

January 9, 2019

VIA RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli;

**RE: APPLICATION BY ALECTRA UTILITIES CORPORATION FOR DISTRIBUTION RATES
EFFECTIVE JANUARY 1, 2019 (EB-2018-0016) –REPLY SUBMISSION ON ICM PROJECTS**

On June 7, 2018, Alectra Utilities filed an application with the Ontario Energy Board (“OEB” or the “Board”) under Section 78 of the Ontario Energy Board Act, 1998 as amended and pursuant to the OEB’s Filing Requirements for Incentive Rate-setting Applications seeking approval for electricity distribution rates, and other charges, effective January 1, 2019.

In accordance with Procedural Order No. 3, issued on November 8, 2018, the OEB bifurcated the application such that certain issues not eligible for cost awards would proceed by way of written hearing. PO No. 3 also provided for submissions on all remaining issues, namely, the ICM projects, by December 17, 2018. Submissions were filed by OEB Staff, as well as from: AMPCO; BOMA; CCC; EP; SEC; and VECC.

Please find enclosed Alectra Utilities’ Reply Submission on the ICM projects. The Reply Submission has been filed on RESS and a copy served on all parties. Two hard copies will follow via courier.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

[Original Signed By]

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs
Alectra Utilities Corporation

cc: Charles Keizer, Torys

Alectra Utilities Corporation

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1 **IN THE MATTER OF** the *Ontario Energy Board Act*, 1998, being
2 Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

3 **AND IN THE MATTER OF** an Application by Alectra Utilities
4 Corporation to the Ontario Energy Board for an Order or Orders
5 approving or fixing just and reasonable rates and other service
6 charges for the distribution of electricity as of January 1, 2019.

7
8 **REPLY SUBMISSION OF ALECTRA UTILITIES**

9 **January 9, 2019**

10
11 **1.0 INTRODUCTION**

12 Alectra Utilities Corporation (“Alectra Utilities” or the “Applicant”) filed an application with the
13 Ontario Energy Board (“OEB” or the “Board”) on June 7, 2018, under section 78 of the *Ontario*
14 *Energy Board Act*, 1998, seeking approval for changes to its electricity distribution rates for
15 each of its Horizon Utilities, Brampton, PowerStream and Enersource rate zones (“RZs”) to be
16 effective January 1, 2019 (the “Application”). The Application was prepared in accordance with
17 the OEB’s *Filing Requirements for Incentive Regulation Rate Applications* (the “Filing
18 Requirements”) and other relevant OEB guidance. The OEB accepted the Vulnerable Energy
19 Consumers Coalition (“VECC”), the Association of Major Power Consumers in Ontario
20 (“AMPCO”), the Consumers Council of Canada (“CCC”), the School Energy Coalition (“SEC”),
21 the Building Owners and Managers Association of Greater Toronto (“BOMA”) and Energy Probe
22 Research Foundation (“Energy Probe”) as Intervenors (collectively, the “Parties”). In Procedural
23 Order (“PO”) No. 3, the OEB bifurcated the application such that items that were not eligible for
24 cost awards would proceed by way of written hearing. Alectra Utilities received submissions
25 from OEB Staff and SEC on November 23, 2018. Alectra Utilities filed its reply submission on
26 November 30, 2018. The OEB provided a decision for that portion of the Application on
27 December 20, 2018.

28 The PO also provided for an oral hearing that was convened on December 5 and 6, 2018 to
29 address the York Region Rapid Transit (“YRRT”) Incremental Capital Module (“ICM”) project
30 and the Earnings Sharing Mechanism (“ESM”) for the Horizon Utilities Rate Zone (“RZ”). Alectra
31 Utilities and the Parties reached a Settlement Agreement on the ESM for the Horizon Utilities

RZ. The Parties agreed that the allocation of costs between Alectra Utilities' rate zones to determine the Horizon Utilities RZ ESM for 2017; and the interaction between the calculation and the change in capitalization policy, should be deferred to the 2020 EDR Application proceeding. The Settlement Proposal was filed as part of the Oral Hearing on December 6, 2018 as Exhibit K.2.1.

Finally, PO No. 3 also provided for submissions on all remaining issues, namely, the ICM projects, by December 17, 2018. Submissions were filed by OEB Staff, as well as from: AMPCO; BOMA; CCC; Energy Probe; SEC; and VECC.

This is Alectra Utilities' reply submission on the ICM projects. Alectra Utilities provides its position as set out in the evidence, followed by its reply to the submissions of OEB staff and the Parties, as applicable.

For the reasons that follow, it is Alectra Utilities' submission that the Application should be approved.

2.0 OVERVIEW

In April 2016, Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, and PowerStream Inc. filed an application (the "MAADs Application"; EB-2016-0025), pursuant to the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations*, dated January 19, 2016 (the "MAADs Handbook"), asking for approval to amalgamate to form Alectra Inc. and for Alectra Inc. to purchase and amalgamate with Hydro One Brampton Networks Inc. under section 86 of the *Ontario Energy Board Act 1998*. Alectra Inc. is the parent company of Alectra Utilities.

As indicated in the MAADs Handbook as well as the previously issued *Report of the Board: Rate Making Associated with Distributor and Transmitter Consolidations* dated March 26, 2015, the Alectra Utilities rate zones will continue on their current rate plan terms until such terms expire. Once expired, all rate zones will migrate to the Price Cap Incentive Rate-setting ("Price Cap IR") option. At its option, Alectra Utilities is permitted to apply for (a) inflationary increases to rates, adjusted for an efficiency factor; and (b) funding of incremental discrete capital projects through the Incremental Capital Module ("ICM") mechanism.

At present, the Brampton, Enersource and PowerStream RZs are on Price Cap IR for the purpose of setting 2019 electricity distribution rates. In this Application, Alectra Utilities has

1 applied for incremental capital funding for the PowerStream and Enersource RZs, consistent
2 with the Decision of the OEB on Alectra Utilities' 2018 EDR and ICM Application, dated April 5,
3 2018. As the OEB held in that case:

4 *The OEB has determined that Alectra Utilities is eligible for incremental funding*
5 *for certain capital projects in 2018 rates through ICM rate riders. The OEB's*
6 *policy for the funding of incremental capital is set out in the Report of the Board*
7 *New Policy Options for the Funding of Capital Investments: The Advanced*
8 *Capital Module, September 18, 2014 (Funding of Capital Report) and the*
9 *subsequent Report of the OEB New Policy Options for the Funding of Capital*
10 *Investments: Supplemental Report (Supplemental Report) (collectively referred*
11 *to as ICM policy). The OEB provided further policy direction for the availability of*
12 *incremental capital modules following a merger in the Report of the Board Rate-*
13 *Making Associated with Distributor Consolidation (MAADs policy) and in the*
14 *Handbook to Electricity Distributor and Transmitter Consolidations (MAADs*
15 *Handbook).*

16 Alectra Utilities has capital investment needs for the PowerStream and Enersource RZs for
17 2019 that are not funded through existing distribution rates, as demonstrated by the materiality
18 threshold calculation in the ICM Models for the PowerStream and Enersource RZs. The
19 materiality threshold calculation serves to demonstrate the level of capital expenditures that a
20 distributor should be able to manage within its current rates. The proposed ICM projects for the
21 PowerStream and Enersource RZs are within the maximum amounts eligible for recovery
22 through ICM, in accordance with the ACM Report and Supplemental Report. The PowerStream
23 RZ has a maximum eligible incremental capital amount of \$25,510,168¹ and the Enersource RZ
24 has a maximum eligible incremental capital amount of \$38,783,623.² Therefore, it has filed an
25 ICM application in respect of each of these rate zones to meet these capital investment needs.
26 Alectra Utilities has met the ICM requirements for each of these rate zones, as such
27 requirements are set out in the OEB's Chapter 3 Filing Requirements; the MAADs Handbook;
28 the *Handbook for Utility Rate Applications*, dated October 13, 2016 (the "Rate Handbook"); the
29 *Report of the Board – New Policy Options for the Funding of Capital Investments: The*
30 *Advanced Capital Module*, dated September 18, 2014 (the "ACM Report"); and the *Report of the*
31 *Board – New Policy Options for the Funding of Capital Investments: Supplemental Report*,
32 dated January 22, 2016 (the "Supplemental Report").

¹ Exhibit 2, Tab 3, Schedule 10, Table 111, p. 15

² Exhibit 2, Tab 4, Schedule 11, Table 154, p. 12

Alectra Utilities engaged Innovative Research Group (“IRG”) to undertake customer engagement for the ICM projects in the PowerStream and Enersource rate zones. This is a continuation of the customer engagement activities undertaken for the Enersource RZ Distribution System Plan (“DSP”) and ICM projects in Alectra Utilities’ 2018 EDR Application. Further, Alectra Utilities has considered the submissions from OEB Staff and Intervenors during the 2018 EDR Application proceeding in order to refine its 2019 ICM-related customer engagement. Alectra Utilities has also considered and had regard to the OEB’s findings in the 2018 Application proceeding. As provided in the IRG Report that was filed as Attachment 34 (PowerStream RZ) and Attachment 49 (Enersource RZ): a telephone survey was conducted using stratified random samples for Residential and General Service Customers; and an online survey was also deployed for Large Use Customers. This approach allowed Alectra Utilities to capture customer views on the emerging needs or shifting priorities and to generate feedback on the specific projects being considered for this application. The engagement indicates that most customer groups support the ICM projects tested at the investment levels proposed or even higher.

3.0 ALECTRA UTILITIES INCREMENTAL CAPITAL MODULE REQUEST

OEB Policy

As described in Section 3.3.2 of the *Filing Requirements*, the ICM is a mechanism available to electricity distributors whose rates are established under the Price Cap IR regime. The ICM is intended to address the treatment of a distributor’s capital investment needs that arise during the rate-setting plan which are incremental to a materiality threshold. The ICM is available for discretionary and non-discretionary projects, as well as for capital projects not included in the distributor’s previously filed Distribution System Plan. It is not limited to extraordinary or unanticipated investments and may be applied to projects that might be considered to be ‘routine’ or ‘business as usual’.³

The availability of ICM was decided in the MAADs Decision. In that proceeding, Alectra Utilities had advised that it intended to file ICM applications during the rebasing deferral period. Intervenors disagreed that this should be permitted. The Board disagreed with Intervenors and stated the following at p. 6 of the MAADs Decision:

³ ACM Report, pp. 5-8.

1 *The 2015 Report extended the availability of the Incremental Capital Module*
2 *(ICM), an additional mechanism under the Price Cap IR rate-setting option to*
3 *consolidating distributors on Annual IR Index, to allow adjustment to rates for any*
4 *prudent discrete capital project that fits within an incremental capital budget*
5 *envelope, not just expenditures that were unanticipated or unplanned. This*
6 *provides consolidating distributors with the ability to finance capital investments*
7 *during the deferred rebasing period without being required to rebase earlier than*
8 *planned.*

9 The *Filing Requirements* specify that the amount requested for an ICM claim must be
10 incremental to the distributor's capital requirements within the context of its financial capacities
11 underpinned by existing rates, and that the request must satisfy the eligibility criteria of
12 materiality, need and prudence.⁴ These eligibility criteria, discussed below, are as set out in
13 section 4.1.5 of the *Report of the Board - New Policy Options for the Funding of Capital*
14 *Investments: The Advanced Capital Module* (EB-2014-0219), issued September 18, 2014 (the
15 "ACM Report"). In addition, changes to the materiality threshold were made in the *Report of the*
16 *OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report* (EB-
17 2014-0219), issued January 22, 2016 (the "Supplemental Report"). The ICM projects for the
18 Enersource and PowerStream RZs are in accordance with OEB policies, practices and
19 requirements as reflected in the ACM Report, the Supplemental Report and the *Filing*
20 *Requirements*. The Applicant has not proposed any departures therefrom.

21 **Materiality**

22 In the ACM Report, the Board explains that the materiality threshold is, in effect, a capital
23 expenditure threshold which serves to demonstrate the level of capital expenditures that a
24 distributor should be able to manage with its current rates.⁵ The Report goes on to state that "a
25 capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds
26 the Board-defined materiality threshold. Any incremental capital amounts approved for recovery
27 must fit within the total eligible incremental capital amount (as defined in this ACM Report) and
28 must clearly have a significant influence on the operation of the distributor."⁶

⁴ *Filing Requirements*, Section 3.3.2, p. 24.

⁵ ACM Report, pp. 16-17.

⁶ ACM Report, p. 17.

The means for determining the Board-defined materiality threshold was updated in the Supplemental Report and is set out in section 3.3.2.2 of the *Filing Requirements*; it is also reproduced in the pre-filed evidence.⁷ Alectra Utilities has appropriately calculated the materiality thresholds, and the corresponding eligible incremental capital amounts (i.e. maximum amounts eligible for recovery through ICM), in accordance with the ACM Report, Supplemental Report, Filing Requirements and the *Report of the Board: Rate Making Associated with Distributor Consolidation* for the PowerStream and Enersource RZs. Based on the foregoing, the applicant has determined as follows:

- PowerStream RZ has a maximum eligible incremental capital amount of \$25,510,168.⁸ The Applicant's proposal to recover \$20,872,246⁹ through the ICM in respect of the PowerStream RZ is therefore within the range acceptable to the Board.
- Enersource RZ has a maximum eligible incremental capital amount of \$38,783,623.¹⁰ The Applicant's proposal to recover \$10,700,000¹¹ through the ICM in respect of the Enersource RZ is therefore within the range acceptable to the Board.

In addition to the materiality thresholds used for determining the total eligible incremental capital amounts for each rate zone, the Board requires distributors to meet project-specific materiality thresholds.¹² This second materiality threshold, a project-specific materiality threshold, has not been defined by the Board. In Alectra Utilities' 2018 EDR Decision on p. 15, the Board stated: "*Amending the ICM policy to include a mathematical materiality calculation for this second test should only be done through a policy review.*" Further, the OEB goes on to state: "*The OEB has applied its judgement consistent with the ICM policy. 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.*"

⁷ See Exhibit 2, Tab 3, Schedule 10, p. 13; Exhibit 2, Tab 4, Schedule 11, p. 10.

⁸ Exhibit 2, Tab 3, Schedule 10, Table 111, p. 15

⁹ Exhibit 2, Tab 3, Schedule 10, Table 112, p. 15

¹⁰ Exhibit 2, Tab 4, Schedule 11, Table 154, p. 12

¹¹ Exhibit 2, Tab 4, Schedule 11, Table 155, p. 12

¹² ACM Report, p. 17.

Need

In the ACM Report, the Board explains that need must be demonstrated by (a) passing the Means Test, (b) the amounts must be based on discrete projects, which should be directly related to the claimed driver, and (c) the amounts must be clearly outside of the base upon which the rates were derived.¹³

Under the Means Test, if a distributor's regulated return (as most recently calculated in accordance with Reporting and Record Keeping Requirements ("RRR") 2.1.5.6) exceeds 300 basis points above the deemed return on equity ("ROE") embedded in the distributor's rates, then the funding for any incremental capital project will not be allowed.¹⁴ The Applicant has demonstrated that, based on its 2017 RRR filing, it has satisfied the Means Test.¹⁵

Within the PowerStream and Enersource rate zones, each eligible capital project is a discrete project, not funded through existing rates and significant relative to Alectra Utilities' overall capital expenditure, whether taken alone or as part of the group of projects proposed as part of the application. Further, each project is unrelated to a recurring annual capital program, and has been evaluated in the asset management and capital planning process as required in 2019.

Prudence

The ACM Report and the *Filing Requirements* specify that the amounts to be incurred must be prudent, which means that a distributor's decision to incur the amounts must represent the most cost-effective option (but not necessarily the least initial cost) for ratepayers.¹⁶

The Applicant's eligible capital projects are prudent because, in the case of the PowerStream RZ, it is for non-discretionary projects. All three projects are mandatory and will need to be completed, in order for Alectra Utilities to be compliant with the *Public Service Works on Highways Act* ("PSWHA") for the YRRT and Bathurst projects; and Measurement Canada as

¹³ ACM Report, p. 17.

¹⁴ ACM Report, p. 15.

¹⁵ See Exhibit 2, Tab 3, Schedule 10, p. 16 (PowerStream RZ); Exhibit 2, Tab 4, Schedule 11, p. 13 (Enersource RZ).

¹⁶ ACM Report, p. 17; Filing Requirements, section 3.3.2.

well as the IESO Market Rules for the Barrie TS project. In the case of the Enersource RZ, the transformer replacement project is a mandatory project, and the Rometown project is required to address aging infrastructure, and is further supported by customer engagement. In each case, the projects are based on capital investment needs for the PowerStream and Enersource RZs for 2019 that are not funded through existing distribution rates.

To demonstrate the prudence of each eligible capital project for which Alectra Utilities is seeking approval, the Applicant has provided a business case summary that identifies: the name, cost; and expected in-service date for the project; describes the project and its drivers; and sets out the various options considered for the project.¹⁷ In addition, the Applicant has provided detailed business cases for each eligible capital project. The detailed business cases include relevant background information including with respect to the location and history of the project, detailed description of the scope of the project, as well as explanation as to the options considered and the budget and in-service dates for the work.¹⁸ Concise summaries of the business cases are provided below and the key rationale for the projects and their proposed timing are summarized in the table at Appendix A.

Summary of ICM Projects

The five eligible ICM projects consist of two System Access projects in the PowerStream RZ, a System Service Project in the PowerStream RZ, and two System Renewal projects in the Enersource RZ, as follows:

- The Road Authority York Region Rapid Transit (“YRRT”) VIVA Bus Rapid Transit Y2 and H2 Project is a System Access project in the PowerStream RZ with a budget of approximately \$13.27MM. System access investments are projects outside of Alectra Utilities’ control that are required to meet customer service obligations to provide customers with access to electricity services via the distribution system and include modifications (including asset relocation) to the distribution system. This project is not included in distribution rates. The Applicant has been relocating overhead and underground distribution assets in the PowerStream RZ to accommodate the YRRT’s Bus Rapid Transit developments, which is being undertaken to meet the transportation

¹⁷ See Exhibit 2, Tab 3, Schedule 10, pp. 18-21 (PowerStream RZ); Exhibit 2, Tab 4, Schedule 11, pp. 14-17 (Enersource RZ).

¹⁸ See Attachment 31 (PowerStream RZ), and Attachment 46 (Enersource RZ).

1 needs resulting from projected population growth in York Region. Alectra Utilities plans
2 to complete the H2 and Y2 pertaining to the YRRT relocations; these will be put into
3 service in 2019. Alectra Utilities is obligated to relocate its distribution plant to facilitate
4 transportation infrastructure developments by applicable road authorities in accordance
5 with the PSWHA. In its decision related to Alectra Utilities' 2018 Electricity Distribution
6 Rate Application and ICM Application, the OEB approved the YRRT project for ICM
7 funding of \$11.24MM, effective May 1, 2018, identifying that "[t]he work is mandatory
8 under the *Public Service Works on Highways Act*."¹⁹

- 9 • The Bathurst Street Road Widening Project is a System Access project in the
10 PowerStream RZ with a budget of approximately \$5.5MM for 2019. This project
11 addresses the investment need, as a result of the mandatory relocation of electrical
12 distribution assets on Bathurst Street, as requested by the road authority under the
13 PSWHA.
- 14 • The Barrie TS Upgrade Feeder and Wholesale Metering Relocation project is a System
15 Service project in the PowerStream RZ with a budget of approximately \$2.1MM. The
16 Barrie TS station renewal is required as the equipment (i.e., power transformers, 44kV
17 switchgear, circuit breakers, disconnect switches and ancillary station equipment) has
18 reached end-of-life. Barrie TS is owned and operated by Hydro One Networks Inc.
19 ("Hydro One"). Hydro One is scheduled to undertake the station rebuild in 2019. As a
20 result of the station rebuild, Alectra Utilities is required to relocate seven feeders that
21 service customers in the City of Barrie, along with the corresponding wholesale revenue
22 metering equipment required for compliance with the IESO Market Rules. This work is
23 required to be completed in 2019, in conjunction and coordination another local
24 distribution company ("LDC") also serviced by Barrie TS, and with Hydro One's station
25 rebuild.
- 26 • The Leaking Transformer Replacement Project is a System Renewal project in the
27 Enersource RZ with a budget of approximately \$7.5MM for 2019. System renewal
28 investments involve the replacement of aging equipment and/or refurbishment of
29 distribution assets. As a result of inspections in 2013 to 2016, a large number of
30 transformers were found to exhibit signs of oil leaks or contain PCB, which could lead to

¹⁹ Decision and Order, EB-2017-0024, p.34, April 6, 2018

significant liabilities, in the event of spills. The Applicant incurred \$5.6MM in costs for environmental remediation and \$19.4MM in capital expenditures for transformer replacements from 2013 to 2016, which were not included in rates. This multi-year project is discrete, with the specific purpose of addressing an identified number of leaking transformers in a paced and organized manner. Alectra Utilities is obligated by regulations to remediate all environmental contaminations due to leaking oil from transformers. Leaking transformers further deteriorate with time, leading to higher levels of oil contamination into the environment and increasing the cost to remediate. Addressing the backlog of leaking transformers in a timely manner therefore reduces the need for significant environmental remediation costs. This project is a continuation of a project approved by the OEB for funding in its decision on Alectra Utilities' 2018 EDR Application and ICM Application (EB-2017-0024). The 2019 investment of \$7.5MM will conclude the multi-year project and eliminate the backlog of transformers that need replacing. From 2020 onwards, leaking transformers will be addressed through the annual transformer replacement program. In 2019, this project will replace 571 remaining transformers that have been identified as being in need of replacement.

- The Rometown Area Overhead System Rebuild Project is a System Renewal Project in the Enersource RZ with a budget of approximately \$3.2MM. System Renewal investments are mainly driven by the need to address assets that have reached the end of their useful life, and that are operating at heightened risk of failure or below required reliability levels. Through its inspection program in the Enersource RZ, in the City of Mississauga, Alectra Utilities identified a number of poles that are in poor condition (i.e., signs of rotting, mechanical damage, insect infestation, and cracking). Based on these inspections, and resistograph testing of wood pole residual strength, Alectra Utilities observed the poor conditions of overhead assets, including: the existence of leaning poles; porcelain insulators (which are prone to cracking and deterioration leading to failures and pole fires); and transformers showing signs of oil leaks. Consequently, the area south of Queen Elizabeth Way and east of Dixie Road was identified in need of renewal investment. 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. Where the Pole Replacement Program replaces individual poles throughout the RZ, based on identified hazards and poor condition, the Rometown project replaces the existing substandard overhead system and brings it to present day

standards. This project not only includes the replacement of poles, but also the replacement of substandard overhead system configuration with porcelain or known hazardous polymer insulators; replacement of damaged grounds; incorporates animal contact protection; and provides improved clearance for enhanced safety.

Revenue Requirement and Bill impacts

PowerStream RZ

For the PowerStream RZ, the incremental revenue requirement associated with the ICM funding request of \$20,872,246 is \$1,508,566.²⁰ This revenue requirement has been allocated to rate classes based on the current allocation of revenue for the PowerStream RZ using Tab 8 (Revenue Proportions for this Capital Module), filed as Attachment 29. The resulting ICM rate riders for the PowerStream RZ are presented in Table 115.²¹ The total monthly bill impact for a typical residential customer from the proposed ICM rate rider, as presented in Table 116 of the pre-filed evidence, is \$0.21 per month. The bill impacts resulting from the ICM rate riders in the PowerStream RZ, which are derived by comparison to the total bill including HST, range from 0.04% for the Large Use to 0.29% for the Sentinel Lights classes.²²

Enersource RZ

For the Enersource RZ, the incremental revenue requirement associated with the ICM funding request of \$10,700,000 is \$885,346.²³ This revenue requirement has been allocated to rate classes based on the current allocation of revenue for the Enersource RZ using Tab 8 (Revenue Proportions for this Capital Module), filed as Attachment 44. The resulting ICM rate riders for the Enersource RZ are presented in Table 158.²⁴ The total monthly bill impact for a typical residential customer from the proposed ICM rate rider, as presented in Table 159 of the pre-filed evidence, is \$0.17 per month. The bill impacts resulting from the ICM rate riders in the Enersource RZ, which are derived by comparison to the total bill including HST, range from

²⁰ Exhibit 2, Tab 3, Schedule 10, p. 22.

²¹ Exhibit 2, Tab 3, Schedule 10, p. 24.

²² Exhibit 2, Tab 3, Schedule 10, p. 24.

²³ Exhibit 2, Tab 4, Schedule 11, p. 17.

²⁴ Exhibit 2, Tab 4, Schedule 11, p. 19.

1 0.05% for the General Service 50 to 499 kW and Large Use classes to 0.46% for Street
2 Lighting.²⁵

3 **Customer Engagement**

4 The OEB's Rate Handbook advises that "customer engagement is expected to inform the
5 development of utility plans, and utilities are expected to demonstrate in their proposals how
6 customer expectations have been integrated into their plans, including the trade-offs between
7 outcomes and costs".²⁶ To assist it in meeting this expectation, Alectra Utilities engaged IRG to
8 solicit customer feedback on the proposed incremental capital funding projects for the
9 PowerStream and Enersource RZs. This builds on the customer engagement completed by IRG
10 as part of the 2018 EDR Application. The IRG Report is filed as Attachments 34 and 49 to the
11 pre-filed evidence. IRG designed and assisted the Applicant in implementing a multifaceted
12 customer engagement program to collect feedback from multiple rate classes across the two
13 rate zones. The program included a telephone survey using stratified random samples for
14 Residential and General Service Customers and an online survey for Large Use Customers.
15 This approach allowed Alectra Utilities to capture customers' views on the emerging needs or
16 shifting priorities and to generate feedback on the specific projects being considered in the
17 Application.

18 The Applicant's customer engagement efforts have confirmed that the top two priorities for
19 Alectra Utilities' customers in both the Enersource and PowerStream rate zones are: delivering
20 reasonable distribution rates; and ensuring reliable electrical service. The engagement confirms
21 that the vast majority of customers are satisfied with the current level of reliability they
22 experience. In principle, most customers support some form of investment program that ensures
23 a consistently reliable distribution system, which also addresses growth and system demands.
24 Customers also expressed frustration in relation to their electricity bills; Alectra Utilities is well
25 aware of this customer sentiment. Ultimately, when asked how Alectra Utilities can improve
26 service, most common responses throughout the engagement were either "nothing" or "lower
27 rates", but customers also clearly indicated support for investing in renewal, system service and
28 general plant at the level needed to maintain reliability.

²⁵ Exhibit 2, Tab 4, Schedule 11, p. 19.

²⁶ Handbook to Utility Rate Applications, October 13, 2016, p.11

Alectra Utilities identified three discrete and material capital projects for the PowerStream RZ for presentation to customers which totalled approximately \$20.9MM, and identified two discrete and material capital projects for presentation to customers which totalled approximately \$9.4MM for the Enersource RZ. As identified in the IRG Report, customers were presented with the 2019 bill impacts related to the implementation of the projects. They were also presented with the total bill impact over the deferred rebasing period. Large Use customers were presented with individual bill impacts based on historical usage.

Based on feedback received, Alectra Utilities revised its ICM request from \$9.4MM to \$10.7MM in the Enersource RZ. For the Rometown project, all customer groups in the Enersource RZ prefer to at least replace the 78 most pressing poles now and large proportions would like to replace all poles now or replace the existing above ground system with an underground one, even though the cost of these options is higher. Alectra Utilities initially contemplated that it would undertake only a partial replacement of the Rometown overhead system. However, based on feedback from customers above, and as provided in the IRG Report, Alectra Utilities has determined that it will proceed with the full replacement of poles in the Rometown project at a cost of \$3.2MM. These measures demonstrate that the Applicant has appropriately adjusted its planned capital expenditures to account for the priorities and preferences of its customers.

4.0 RESPONSE TO OEB STAFF AND INTERVENOR SUBMISSIONS

In the sections that follow, Alectra Utilities responds to the submissions of OEB staff and the intervenors in detail, issue by issue.

VECC supports the funding of the Leaking Transformer project and the Barrie TS project; all other parties oppose funding for these two projects.²⁷ AMPCO suggests that if the Leaking Transformer project is approved, the OEB should approve \$5.8MM of the total request, based on the 5-year historical unit cost for the 2013 to 2017 period.

OEB staff, SEC, and AMPCO support the funding of the YRRT project; Energy Probe suggests that the OEB direct Alectra Utilities to pay no more than 25% of the costs of relocation and

²⁷ CCC Submission p.6; AMPCO Submission p.4; BOMA Submission pp. 9-11; VECC Submission p.11; SEC Submission p.8; Energy Probe Submission p.8; OEB Staff Submission pp. 12-13.

1 therefore supports partial funding of this project of \$6.7MM. CCC and VECC suggest that the
2 YRRT project should be subject to deferral and variance account treatment.²⁸

3 OEB staff, SEC, AMPCO and BOMA support the Bathurst project. CCC and VECC suggest that
4 the Bathurst project, like the YRRT project, should be subject to deferral and variance account
5 treatment.²⁹

6 All parties oppose Alectra Utilities' request for incremental funding for the Rometown project.

7 Before responding in detail to OEB staff and parties' submissions, Alectra sets out its response
8 to overarching comments those parties make regarding the availability of ICM funding,
9 generally.

10 **Eligibility of ICM Projects**

11 OEB staff, VECC, and Energy Probe take issue with the application of the OEB's ICM policy to
12 Alectra Utilities.³⁰ Each opposes what the OEB has already stated or determined on multiple
13 occasions in prior decisions: that the ICM, as expressed in the March 26, 2015 *Report of the*
14 *Board on Rate Making Associated with Distributor Consolidation* and in the MAADs Handbook,
15 is available to consolidating distributors, such as Alectra Utilities.³¹ Their opposition relies on an
16 incorrect interpretation of OEB policy and erroneous references to the evidence.

17 VECC begins its submission with an examination of the history of ICM and ACM policy. VECC
18 spends considerable time discussing the OEB's use of the terms discretionary, non-
19 discretionary, unanticipated and extraordinary, and concludes that "the simplest projects for
20 which to determine ICM eligibility (provided the threshold and means tests are met) are those
21 that are truly non-discretionary. Other than 'extraordinary' (or perhaps better said 'exceptional')
22 transformer station projects all other ICM candidates should have a basis in a utility's previously
23 reviewed distribution system plan."³²

²⁸ OEB Staff Submission, p. 18; SEC Submission, pp.4-5; AMPCO Submission, pp.7-9; Energy Probe Submission, p.8; CCC Submission, p.5; VECC Submission, pp.9-10; BOMA Submission, p.8.

²⁹ OEB Staff Submission, pp 18-19; SEC Submission, pp.5-6; AMPCO Submission, pp.10-11; BOMA Submission, p.3; Energy Probe Submission, p.3; CCC Submission, p.6; VECC Submission, pp.10-11.

³⁰ OEB Staff Submission, pp. 14-16; CCC Submission, p.2; VECC Submission, pp. 3-5.

³¹ *Report of the Board: Rate-Making Associated with Distributor Consolidation*, March 26, 2015, pp. 7-9.

³² VECC Submission, pp. 5-6.

1 Alectra Utilities submits that the OEB's policy is clear on this point. The ICM is available for
2 discretionary and non-discretionary projects, as well as for capital projects not included in the
3 distributor's previously filed DSP. It is not limited to extraordinary or unanticipated investments
4 and it may be applied to projects that might be considered to be 'routine' or 'business as
5 usual'.³³

6
7 Further VECC submits "that the Board should minimize any new capital spending done under
8 the ambit of an ICM until such time as Alectra has filed an integrated distribution system plan."³⁴

9
10 These arguments by VECC were made by parties last year and were properly rejected by the
11 OEB. In the 2018 proceeding, AMPCO, VECC and CCC all submitted that the OEB should not
12 approve ICMs until Alectra Utilities has prepared a consolidated DSP. In the 2018 Decision, the
13 OEB held that "the availability of an ICM to Alectra Utilities was neither predicated on filing a
14 consolidated DSP, nor limited to one ICM application for the deferred rebasing period"³⁵, a
15 conclusion drawn from the MAADs Decision.

16
17 Lastly, VECC concludes that ICM funding "dilute the rate protection aspects of the Board's
18 policy of deferred rebasing."³⁶ This too is demonstrably wrong as the OEB has confirmed on
19 multiple occasions the availability of ICM funding, where appropriate, for consolidating
20 distributors including Alectra Utilities. Indeed, it is fair to say that an essential component of the
21 OEB's MAADs policy on which any consolidating distributor can be expected to rely is the stated
22 availability of ICM funding.

23
24 Energy Probe takes a similar approach stating, "Alectra is pushing against the door with some
25 of its projects and the OEB should consider the consequences if it opens the door further, not
26 only on Alectra ratepayers but also on the ratepayers of other electricity distributors, which could
27 use this decision as a precedent in future applications." It then goes on to erroneously state that,
28 "In support of the five projects Alectra filed evidence of a Means Test by rate zone as it did in its
29 EB-2017-0024 application."

30

³³ Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,
September 18, 2014, pp. 5-8 ("ACM Report).

³⁴ VECC Submission, p.7.

³⁵ Decision and Order, EB-2017-0024, p. 29, April 6, 2018.

³⁶ VECC Submission, p.6.

1 Energy Probe is simply wrong. As provided in Exhibit 2, Tab 3, Schedule 10 p.16 and Exhibit 2,
2 Tab 4, Schedule 11 p.13, the ROE was provided for Alectra Utilities as a whole and not by rate
3 zone.

4 OEB staff provides a somewhat different and peculiar discussion of the OEB's policies with
5 respect to rate-setting approaches and the need for and use of the ICM/ACM capital funding
6 options with respect to the Transformer Replacement Project. OEB staff makes a lengthy
7 argument and states that "By the continuation of the 2018 ICM rate rider into 2019 (and beyond,
8 until Alectra Utilities next rebases its rates), the program is funded through rates. This is
9 presumably the reasoning for the OEB panel's findings in the 2018 decision (i.e., as noted
10 previously), the OEB expects that this project will evolve to be a typical ongoing capital program
11 and may not be eligible for any additional incremental funding in subsequent years." Further,
12 OEB staff goes on to conclude that "Alectra does not require the amount of the 2019 program to
13 be funded through a new rate rider, since it has capital available from the depreciation expense
14 recovered for the 2018 program."³⁷

15
16 The notion that 2018 ICM funding will fund a different ICM project in a subsequent year is
17 flawed, and inconsistent with OEB policy. An ICM granted with respect to a discrete project
18 funds only that project; not continuations thereof or additional incremental capital spending to
19 that approved in a prior ICM.

20
21 As provided in Section 7.1, Revenue Requirement Calculation, of the ACM report, distributors
22 must file the calculation of the revenue requirement (i.e. the cost of capital, depreciation, and
23 PILs) associated with each approved ACM or proposed ICM, in the applicable Price Cap IR
24 application. The revenue requirement associated with an ICM project, is specific to that project,
25 and is required to fund each approved ACM or proposed ICM. The depreciation and PILs
26 calculation are based on the associated capital cost of the project. Table 1 below, provides a
27 forecast of the revenue requirement for the 2018 approved Transformer Replacement Project to
28 and including 2026, and a reconciliation of that revenue requirement with the amounts forecast
29 to be collected in the ICM rate riders. The 2018 ICM amount and revenue requirement for the
30 2018 Transformer Replacement Project is \$8.45MM and \$0.70MM, respectively, approved as
31 part of Alectra Utilities' 2018 rate application. The ICM rate riders were effective and
32 implemented on May 1, 2018, and are in effect until the next cost of service-based rate order.

³⁷ OEB Staff Submission, pp.15-16.

As a result, Alectra Utilities will recover approximately \$0.47MM of the approved revenue requirement in 2018, which represents an 8 month recovery period in 2018. For 2019 onwards, Alectra Utilities will recover the approved revenue requirement of \$0.70MM. As of the end of 2026, Alectra Utilities will have recovered \$6.1MM over 9 years of applying ICM rate riders. The forecasted revenue requirement for the approved ICM project to and including 2026 is \$6.3MM, resulting in an under collection of revenue requirement of \$0.2MM. OEB staff is proposing that the 2019 Project be funded through the 2018 approved ICM rate rider. Alectra Utilities has demonstrated that the approved funding for the 2018 Transformer Replacement project can only recover the cost of 2018 project, and cannot fund the proposed 2019 Project.

Table 1 – 2018 Transformer Replacement Project Funding Reconciliation

| 2018 Transformer Project | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Total |
|----------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| \$000s | | | | | | | | | | |
| Incremental Capital | 8,447 | 8,224 | 8,000 | 7,777 | 7,553 | 7,329 | 7,106 | 6,882 | 6,659 | |
| Depreciation Expense | (224) | (224) | (224) | (224) | (224) | (224) | (224) | (224) | (224) | |
| Incremental Capital in Rate Base | 8,224 | 8,000 | 7,777 | 7,553 | 7,329 | 7,106 | 6,882 | 6,659 | 6,435 | |
| Return on Rate Base | 535 | 521 | 506 | 491 | 477 | 462 | 448 | 433 | 419 | 4,292 |
| Amortization Expense | 224 | 224 | 224 | 224 | 224 | 224 | 224 | 224 | 224 | 2,012 |
| Incremental Grossed Up PILs | (57) | (41) | (25) | (12) | 0 | 12 | 22 | 30 | 38 | (33) |
| Total Revenue Requirement | 701 | 704 | 704 | 703 | 701 | 697 | 693 | 687 | 681 | 6,271 |
| Rate Rider Revenue | 468 | 701 | 704 | 704 | 703 | 701 | 697 | 693 | 687 | 6,058 |
| Excess/(Shortfall) | (234) | (2) | (1) | 1 | 2 | 3 | 5 | 6 | 7 | (213) |

Finally, in reference to the PowerStream RZ, OEB Staff implies that Alectra Utilities proposed to utilize the entire eligible incremental capital amount. OEB staff states that “In the adoption of the “discrete” project criterion, the OEB expects that when applying for an ICM a utility is not proposing to use the entire eligible incremental capital envelope available for a particular year.”³⁸

Alectra Utilities has a total of 5 proposed ICM projects between the PowerStream and Enersource RZs. The PowerStream RZ has a maximum eligible incremental capital amount of \$25,510,168.³⁹ Alectra Utilities’ proposal to recover \$20,872,246⁴⁰ through the ICM in respect of

³⁸ OEB Staff Submission, p.20.

³⁹ Exhibit 2, Tab 3, Schedule 10, Table 111, p. 15

the PowerStream RZ is therefore within the range acceptable to the Board. The Enersource RZ has a maximum eligible incremental capital amount of \$38,783,623.⁴¹ Alectra Utilities' proposal to recover \$10,700,000⁴² through the ICM in respect of the Enersource RZ is therefore within the range acceptable to the Board.

Response to ICM Specific Projects

Below is Alectra Utilities' detailed response to the submissions of OEB staff and other parties on specific projects proposed for ICM treatment. The proposed ICM projects reflect incremental capital requirements within the context of Alectra Utilities' financial capacity underpinned by its existing rates, and each project satisfies the eligibility criteria of materiality, need and prudence.

For ease of reference, Table 2 below summarizes the proposed ICM projects by rate zone and project classification.

Table 2 – ICM Projects by Rate Zone

| CATEGORY | PROJECT | 2019 BUDGET |
|-----------------------|--|----------------|
| POWERSTREAM RZ | | |
| System Access | 1. Road Authority YRRT Yonge St | \$13.27MM |
| | 2. Bathurst Ave from Hwy 7 to Teston Road | \$5.5MM |
| System Service | 3. Barrie TS Upgrade | \$2.1MM |
| ENERSOURCE RZ | | |
| System Renewal | 4. Leaking Transformer Replacement Project | \$7.5MM |
| | 5. Rometown | \$3.2MM |

Materiality

Alectra Utilities has appropriately calculated the materiality thresholds, and the corresponding eligible incremental capital amounts (i.e. maximum amounts eligible for recovery through ICM), in accordance with the ACM Report, Supplemental Report, Filing Requirements and the *Report*

⁴⁰ Exhibit 2, Tab 3, Schedule 10, Table 112, p. 15

⁴¹ Exhibit 2, Tab 4, Schedule 11, Table 154, p. 12

⁴² Exhibit 2, Tab 4, Schedule 11, Table 155, p. 12

1 of the Board: Rate Making Associated with Distributor Consolidation for each of the
2 PowerStream and Enersource RZs.⁴³

3 OEB staff updated Alectra Utilities' calculation of the materiality threshold to include the 2019
4 inflation factor of 1.5% released by the OEB on November 23, 2018. The revised ICM amounts
5 above the threshold are \$36.8MM for the Enersource RZ and \$22.1MM for the PowerStream
6 RZ. Alectra Utilities agrees with the calculation and submits that its 2019 ICM proposed projects
7 are still within the available amounts above the materiality threshold. OEB staff does not take
8 issue with the materiality threshold calculation.⁴⁴ VECC also takes no issue with Alectra
9 Utilities' calculation of the threshold test.⁴⁵ Given that the last rebasing for the Enersource RZ
10 was in 2013⁴⁶, and that the 2016 Custom IR application for the PowerStream RZ resulted in a
11 single forward test year cost of service decision⁴⁷, the extent of Alectra Utilities' incremental
12 capital needs should not be surprising.

13 In addition to the materiality thresholds used for determining the total eligible incremental capital
14 amounts for each rate zone, the OEB requires distributors to meet project-specific materiality
15 thresholds.⁴⁸ The project-specific materiality threshold, has not been defined by the OEB, and
16 in the case of the 2018 ICM projects, the OEB applied its judgement to assess the materiality of
17 a project in relation to the total capital budget. In the Decision the OEB stated:

18
19 *The ICM policy adopted the approach used in the Toronto Hydro decision, which*
20 *assessed each project individually for its significance against the capital*
21 *spending. The OEB therefore adopts this same approach for the ICMs for Alectra*
22 *Utilities. Amending the ICM policy to include a mathematical materiality*
23 *calculation for this second test should only be done through a policy review. In*
24 *addition, there were no submissions on this issue during the proceeding. The*
25 *OEB has applied its judgement consistent with the ICM policy.*
26

27 Further, the OEB stated that "While one could consider a percentage of the \$267.7 million to be
28 appropriate for the project-specific materiality test, the OEB finds that this is not consistent with

⁴³ Exhibit 2, Tab 3, Schedule 10, pp. 13-14 (PRZ); Exhibit 2, Tab 4, Schedule 11, pp.10-11 (ERZ).

⁴⁴ OEB Staff Submission, pp. 5-6.

⁴⁵ VECC Submission, p. 2.

⁴⁶ Decision and Order, EB-2012-0033, December 13, 2012.

⁴⁷ Decision and Rate Order, EB-2015-0003, September 27, 2016.

⁴⁸ ACM Report, p. 17.

1 the ICM policy.”⁴⁹ Even given this, OEB staff uses a percentage of the total capital budget as the
2 basis to determine project-specific materiality (it appears projects greater than 1% of the total
3 capital budget is material). Other Parties compare to the total Alectra capital budget but provide
4 no rationale as to what classifies a project as material. This results in OEB staff and intervenors
5 advancing largely general ideas, with no justification, of what they believe classifies as material
6 in relation to Alectra Utilities’ overall capital budget. They also fail to recognize the cumulative
7 effect of their proposed disallowances. As should be abundantly clear to parties, the result of
8 disallowing each non-road allowance project is a total disallowance of \$12.8MM. This is in
9 addition to an amount of \$27.4MM that was disallowed in the 2018 ICM Application, for a
10 cumulative impact of \$40.2MM. It is unrealistic to expect Alectra Utilities to absorb such an
11 amount. Alectra Utilities will need to reassess planned capital projects based on future OEB
12 decisions, and determine the extent to which these projects will have to be deferred, as well as
13 the resulting impact on customers (i.e., in terms of reliability, service quality).

14 *Need*

15 In the ACM Report, the OEB explains that need must be demonstrated by (a) passing the
16 Means Test, (b) the amounts must be based on discrete projects, which should be directly
17 related to the claimed driver, and (c) the amounts must be clearly outside of the base upon
18 which the rates were derived.⁵⁰

19 Intervenor submissions with respect to the need for specific projects that have been proposed
20 for ICM recovery by Alectra Utilities are addressed, below.

21 An often-repeated argument made by the Parties is that certain of the projects are not discrete
22 because they contemplate work that is similar in nature to recurring annual capital work. First,
23 given the well-defined range of assets they own, operate and maintain – poles, conductors,
24 transformers, stations – it is unlikely that distributors will encounter work that, by its nature, is
25 different than all other work that it regularly performs in connection with its system. The nature
26 of the work is not what needs to be discrete. Rather, the intention is that the project be clearly
27 defined, relate to a specific location or specific assets on the distribution system, and have a

⁴⁹ Decision and Order, EB-2017-0025, p.25, April 6, 2018.

⁵⁰ ACM Report, p. 17.

specific scope and timeframe for execution. A project that has these characteristics is “discrete”.

Second, there is no requirement that projects be unique or relate to work that is different in kind from work that is carried out as part of ongoing base capital work programs.⁵¹ These are simply not criteria for ICM eligibility. As previously advanced, the ICM is available for discretionary and non-discretionary projects, as well as for capital projects not included in a distributor’s previously filed DSP. It is not limited in its availability to extraordinary or unanticipated investments and it may be applied to projects that may be considered to be routine or business as usual.⁵²

Prudence

The ACM Report and the *Filing Requirements* specify that the amounts to be incurred must be prudent, which means that a distributor’s decision to incur the amounts must represent the most cost-effective option (but not necessarily the least initial cost) for ratepayers.⁵³

The Applicant’s eligible capital projects are prudent because, in the case of the PowerStream RZ, it is for non-discretionary projects. All three projects are mandatory and will need to be completed, in order for Alectra Utilities to be compliant with the PSWHA for the YRRT and Bathurst projects; and Measurement Canada as well as the IESO Market Rules for the Barrie TS project. In the case of the Enersource RZ, the transformer replacement project is a mandatory project, and the Rometown project is required to address aging infrastructure, and is further supported by customer engagement. In each case, the projects are based on capital investment needs for the PowerStream and Enersource RZs for 2019 that are not funded through existing distribution rates.

Intervenor submissions with respect to the prudence of specific projects proposed for ICM recovery by the Applicant are addressed below.

i) Rometown

Since 2014, the Enersource RZ has increased the frequency and detail of its inspections, reviewing outage data more rigorously, as well as striving to implement additional analytical

⁵¹ ACM Report, p. 15.

⁵² Ibid., pp. 6-7.

⁵³ ACM Report, p. 17; Filing Requirements, section 3.3.2.

1 methods to guide the pacing of asset replacements. In order to supplement and enhance the
2 overhead system inspection, Alectra conducted additional testing of wood poles, utilizing the
3 resistograph technology which commenced in 2015. Application of wood pole testing to
4 supplement visual inspection of poles is a utility best practice. The primary driver of the renewal
5 need in the Rometown area is the condition of the assets. Due to the high consequence of
6 failures, Alectra Utilities does not run overhead assets to fail, particularly those that are relied
7 upon for structural support. To do so would introduce significant safety risks to the public and
8 property, be inconsistent with good utility practices and be irresponsible. Further, Alectra
9 Utilities has experienced several outages in the area as a result of the deteriorated overhead
10 system assets. The business case in Attachment 46 identifies that the assets in Rometown are
11 substandard and that there is significant concern that they will continue to fail, and as is typical,
12 fail at an increasing frequency. Upon identifying deteriorated overhead assets through
13 inspection, pole testing and asset condition, Alectra Utilities has determined that it is necessary
14 to address the renewal need.

15 All parties oppose Alectra Utilities' request for incremental funding for the Rometown project.
16 The parties argue fundamentally, that it is comparable to other ongoing capital work programs.⁵⁴
17 As provided in response to ERZ-Staff-87, the Rometown Project is not an expansion of the
18 existing pole replacement program included in base capital. The pole replacement program
19 addresses the typical ongoing replacement of poles that are damaged by vehicle accidents, fire
20 or suffer similar events that require immediate replacement. The pole replacement program also
21 addresses proactive individual pole replacement due to substandard conditions. The proactive
22 replacement of poles is completed based on priority and funding availability. By comparison,
23 and as explained at p.3 of the Rometown business case (Attachment 46), the scope of the
24 project is to renew the deteriorated overhead system to present day standard configuration and
25 to increase the distribution system's longevity. As per the 2016 Asset Condition Assessment
26 ("ACA") study, 34.3% (68 out of 198) poles in this area were flagged "Poor" and 28.3% (56 out
27 of 198) poles "Fair", based on the parameters of pole physical condition, mechanical damage,
28 pole leaning and cracks. The mere fact that poles are being replaced as part of the Rometown
29 project does not make that project part of the program, a distinction the OEB recognized last
30 year in rejecting the submission that the leaking transformer project was a program.

⁵⁴ AMPCO Submission p.4; CCC Submission p.5; BOMA Submission p.14; VECC Submission p.12; SEC
Submission p.7; OEB Staff Submission p.9, Energy Probe p.8.

1 In addition to the above argument, VECC concludes that reliability events are much lower in
2 Rometown than in surrounding areas, after asking Alectra Utilities to compare Rometown
3 outage history with the adjacent neighbourhood. VECC states that “if one were to eliminate
4 2016 from the data Rometown would have a significantly better reliability history than the areas
5 adjacent to it. The second observation is that the actual number of interruptions (as compared
6 to the time to remedy the outage) is significantly lower in Rometown, meaning that the reliability
7 events are much lower in Rometown than in the surrounding area”.⁵⁵

8
9 While VECC may want to discount 2016, it represents the very type of reliability about which
10 Alectra Utilities is concerned, if nothing is done to address the needs of this area. Due to the
11 high consequence of failure, Alectra Utilities does not run overhead assets to fail. Doing so
12 would introduce significant safety risks to the public and property. These risks include: poles
13 falling over; live power lines falling to the ground; and pole fires, all of which have occurred
14 within the last year in Alectra Utilities’ service territory.

15
16 OEB staff argues that “It is important to note that the OEB approved an Overhead Distribution
17 Sustainment Program totalling \$2.7 million for overhead system renewal (this includes \$1.2
18 million for pole replacement and \$1.5 million for overhead equipment replacement) as part of
19 Enersource’s last rebasing application.”⁵⁶ Alectra Utilities agrees that \$1.5MM and \$1.2MM are
20 included in base rates for overhead equipment and pole replacement. However, this program
21 expenditure does not include the two overhead rebuild projects required to be completed in
22 2019 – Rometown at \$3.2MM and Credit Woodlands at \$2.4MM. Alectra Utilities submits that
23 the \$2.7MM approved as part of legacy Enersource’s 2013 Cost of Service Application does not
24 address the volume of overhead equipment replacements required to be completed annually
25 (e.g. overhead switches, insulators, ground wires, brackets, animal guards, etc.), in addition to
26 the number of rebuild projects as identified in Table 55 of the Enersource RZ DSP, filed in the
27 2018 EDR Application.

28 As noted in the discussion of the “need” criterion above, projects do not need to be unique or
29 related to work that is different in kind from that which is carried out through ongoing base

⁵⁵ VECC Submission p.12.

⁵⁶ OEB Staff Submission, p.9.

capital work programs. Projects may be eligible for ICM whether discretionary or non-discretionary, whether in or not in a prior DSP, and whether routine or extraordinary.

In addition, CCC states that “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”.⁵⁷ This argument ignores the results of customer engagement and customer preferences for a full rebuild of the Rometown area. This will be discussed further in the section below on Customer Engagement.

ii) Transformer Replacement Project

This is a mandatory multi-year project that involves replacement of 2,244 transformers that have been identified as showing signs of oils leaks or containing PCB in a planned and paced manner. It addresses safety, environmental, reliability, financial and regulatory risks (particularly to avoid disruptive and costly environmental clean-up and ensure regulatory compliance). While distribution transformers are normally operated on a run to failure basis, the need to minimize safety, environmental, reliability, financial and regulatory risks has led to the replacement of 2,052 transformers identified through rigorous inspections in 2013 to 2016. Transformer oil leaks at 103 sites led to \$5.6MM in incurred costs for environmental remediation and \$19.4MM in capital expenditures for transformer replacements from 2013 to 2016, which were not included in rates.

Based on those inspections, as of January 1, 2017, a total of 2,244 in-service transformers needed to be replaced. During 2017, Alectra Utilities continued to replace leaking transformers and transformers containing PCBs. As at the end of 2017, the backlog was reduced from 2,244 transformers to 1,221 transformers. The reduction of the backlog from 2,244 to 1,221 was driven by the replacement of 628 transformers in 2017 and the removal of 395 transformers from the scope of the backlog. Alectra Utilities considered the OEB’s findings in its Decision and Order in EB-2017-0024 and reconfigured the implementation of the project so as to accelerate the evolution of the project into the ongoing capital program. In addition, in 2017 Alectra Utilities submitted an ICM request for the 2018 scope of the multi-year project. For 2018, the OEB approved \$8.45MM to complete the 2018 scope of the multi-year project. The 2018 scope will

⁵⁷ CCC Submission p.5.

1 address 650 transformers, leaving a backlog of 571 as at the end of 2018. Alectra Utilities plans
2 to complete the 2019 scope of the project, which will address all remaining transformers in the
3 backlog, in order to meet the OEB's expectation that the leaking transformer replacement
4 project is evolved into a typical ongoing capital program from 2020 onward.

5 At p. 58 of the 2018 Decision, the OEB stated that:

6
7 *As part of Enersource's last rebasing application for 2013 rates the OEB*
8 *approved a capital expenditure of \$1.004 million for a transformer replacement*
9 *program. This was a typical annual capital program that any utility would be*
10 *expected to have. From 2013 to 2016, Enersource undertook extensive*
11 *inspections of its transformers. The asset health index using 2015 data identified*
12 *a significant number of transformers in poor or very poor condition. Numerous oil*
13 *leaks from transformers have also been found.*

14
15 *The OEB finds that it was prudent for Enersource to materially increase its*
16 *spending on transformer replacements as a result of the new assessment of*
17 *asset condition. The OEB is also concerned about potential environmental*
18 *impacts of leaking transformers and agree that additional funding for transformer*
19 *replacements is warranted.*
20

21 VECC supports the funding of the Leaking Transformer project and states that "This project is
22 non-discretionary and Alectra has, in our view, adjusted the timing of the remainder of the
23 assets in need of replacement as part of its ordinary capital program. In our view the 2019
24 program is therefore eligible for ICM treatment".⁵⁸

25 AMPCO suggests that if the Leaking Transformer project is approved, the OEB should approve
26 \$5.8MM of the total request, based on the 5-year historical unit cost for the 2013 to 2017 period.
27 All other parties oppose funding for this project.⁵⁹ AMPCO's suggestion is inappropriate. As all
28 units do not cost the same, it is not reasonable to use an average cost. As identified in response
29 to ERZ-Staff-90 d), Alectra Utilities identified the capital costs to replace the remaining backlog
30 of transformers, by transformer type. Estimated project expenditures were budgeted based on
31 the number of transformer types remaining to be replaced. Alectra Utilities proposes to replace
32 461 single-phase pad mounts transformers, 47 three-phase pad mounts, 233 vault transformers
33 and 480 pole mount transformers in 2018 and 2019. The cost to replace each type of

⁵⁸ VECC submission p.11.

⁵⁹ CCC Submission p.6; AMPCO Submission p.4; BOMA Submission pp. 9-11; VECC Submission p.11; SEC
Submission p.8; Energy Probe Submission p.8; OEB Staff Submission pp. 12-13.

transformer varies, at a cost of \$0.007MM for a pole mount transformer to \$0.03MM for a three-phase pad mount.

Parties that oppose this project argue that this project is not unique, that it involves normal capital expenditures and that it is part of routine ongoing work programs.⁶⁰ Further, all parties point to the OEB's statement last year that it expect this project "will evolve to be a typical ongoing capital program and may not be eligible for any additional incremental funding in subsequent years".⁶¹

Alectra Utilities agrees with the OEB and responded to its expectation. In the 2018 proceeding Alectra Utilities had indicated that the project was scheduled to be completed in 2021. Alectra Utilities has addressed the OEB's Decision and has reconfigured the implementation of the project so as to accelerate the evolution of the project into the ongoing capital program starting in 2020.

BOMA also argues that "the company's evidence is incomplete on the federal/provincial legislative framework on oil leaks from transformers" and that the legislative framework "does not require that every transformer leaking oil must, however immaterial the amount of oil, be immediately replaced".⁶² This is wrong. Alectra Utilities is obligated to mitigate and restore the site for any oil spillage. Section 93 of the Ontario *Environmental Protection Act* states that "The owner of a pollutant and the person having control of a pollutant that is spilled and that causes or is likely to cause an adverse effect shall forthwith do everything practicable to prevent, eliminate and ameliorate the adverse effect and to restore the natural environment."⁶³

iii) York Region Rapid Transit

This project involves the relocation of overhead and underground distribution assets as required to accommodate York Region Rapid Transit Corporation's ("YRRTC") Bus Rapid Transit ("BRT") developments. The timing for this work is driven by the YRRTC in conjunction with its contractors. The project, which includes development of BRT rapidways, is a key component of York Region's Transportation Master Plan. This investment is required to complete the

⁶⁰ Ibid.

⁶¹ Decision and Order, EB-2017-0024, p. 58, April 6, 2018.

⁶² BOMA submission, p.11.

⁶³ Environmental Protection Act, Section 93.

1 remaining work on the H2 and Y2 sections for the multi-year project related to the YRRT
2 relocations. Alectra Utilities plans to complete the 2019 scope of the H2 and Y2 pertaining to the
3 YRRT relocations; these will be put into service in 2019. In its 2018 Decision, the OEB approved
4 the YRRT project for ICM funding of \$11.24MM, effective May 1, 2018, identifying that “[t]he
5 work is mandatory under the *Public Service Works on Highways Act*.⁶⁴

6 OEB staff, SEC, and AMPCO support the funding of the YRRT project. Energy Probe suggests
7 that the OEB direct Alectra Utilities to pay no more than 25% of the costs of relocation and
8 therefore supports partial funding of this project of \$6.7MM. CCC and VECC suggest that the
9 YRRT project should be subject to deferral and variance account treatment and opposes ICM
10 treatment for this project. BOMA opposes funding for this project.⁶⁵

11 Parties that oppose approval of this project argue that there is inherent uncertainty with
12 government-backed infrastructure projects and that they should be subject to deferral account
13 treatment, namely by establishing a deferral account to record actual costs for future review and
14 recovery. CCC submits that “that the most appropriate way to deal with these road authority
15 projects is to consider them a Z-factors and record the costs in a variance account for final
16 recovery at a future date.”⁶⁶ It goes on to ask the OEB to reconsider its position on this issue,
17 which it rejected in the 2018 Decision. CCC assertion that this project qualifies for Z-factor
18 treatment is wrong. Z-factor treatment applies to matters which meet the OEB’s established
19 criteria, one of which is that it is related to unforeseen events. This project would not qualify for
20 Z-factor treatment. Not only is it foreseen, it is ongoing.

21 VECC takes a similar approach. It begins by arguing that “Were the YRRT subject to deferral
22 account treatment the Board would be able to scrutinize the costs and ask questions with
23 respect to the appropriate contributions when account disposition was sought – presumably
24 when the various YRRT projects were all completed.”⁶⁷ This is simply not the case. Alectra
25 Utilities has provided extensive pre-filed evidence⁶⁸ in addition to 27 interrogatory responses on

⁶⁴ Decision and Order, EB-2017-0024, p.34, April 6, 2018.

⁶⁵ OEB Staff Submission, p. 18; SEC Submission, pp.4-5; AMPCO Submission, pp.7-9; Energy Probe Submission, p.8; CCC Submission, p.5; VECC Submission, pp.9-10; BOMA Submission, p.8.

⁶⁶ CCC Submission, p.5.

⁶⁷ VECC Submission, p.9.

⁶⁸ Attachment 31, ICM Business Cases, p.8.

1 this issue and comprehensive oral testimony.⁶⁹ All parties had multiple opportunities to
2 scrutinize the costs and ask questions with respect to the appropriate contributions.

3 BOMA also cited a 400% cost increase in the 2019 cost of project.⁷⁰ The cost of the project did
4 not increase 400% as indicated by BOMA. The forecasted in-service additions for the 2019
5 scope of the multi-year project did increase, but the overall project gross in-service additions
6 increased by \$11.7MM from \$69.0MM to \$80.7MM which represents a 17% increase in the
7 gross project cost. A detailed explanation of the 17% increase in project cost was provided in
8 response to PRZ-Staff-60.

9 Though SEC supports approval of this project, it does raise a concern that Alectra Utilities will
10 continue to have responsibility for projects such as this, well into the future, involving tens of
11 millions of dollars each year during the deferred rebasing period, not only in York Region, but
12 also in Peel and Hamilton. SEC submits that the “the Board should direct the Applicant to file, in
13 its rate application for 2020, a detailed forecast of rapid transit projects in its service territory. In
14 addition, SEC proposes that the Board invite the Applicant to file, with that application, a
15 proposal for multi-year funding of its rapid transit obligations that balances the needs of the
16 utility with the needs and preferences of the customers. This may be, for example, a series of
17 ICMs, or a program akin to an ACM, or some combination of those with deferral and variance
18 accounts.”⁷¹ In principle, Alectra Utilities agrees with SEC that, in the context of its deferred
19 rebasing, it may be appropriate to consider alternatives to annual ICM applications to consider
20 funding for transit or other required projects. Rather than the invitation proposed by SEC,
21 Alectra Utilities undertakes to consider this issue and bring forward its own proposal, if
22 appropriate, in its next rate proceeding.

23 Parties also raise concerns with the cost sharing arrangement between Alectra Utilities and the
24 YRRTC. As provided in response to BOMA-6, the apportionment of costs for relocating public
25 utilities within a municipal road allowance is determined in accordance with the PSWHA. The
26 PSWHA specifies that a road authority and an electricity distribution company may agree upon
27 the apportionment of the cost of labour. In the absence of an agreement such costs shall be
28 apportioned equally and all other costs of the work shall be borne by the electricity distribution

⁶⁹ Oral Hearing Testimony, Volume 1.

⁷⁰ BOMA Submission, p.5.

⁷¹ SEC Submission, p.5.

1 company. Under the PSWHA, the “cost of labour” is a defined term that includes wages paid to
2 workers as well as other elements, such as the cost of using mechanical labour-saving
3 equipment in the work. Typically, for road widening projects, the “cost of labour” that is shared
4 between the road authority and the electricity distribution company accounts for 30 to 40% of
5 the total project cost. As a result, in the absence of an agreement, the costs of a typical road
6 widening project would be allocated 30-40% to the road authority and 60-70% to the electricity
7 distribution company. As permitted under the PSWHA, Alectra Utilities was able to persuade the
8 YRRTC to agree to a different apportionment of the cost responsibility for different portions of
9 the relocation project based on the incremental costs of certain requests made by the YRRTC.
10 At the request of the YRRTC, Alectra Utilities was required, for specific portions of the YRRT
11 project, to relocate some sections underground, install concrete poles with specifications
12 beyond existing standards and relocate assets at different spacing requirements. Alectra
13 Utilities and YRRTC agreed to reflect these incremental relocation costs by having YRRTC bear
14 greater portions of these relocation costs.

15
16 BOMA suggests that “Alectra did not have to accede to YRRT's demands to accelerate its work
17 in that manner. It could have, and should have, resisted. The cost increase would then have
18 been less.”⁷² VECC makes the same argument that “Alectra has not demonstrated the due
19 diligence that would be expected. We believe that if similar circumstances had arisen with
20 respect to a private developer - rather than being subject to the PSWHA – there would have
21 been some cost overrun protections negotiated.”⁷³

22 BOMA's bald assertions that Alectra Utilities could have “resisted” and “did not have to accede
23 to YRRT's demands” ignores the legislative requirements relied upon by utilities, which govern
24 their interactions with municipalities. The PSWHA mandates that Alectra Utilities remove,
25 relocate, or reconstruct its appliances or works (i.e., poles, wires, conduits, transformers, pipes,
26 pipe lines or any other works and structures) before the date specified by YRRTC. The PSWHA
27 further outlines that where a road authority incurs a loss or expense by reason of an operating
28 corporation failing to relocate assets, the operating corporation shall make due compensation to
29 the road authority for such loss or expense. Had Alectra Utilities resisted the work, as BOMA

⁷² BOMA Submission, p.6.

⁷³ VECC Submission, p.9.

suggests, Alectra Utilities would be liable for significant cost for causing construction delays onto the YRRTC and other constructors.

Finally, BOMA, VECC and Energy Probe suggests that Alectra Utilities' ability to negotiate what it would classify as "fair" apportionment of costs was impeded by the "inherent conflicts in the governance of the municipally held utility and the municipal led road related projects."⁷⁴ BOMA submits that "Alectra's ability to negotiate was compromised by the number of municipal officials on its board (much of its board was appointed by its various municipal shareholders), and many members of the YRRT board were appointed by York Region".⁷⁵ Energy Probe makes the same argument and devotes five pages of its eight page submission to explaining that: 1. "busways are clearly not roads and YRRTC is therefore not a "road authority" and; 2. "Although Alectra and YRRTC are not affiliates as defined by the Affiliate Relationship Code, for all practical purposes Alectra and YRRTC are behaving as affiliates and the OEB should not treat them as independent companies operating in an arm's length relationship."⁷⁶ This position is fundamentally wrong, and Energy Probe, in its own submission, has acknowledged that the YRRTC and Alectra Utilities are not affiliates.

iv) Bathurst Road Widening

OEB staff, SEC, AMPCO and BOMA support the Bathurst project.⁷⁷ Energy Probe suggests that this \$5.5MM project can be funded by the company when one considers the entire capital budget. Energy Probe is the only intervenor that does not consider this project to be material in relation to the total capital budget.⁷⁸ CCC and VECC suggest that the Bathurst project, like the YRRT project, should be subject to deferral and variance account treatment.⁷⁹ Alectra Utilities submits that this is the same argument advanced for the YRRT project, as discussed above.

v) Barrie TS Upgrade

⁷⁴ Energy Probe Submission, pp.4-9; VECC Submission, pp.9-10; BOMA Submission, pp.7-8.

⁷⁵ BOMA Submission, p.7.

⁷⁶ Energy Probe Submission, pp.4-9.

⁷⁷ OEB Staff Submission, pp 18-19; SEC Submission, pp.5-6; AMPCO Submission, pp.10-11; BOMA Submission, p.3.

⁷⁸ Energy Probe Submission, p.3.

⁷⁹ CCC Submission, p.6; VECC Submission, pp.10-11.

1 VECC is the only intervenor that supports the funding of the Barrie TS project.⁸⁰ All other parties
2 oppose ICM funding as they believe the project is not significant relative to the overall Alectra
3 Utilities capital budget. As noted in the discussion of the “materiality” criterion above, the
4 additional undefined project-specific materiality threshold unfairly punishes Alectra Utilities.

5 BOMA also argues that Alectra Utilities should not be paying the entire cost of the feeder
6 relocations. BOMA submits that “part of the reason for the relocation cost is to ensure the newly
7 positioned six (6) Alectra feeders not conflict with the two (2) Innisfil feeders.” It goes on to say
8 that “it is not clear why the existing meters cannot continue to be used and simply moved from
9 the TS bus to Alectra's own meter enclosures. The composition of the meter upgrade
10 component of the total costs is not clear”.⁸¹ Alectra Utilities owns and operates six feeders
11 (13M3-13M8) from the Barrie TS used to supply Alectra Utilities’ customers. As a result of the
12 rebuilding of the Barrie TS, Alectra Utilities is required to relocate the six feeders in order to
13 match the breaker lineup of the new station. One additional Alectra Utilities’ feeder (23M24) will
14 also be relocated, as the present location is in conflict with the new station. The feeder
15 relocation is not as a result of conflict with the two (2) Innisfil feeders, as indicated by BOMA.

16 BOMA also suggests that the wholesale metering should be ‘simply’ moved from the existing TS
17 bus to Alectra Utilities’ own meter enclosures. This is not a technically feasible solution, as bus
18 metering and feeder metering are not interchangeable. First, Alectra Utilities is proposing to
19 implement feeder metering utilizing primary metering enclosures. Feeder metering is
20 fundamentally different than bus metering. As outlined in the Barrie TS Upgrade Feeder and
21 Wholesale Metering Relocation Business Case⁸², Alectra Utilities is responsible for upgrading
22 the revenue metering equipment at Barrie TS as per Schedule 4 of the Hydro One Customer
23 Wholesale Revenue Metering Agreement. The options available to Alectra Utilities are to
24 upgrade with (i) station bus metering or (ii) utility feeder metering using Primary Metering
25 Enclosures.

26
27 AMPCO questions the in-service date of December 2019, stating that “Hydro One has not
28 provided Alectra Utilities with an implementation plan for the project. There is a risk that the in-
29 service date could be pushed into 2020. AMPCO submits customers should not bear the risk

⁸⁰ VECC Submission, p.2.

⁸¹ BOMA submission, p.4.

⁸² Attachment 31, p.5.

1 that the project does not go in-service on time.⁸³ Alectra Utilities' portion of the work will be
2 completed in 2019. The feeder relocation is required to be completed during the underground
3 civil portion of the station renewal. Alectra Utilities plans to complete the feeder relocation in
4 2019. Once Alectra Utilities' feeders have been relocated, Hydro One will install all necessary
5 equipment including the power transformer, breakers and protection controls in 2020.

6 7 **Customer Engagement** 8

9 Alectra Utilities' customer engagement for the 2019 ICM projects is a continuation of the
10 customer engagement activities undertaken for the Enersource RZ DSP and ICM projects in
11 Alectra Utilities' 2018 EDR Application. Further, Alectra Utilities has considered the submissions
12 from OEB Staff and Intervenor during the 2018 EDR Application proceeding in order to refine
13 its 2019 ICM-related customer engagement. Alectra Utilities has also considered and had
14 regard to the OEB's findings in the 2018 Application proceeding.

15 The following changes in survey design were incorporated to address issues raised from the
16 previous 2017 customer engagement:

- 17 1. In the 2017 customer engagement, a concern was raised about using a question skip
18 approach in the ICM section, wherein customers had the choice to skip specific project
19 details. In this round of customer engagement, the decision was made to keep the
20 survey short enough to ensure that all respondents were asked about each individual
21 ICM project;
- 22 2. In the 2018 ICM rate application decision, the OEB expressed a desire for more project-
23 specific customer feedback. While it is too early in the DSP process to identify specific
24 projects, an effort was made to develop project specific questions in the ICM section
25 where there were alternatives that created meaningful differences in customer
26 outcomes;
- 27 3. To provide better insight into vulnerable customers, questions were added to identify
28 LEAP qualified respondents. Segmentation sidebars were added to show how
29 vulnerable customer responses compare to other customers; and

⁸³ AMPCO Submission, p.11.

1 4. There has been an effort made to provide more relevant background information for
2 DSP trade-off questions. This includes familiarity with how distribution rates are set in
3 Ontario (E19). E21 shares information about current reliability experienced by the
4 average customer as well as the share of outages due to equipment failure before
5 asking about the renewal trade-off focus question (E22).

6 Despite this, many parties take issue with Alectra Utilities' customer engagement efforts. These
7 complaints fall into two broad categories. First, a complaint about the process itself; and second,
8 criticism of the questions asked, or not asked, of customers. On any fair, complete reading of
9 the IRG Report and evidence, the message from customers is clear: while concerned with the
10 total amount of their electricity bills, most customers support some form of investment program
11 that ensures a consistently reliable and modern distribution system that addresses growth and
12 system demands.

13 1. Process Complaint

14 AMPCO suggests that Alectra Utilities did not have sufficient time to consider and incorporate
15 customer feedback from its customer engagement. It states that "The Final Customer
16 Engagement Report from IRG is dated May 29 and Alectra filed its application on June 7, 2019.
17 AMPCO submits the customer preference data Alectra is relying on to change its original plan
18 from a partial rebuild to a full rebuild is weak.⁸⁴ As provided in response to interrogatory G-Staff-
19 1, Alectra Utilities maintains an ongoing dialogue with customers. Alectra Utilities found it
20 prudent not to begin customer engagement specifically related to this Application until it
21 received further direction and clarity from the Board related to the utility's 2018 ICM Application.
22 Alectra Utilities received its Decision and Order on April 5, 2018, at which point preparation and
23 planning for this customer engagement had already begun. Alectra Utilities considered the
24 partial and final survey results against the list of proposed projects and revised its capital
25 expenditure plans. There was more than sufficient time to undertake this consideration, given
26 Alectra Utilities' pre-existing dialogue with customers including the customer consultation for
27 these rate zones that had been completed for the 2018 IRM and ICM application, and given the
28 nature of the issues: consideration of the Enersource and PowerStream RZ ICM funding.
29

30 2. Questionnaire Design and Question Wording

⁸⁴ AMPCO Submission, p 6.

Parties' challenges to the specific questions asked or not during the IRG engagement process are discussed below.⁸⁵ At the outset, however, some context concerning customer engagement is required.

Every customer consultation has two key barriers: customers begin with limited knowledge of the utility; and they are not prepared to devote a lot of time to a consultation.⁸⁶

These barriers have important implications:

1. To ensure the engagement includes a representative sample, all consultation tools must give low information participants the information they need to provide a meaningful answer to any question.

2. All consultation tools need to limit the time demands they place on participants or else risking bias by losing less engaged customers.

Any survey or workbook must begin with the assumption that respondent knows very little about the utility. In this case, due to the merger, the engagement had to start with the name. Question B5 of the telephone surveys established awareness of the name and the introduction in B6 established the language to be used as the survey progressed.⁸⁷

It is also important to ensure that customers understand what a distributor does and does not do, as well as what portion of their bill applies to the distributor. All customers must at least have that information at hand before more substantive questions can be addressed. This was addressed with questions, B7 and B10 in the telephone survey.⁸⁸ Only with those questions, could IRG be sure if the comments being collected were focused on Alectra Utilities and its responsibilities, or if they were focused on other elements of the electricity system. Finally, before moving into the discussion of the ICM projects and their potential rate impacts, questions E19 and E26 established the basics of the rate approval and Price Cap IR process.

Providing Context for Choices. The telephone surveys were designed to elicit the range of key considerations for customers. Questions B8 and B9 allowed IRG to collect information

⁸⁵ CCC Submission, p.5; AMPCO Submission, p.5; VECC Submission, p.12.

⁸⁶ Customer Engagement Report, p.12.

⁸⁷ Customer Engagement Report, p.13.

⁸⁸ Customer Engagement Report, p.13.

1 about customers' needs.⁸⁹ Questions C12, C13, C14 and C15 allowed customers to provide
2 feedback on the goals Alectra Utilities should pursue in its business plan.⁹⁰ Both closed and
3 open-ended questions were used. The closed-ended items were tested for completeness in the
4 testing focus groups. The items used in the survey were the highest priority from those groups.
5 Open-ended questions were provided as safety-valves for customers to express specific needs
6 and to identify other priority outcomes. This ensured that customers did not move into the more
7 detailed questions until they had considered their own needs and the broad range of goals the
8 utility should pursue.

9 **Providing Tools for Analysis.** The sample itself allowed customers to be grouped by region,
10 rate class and usage within rate class. In addition, IRG included two "controls" for factors that
11 are often found to influence opinions on distribution issues: general perceptions of the sector
12 and financial circumstances. This is in addition to the LEAP segmentation analysis referenced
13 above.

14 **Focusing on the Key Topics.** Any consultation should focus on eliciting information relevant to
15 the matters at issue. Here, that meant relevant to the ICM application.

16 Enersource RZ respondents were asked about two ICM renewal projects; leaky transformers
17 and the Rometown area overhead system. In each, respondents were given a short introduction
18 of the issue and asked to choose between the alternative approaches available. In each case,
19 the options tied costs to potential benefits.

20 PowerStream RZ respondents were asked to consider three ICM projects. The York Regional
21 Rapid Transit project is a system access project with no major design choices. The Barrie TS
22 project has two options with no differences in customer outcomes, so Alectra Utilities is
23 proposing the least expensive option. Those two projects were described to customers, but no
24 project specific questions were asked. PowerStream RZ respondents were then asked about
25 the design choices for Bathurst Street road widening project. Again, the options for this ICM
26 project tied costs to potential benefits.

⁸⁹ See for example, Customer Engagement Report. Appendix 3.1, p. 5

⁹⁰ Ibid., p.6

1 AMPCO and VECC suggest that, with respect to the Rometown project, the information
2 provided was limited and insufficient for customers to make an informed determination.⁹¹ This
3 suggestion is misplaced. It fails to recognize the real, practical choices that have to be made
4 between time and detail.

5 Many customers start with limited knowledge. The more “technical” an engagement becomes,
6 the more participants that are lost. That means the sample becomes less representative as
7 people with limited interest in technical information or limited ability to understand technical
8 information drop out. In so far as the tools invest time and space providing the background
9 information required for low information participants to provide meaningful feedback, that
10 “education” effort crowds out other topics.

11 CCC also complains that “It is Alectra’s own evidence that indicates it only questioned its
12 customers about the bill impacts related to the partial replacement (\$1.85 million). Alectra
13 concludes that the views of the customers would not be significantly different under the full
14 replacement scenario, but those questions were never asked. The Council does not accept that
15 going from a partial rebuild to a full rebuild of the Rometown Area has been justified on the
16 basis of the customer engagement process undertaken by Innovative Research”.⁹² This is
17 wrong. At p. 25 of the Enersource RZ survey (Appendix 1.0), the bill impacts for all three
18 proposed options were presented to customers. Specifically, customers in the Enersource RZ
19 were asked whether:

- 20
- 21 1. Enersource should proceed now to replace 78 of the 198 poles in the pressing need
22 resulting in a monthly increase of 3 cents for the average residential customer;
 - 23 2. Enersource should proceed now to replace all 198 poles at a cost of 3.2 million
24 dollars, resulting in a monthly increase of 5 cents for the average residential
25 customer; and
 - 26 3. Enersource should proceed now to replace the Rometown overhead system with an
27 underground system at a cost of between \$12 and \$18 million dollars, resulting in a
28 monthly increase of between \$0.19 and \$0.28 cents for the average customer.

⁹¹ AMPCO Submission, p 5; VECC Submission, p.12.

⁹² CCC Submission, p.4.

1 **Interpreting the Results.** Some parties complain about how to interpret the results specifically
2 related to whether or not the public supported the proposed ICM projects. BOMA, AMPCO and
3 Energy Probe question customer's support for a full rebuild of Rometown.⁹³ BOMA says that
4 "Alectra states that its initial decision, which it made on cost-effectiveness grounds, was to
5 replace only the assets in poor condition in order to align the cost with customers' preferences,
6 to reduce costs, or reduce the rate of increase in costs, and that they decided to invest in a full
7 area rebuild only when they saw the results of the customer engagement in which, Alectra
8 claims, customers expressed a preference for a full rebuild (the \$3.3MM investment). However,
9 BOMA is of the view that Alectra has misstated the actual result from the engagement. Alectra
10 claims that "the May 2018 Customer Engagement, Alectra customers in the Enersource Rate
11 Zone indicated a preference for the Overhead Rometown Rebuild Project".⁹⁴

12
13 These assertions are contrary to the actual evidence. A strong majority of 66% of Enersource
14 residential customers chose either the full replacement or the more expensive underground
15 option. Opinion was more divided among business rate classes with 44% of Small Business
16 customers, 48% of Mid-Sized customers and 4 out of 9 large customers chose either full
17 replacement or the more expensive underground option. To continue with the initial plan to
18 conduct a partial replacement would be in conflict with the wishes expressed by the largest
19 number of customers. This is consistent with the finding from p. 5 of the IRG Report which
20 shows that the majority of customers, with the exclusion of Large Use customers in the
21 PowerStream RZ (6 of 13), feel that the utility should invest what it takes to replace the system's
22 aging infrastructure to maintain system reliability (see 2019 ICM Customer Engagement Report,
23 p. 5).

24 BOMA makes the same argument with respect to the Transformer Replacement Project. BOMA
25 says, "Finally, Alectra's Enersource evidence misrepresents the degree of customer support for
26 the proposed 2019 leaking transformer replacement investment expressed during the May 2018
27 Customer Engagement."⁹⁵ This is wrong.

28 As provided at p. 7 of the Customer Engagement Report, Enersource rate zone customer
29 groups are divided on leaky transformers. Majorities in the residential and GS<50kW

⁹³ BOMA Submission, p. 15; AMPCO Submission p.6; Energy Probe Submission p.8.

⁹⁴ BOMA Submission, p. 15.

⁹⁵ BOMA Submission, p. 12.

respondent groups prefer to pay more to replace the leaky transformers now. GS>50kW customers and Large Use customers prefer to stick with replacement within the current renewal plan. Given the rate classes were divided, Alectra Utilities used customer reaction to the overall cost of the proposal to reconcile the division. While initial support for the replacement of leaking transformers among GS>50kW customers was 40%, overall support for the proposed rate increase was 56%. Six of nine Large Use customers in the Enersource RZ felt that the utility should replace leaky transformers as part of its existing renewal plan (see Appendix 1.0, Enersource Rate Zone 2019 ICM Application Consultation, p. 93), yet 7 of 9 of these customers felt that the overall proposed rate increase is reasonable (see Appendix 1.0, Enersource Rate Zone 2019 ICM Application Consultation, p. 95). Given the clear preference of low volume customers for the transformer replacement project as proposed and the willingness of larger customers to accept the total rate increase, it is appropriate to include the project in Alectra Utilities' 2019 plans

5.0 OTHER ISSUES RAISED - EFFECTIVE DATE

OEB staff submits that "the effective date for the ICMs should be January 1, 2019. However, in the event that the foregone revenue rate rider results in a fixed rate rider that rounds to zero at the second decimal place or a volumetric rate rider that rounds to zero at the fourth decimal place, in one or more rate classes, Alectra Utilities should forgo the foregone revenue for the following reason." It goes on to say "OEB staff notes that the calculated ICM rate rider will be collected until the next cost of service, which in this case is longer than the typical IRM period. As noted earlier, ICM riders are not adjusted during non-rebasing years to update for components such as net book value. The asset's "rate base" is essentially frozen in time and the utility is in theory over collecting on its return and potentially PILs. This longer period should allow Alectra Utilities to recover the required funding even if Alectra Utilities forgoes the foregone revenue."⁹⁶ No other parties made submissions on this matter.

Alectra Utilities filed its application on June 7, 2018. This is in line with, or in advance of, any applicable guidance provided by the OEB. Alectra Utilities agrees with OEB staff that the ICM riders should be effective January 1. However, Alectra disagrees with OEB staff that Alectra

⁹⁶ OEB Staff Submission, p.21.

Utilities is “in theory over collection on its return and potentially PILs”.⁹⁷ As demonstrated in response to OEB staff’s earlier argument that the 2018 transformer replacement project ICM riders funds the 2019 project, it is evident that Alectra Utilities is not over collecting over the deferred rebasing period.

6.0 CONCLUSION

For the reasons identified above, Alectra Utilities submits that its electricity distribution rates should be approved as filed, or as revised.

All of which is respectfully submitted this 9th day of January, 2019

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs
Alectra Utilities Corporation

⁹⁷ Ibid.

1 APPENDIX A - KEY RATIONALE FOR ICM PROJECTS

| PROJECT (Category) (2019 Budget) | KEY RATIONALE |
|--|---|
| POWERSTREAM RZ | |
| York Region Rapid Transit VIVA Bus Rapid Transit Y2 and H2 Projects System Access \$13.27MM | <ul style="list-style-type: none"> • This project involves the relocation of overhead and underground distribution assets as required to accommodate York Region Rapid Transit Corporation's ("YRRTC") Bus Rapid Transit ("BRT") developments. The timing for this work is driven by the YRRTC in conjunction with its contractors. The project, which includes development of BRT rapidways, is a key component of York Region's Transportation Master Plan. • The rapidway development phases that are currently under construction and impacting the PowerStream RZ include the "Y2 phase" (two project sections along Yonge totaling 6.5km), and the "H2 phase" (two project sections along Highway 7 and several other roadways totaling 8.5km). The H2 and Y2 phases are slated for completion in 2019, and involve major thoroughfares with significant overhead and underground distribution plant (including 27.6kV feeders) which must be relocated before the rapidways can be built. H2 and Y2 are to be completed in 2019. • Alectra Utilities is required to relocate its distribution plant to facilitate transportation infrastructure developments by road authorities in accordance with the <i>Public Service Works on Highways Act</i>. Therefore, this project is considered mandatory. |
| Barrie TS Upgrade Feeders System Service \$2.09MM | <ul style="list-style-type: none"> • As part of regional planning led by the Independent Electricity System Operator ("IESO") for the South Georgian Bay/Muskoka planning region, the need to renew and rebuild the Barrie Transmission Station ("TS") was identified. The Barrie TS station renewal is required as the equipment (power transformers, 44kV switchgear, circuit breakers, disconnect |

| | |
|--|--|
| | <p>switches and ancillary station equipment) have reached end-of-life.</p> <ul style="list-style-type: none"> Barrie TS is owned and operated by Hydro One which is scheduled to undertake the station rebuild in 2019. As a result of the station rebuild, Alectra Utilities is required to relocate six feeders that service Alectra Utilities customers in City of Barrie, reconfigure one Midhurst TS feeder as well as implement corresponding wholesale revenue metering equipment required to for compliance to the IESO market rules. In addition to the feeder reconfiguration, Alectra Utilities is responsible for upgrading the revenue metering equipment at Barrie TS as per Schedule 4 of the Hydro One Customer Wholesale Revenue Metering Agreement. Alectra Utilities will install six PME's two element delta metering and associated communication, protection and switching. This work is required to be completed in 2019 in coordination with Hydro One's rebuild of the station and other local distribution company also serviced from Barrie TS. |
| <p>Bathurst Road Widening from Hwy 7 to Teston Road</p> <p>System Access</p> <p>\$5.5MM</p> | <ul style="list-style-type: none"> Alectra Utilities installs the majority of its electrical distribution infrastructure along road right of ways that are owned and managed by the City of Vaughan and the Regional Municipality of York at no cost to the utility. Alectra Utilities distribution equipment occupies road allowances, at no cost, and in return is required to remove, relocate, or reconstruct its facilities in order to accommodate the specific requirements of the road authorities. The road authorities' road works program drives plant relocation scope and timing. To expand the transportation system in order to accommodate growth in travel demand resulting from development in Richmond Hill and Vaughan, the Regional Municipality of York is widening Bathurst Street from Highway 7 to Teston Road from four to six lanes as well as including Transit-HOV lanes and off-street cycling facilities. The proposed solution is to relocate the overhead and underground assets. Road Projects are mandatory obligation under the Distribution System |

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| | <p>Code (“DSC”), Section 3.4. – Relocation of Plant that requires Alectra Utilities to address relocation of its assets when requested by a road authority. If this project is not approved, this mandatory work will still need to be completed to comply with the DSC and PSWHA. A reassessment of other planned discretionary projects would need to be completed to determine the potential project deferrals that would be required to fund this work.</p> |
| ENERSOURCE RZ | |
| <p>Transformer Replacement Project</p> <p>System Renewal</p> <p>\$7.50MM</p> | <ul style="list-style-type: none"> • Capital investment is required in 2019 to complete a multi-year project to replace a backlog of transformers that were found to be leaking or containing PCB oil. This project is a continuation of a project approved by the OEB for funding in its decision on Alectra Utilities’ 2018 Electricity Distribution Rate Application and Incremental Capital Module (“ICM”) Application (EB-2017-0024). • Alectra has developed a multi-year project to address the remaining 1,221 leaking transformers and transformers containing PCB oil to minimize safety, environmental, financial and regulatory risks. Failure to replace these transformers in a timely manner will pose a considerable risk to the environment, the public and to Alectra should the identified transformers not be addressed and require environmental remediation. • While distribution transformers are normally operated on a run to failure basis, the need to minimize safety, environmental, reliability, financial and regulatory risks has led to the replacement of 2,680 transformers identified through rigorous inspections in 2013 to 2016. Transformer oil leaks at 103 sites led to \$5.6MM in incurred costs for environmental remediation. • To maintain a high level of environmental stewardship and to ensure compliance with regulatory and environmental regulations, Alectra is required to urgently address situations where oil filled transformers have been found to be leaking or containing PCB oil. |

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| <p>Rometown Area Overhead System Rebuild</p> <p>System Renewal</p> <p>\$3.2MM</p> | <ul style="list-style-type: none">• Based on inspection of overhead systems, a number of poles were found to be in poor condition, which included demonstrable evidence of rotting, mechanical damage, evidence of insect infestation, and pole cracking. In addition, through field inspections, Alectra identified a number of overhead mounted transformers leaking oil. Consequently, the area south of Queen Elizabeth Way and east of Dixie Road (i.e., Rometown) was identified as needing investment renewal.• This project targets a defined system area with known substandard assets, based on identified system renewal needs and seeks to bring the existing substandard overhead system to present day standards. This differs from Alectra's more limited annual Pole Replacement Program which aims to replace individual poles throughout the RZ based on identified hazards and poor condition. The Rometown project not only includes the replacement of poles, but also the replacement of substandard overhead system configuration with porcelain or known hazardous polymer insulators, replacement of damaged grounds, incorporates animal contact protection and provides improved clearance for enhanced safety.• The proposed solution is to renew the entire overhead system in the area complete with new concrete and wood poles, framing, insulators, and replacement of pole-mounted transformers. This option would minimize the piecemeal and ad-hoc equipment replacements during outages under reactive maintenance work. The total cost of this project is estimated at \$3.2MM.• Without the required investment, the distribution system in this area would continue to be exposed to risks of worker and public safety concerns due to poles in poor condition, and the risk of potential environmental contamination due to transformer oil leaks will also persist. |
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