achieved through more frequent dispositions of the deferral account.

3.10 We also continue to hold the view that where a project has great uncertainty because of the reliance on a third party the deferral mechanism is a better regulatory tool. Projects subject to the PSHA are particularly good candidates for deferral account treatment because such project are truly “non-discretionary” as contemplated by the original ICM policy. Moreover, their costs are highly variable due to the fact that timing and scope of the project rest largely outside of the Utility’s control. Finally, all such project are subject to a contribution component in which it is clear from this proceeding provides some discretion.

3.11 To be clear we are not suggesting the use of deferral accounting as a replacement for the ICM or ACM policies. Such treatment should, in our view, be limited to large road works subject to the PSWHA, especially those related to transit projects in the southern Ontario “golden horseshoe.” As was noted in the hearing the Board can expect more similar projects from Alectra.

3.12 As this project demonstrates large PSWHA related projects can be subject to large swings in terms of cost and timing. Alectra expects true-up of these projects will take place at the end of the rate deferral period. In our mind this is simply too long to wait, especially given Alectra’s view that variance between forecast and actual in-service amounts are only relevant in the aggregate and would ignore timing differences.¹² The result can be significant intergenerational inequities leaving the potential for some ratepayers to pay in rates for projects which have never provided them any service.

3.13 Finally, in considering the prudence of the costs incurred for the YRRT project – including the level of contributions provided by the municipal authorities we think it important for the Board to recognize the inherent conflicts in the governance of the municipally held utility and the municipal led road related projects. It does not require that one cast aspersions on the governance of either entity to acknowledge that the role of ratepayer and taxpayer are easily comingled in such circumstances. It is the Board’s obligation, in our submission, to untangle ratepayer’s interests in pursuit of only electricity rates which are just and reasonable.

Bathurst Street

3.14 Alectra is relocating approximately 6 km of lines to accommodate road widening on Bathurst St. Like the YRRT this project is subject to contributions under the PSWHA. Also like the YRRT it is a mutli-year project expected to be complete in 2020 and with a total estimated cost of \$12.5 million. Current PSWHA contributions are estimated at \$4.2 million.¹³

¹² See Vol.1 , December 5, 2018 pgs. 105-106 & Undertaking J1.5

¹³ See Attachment 31 and PRZ-Staff-64

- 3.15 Our submissions with respect to Bathurst Street are the same as those of the YRRT. The nature of this project is such that we believe it should be addressed by deferral account treatment.

Enersource RZ Transformer Replacement Project

- 3.16 Between 2013 and 2016 Alectra identified 4,296 transformers that were leaking or contained PCBs. During that period it replaced 2,052 of the leaking transformers at a cost of approximately \$5.6 million (including environmental remediation costs). At the end of 2016 2,244 of these transformers remained to be replaced Alectra began the multi-year project in 2017 to replace such transformers.

- 3.17 There were 1,221 remaining transformers to replace as of January 1, 2018. Of the \$8.4MM budgeted in 2018, a total of \$4.2MM has been spent as of July 2018. The requested \$7.5M ICM project is to fund replacement of the remaining 571 leaking transformers. This would complete the multi-year project.

- 3.18 In 2017 Alectra submitted an ICM request for the 2018 scope of the project. The OEB approved \$8.45 million finding that the programs “*is neither “typical” nor “ongoing” in 2018 from the program approved by the OEB for 2013 rates. Therefore for 2018, the OEB has determined that while this is still a transformer replacement program, it is not a typical ongoing capital program. The OEB expects that this project will evolve to be a typical ongoing capital program and may not be eligible for any additional incremental funding in subsequent years.*”¹⁴

- 3.19 The Board has previously indicated its desire to see this program evolve into an ongoing project. In considering this Alectra determined that 395 of the transformers could be removed from the backlog of transformers being addressed by the project.¹⁵

- 3.20 This project is non-discretionary and Alectra has, in our view, adjusted the timing of the remainder of the assets in need of replacement as part of its ordinary capital program. In our view the 2019 program is therefore eligible for ICM treatment.

Barrie TS-Upgrade

- 3.21 Alectra is seeking \$2.1 million for metering upgrades to the Barrie TS in order meet requirements of the IESO and Measurement Canada. The project requires 7 feeders to be relocated. In our submission there is a clear need for the project. The current expected start of construction is April 2019 with the station work being completed by Hydro One in 2020.¹⁶

¹⁴ Board Decision EB-2017-0024 Revised April 6, 2018, pgs. 58-59

¹⁵ See ERZ-Staff-90

¹⁶ See PRZ-Staff-63

3.22 Based on prior Board decisions this project would appear to meet the “extraordinary” criteria. Therefore in our submission it should be afforded ICM treatment.

Rometown

3.23 The Rometown project affects 454 customers. Alectra filed a customer engagement study by Innovative Research Group in support of its approach to replace all existing above ground in this area of Mississauga¹⁷. In our view the customer engagement was neither sufficiently large nor the respondents sufficiently informed to contribute in any meaningful way an understanding of ratepayer’s views on the matter.

3.24 VECC asked Alectra to explain how the outage history of Rometown was atypical of similar service areas in the Enersource Rate Zone. They replied:

*The outage history is not atypical of similar service areas in the Enersource Rate Zone. However, as provided in the business case for the Rometown Area Overhead Rebuild, that is not the primary driver for the project. Rather, it is the deteriorated and substandard condition of the assets in the area.*¹⁸

3.25 Leaving aside the obvious link between outage history and asset condition the response simply begs the questions of how the Rometown area is atypical of similar, even adjacent areas of Mississauga. So we asked Alectra to compare Rometown outage history with the adjacent neighbourhood. The results are shown below.¹⁹

Table 2: Rometown – Area Serves 454 Customers

Year	Outage		Customer Minutes of Interruption
	Number of Event	Number of Customers	
2012	1	840	840
2013	1	94	1,034
2014	1	13	1,586
2015	4	64	6,761
2016	7	732	87,028
2017	2	15	2,000
Total	16	1,758	99,249

¹⁷ Alectra Attachment 49

¹⁸ 5.0-VECC-9

¹⁹ 5.0-VECC-8

Table 1: Stanfield to Dixie, QEW to Queensway – Area Serves 663 Customers

Year	Outage		Customer Minutes of Interruption
	Number of Event	Number of Customers	
2012	0	0	0
2013	2	15	2,115
2014	8	114	22,672
2015	14	226	24,603
2016	1	30	8,340
2017	5	78	7,830
Total	30	463	65,560

- 3.26 We make two observations from this data. The first is that 2016 was clearly an anomalous year in terms of outages for the Rometown area (as was to a lesser extent 2015 in the adjacent area). In fact if one were to eliminate 2016 from the data Rometown would have a significantly better reliability history than the areas adjacent to it.
- 3.27 The second observation is that the actual number of interruptions (as compared to the time to remedy the outage) is significantly lower in Rometown. Meaning that the reliability events are much lower in Rometown than in the surrounding area.
- 3.28 Of course, one can only read so much into such data. We have no doubt that Alectra has made a correct assessment with respect to the need to replace all of the above ground plant rather than undertake piecemeal replacement. What is less clear is why this project is unanticipated and not part of its normal distribution system plan.
- 3.29 In our view Alectra has proposed the Rometown project as an ICM candidate in order to test the Board's ICM policy. Nothing distinguishes the requirements for Rometown from the adjacent areas. In our view it is likely that other service areas of the four rate zones have equally or perhaps even more compelling capital needs. We don't know because we don't have a consolidated distribution system plan. Once Alectra files such a plan we may understand the uniqueness of this request. Until that time the project is - in the words of the Board's prior ICM decision for this Utility – "typical".

4. REASONABLY INCURRED COSTS

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED