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February 19, 2019

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St.
Toronto, ON

Dear Ms. Walli:

Re: EB-2018-0328 – Halton Hills Hydro Inc. 2019 Electricity Distribution Rates
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the final submission of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

(Original Signed By)

John Lawford
Counsel for VECC

Copy to: Halton Hills Hydro Inc.

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EB-2018-0328

Halton Hills Hydro Inc.

Application for electricity distribution rates effective May 1, 2019

Final Submissions of Vulnerable Energy Consumers Coalition (VECC)

Halton Hills Hydro Inc. (Halton Hills) filed an application with the Ontario Energy Board (OEB) on December 3, 2018 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) and under the OEB's Filing Requirements for Incentive Regulation Rate Applications seeking approval for changes to its electricity distribution rates to be effective May 1, 2019.

VECC submission relates to Halton Hill's request for Incremental Capital Module funding for a new Transformer Station (TS).

Incremental Capital Module Request

Halton Hills seeks $23,476,441 in incremental capital funding and $131,515 in incremental Operating, Maintenance and Administration funding. The total incremental revenue requirement request is $1,829,600 as follows:[1]

Incremental Costs	Amount
Revenue Requirement - Capital	1,698,085
Revenue Requirement - OM&A	131,515
Total	**1,829,600**

The OEB's ICM Filing Requirements require that the requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capabilities underpinned by existing rates and satisfy the eligibility criteria of *materiality, need and prudence*.[2]

Materiality

With respect to materiality, the OEB's ICM Filing Requirements state "A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget."[3]

[1] Application P21

[2] OEB Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications P24

[3] *Ibid.*

VECC takes no issue with Halton Hill's calculation of the ICM materiality threshold of $1,859,883 based on the OEB's ICM formula in the ACM Report, that includes a maximum eligible incremental capital amount of $28,775,942[4] as shown in the table below.

Eligible Incremenal Capital	Capital Expenditures
Forecasted 2019 Capex	7,159,383
Incremental Capital - TS	23,476,441
Total 2019 Capex	**30,635,824**
Less: Materiality Threshold	1,859,883
Maximum Eligible Incremental Capital	**28,775,942**

The incremental capital amount is clearly material as it is over three times the forecast 2019 capital budget.

The ACM Reports states that "Need" must be established by meeting the following criteria:

- passing the Means Test;
- the amounts must be based on discrete projects, and should be directly related to the claimed driver;
- the amounts must be clearly outside of the base upon which the rates were derived.

Means Test

The ACM Report indicates that the distributor must file its most recent calculation of its regulated return (RRR 2.1.5.6). If the regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates, the funding for any incremental capital project will not be allowed.

Burlington Hydro's 2015 to 2017 actual ROE was lower than the regulated return in all three years.[5] VECC submits the ICM passes the Means Test.

Discrete Projects

The proposed TS is the first TS that Halton Hills has built. The building of this transformer is not part of a typical annual capital program for Halton Hills. VECC submits the ICM meets the discrete project requirement.

Outside of Base Rates

Halton Hills Hydro confirms the only expense for the TS project that had been incurred at the time of the 2016 COS application was the purchase of land for the TS and this was excluded from rate base.[6]

[4] Application P9-10
[5] Application P11
[6] *Ibid.*

Prudence

The OEB's Filing Requirements state "The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Halton Hills' load forecast in 2007 first identified the need for a new source of transmission supply.[7] The need for the TS was further identified in the Northwest Greater Toronto Area Integrated Regional Resource Plan (NWGTA IRRP) in April 2015, stating that the TS is required in 2018. The IRRP indicates Hydro One TS is nearing full capacity and there is not enough space to add new feeders.[8]

Halton Hills currently receives 27.6kV supply from three feeder positions at the Hydro One Halton TS. Halton Hills indicates the Hydro One Halton TS and the three Halton Hills feeders supplying Halton Hills are nearing capacity thus necessitating the new TS.[9]

In June 2017, Halton Hills updated load forecast confirmed the need for a new TS by the end of 2019.[10] Halton Hills indicates the TS is required to meet near term load requirements and prepare for significant planned growth within the Town of Halton Hills.[11]

As part of Halton Hydro's 2016 Cost of Service (COS) Application (EB-2015-0074), Halton Hydro filed its 2016 to 2020 Distribution System Plan (DSP) that indicated the capital required for a new TS would be filed as a separate ICM module as the budgetary numbers were still very preliminary at that time.[12]

EB-2015-0074, Halton Hills Hydro provided an expected in-service date of 2018 and a capital cost of $19 million. The updated capital amounts requested reflect a 24% increase from $19,000,000 to $23,476,441. In 2017, an independent consultant estimated the cost of the new TS at $25,268,526 (before capitalized interest of $794,000).[13] Halton Hills indicates it was able to control costs resulting in a current budget that is $1,792,085 less than the consultant's estimate. Halton Hills did not provide a detailed breakdown of the cost categories or an explanation of any cost variances.

Alternatives

Halton Hills looked at three different options in determining to build a new TS was the only acceptable option. Halton Hills evaluated 11 sites against technical, environmental and economic criteria before selecting site 2C as the most cost-effective solution.[14] VECC takes no issue with Halton Hills Study Option and Site Option analyses and submits Halton Hill's decision to build a new TS in response to increase the supply capacity to the region is justified and the location is appropriate.

The cost of the new TS is significant in comparison to the 2019 forecast capital budget excluding the ICM. VECC has reviewed the submissions of SEC and agrees with SEC there is limited evidence to

[7] Application P4
[8] Application P6
[9] Application P13
[10] Application P12
[11] *Ibid.*
[12] Application P6
[13] Staff-4
[14] Application P.14-15

conclude the proposed costs for the TS are reasonable. The name of the consultant and the experience of the consultant in building transformer stations and preparing costs estimates is not known. SEC points out that no cost benchmarking analysis was provided. VECC supports SEC's approach to allow ICM funding on an interim basis. Halton Hills is applying for a Deferral and Variance Account to track the costs and recovery of the TS for the purposes of truing up the variance at the next COS. VECC submits this variance account could be designed to capture the difference between the amount included in the ICM on an interim basis and the outcome of a prudence review at the next COS.

Halton Hills indicates if the ICM is not granted, Halton Hills will be faced with significant negative cash flow leading to financial hardship. VECC agrees with SEC that this approach balances the interests of customers and Halton Hills.

Recovery of OM&A Costs

Halton Hills is applying for an exemption to the general ICM policy that addresses only incremental capital in order to recover incremental OM&A costs in relation to the TS. Halton Hills is applying for recovery of annual incremental OM&A costs related to the TS. The costs include 24/7 monitoring by a third-party control room, weekly and monthly inspections, and preventable maintenance, property taxes and increased insurance costs.[15]

VECC submits the OEB should not approve this request. First, the ICM policy addresses only incremental capital expenditures; OM&A expenses are not eligible. Second, the TS OM&A amounts are minor in comparison to the overall OM&A budget. Given that the project OM&A costs of $131,515 are only 2% of the $6,007,592 approved OM&A approved in Halton Hills last COS application, it is reasonable to expect these costs can be absorbed within the total OM&A budget. Lastly, there will be incremental revenue from incremental load. And there will be savings in monthly transformation connection costs as Halton Hills will be able to transfer some of the existing load to the new TS. These changes serve to offset the impact incremental OM&A costs.

[15] Application P17