

August 7, 2019

BY RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli;

RE: EB-2019-0018 Alectra Utilities Corporation (“Alectra Utilities”) 2020 Electricity Distribution (“EDR”) Rate Application

Please find attached the presentation on our M-Factor proposal delivered by Alectra Utilities Corporation to the Ontario Energy Board Panel on Presentation Day, August 7th, 2019.

Sincerely,

Original signed by

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

cc: Charles Keizer, Torys LLP
Jonathan Myers, Torys LLP

Alectra Utilities Corporation
Presentation Day
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Electricity Distribution Rates & Consolidated DSP

Evidence Presentation – August 7, 2019

Brian Bentz, Max Cananzi, John Basilio, Indy Butany-DeSouza



Electricity Distribution Rates & Consolidated DSP

Overview & Context

2020-2024 DSP

Post-Merger Regulatory Challenges

**Capital Funding Mechanism:
The M-factor**

Alectra Utilities: Overview & Context



● Focus on Customers

● The First Two Years of
Alectra

● Planning as One
Company

About Alectra Utilities



1,046,775 Customers
17 Communities



155
municipal substations



22,139 kilometres
of underground cables



16,400 kilometres
of overhead lines



14 transformer
stations



124,955
distribution transformers



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Discover the possibilities

Note: These statistics include GHESI data, estimated as of Jan.1 2019

Priorities & Challenges



Post-Merger Regulatory Challenges

MAADs Policy

- Capital Funding
- Rebasing Deferral Period
– Treatment of Accounting Changes

Challenges: MAADs Policy & Capital Funding

- These policies gave consolidating LDCs a system to fund necessary capital investments, while maintaining a rebasing deferral period that would be long enough to allow utilities to recover transaction and integration costs
- Consolidation is not economically viable without these policies, the interpretation of which must be consistent and predictable

	2018 EDR (\$MM)	2019 EDR (\$MM)	Cumulative (\$MM)
Required Capital	\$56.2	\$39.2	\$95.4
As Filed	\$56.2	\$31.6	\$87.8
Approved	\$28.7	\$26.3	\$55.0
% Approval (compared to required)	51.1%	67.1%	62.6%
Difference	(\$27.5)	(\$12.9)	(\$40.4)

Together, these policies were, and remain, critical to the utility's financial viability and its ability to serve its customers in the years following the merger

Challenges: MAADs Policy & Capital Funding

Treatment of Accounting Changes: The OEB's decision in EB-2017-0024 directly reduced the funding available for distribution-related activities, effectively rebasing this isolated aspect of the revenue requirement.

Customer Service Rules Changes: During the deferred rebasing period, the OEB has amended the customer service rules applicable to Alectra Utilities, imposing material financial consequences that are not addressed in the utility's base rates

Cumulative Impact over Rebasing Deferral Period	2017 – 2026 Impact (\$MM)
Treatment of Accounting Changes (E2/T1/S5/p.7)	(\$39.9)*
Customer Service Rules Policy Change (E2/T1/S4/p.9)	(\$20.0)
Total Impact	(\$59.9)

**The impact of the Accounting Change flows through the ESM calculation in 2017, 2018 and 2019 for the Horizon Utilities Rate Zone*



2020-2024 Distribution System Plan

● Urgent Needs

● Customer-Based
Planning

● Focus on Priority
Investments

2020-2024 DSP: Customer-Based Planning

Our 4-step DSP process includes customer input from the start.

1



**Survey
Customer
Needs and
Priorities**

Q2-Q3 2018

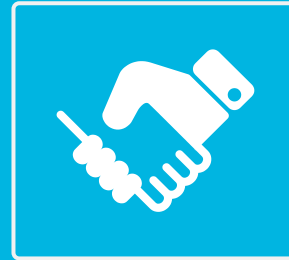
2



**Identify
Options
Based on
Feedback**

Q4 2018

3



**Compare
Customer
Preferences
vs
Investment
Trade-Offs**

Q1-Q2 2019

4



**Submit
Finalized
DSP**

May 28 2019
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Customer-Based Planning

2018 Consultation: Identify Needs and Priorities of customers

2018



**Survey
Customers
Needs and
Priorities**



Price and Reliability are customers' top priorities



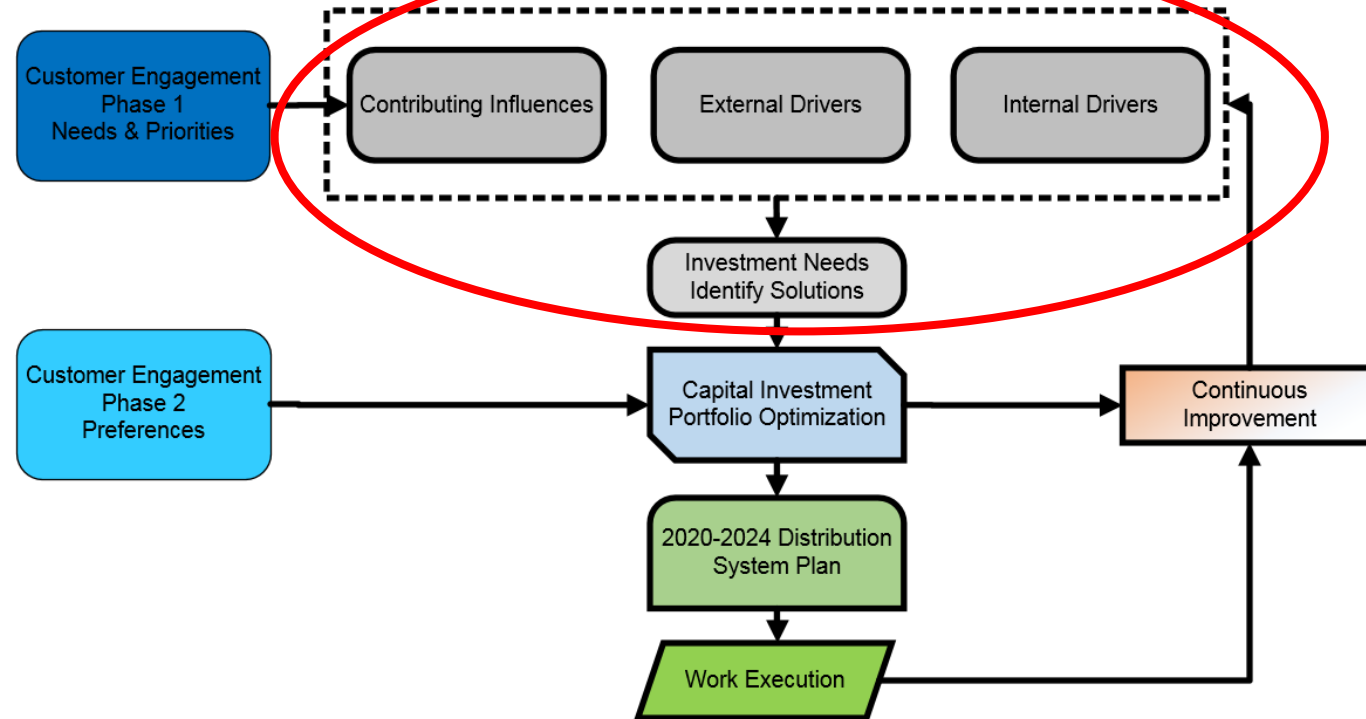
Reduce the impact of adverse weather related outages



Investment is appropriate: Customers are generally willing to consider paying more to maintain a reliable system

These needs and preferences were a foundation of the DSP.

Customer-Based Planning



**Identify
Options
Based on
Feedback**



Based on customer needs, priorities and other corporate objectives, Alectra Utilities identified potential capital investments for 2020-2024.

Customer-Based Planning

2019 Consultation: Compare Preferences vs Investment Trade-Offs



**Compare
Customer
Preferences
VS
Investment
Trade-Offs**



Invest in assets that serve customers



Invest to support growth



Divided support on some investments

In response to customer preferences, Alectra Utilities deferred or reduced investments in six areas, and accelerated investments in Underground Asset Renewal.

**The net impact of these and other adjustments
was a net capex reduction of \$17.5 million.**

Priority Investments



**Compare
Customer
Preferences
vs
Investment
Trade-Offs**

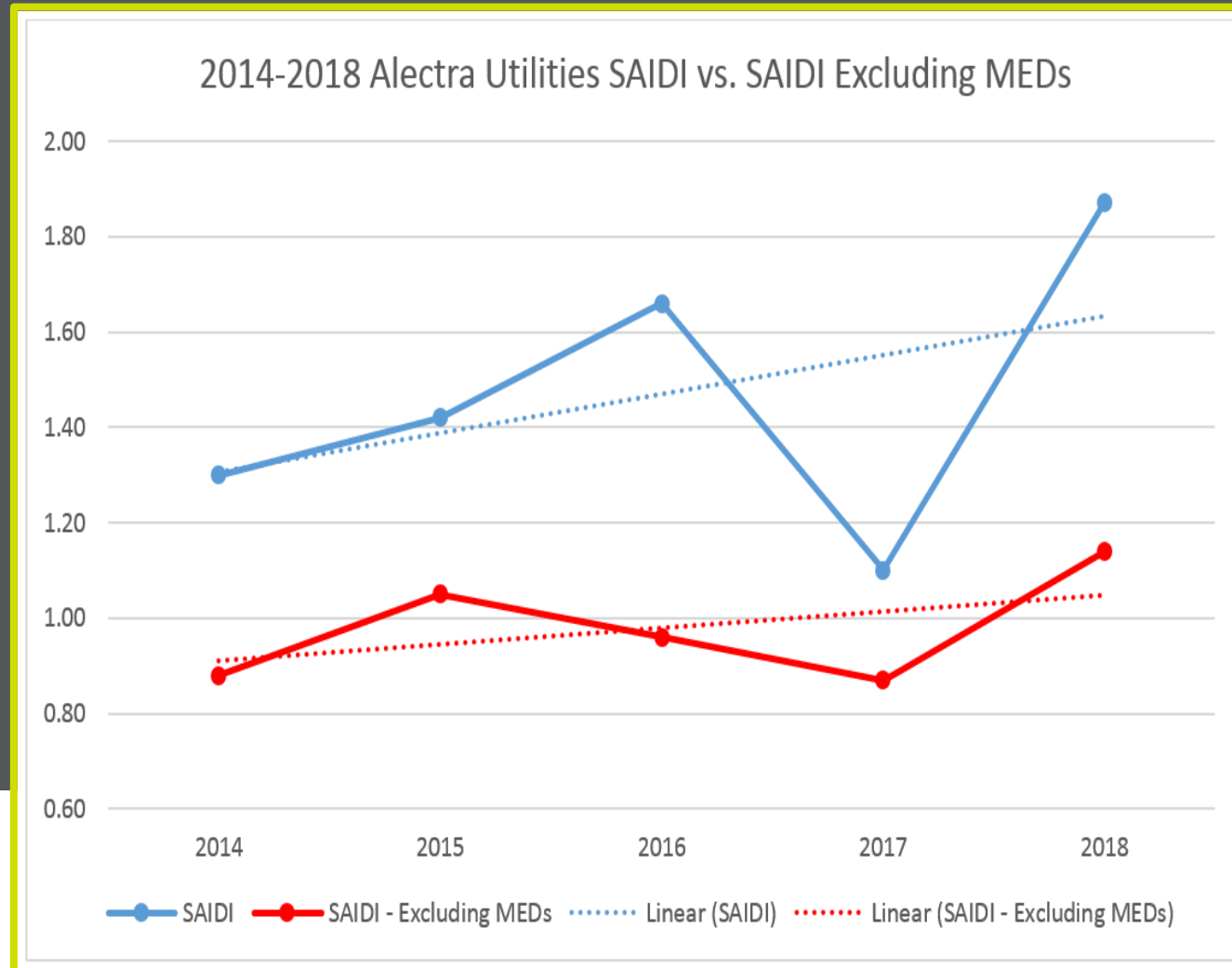
The DSP focuses on customers' expectation that Alectra Utilities prioritize prudent investments to maintain overall reliability and to address the adverse reliability impacts associated with extreme weather events.

Alectra Utilities plans to focus investments on five priority areas during the 2020-2024 period:

1. **Underground Renewal**
2. **Overhead Renewal**
3. **Development and Intensification**
4. **Linking Legacy Distribution Systems**
5. **Mitigate future expenses by enhancing current station investment**

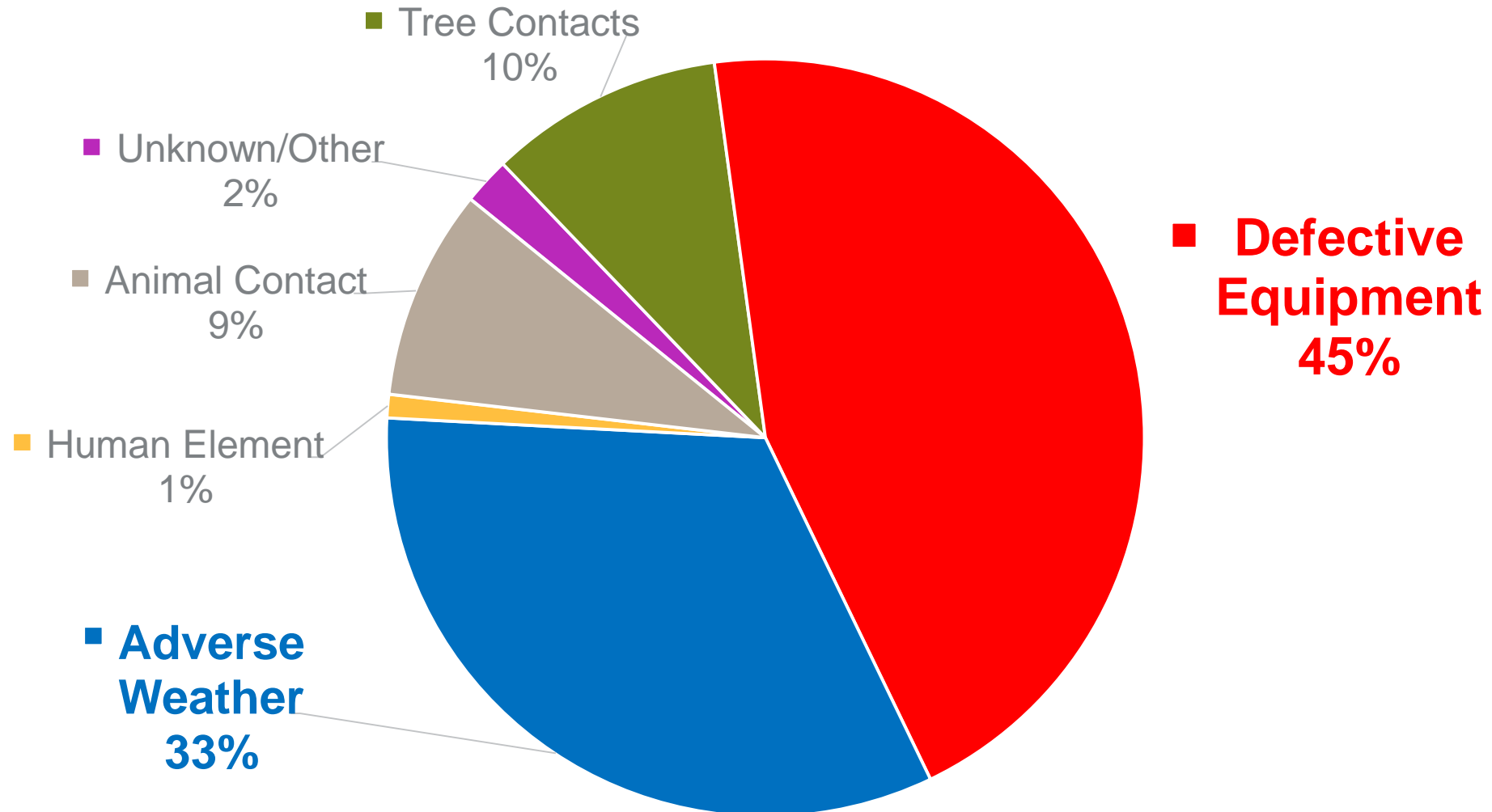
2020-2024 DSP: Urgent Needs

Reliability: Customers are experiencing longer and more frequent power outages, particularly from the underground system.



2020-2024 DSP: Urgent Needs

Reliability: Customers are experiencing longer and more frequent power outages, increased investment in system renewal is required to reverse this trend.

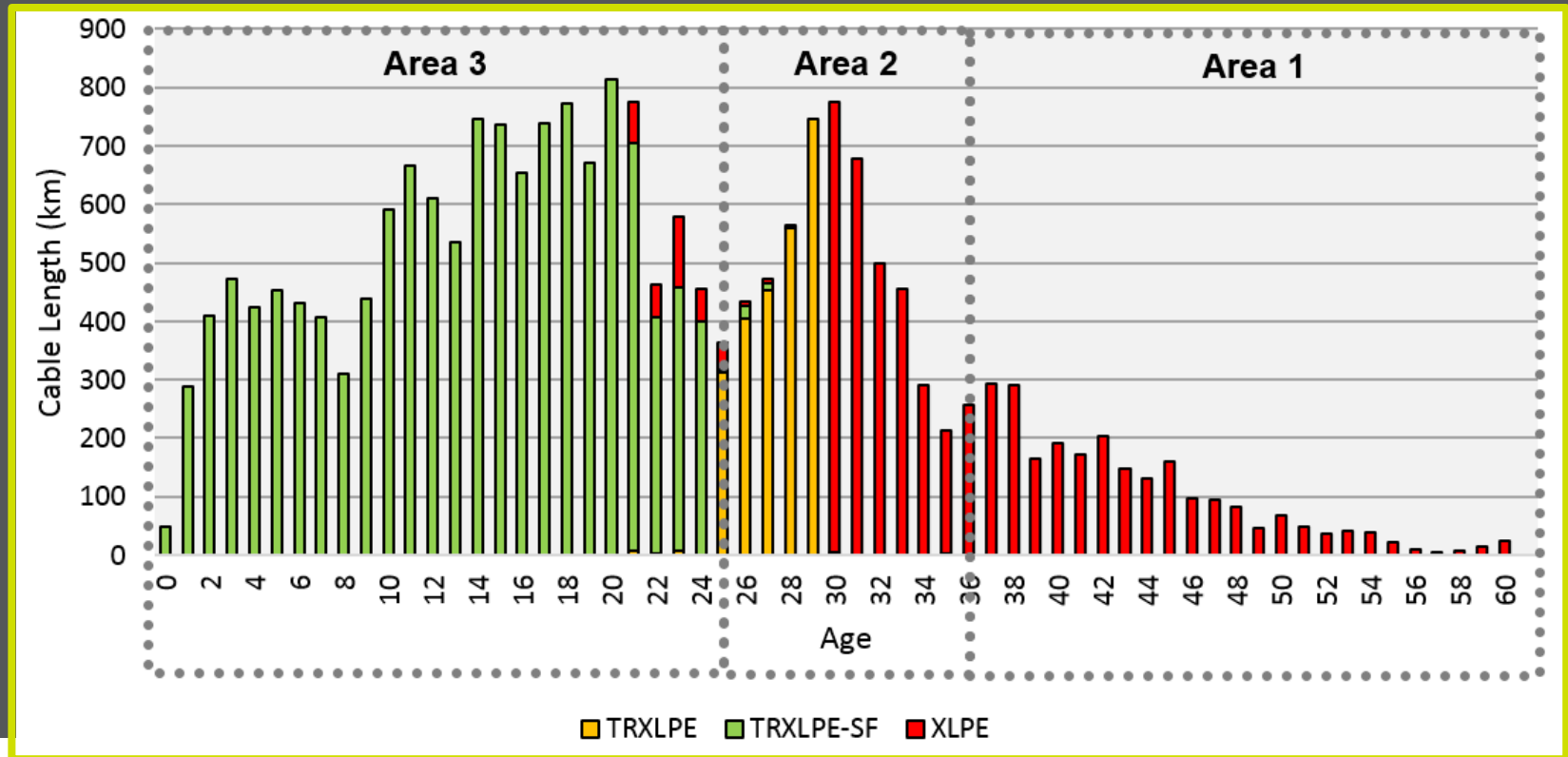


Key DSP Focus Areas

Preventing further decline in reliability due to deteriorating underground assets



**Finalized
DSP**

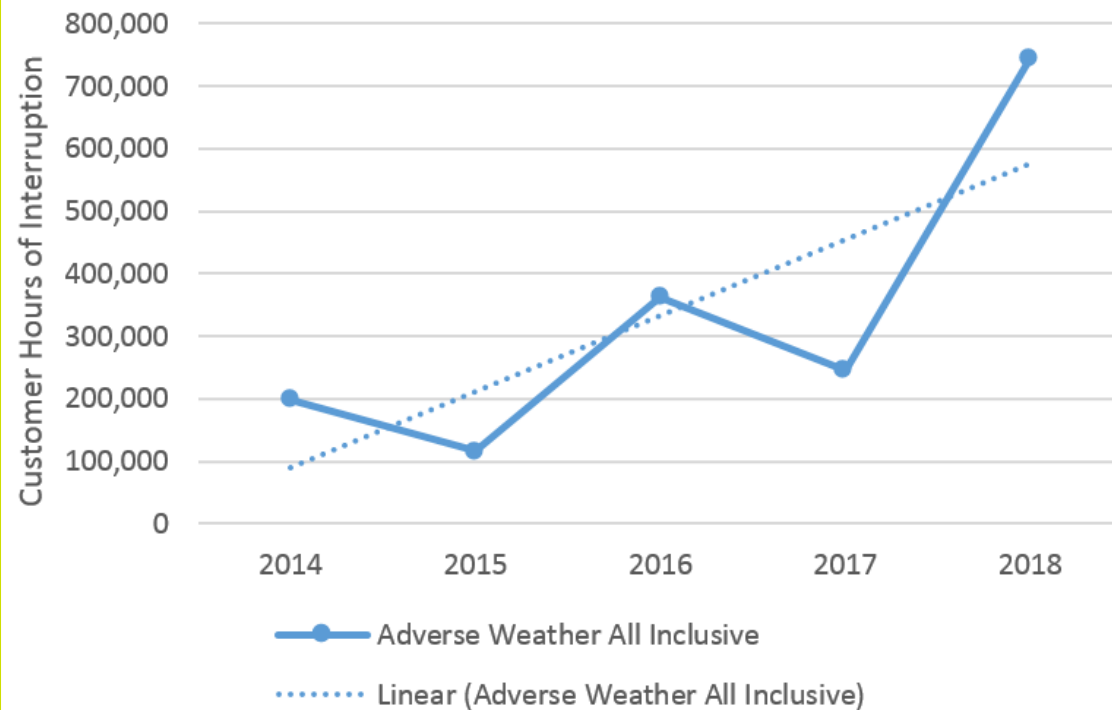


2020-2024 DSP: Urgent Needs

Adverse Weather Reliability: Adverse weather is increasingly leading to declining reliability of overhead assets.

Downed Overhead Line on Warden Ave - Markham

Customer Hour Interruptions Due to Adverse Weather



Key DSP Focus Areas

Enhancing the resilience of its overhead system to adverse weather events



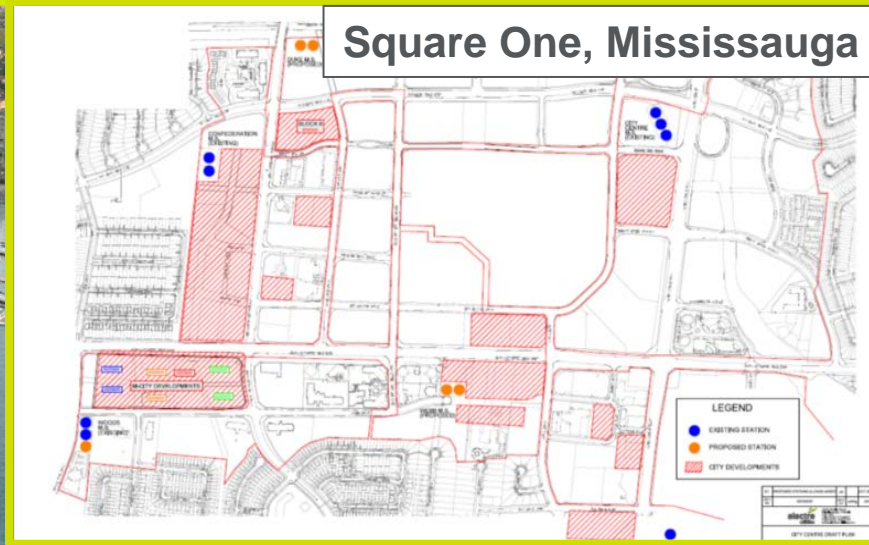
**Finalized
DSP**



Downed powerlines caused by adverse weather on Bayview Avenue in 2018

2020-2024 DSP: Urgent Needs

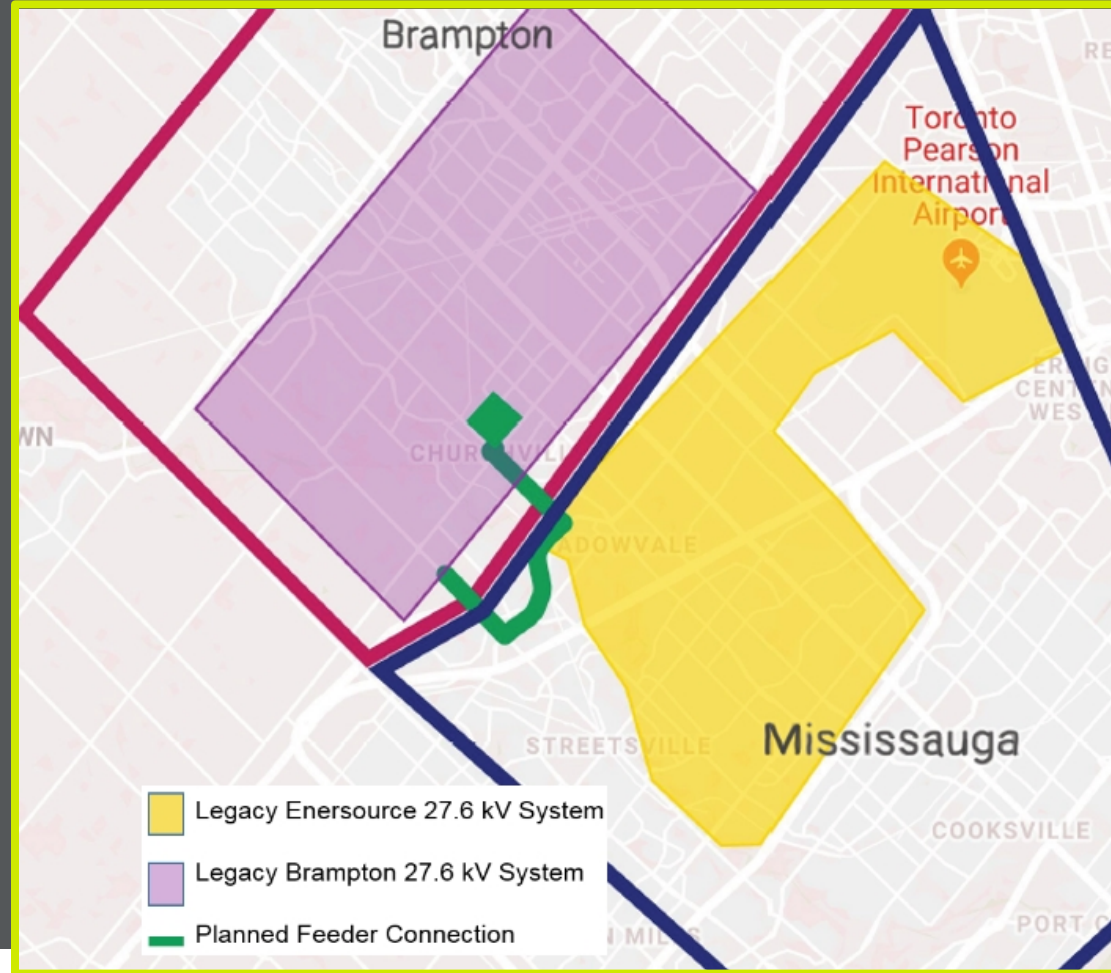
Significant **development** and **intensification** is occurring.



Key Focus – Mitigate Future Costs



**Finalized
DSP**



Key DSP Focus Areas

Invest in monitoring technologies, oil containment measures and inventory management to pace station investment.



**Finalized
DSP**

Application of Monitoring Technologies



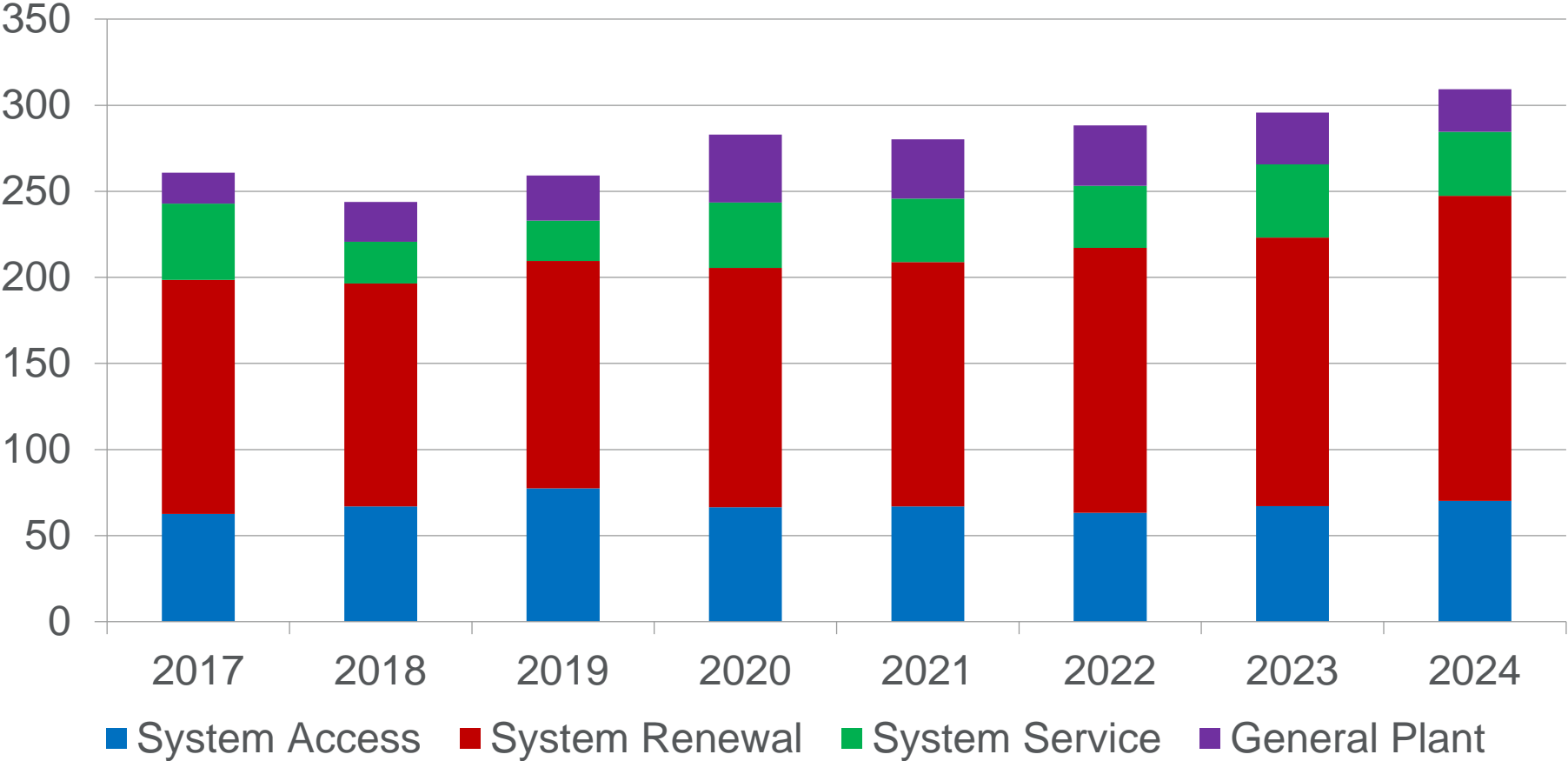
Installation of Oil Containment Solution

2020-2024 DSP: Conclusion

The DSP drives a relatively consistent level of annual capital investment.



**Finalized
DSP**

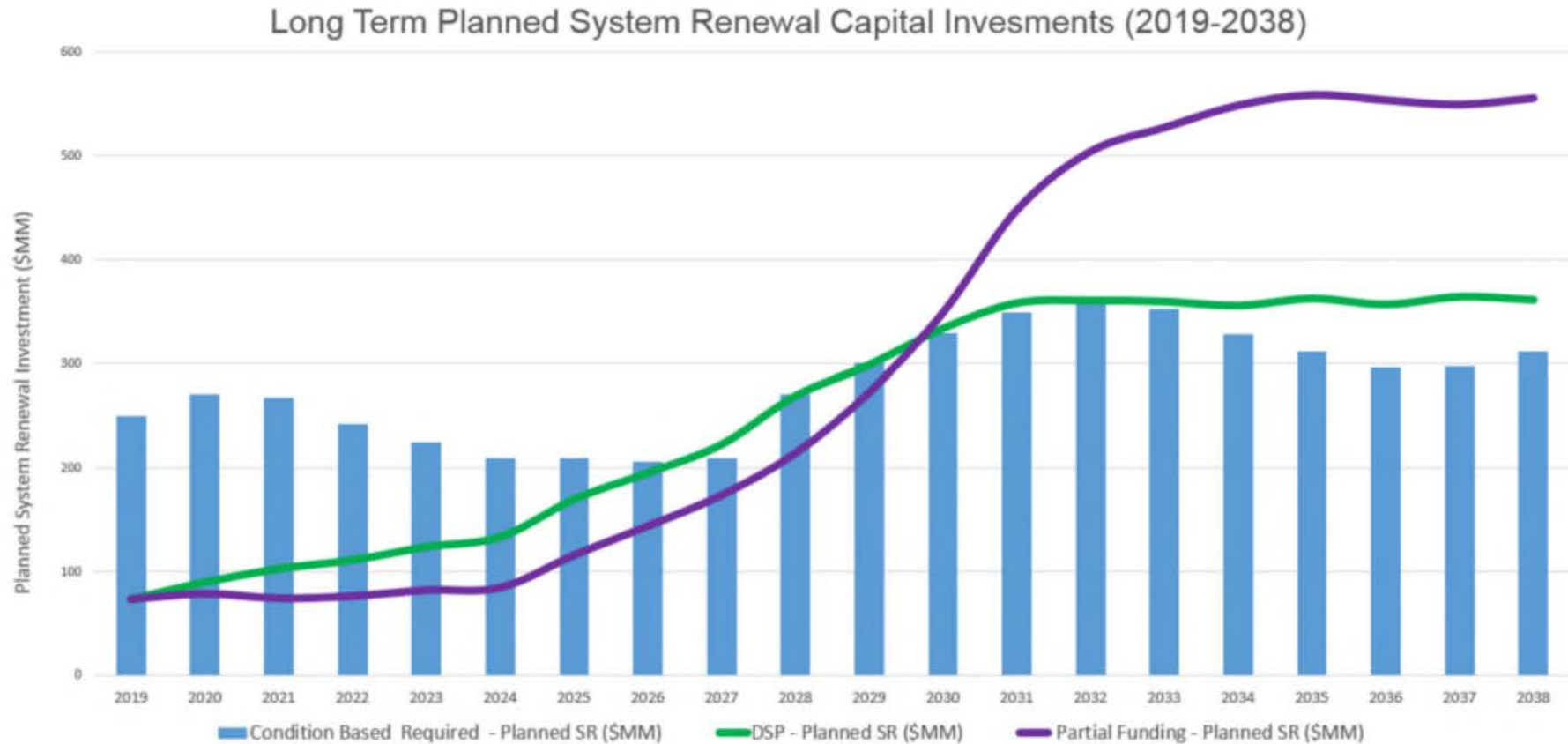


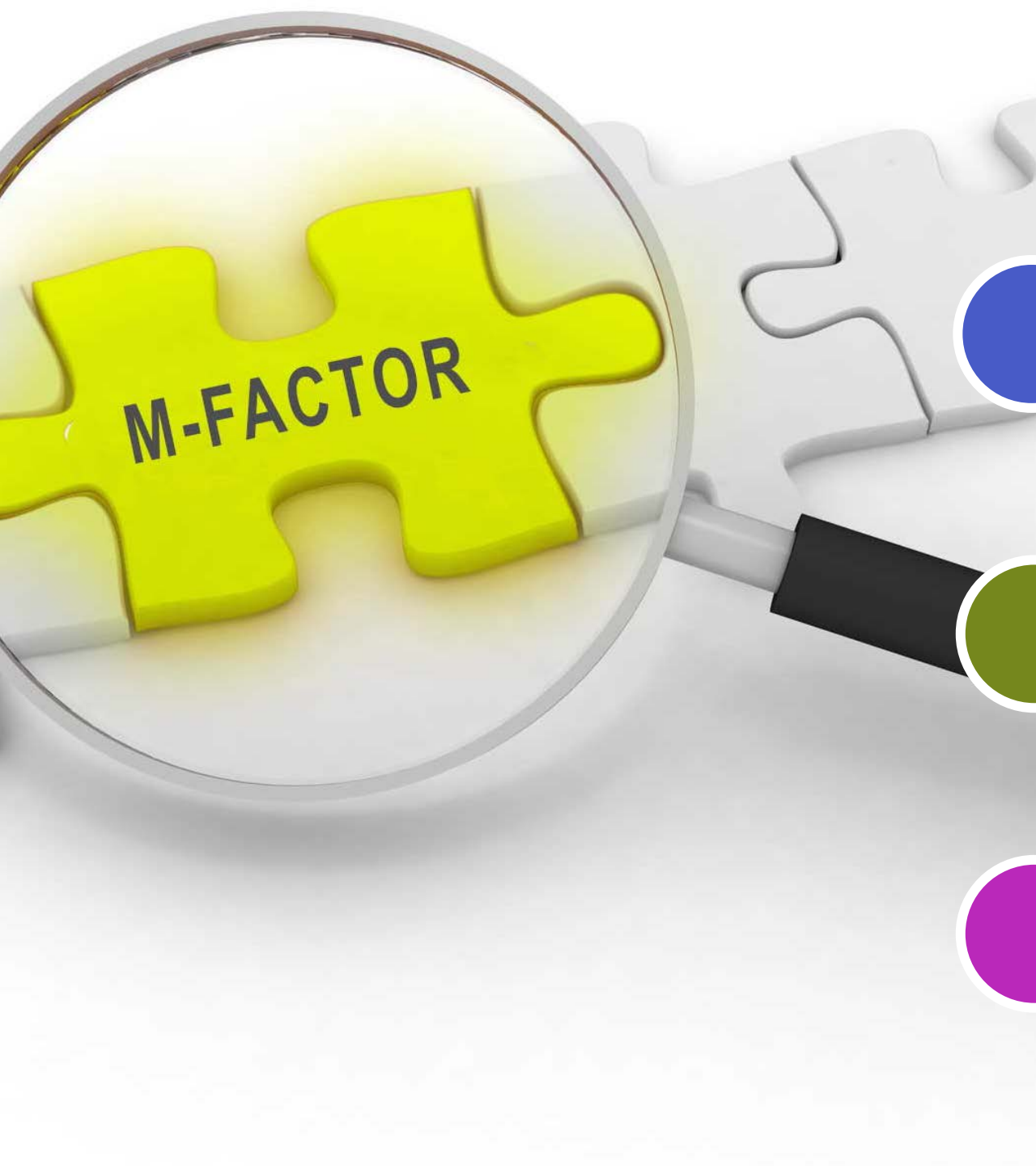
2020-2024 DSP: Conclusion

Failing to invest at the level set out in this DSP will have serious, long-term negative consequences for Alectra Utilities and for the service quality experienced by its customers.



**Finalized
DSP**





Capital Funding Mechanism: The M-factor

Why is the M-factor Necessary?

Comparisons with ICM

Other Benefits of the M-factor



Solving The Capital Funding Gap

- **The \$55 million gap.** On average, there is a \$55MM gap between the funding available in rates and the cost the investments needed to meet our customers needs and preferences, as set out in the DSP
- **The default approach isn't working.** The ICM has not allowed Alectra to make the investments that our customers need and want
 - ICM only funds large, discrete investments, which are only part of the gap
 - ICM funding is inflexible and not suited to a multi-year capital needs
 - The ICM regulatory process is inefficient and expensive for all parties
- **Customers are suffering.** Alectra customers are suffering from the lack of secure, sufficient funding, especially for System Renewal investment

The M-factor solves the Capital Funding Gap.



M-factor Calculation & Bill Impact

M-factor Eligible Capital = (DSP Expenditures) - (Materiality Threshold)

- **Materiality Threshold:** Calculated on same basis as ICM/ACM, including 10% deadband
- **M-factor Capital Investments:** For consistency with ICM calculation, Alectra identified specific capital projects reflecting priority areas in the DSP
- **Means Test:** As under ICM, a 300 basis points means test will apply
- **Residential Customer Bill Impact:** Average monthly impact ranges from \$0.10 (0.09%) to \$0.30 (0.28%), depending on rate zone

M-factor: Comparisons to ICM

Rate-setting Element	ICM	M-factor
Materiality	10% Deadband	10% Deadband
	Project-level calculation, with undefined project-specific materiality threshold	Comprehensive five-year eligible capital amount, with no project-specific materiality threshold
Flexibility	Rigid funding tied to specific projects (or project phases) in individual years	Flexible funding allowing funding to shift and to address evolving and urgent needs
True-Up	Symmetrical true-up available	Symmetrical true-up available
Riders	Rate-zone specific riders	Rate-zone specific riders
Means Test	300 basis point means test	300 basis point means test

Other Benefits of the M-factor

Customers Protected from Under-Investment



Regulatory and Cost-Efficiency



Rate Certainty





Concluding Remarks