EB-2019-0018

Alectra Utilities
2020 EDR Application

VECC

COMPENDIUM

October 15, 2019

TAB 1

VECC _M-FACTOR SUMMARY TABLES

Investment Category ($MM)	2020	2021	2022	2023	2024	Total
System Access	66.50	66.90	63.20	67.10	70.20	333.90
System Renewal	139.00	142.00	154.00	156.10	177.20	768.30
System Service	38.00	36.90	36.00	42.40	37.20	190.50
General Plant	39.40	34.40	35.10	30.20	24.70	163.80
Total Cap Ex	**282.90**	**280.20**	**288.30**	**295.80**	**309.30**	**1456.50**
Threshold Calculation	230.0	233.1	236.3	239.6	243.1	1182.0
M-Factor Allowance	***52.90***	***47.10***	***52.00***	***56.20***	***66.20***	***274.50***
M-Factor Request	**52.67**	**43.65**	**52.02**	**52.07**	**64.54**	**264.96**

M-Factor Funded by Zone G-Staff-4	
Horizon	47.4
Brampton	26.0
PowerStream	110.6
Enersource	51.8
Guelph	4.1
Multiple Zones	25.0
Total	**264.9**

Table 6 – M-factor Capital Revenue Requirement ($MM)

M-factor Revenue Requirement	2020	2021	2022	2023	2024	Total
Return on Rate base - Total	**$3.2**	**$2.6**	**$3.2**	**$3.0**	**$3.9**	**$15.8**
Amortization	**$1.9**	**$2.0**	**$2.1**	**$2.8**	**$2.4**	**$11.2**
Incremental Grossed Up PILs	**($0.4)**	**($2.3)**	**($1.3)**	**($0.3)**	**($0.9)**	**($5.1)**
Total	$4.7	$2.3	$3.9	$5.6	$5.4	$21.8

Source Exhibit 2, Tab 1, Schedule 3, page 20

JT1.6

ATTACH 1 – Threshold Capital Expenditure Calculation

Alectra 2020 EDR Application
Threshold Calculation for M-factor

Description	ERZ	BRZ	GRZ	PRZ	HRZ	ALECTRA
Inflation	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Less: Productivity Factor	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Less: Stretch Factor	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Price Cap Index	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Growth Factor	-0.06%	1.84%	1.60%	2.31%	3.04%	
Rebasing Year	2013	2015	2016	2017	2019	
# Years since rebasing	7	5	4	3	1	
Price Cap Index	1.20%	1.20%	1.20%	1.20%	1.20%	
Growth Factor	-0.06%	1.84%	1.60%	2.31%	3.04%	
Dead Band	10%	10%	10%	10%	10%	
Rate Base	$610,456,833	$404,618,521	$151,391,730	$1,082,805,165	$555,697,950	$2,804,970,200
Depreciation	$28,721,695	$15,227,319	$6,295,624	$52,272,173	$23,877,061	$126,393,872
Threshold Capital Expenditure 2020	**$39.1**	**$30.7**	**$11.6**	**$98.5**	**$50.0**	**$230**
Threshold Capital Expenditure 2021	**$39.1**	**$31.2**	**$11.7**	**$100.0**	**$51.1**	**$233**
Threshold Capital Expenditure 2022	**$39.2**	**$31.6**	**$11.8**	**$101.5**	**$52.1**	**$236**
Threshold Capital Expenditure 2023	**$39.3**	**$32.1**	**$12.0**	**$103.0**	**$53.2**	**$240**
Threshold Capital Expenditure 2024	**$39.4**	**$32.5**	**$12.1**	**$104.7**	**$54.4**	**$243**
Threshold Capital Expenditure 2020-2024	**$196.1**	**$158.2**	**$59.2**	**$507.7**	**$260.9**	**$1,182.0**

by OEB investment category. As noted above, please refer to DSP Section 5.4.3 for a detailed explanation of the Capital Investment Plan.

Table 5.2.1 - 4: Annual Capital Expenditure by OEB Investment Category

Investment Category ($MM)	2020	2021	2022	2023	2024	Total
System Access	66.5	66.9	63.2	67.1	70.2	333.9
System Renewal	139.0	142.0	154.0	156.1	177.2	768.3
System Service	38.0	36.9	36.0	42.4	37.2	190.5
General Plant	39.4	34.4	35.1	30.2	24.7	163.8
Total	**282.9**	**280.2**	**288.3**	**295.8**	**309.3**	**1,456.5**

Table 5.2.1 - 5: Annual Capital Expenditure by OEB Investment Category

Investment Category	2020	2021	2022	2023	2024	Total
System Access	24%	24%	23%	23%	23%	23%
System Renewal	49%	51%	53%	53%	57%	53%
System Service	13%	13%	12%	14%	12%	13%
General Plant	14%	12%	12%	10%	8%	11%
Total	100%	100%	100%	100%	100%	100%

5.2.1.9 SOURCES OF COST SAVINGS

Alectra Utilities is committed to improving productivity and achieving efficiencies, which will drive cost savings in both capital and in Operating, Maintenance and Administration ("OM&A") initiatives. Asset lifecycle optimization activities and enhanced asset management planning are expected to result in savings in both capital and OM&A expenditures. The follow are the most significant areas in which Alectra Utilities expects to realize costs savings as a result of effective planning and DSP execution:

A) **Operational Efficiency** – Alectra Utilities strives to create a culture of continuous improvement. The company continues to explore new methods to effectively provide value to customers through process improvements and by leveraging new technologies.

B) **Planning Effectiveness** – Through the continuous improvement of inspection, testing and maintenance planning as well as capital work program delivery, Alectra Utilities has developed a plan that paces investments while meeting the service requirements relating to its distribution system and general plant needs.

CCC-10

Reference

Presentation Day Transcript p. 38

For each year 2020-2025 please provide the level of funding available under the ICM approach and the M-factor approach.

Response:

The level of funding available under both approaches is the same as the calculation of the materiality threshold is the same under the ICM and M-factor. The materiality threshold establishes the level of capital funding that a utility should be expected to absorb within its funding from base rates outside of a rebasing. The threshold is compared to the total capital expenditures to determine the maximum eligible incremental capital as provided in Table 4 of Exhibit 2, Tab 1, Schedule 3. The level of funding available by year is provided in Table 1 below.

Table 1 - M-factor Maximum Eligible Incremental Capital ($MM)

Eligible Incremental Capital	2020	2021	2022	2023	2024	2020-2024
2020 - 2024 DSP Capital Forecast	282.7	280.2	288.3	295.8	309.4	1,456.5
Less: Materiality Threshold	230.0	233.1	236.3	239.7	243.1	1,182.2
Maximum M-factor Eligible Capital	52.7	47.1	52.0	56.1	66.3	274.3

Table 5.4.2 - 1: Consolidated Alectra Utilities Historical Capital Summary

CATEGORY	2015 Actual			2016 Actual			2017 Actual			2018 Actual			2019 Bridge		
	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Fore-cast	Var
	$ MM		%	*$ MM*		%	*$ MM*		%	*$ MM*		%	*$ MM*		%
System Access	53.2	62.0	17%	62.4	55.6	(11%)	60.3	64.4	7%	64.0	64.2	0%	64.6	77.4	20%
System Renewal	106.3	121.8	15%	125.6	118.7	(6%)	132.3	134.7	2%	141.9	124.6	(12%)	141.7	132.1	(7%)
System Service	55.8	49.3	(12%)	46.5	44.3	(5%)	43.2	42.9	(1%)	35.6	22.5	(37%)	39.9	23.5	(41%)
General Plant	85.8	101.1	18%	37.9	21.1	(44%)	28.5	16.0	(44%)	28.2	25.0	(11%)	29.3	26.2	(11%)
TOTAL	**301.1**	**334.2**	**11%**	**272.4**	**239.7**	**(12%)**	**264.3**	**258.0**	**(2%)**	**269.7**	**236.3**	**(12%)**	**275.5**	**259.2**	**(6%)**

TAB 2

Table 1: M-factor Elements

M-Factor Element	Purpose	Comparison to ICM
Materiality The M-factor includes a materiality threshold and 10% dead band, consistent with the OEB's ICM materiality threshold. The M-Factor would not include a project-specific materiality threshold.	To ensure that the M-factor only provides funding for capital investments that are materially above the level funded in base rates. As shown in Table 3, the maximum M-factor eligible capital is calculated on a five-year basis, spanning the entire DSP period.	Dead band is consistent with ICM methodology. By calculating maximum M-factor eligible capital on a five-year basis, the M-factor reflects the material cost of recurring, moderate-scale projects across the longer timeframe of the deferred rebasing period.
Flexibility Capital investments are funded on an envelope basis, allowing specific projects to be replaced, modified or shifted between years depending on system needs and priorities.	Flexibility is critical to allow Alectra Utilities to address evolving needs and priorities over the course of the DSP period.	ICM funding is typically tied to specific projects and years, making it poorly suited to a capital plan spanning multiple years and investments.
Capital Investment Variance Account As set out further below in the Section titled "Proposed Variance Accounts", funding provided through the M-factor is subject to reconciliation through a symmetric variance account.	To ensure that any under-investment relative to the level of capital funded through the M-factor is refunded to customers, and any prudent spending above those levels will be recovered by the utility.	Consistent with the function of the ICM true-up process, where any over- or under-collection may be refunded or recovered from a distributor's ratepayers.
Riders by Rate Zone Consistent with the OEB's decision in the MAADs Application, a rate rider will be established for each RZ, based on the investments planned in each of Alectra Utilities' operational areas.	Setting rate riders by rate zone is consistent with the MAADs Application. The MAADs Application confirmed that the rates will not be harmonized until rate differences are immaterial.	No change.
Means Test The M-factor includes a Means Test consistent with the OEB's ICM policy.	The means test ensures that Alectra Utilities would not receive M-factor funding for a year in which its regulated return exceeds its deemed return on equity by 300 basis points.	No change.

G-Staff-18

Reference 1: EB-2018-0016, Decision and Order, January 31, 2019 Decision on Alectra Utilities' request for ICM funding.
Reference 2: Exhibit 2, Tab 1, Schedule 3, Page 2 of 21

In the OEB's decision on Alectra Utilities' request for ICM funding for the 2019 rate year, the OEB approved $26.27 million out of the $31.57 million originally proposed by Alectra Utilities.

In the current application, Alectra Utilities states that "The ICM does not provide the flexibility or the longer-term availability of funding needed to execute a DSP."

a) Given that the OEB approved 83% ($26.27 million of $31.57 million) of Alectra Utilities' total ICM request for the 2019 rate year, please explain why Alectra Utilities considers the ICM unable to provide sufficient funding for its capital needs.

b) Please explain why Alectra Utilities incremental capital needs increased by 74% from the $31.57 million requested in 2019 to the approximately $55 million in annual funding requested through the M-factor.

OEB staff notes that in Alectra Utilities' 2019 application EB-2018-0016, Alectra Utilities did not make any requests for capital funding related to underground asset renewal or rear lot conversion work.

c) Please describe how Alectra Utilities prioritized underground asset renewal and rear lot conversion work in the absence of ICM funding.

Response:

a) In order to understand why Alectra Utilities considers the ICM unable to provide sufficient funding for its capital needs, one must first consider the context in which the OEB approved 83% of Alectra Utilities' ICM request for the 2019 rate year. In the OEB's Decision and Order on Alectra Utilities' ICM request for the 2018 rate year (EB-2017-0024), the OEB awarded Alectra Utilities only 51.1% of the capital funding relief that it sought. That Decision and Order was issued on April 5, 2018 (and revised on April 6). As a result of that Decision and Order, which fundamentally changed the Alectra Utilities' understanding of how the OEB would determine the eligibility of investments for ICM funding, Alectra Utilities delayed filing its ICM request for the 2019 rate year to June 7, 2018.

In the ICM Decision for the 2018 rate year, the OEB significantly reduced the ICM recovery to fund important capital investments, not because of any issue with the investments themselves, but because the OEB determined that the ICM required application of an additional test for determining investment eligibility. The additional test had not been part of the OEB's ICM or MAADs policies. Rather, it was based on a prior decision of the OEB on an application by Toronto Hydro, where the OEB assessed each project individually for its significance against Toronto Hydro's total planned capital spending. The OEB applied its judgement to consider whether each capital project proposed for ICM funding was significant relative to Alectra Utilities' total capital budget, not relative to the capital budgets identified for each rate zone. The application of this additional test for ICM eligibility was new and unexpected.

Further, in denying ICM funding for projects in respect of the 2018 rate year the OEB found that Alectra Utilities' projects were not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. The OEB stated that Alectra Utilities should be able to fund those projects through its normal capital budget during the IRM term[1]. Also, the OEB unexpectedly strayed from its prior finding in the MAADs Policy that "normal and expected" capital investments would be eligible for ICM funding, by finding instead that ICM funding is "not available for typical annual capital programs".[2]

As a result of that Decision in respect of the 2018 rate year, Alectra Utilities revised its 2019 ICM application before filing to reduce its ICM request downward, from $39.2MM to $31.6MM. It is on the basis of that reduced ICM request that Alectra Utilities was awarded 83% of its capital request, but this only represented 67.1% of the incremental capital it actually considered necessary for the 2019 rate year. Therefore, on a cumulative basis over 2018-2019, Alectra Utilities received approval for 62.6% of its required incremental capital.[3] The OEB's determination in the 2018 ICM Decision that ICM funding will not be available for typical annual capital programs (notwithstanding its previously stated policy that normal and

[1] P. 39

[2] P. 41

[3] Presentation Day, Slide 7.

expected capital investments would be eligible) was punitive and is the key reason why Alectra Utilities considers the ICM unable to provide sufficient funding for its capital needs. Further, the annual nature of the ICM does not provide the flexibility that Alectra Utilities requires to efficiently execute its DSP. As an electricity distribution company, the main assets that the company owns and operates are poles, conductors, transformers and stations. As such, the investments that it must make to maintain the safety and reliability of its system and respond to customer priorities are, by their nature, not distinct from other work that it must regularly perform in connection with its system. The 2020-24 DSP identifies and prioritizes the company's investment needs based on considerations including asset condition and customer needs and priorities. Many of those investments involve work that is similar in nature to that which Alectra Utilities performs regularly, as part of its annual capital programs. The exclusion from ICM eligibility for typical annual capital program – or "normal and expected" - investments significantly undermines Alectra Utilities' ability to execute its DSP.

b) and c)

As explained in response to part a) above, based on the OEB's Decision on Alectra Utilities' ICM request for the 2018 rate year, Alectra Utilities did not include capital investments plans related to underground cable and rear lot renewal in the 2019 ICM application. The net impact of not including these necessary capital investments was a reduction of $7.6MM in 2019.

In the absence of available ICM funding for underground renewal, rear lot conversion and specific system expansion investments, Alectra Utilities reduced the pace of underground cable and rear lot renewal from levels proposed in predecessor Distribution System Plans. For 2019, Alectra Utilities deferred two cable renewal projects and two rear lot replacement projects. Where possible, Alectra Utilities deferred System Service investments to accommodate more pressing system renewal investment needs. Alectra Utilities recognizes that deferral of system expansion required to support development, intensification and redevelopment of communities that it serves is a short term strategy that is not sustainable and carries of risk of much higher system expansion implementation costs once communities are build, road are paved and streetscapes completed. Deferral of

both system renewal and system service projects has the compounding effect of increasing reactive renewal costs, introducing potential of higher expansion costs and negative impact on system reliability.

In its 2020 EDR Application, Alectra Utilities has filed its first consolidated Distribution System Plan ("DSP"). The DSP identifies the capital funding needs of the utility for the five-year period 2020-2024. Based on an evaluation of the capital funding supported through base rates, Alectra Utilities has identified a capital funding deficit of $55MM, annually, on average.

Alectra Utilities is open to mechanisms for capital funding that will address the funding gap identified in the DSP over the five-year planning period.

The capital investment plan for 2020 to 2024 is the outcome of its extensive business planning efforts, coordinated planning with third parties, multiple rounds of ongoing formal and informal customer engagement, and the implement of Alectra Utilities' robust asset management plan as explained in Exhibit 4, Tab 1, Schedule 1, Page 1 and Page 2.

TAB 3

G-Staff-2

Reference 1: Exhibit 2, Tab 1, Schedule 3, Table 5

Reference 2: Exhibit 2, Tab 1, Schedule 3, Page 3 of 21

Reference 3: Exhibit 4, Tab 1, Schedule 1, Pages 367-368 of 438

Alectra Utilities provided the following table to show the breakdown of M-factor capital expenditures per the Distribution System Plan (DSP) priority needs:

Table 5 – 2020 - 2024 M-factor Capital Projects by Investment Need ($MM)

DSP Priority Needs	2020-2024 M-Factor Capital Expenditures
Enhancing the resilience of its overhead system to adverse weather events	$62.4
Mitigating the need to rebuild or construct new stations by enhancing the use of monitoring technologies, investing in environmental protection measures and strategically managing inventory on a consolidated basis	$43.9
Preventing further decline in reliability due to deteriorating underground assets	$35.2
Responding to anticipated needs in areas of new greenfield development and urban redevelopment/intensification	$123.6
Total M-factor Capital Expenditure	**$265.0**

a) **Please explain how Alectra Utilities determined the amounts allocated to each DSP priority need.**

b) **Please explain how "mitigating the need to rebuild or construct new stations" creates a net cost increase to Alectra Utilities ratepayers rather than a cost savings.**

c) **Please explain what is driving the increase in investment in "environmental protection measures" and explain why that driver was previously unknown to Alectra Utilities (or its predecessor utilities).**

d) **Please explain how "strategically managing inventory on a consolidated basis" leads to higher inventory costs (i.e. increases rather than reduces inventory).**

In reference 2, Alectra Utilities states that it has "… a total of approximately $275MM of unfunded capital expenditures over the five-year DSP period."

e) **Given that the M-factor request is for $265 million in funding, please explain how Alectra Utilities arrived at $265 million from $275 million and how Alectra Utilities will deal with the shortfall of approximately $10 million in capital funding.**

In reference 3, Alectra Utilities notes that the increases between the five year average net capital expenditure from 2015-2019 and the five year forecast from 2020-2024 are:

- **For system access, $2.1 million ($64.7 million to $66.8 million). Alectra Utilities also describes the "forecast spend per year [as] relatively consistent with the historical average."**
- **For system service, $1.2 million ($36.9 million to $38.1 million).**
- **For system renewal, $25.9 million ($127.8 million to $153.7).**

OEB staff notes that, relatively, the increase in average net capital expenditure spending for system renewal is significantly higher than system access or system service.

OEB staff notes that in Table 5 above, items 1 and 3 would be considered system renewal work totalling $97.6 million, while items 2 and 4 would be considered system access and system service work totalling $167.5 million.

f) Please reconcile the above. Specifically, please explain why Table 5 implies a large amount of incremental spending on system access and system service, which seems to contradict reference 3, which states that system renewal accounts for the bulk of Alectra Utilities' increased capital spending.

Response:

a) Alectra Utilities has provided a further breakdown of the M-factor investments by DSP priority need, in Table 1 below, in order to provide more clarity on the classification of these investments.

Table 1 - 2020-2024 M-factor Capital Projects by Investment need ($MM)

DSP Priority Need	2020-2024 M-Factor Capital Expenditure ($MM)
Enhancing the resilience of its overhead system to adverse weather events	62.4
Mitigating the need to rebuild or construct new stations by enhancing the use of monitoring technologies, investing in environmental protection measures and strategically managing inventory on a consolidated basis	15.0
Preventing further decline in reliability due to deteriorating underground assets	35.2
Responding to anticipated needs in areas of new greenfield development and urban redevelopment and intensification	112.4
Keeping the business running	32.7
Eliminating Meter Safety Data Risk	7.3
Total M-Factor Capital Expenditure	**265.0**

ONTARIO ENERGY BOARD

FILE NO.: **EB-2019-0018** **Alectra Utilities Corporation**

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know, it's a balancing act, right.

We're here. We've got a lot of capital that we're asking for. We need the support of cashflow. We're going to have to borrow to support that level of capital expenditure. We need support of cashflow.

It is a balancing act to try and manage the FFO to debt ratio.

MR. GARNER: I will move on to a general topic, if I can.

I am a little confused after the technical conference, I have to tell you, as we go through this, because when I've read Mr. Lyle's work, for instance, and I looked at your work, originally the impression that I was left with is the M-factor is being proposed in order to deal with a particular objective, which is to keep the utility's service reliability from degrading.

And you specifically have highlighted, as we just saw, the -- I always get the acronym wrong XLPE, the underground cable.

MR. BASILIO: Cross link polyethylene.

MS. BUTANY-DESOUZA: Ethyline.

MR. BASILIO: I was close. I'm the accountant on the team, though...

[Laughter]

MR. GARNER: Right. But as I have listened to you today, I have actually heard something a little bit different, which is the M-factor isn't particularly -- well, that's a good outcome. There is nothing wrong with

that, and it is certainly an objective

But in fact, the objective is to support the Distribution System Plan, because a number of the projects you have in there -- without opining on whether they're good, bad, or indifferent -- have nothing to do with reliability.

Take the electric car stuff. That's not going to change your reliability. It may be an enhancement, it may be good, it may be not. But it is not particularly dealing with outages and reliability issues.

So have I got that correct? This isn't about maintaining reliability per se. That is not a bad thing, don't get me wrong, but is that a way to look at this?

MR. WASIK: So, Mr. Garner, there are projects in the M-factor that provide reliability benefit.

MR. GARNER: Absolutely.

MR. WASIK: What we did is in selecting which projects go into the base rates, we valued the ones that provide the reliability benefit.

The comment about the improvements in terms of addressing some of the worst performing areas, that's a comment about the DSP.

So what I think is helpful here is that we put the plan together. It is one plan, and the first focus area was to address the deteriorating underground system, and there's four others we talked about today.

But when we put that plan together, that plan was first put together. Then we took a look at what was

available in terms of funding and some of those projects that are in the M-factor do have some reliability benefits, but they're still required and are still mandatory for us to -- excuse me, necessary for us to move forward with.

MR. GARNER: Well, you have some projects, the blockchain. Is that somehow going to improve your customer's reliability, blockchain?

Alectra drive at home; does that improve your customer's outage performance? Is that what that program is for?

MR. WASIK: So there are, as you know, emerging technologies that Alectra, as a distributor, has to take into consideration to properly plan and have the system ready.

So we heard earlier today that electric vehicles are a technology that is going to have an impact. We recognize that there are some potential benefits, but also some potential negative impacts that we have to study and understand. And we feel that a good investment in terms of studying that through integration of electric vehicles is a prudent and appropriate planning investment to include into the system.

MR. GARNER: I understand that. I don't want to cut you off, but I do want you to get home as early as you can.

I am not actually arguing with you the benefit or not of electric drive for the workplace at all. I am just asking you at this moment, the program is not being projected -- this M-factor is not being projected to the

Board on the sole purpose of maintaining, or improving, or doing system reliability.

It is doing that. I'm not going to argue with you that you are not trying to attempt that. But it does have other aspects to it. You are supporting a distribution system plan under this, aren't you? Isn't that your objective?

MR. WASIK: Yes, that is correct.

MR. GARNER: As I understand it, the way you see the world -- and I am not going to argue whether it is good, bad, or indifferent -- I would be correct to say there were two decisions out of the Board on ICM that were unsatisfactory to you, not just the last one, but the one before that, is that correct? They didn't meet your expectation of what would happen to a utility like yourself, not just in the last decision, but in the ICM before that decision. Would that be correct, too?

MS. BUTANY-DESOUZA: That is correct, the 2018 and the 2019 decisions.

MR. GARNER: And the 2018 decision, that one happened -- that was, I think, April 6th to 18 was the Board's decision on that, right?

MS. BUTANY-DESOUZA: That is the revised date, yes.

MR. GARNER: Yeah, right. When did you acquire Guelph? When did that happen?

MS. BUTANY-DESOUZA: January 1st, 2019.

MR. GARNER: So subsequent to that, after that decision.

TAB 4

G-Staff-4

Reference: Exhibit 5, Attachment 3, M-factor Revenue Requirement

Alectra Utilities provided the following table in the "Summary by RZ" tab within the Attachment 3 excel workbook:

Capex	2020	2021	2022	2023	2024	2020-2024
Horizon	11,863,042	10,953,468	9,264,384	3,521,255	11,814,192	47,416,342
Brampton	9,696,860	2,188,555	6,646,395	3,730,434	3,765,279	26,027,522
PowerStream	23,015,003	16,054,205	15,402,786	32,752,595	23,331,583	110,556,171
Enersource	6,591,094	5,532,703	8,810,404	7,760,537	23,132,111	51,826,849
Guelph	133,500	1,278,753	1,336,164	612,820	745,233	4,106,470
Multiple	1,374,474	7,646,447	10,563,570	3,691,393	1,752,933	25,028,816
	52,673,973	**43,654,130**	**52,023,703**	**52,069,034**	**64,541,330**	**264,962,171**

a) Please provide a breakdown by rate zone of all the individual projects that are to be funded by the M-factor.

b) Please explain how Alectra Utilities determined which projects would be funded through the M-factor and which projects would be funded through Alectra Utilities' base rates.

c) If the M-factor is not approved, please confirm that the projects listed in part a) are the projects that would not proceed absent M-factor funding. Otherwise, absent any M-factor funding, please explain Alectra Utilities' methodology for choosing the projects it would defer.

Response:

a) Tables 1-4 include all capital investments proposed for M-Factor funding provided by rate zone including a set of projects applicable to all rate zones labeled as Multiple.

Table 1 – Proposed M-Factor Funded Capital Investments for Horizon Rate Zone ($MM)

Project	Investment ($MM)
Deerhurst MS Voltage Conversion	$7.8
HaLRT_New Stirton Feeder for TPSS#4 and 8852X load shedding	$4.8
Dewitt MS Voltage Conversion	$4.1
Eastmount MS Voltage Conversion	$3.8
Aberdeen MS Voltage Conversion_2020 to 2022	$3.3
Galbraith MS Voltage Conversion	$3.3

Rear Lot Conversion - Marsdale	$3.1
Elmwood MS Voltage Conversion	$2.8
Rear Lot Conversion - Richlieu Dr and Trelawne Dr	$2.4
North Central feeders capacity (Carlton TS to Lakeshore/Lake) relief	$2.0
Montgomery Dr Voltage Conversion and Rear Lot Relocate_ANC	$1.8
Waterdown 3rd Feeder	$1.7
Vansickle TS True-up Payment	$1.6
Rear Lot Conversion - Strathcona Dr	$0.9
2D7X Pimlico Dr - Voltage Conversion and Rear Lot	$0.6
Nebo TS 27.6kV True-up Payment	$0.5
New WiMAX Communications System - West	$0.5
Facilities Reno John St Roof Deck	$0.4
Fleet_2023_West_Vehicle_Replacement_Bucket Truck_1-354	$0.4
Fleet_2020_West_Vehicle Replacement_Step Vans	$0.4
Fleet_2024_West_Vehicle_Replacement_Pickups	$0.2
SS-2019-Installation of SWI Video security system at 4 MS stations per year	$0.2
Fleet_2020_West_Vehicle Replacement_SUVs_1-268,1-226,1-227	$0.1
Fleet_2023_West_Vehicle_Replacement_Pickups	$0.1
Fleet_2023_West_Vehicle_Replacement_Trailer	$0.1
SS-Driveway Paving- Various Stations -WEST	$0.1
Fleet_2024_West_Vehicle Replacement_Forklift	$0.1
Fleet_2023_West_Vehicle Replacement_ Pole Trailer_1-405	$0.1
Fleet_2022_West_Vehicle_Replacement_Trailers	$0.1
SS-2019-Station LED Lighting Upgrades - West	$0.1
Total Horizon Rate Zone	$47.4

Table 2 – Proposed M-Factor Funded Capital Investments for Brampton Rate Zone ($MM)

Project	Investment ($MM)
Goreway TS Expansion (CCRA) - 10 Yr True-Up Payment	$5.6
MS-12 Hansen Rd 4.16kV Voltage Conversion	$5.5
MS-2 Church St 4.16kV Voltage Conversion	$4.4
42M69 Feeder Extension Williams Pkwy - Main St to Kennedy Rd	$1.1
Cable Injection Project - (F4-G4) - Main - Steeles - Chinguacousy - Queen, Brampton	$1.1
Cable Replacement Project - (F4-G4) - Main - Steeles - Chinguacousy - Queen, Brampton	$1.0
136M6 Goreway TS Extensions	$1.0
Cable Injection Project - (F3-G3-H3) - Phase 2, Brampton	$0.8
Fleet_2024_ Central North Vehicle Replacement_Reel Carriers	$0.7
Facilities_2022_Reno_Sandalwood - CDM Relocation from Jane	$0.6

Cable Injection Project - (G1) - Hwy 410 - Kennedy - Wanless - Main, Brampton	$0.6
Fleet_2024_ Central North Vehicle Replacement_S/Bucket	$0.5
Fleet_2023_ Central North Vehicle Replacement_S/Bucket 8910	$0.5
Fleet_2020_ Central North Vehicle Replacement-180 Loader	$0.3
Fleet_2023_ Central North Vehicle Replacement_Stake Trucks	$0.3
New WiMAX Communications System - Central North	$0.3
Fleet_2021_ Central North Vehicle Replacement_ Step Vans 6310	$0.3
Fleet_2020_ Central North Vehicle Replacement-Step Van 8108	$0.2
SS-2019-Station LED Lighting Upgrades -EAST	$0.1
136M9 Feeder Extension Castlemore Rd, Goreway Dr to McVean Dr	$0.1
42M66 OH Feeder Egress Mississauga Rd, Bovaird to CNR	$0.1
SS-2019-Upgrade to Station Facilities (Building / Civil work) MultiYear-EAST	$0.1
Fleet_2023_ Central North Vehicle Replacement_Trailer	$0.1
42M64 Feeder Extension Mississauga Rd, Williams Pkwy to Queen / Embleton	$0.1
JY TS1 Bus & Main Breaker Protections Replacement	$0.1
Fleet_2021_ Central North Vehicle Replacement_Vans	$0.1
SS-2019-Driveway Paving- Various Stations-Program-EAST	$0.1
Fleet_2022_ Central North Vehicle Replacement_pick ups	$0.1
Fleet_2023_ Central North Vehicle Replacement_pick ups	$0.1
Fleet_2021_ Central North Vehicle Replacement Pick up 9514	$0.1
Fleet_2020_ Central North Vehicle Replacement-Van 5910	$0.1
Total Brampton Rate Zone	$26.0

Table 3 – Proposed M-Factor Funded Capital Investments for PowerStream Rate Zone ($MM)

Project	Investment ($MM)
Vaughan TS#4 Feeder Integration - Part 3	$8.8
Residential Meter "ICON F" Meter Replacement Program - East	$7.3
Install Two 27.6kV Ccts on 16th Ave from Hwy 404 to Woodbine Ave	$5.5
Markham TS #4 Feeder Egress Part 3	$4.9
Residential solar-storage	$4.0
Rear Lot Supply Remediation - Royal Orchard - North	$4.0
Install Double Cct Pole Line on Major Mackenzie - Hwy 27 to Huntington Rd	$3.7
Bathurst Street Widening	$3.4
Connection Cost Recovery Agreement (CCRA) – Midhurst TS – 15th Anniversary True-up	$3.2
Cable Replacement - (V15) - Jardin Dr	$2.9
Cable Replacement - (A02) - Steeplechase Ave	$2.9

Cable Injection Project - (V17) - Langstaff - Keele - Rutherford - Dufferin, Vaughan	$2.8
Install two additional 27.6 kV ccts on Hwy 7 from Jane St to Weston Rd	$2.6
Rear Lot Supply Remediation - East of Queen St. to Eastern Ave./North of Greenway St.	$2.6
Rear Lot Supply Remediation - Main Street / Unionville / Carlton	$2.5
Cable Replacement Project - (V17) - Langstaff - Keele - Rutherford - Dufferin, Vaughan	$2.4
New Barrie 20MVA Substation - Harvie	$2.2
Rebuild 27.6 kV pole line for 4 Ccts on Warden Ave from Major Mack to Elgin Mills	$2.2
Cable Replacement - (M33) - 16th Avenue and Village Parkway	$2.1
27.6 kV Pole Line on 14th Ave from Hwy 48 to 9th Line	$2.0
Aurora MS6 Expansion - (Year 1 of 2) - Design & Order Equipment	$2.0
New Alliston 10MVA Substation - Industrial Parkway	$1.9
Rear Lot - Gunn/Oakley Park/St.Vincent	$1.8
Rear Lot - East of Queen Street/North of Mill Street	$1.8
Cable Replacement – (Barrie) - Cook St and Steel St	$1.7
Net Zero Energy Emissions	$1.6
Two Ccts on Birchmount Rd from ROW to 14th Ave	$1.6
Radial Supply Remediation/Conversion - 13.8 kV to 27.6 kV on Miller Ave	$1.5
Cable Injection Project - (V50) - Hwy 7 - Kipling - Steeles - Hwy 27, Vaughan	$1.5
Pole Line Installation Double Cct on Major Mack - Huntington Rd to Hwy 50	$1.4
Install a new 4 ccts CNR yard overhead crossing on the south side of Hwy 7	$1.4
Add one Additional 27.6 kV Cct on Major Mack Dr and 9th Line	$1.3
Build double ccts 27.6kV pole line on 19th Ave between Leslie St and Bayview Ave	$1.3
Cable Injection Project - (V25) - Major Mackenzie - Keele - Rutherford - Jane, Vaughan	$1.3
Cable Injection Project - (V24) - Langstaff - Jane - Rutherford - Keele, Vaughan	$1.3
Install 44kV & 13.8kV Bryne Drive	$1.1
Cable Replacement - (Barrie) - Cundles Rd and Janine St	$1.1
Cable Replacement Project - (V51) - Langstaff - Kipling - Hwy 7 - Hwy 27, Vaughan	$1.0
Cable Replacement Project - (V24) - Langstaff - Jane - Rutherford - Keele, Vaughan	$1.0
Fleet East 2024 Vehicle replacement - Cube Vans	$0.7
Fleet East Unit # 75 83' Double Bucket	$0.7
Cable Injection Project - (V51) - Langstaff - Kipling - Hwy 7 - Hwy 27, Vaughan	$0.7
Fleet East Unit # 125, 83' Double Bucket	$0.7
Install 2nd 27.6 kV Cct on Woodbine Ave from Elgin Mills Rd to 19th Ave	$0.6

Cable Injection Project - (V31) - Langstaff - Weston - Rutherford - Jane, Vaughan	$0.6
Hydro One Asset Purchase - Alliston	$0.5
Redundant Fibre Path to Aurora MS#4 Sub-Station	$0.5
Markham TS#2 Line Protections and HMI Upgrade - KDU-10 Replacement	$0.5
Split the 1/0 loop on Cityview Blvd into two loops	$0.5
Fleet East Unit # 61 Digger truck replacement	$0.4
Vaughan TS#1 Bus Differential & Overcurrent Protections Upgrades	$0.4
Dufferin St S, between MS431 and Albert St S, Alliston	$0.4
Markham TS#1 Bus Differential & Overcurrent Protections Upgrades	$0.4
Markham TS#3 Bus Differential & Overcurrent Protections Upgrades	$0.3
Markham TS#2 Bus Differential & Overcurrent Protections Upgrades	$0.3
Markham TS#1 T1/T2 "B" Overcurrent Protections and HMI Upgrade	$0.3
Vaughan TS#2 Bus Differential and Overcurrent Protections Upgrade	$0.3
Rear Lot Supply Remediation - Blake/Kempenfelt	$0.3
Fleet East 2024 Vehicle replacement - Extened Vans	$0.2
Markham TS#2 T1/T2 "B" Differential Protections Upgrade	$0.2
Vaughan TS#1 T1/T2 "B" Differential Protections Upgrade	$0.2
Markham TS#3 T1/T2 "B" Differential Protections Upgrade	$0.2
Richmond Hill TS#2 Upgrade Bus, Line & Transformer Protections	$0.1
Aurora MS6 (AMS6) Transformer and Bus Protection Upgrade	$0.1
New Three Sector WiMAX Node - MS305	$0.1
Vaughan TS3 - Station Service Transfer Upgrade	$0.1
Cityview microgrid enhancements	$0.1
Vaughan TS#2 T1/T2 "B" Differential Protections Upgrade	$0.1
Fleet East 2024 Vehicle replacement - Work Van	$0.1
Fleet East 2024 Vehicle replacement Pickup truck 2500	$0.1
Total PowerStream Rate Zone	$110.6

Table 4 – Proposed M-Factor Funded Capital Investments for Enersource Rate Zone ($MM)

Project	Investment ($MM)
44kV New Feeder Extension Centre View Dr	$6.5
Duke MS New 20 MVA Substation	$6.2
27.6kV Feeder Extension Traders	$5.5
Port Credit Village East New Feeders (Marina)	$4.4
Left behind - ERZ	$2.7
Clarkson Voltage Conversion 4.16-27.6kV (4 Sections)	$2.7
Windjammer	$2.7

Mini-Orlando MS 27.6kV Land Purchase	$2.2
27.6kV New Feeders Lakeview Development	$1.9
44kV Feeder Extension York/Meadowpine	$1.8
13.8kV Feeder Extension 9th Line, Derry to Argentia	$1.2
Shelter Bay Rd.	$1.1
QEW Expansion Dixie West OH Betterment	$1.1
Truscott Plaza Voltage Conversion 4.16 - 27.6kV (3 Sections)	$1.0
MS Transformer & HV Switchgear Replacement (ACA)Munden MS35 T1 & HV1	$0.9
MS Transformer & HV Switchgear Replacement (ACA) Western MS36 T1 & HV1	$0.8
Fleet_2024_Central South Vehicle Replacement-Step Vans	$0.7
Mason Heights	$0.7
Bough Beeches Blvd.	$0.7
Station Switchgear Replacement (ACA) Bloor MS38 LV1	$0.7
Fleet_2024_Central South Vehicle Replacement- Material Handler	$0.6
Airport 88M5 & 88M7 HONI Purchase	$0.5
Distribution Cable Replacement - Area of Erin Mills pkway. and South Millway	$0.5
Fleet_2024_Central South Vehicle Replacement-209-09 S/bucket	$0.5
Fleet_2023_Central South Vehicle Replacement-236-10 S/bucket	$0.5
Fleet_2021_Central South Vehicle Replacement-210-09 S/bucket	$0.5
New WiMAX Communication Network - Central South	$0.4
Fleet_2024_Central South Vehicle Replacement-Vans	$0.3
King St. Voltage Conversion & Loop (LRT Betterment)	$0.3
Fleet_2022_Central South Vehicle Replacement-Step Vans	$0.2
Fleet_2020_Central South Vehicle Replacement-Step Van	$0.2
Fleet_2022_Central South Vehicle Replacement- Vans	$0.2
Fleet_2024_Central South Vehicle Replacement-Trailers	$0.2
SS-2019-Installation of SWI Video security system at 4 MS stations per year - Annual Program-CENTRAL	$0.2
Fleet_2024_Central South Vehicle Replacement-Pick ups	$0.2
Fleet_2022_Central South Vehicle Replacement-Pick ups	$0.2
SS-2019-Station LED Lighting Upgrades -CENTRAL	$0.1
SS-2019-Driveway Paving- Various Stations-Program-CENTRAL	$0.1
Fleet_2024_Central South Vehicle Replacement-SUV	$0.1
Fleet_2022_Central South Vehicle Replacement- SUV	$0.1
Fleet_2020_Central South_Vehicle Replacement -Vans	$0.1
Fleet_2020_Central South Vehicle Replacement-Pick ups	$0.1
Fleet_2024_Central South Vehicle Replacement-Van	$0.1
Fleet_2021_Central South Vehicle Replacement- Van	$0.1
Fleet_2021_Central South Vehicle Replacement- trailer	$0.0

Fleet_2020_Central South Vehicle Replacement-SUV	$0.0
Fleet_2023_Central South Vehicle Replacement-Bocat	$0.0
Fleet_2023_Central South Vehicle Replacement- Arrowboard	$0.0
Total Enersource Rate Zone	$51.8

Table 5 – Proposed M-Factor Funded Capital Investments for Guelph Rate Zone ($MM)

Project	Investment ($MM)
GUELPH - Campbell TS 36M63 Feeder PHASE 2	$1.2
GUELPH - Campbell TS 36M63 Feeder PHASE 1	$1.2
GUELPH - Rear Lot Conversions	$0.6
GUELPH - Southgate Dr to Maltby Rd O/H Extension	$0.6
GUELPH - Arlen MTS - New Feeder	$0.5
GUELPH - Capacitor Bank Installations	$0.1
Total Guelph Rate Zone	$4.1

Table 6 – Proposed M-Factor Funded Capital Investments for Multiple Rate Zone ($MM)

Project	Investment ($MM)
CC&B upgrade 2021 - 2022	$13.3
Alectra Workforce Management Software	$4.7
Alectra Drive at Home	$2.7
Blockchain	$2.4
Alectra Drive for the Workplace	$0.8
Alectra Single Platform Website ongoing	$0.3
Fieldworker Upgrade 2020	$0.3
Back-end Automation (Orchestration Tool\Setup)	$0.2
IT Innovation (ITx, 2024)	$0.2
Total Multiple Rate Zones	$25.0

b) Please see Alectra Utilities' response to G-Staff 9.

c) Alectra Utilities cannot speculate on potential investment options without the full context of the OEB's decision. As described in Exhibit 1, Tab 3, Schedule 1, pages 4-5, under-investing will result in a growing population of deteriorated assets, declining reliability, and a "snowplow" of capital costs for future customers. It will also lead to more expensive reactive capital investments when asset failures occur.

In the event that Alectra Utilities is denied the M-factor, it will also have to file annual ICM applications during the remainder of the rebasing deferral period.

TAB 5

Table A19 - 2 identifies the quantity and the types of vehicles and other assets that Alectra Utilities plans to replace through Fleet Renewal investments during the DSP period.

Table A19 - 2: Planned Fleet Renewal Investment by Vehicle Type

Vehicle Type	2020		2021		2022		2023		2024		2019-2024 Total	
	No.	CAPEX ($MM)	No.	CAPEX ($MM)	No.	CAPEX ($MM)	No.	CAPEX ($MM)	No.	CAPEX ($MM)	No.	CAPEX ($MM)
Heavy Duty Vehicles	8	3.5	15	6.8	14	5.7	12	6.3	10	5.3	**59**	**27.6**
Medium Duty Vehicles	12	1.6	11	1.2	9	1.6	6	1.0	7	2.0	**45**	**7.4**
Light Duty Vehicles	61	2.7	16	0.8	41	1.9	38	1.7	33	1.6	**189**	**8.7**
Equipment	6	0.9	3	0.5	3	0.6	9	0.8	9	0.9	**30**	**3.7**
Trailers	0	0.0	1	0.1	0	0.0	8	0.4	8	0.3	**17**	**0.8**
Shop Equipment and Tools	5	0.2	3	0.1	3	0.1	2	0.1	5	0.1	**18**	**0.6**
Total	**92**	**8.9**	**49**	**9.5**	**70**	**9.9**	**75**	**10.3**	**72**	**10.2**	**358**	**48.8**

The planned investments reflect a set of objectives and drivers, ranging from the condition of existing vehicles to external regulatory and safety requirements. Table A19 - 3 outlines the objectives and drivers of the utility's planned fleet investments.

Figure A19 - 1: Examples of Alectra Utilities' Fleet Vehicle Degradation

Vehicle age, use, salt on city streets are the main reasons for increasing corrosion conditions as corrosion damages and weakens the frame of the truck or vehicle over time. The frame is the main structure of a vehicle to which all running gears are secured, and supports the entire weight of the vehicle and is fastened to the wheels, suspension, and steering components. Severe rust to the frame can lead to breaks while under load (for example, during a lift operation, pulling cable, or material loading). Frame weakness can also decrease the ability of the vehicle to withstand crashes, thus jeopardizing the safety of the operators and the general public.

Corrosion may also occur on components that are critical to the operation of the vehicle, such as transmission and brake lines, that are often not observable without substantial teardown. Rust on these components results in weak spots that have the potential to rupture and leak, and cause failures while in use. For example, a transmission line rupture could result in a seized transmission. Transmission failure of heavy-duty trucks and vehicles introduces significant risk to

TAB 6

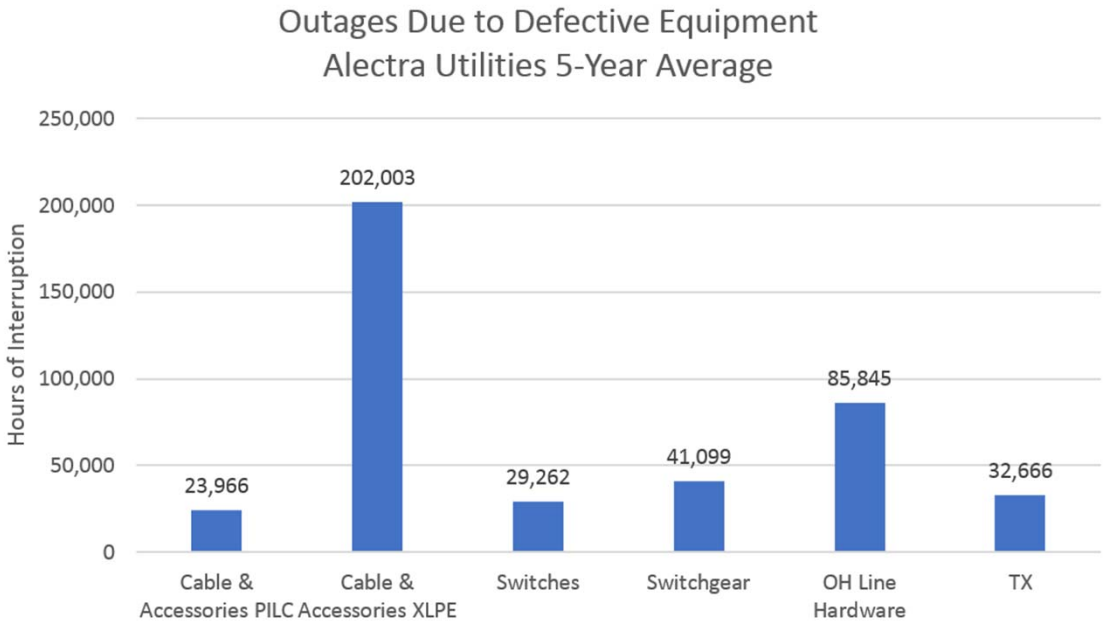
CCC-1

ATTACH 6 – EC Presentation Dated April 23, 2019

2020 EDR Application

Key DSP Focus Areas

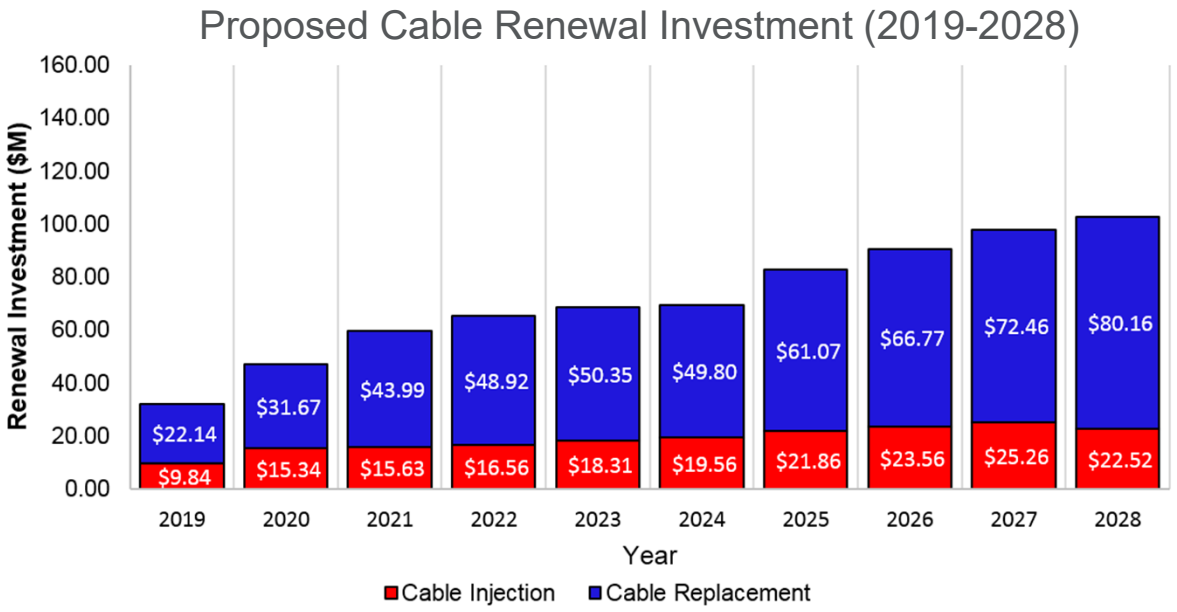
Increase level of investment in deteriorating underground systems.



alectra
Discover the possibilities

Key DSP Focus Areas

1. Increase level of investment in deteriorating underground systems.



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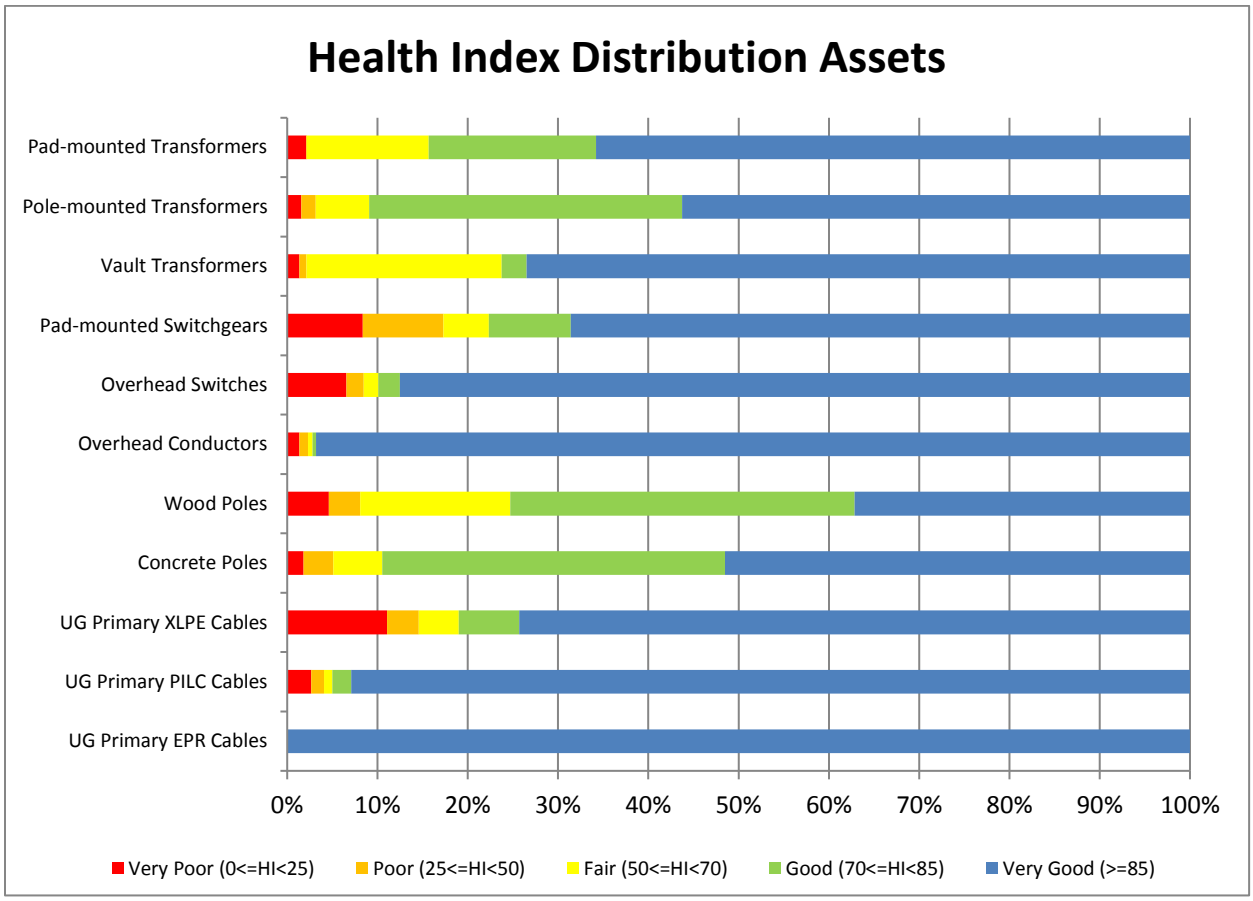
TAB 7

Figure 5.2.3 - 1: Distribution Asset Health Index Summary (2018)

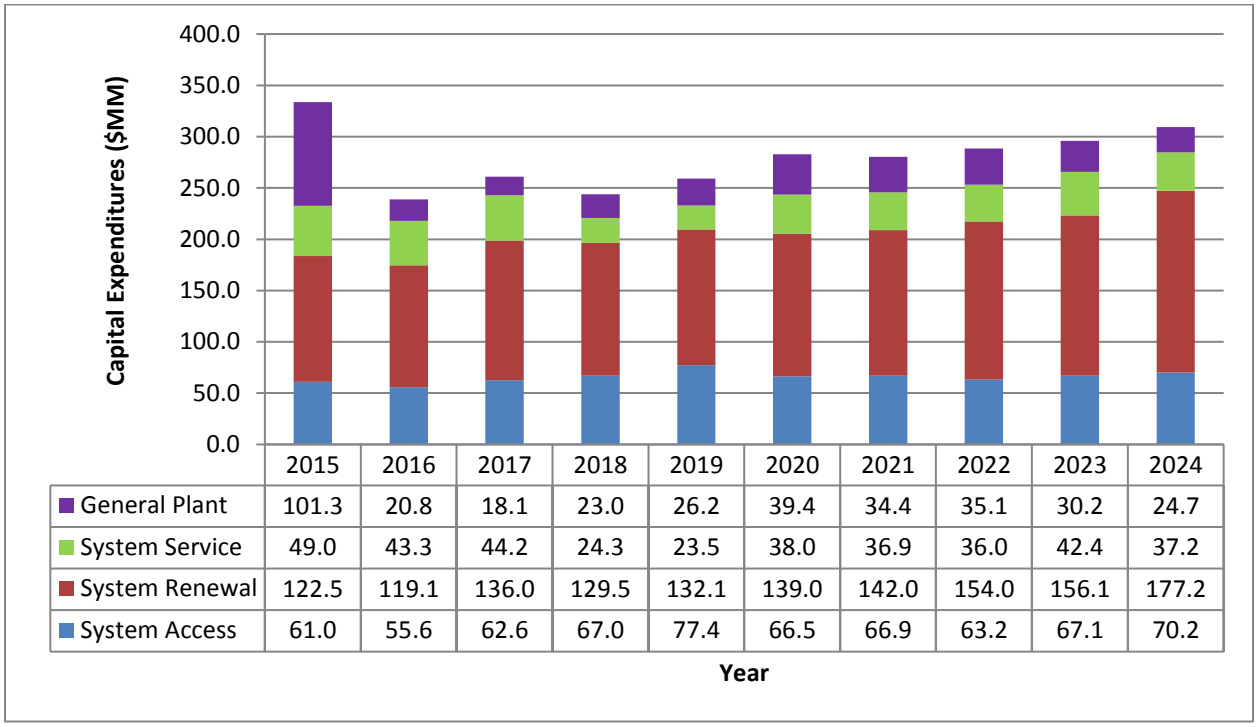


The Health Index of underground cables in poor and very poor condition represents the current level and future risk of failure. Alectra Utilities leverages the Health Index metric as an indicator of the required level of investment over a long term planning horizon to enable pacing and prioritization of renewal investments. Please refer to Appendix A10 - Underground Asset Renewal for a detailed explanation of the methodology used to derive the pacing and renewal prioritization for underground cables.

B Customer

In order to track performance relative to the company's Customer AM Strategic Principles of evolving the distribution system to increase its ability to meet current and future customer needs and identifying, understanding and incorporating customer preferences and priorities, Alectra Utilities has established one performance measure, which is based on its annual customer survey

Figure 5.4.3 - 1: Capital Expenditures ($MM) by Investment Category (2015-2024)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
General Plant	101.3	20.8	18.1	23.0	26.2	39.4	34.4	35.1	30.2	24.7
System Service	49.0	43.3	44.2	24.3	23.5	38.0	36.9	36.0	42.4	37.2
System Renewal	122.5	119.1	136.0	129.5	132.1	139.0	142.0	154.0	156.1	177.2
System Access	61.0	55.6	62.6	67.0	77.4	66.5	66.9	63.2	67.1	70.2

To address urgent system renewal needs, the DSP plans to gradually increase System Renewal investments (from $139.0MM in 2020 to $177.2MM in 2024) and to reduce General Plant investments (from $39.4MM in 2020 to $24.7MM in 2024), with System Access and System Service investments remaining relatively flat across the five-year DSP period. Refer to Figure 5.4.3 - 1.

Investments in System Access and System Renewal represent 73% of the total capital investment plans in 2020. This increases to approximately 80% of the total planned investments in 2024. The allocation of the overall DSP investment among the four categories is similar to the company's present allocation of its capital investments, but represents a continuation of the trend during the historical period, among Alectra Utilities and its predecessors, of increasing the proportion of overall investment that is targeted at System Renewal, while reducing the proportion of overall investment that is focused on System Service and General Plant. Please refer to Figure 5.4.3 - 2 which illustrates the percentage allocation of the DSP Investment Plan by OEB investment category.

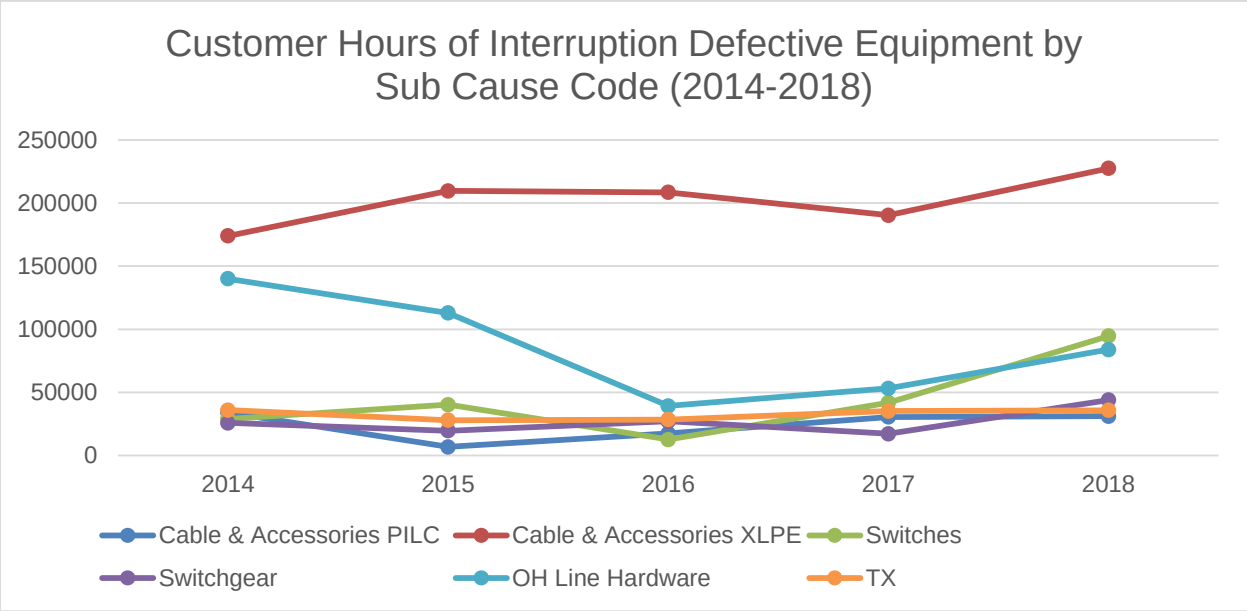
c) Alectra Utilities has provided the proportional and absolute 2014-2018 trends for outages caused by overhead distribution hardware failures in Table 2.

Table 2: Number of Outages Caused by Overhead Line Hardware Failures (2014-2018)

Sustained Outages	2014	2015	2016	2017	2018
OH Hardware Failures	209	170	116	137	151
Alectra Total	5,182	5,468	5,159	5,195	5,364
OH Failures Percentage	4%	3%	2%	3%	3%

d) Please see Figure 1 for the 2014-2018 outage hours caused by each asset category as listed in Figure A05-2.

Figure 1: Customer Hours of Interruption Defective Equipment by Sub Cause Code (2014-2018)



TAB 8

CCC-1

ATTACH 2 – AFRM Report 3.4
Dated May 2, 2019

2020 EDR Application Update

Indy J. Butany-DeSouza

Overview

A New Approach to Post-Merger Rate-setting

In the 2020 Electricity Distribution Rates ("EDR") application, Alectra Utilities will attempt to address a critical issue resulting from its first two years of post-merger rate setting: the lack of sufficient, stable funding for critical capital investments.

The outcome of the past two decisions has been to restrict Alectra Utilities' capital funding, resulting in deteriorating customer reliability and increasing constraints on our ability to connect customers.

Without a new approach to capital funding, Alectra Utilities will not be able to meet customer needs and priorities (as assessed through extensive customer engagement).

TAB 9

G-Staff-9

Reference: Exhibit 2, Tab 1, Schedule 4, Page 2 of 18

Alectra Utilities describes the true-up of the Capital Investment Variance Account (CIVA) as follows:

Subject to the OEB's approval of the M-factor, Alectra Utilities proposes a symmetrical CIVA for the 2020-2024 term of the DSP. Alectra Utilities proposes to track variances between the actual and forecast capital related revenue requirement for the DSP term. The capital related revenue requirement is used to calculate the M-factor for riders applicable in each rate zone.

Consistent with the determination of the maximum M-factor eligible capital at the time of this filing, the CIVA true-up amount must fall within Alectra Utilities' maximum M-factor eligible capital at the time of the true-up based on Alectra Utilities' actual five-year in-service additions. By way of example, Alectra Utilities' total capital envelope, as provided in Table 4, is $0.3B. This is based on total forecasted capital expenditures of $1.5B less the materiality threshold of $1.2B. If actual capital expenditures are $1.3B, then Alectra Utilities' capital envelope is $0.1B (Total capital costs of $1.3B, less the materiality threshold of $1.2B). Therefore, CIVA true-up cannot exceed the capital envelope of $0.1B, determined at the time of the true-up.

a) **Is OEB staff's understanding correct that the CIVA true-up will be calculated as the difference between the actual five-year in-service additions related to M-factor and the forecast M-factor capital related revenue requirement?**

b) **Based on Alectra Utilities' description in the reference above, OEB staff understands that Alectra Utilities proposes that the CIVA true-up amount cannot exceed the difference between the actual capital expenditures at the time of the true-up and the materiality threshold (calculated in Exhibit 2, Tab 1, Schedule 3 for the M-factor) of $1.2 billion. Please confirm if OEB staff's understanding is correct. If yes, please explain the rationale for the proposed calculation for the maximum eligible CIVA true-up amount.**

c) **Please confirm that Alectra Utilities does not intend to track M-factor variances on a project level.**

d) **Based on Alectra Utilities' example above, is OEB staff's understanding correct that the CIVA true-up will be based on actual five-year in-service additions, regardless of whether Alectra Utilities' spending has exceeded the $265 million it has requested through the M-factor?**

i. Please confirm if OEB staff's example is correct: if Alectra Utilities' actual capital expenditure is $1.8 billion, then $1.8 billion less the materiality threshold of $1.2 billion gives Alectra Utilities a maximum capital envelope of $0.6 billion that would be eligible for a true-up.

ii. If the example in i) is correct, please explain why it is appropriate for Alectra Utilities to collect any true-up when the actual M-factor capital spending is in excess of the amount being requested in this application ($265 million).

iii. If Alectra Utilities spends in excess of the amount being requested in this application ($265 million) and requests a subsequent true-up for the excess spending, please explain what evidence Alectra Utilities will provide to the OEB to assess the prudence of the excess spending. Specifically, please explain on what basis the OEB could assess the prudence of Alectra Utilities' excess spending given that there are no set M-factor projects given the proposed "flexible" nature of the M-factor.

Alectra Utilities proposes calculating the annual CIVA amount on a company-wide basis and proposes disposing of the CIVA balance using class specific rate riders that are applied to all rate zones.

e) Please confirm Alectra Utilities is intending to have one set of class specific rate riders applied equally across all rate zones.

i. If yes to e), please explain how this is equitable to all customers given that the original M-factor rate riders are rate zone specific. Furthermore, please explain how Alectra Utilities will prevent subsidization across rate zones if Alectra Utilities does not track variances within rate zones and proposes calculating the CIVA amounts on a company-wide basis.

f) Please explain the apparent disconnect between Alectra Utilities' proposal to dispose of the variance account at the end of the five year term, and Alectra Utilities' proposal to calculate the CIVA amount and dispose of positive and negative balances annually.

Response:

In addition to the specific responses below, Alectra Utilities wishes to provide clarification and responses to a number of related interrogatories regarding the M-factor and the CIVA in a

unified manner. The following responds to questions set out in this G-Staff-9, as well as to questions set out in G-Staff-4, G-Staff-5, G-Staff-6 and CCC-22.

M-factor Funding is Limited in Scope

As explained in Exhibit 2, Tab 1, Schedule 3 at p. 3, the purpose of the M-factor is to bridge the gap during Alectra Utilities' rebasing deferral period, between the level of investment funded through base rates and the level of investment that needs to be funded to fully execute its DSP. The utility's base rates will support an average annual capital expenditure of approximately $236MM during the DSP period. However, the DSP contemplates annual capital expenditures of approximately $291MM. Without the M-factor, Alectra Utilities would have $55MM of capital expenditures in each year that are unfunded and which it would not be able to execute. This results in a total of approximately $275MM of unfunded capital expenditures over the five-year DSP period (Exhibit 2, Tab 1, Schedule 3, p. 3). Alectra Utilities would not be able to achieve the outcomes that its customers expect if it does not have the capital funding to fully execute the DSP.

As explained in Exhibit 2, Tab 1, Schedule 3 at pp. 11-13, Alectra Utilities considers the ICM materiality threshold to be an appropriate method for calculating the level of capital funding that it should be expected to absorb within its funding from base rates. Alectra Utilities clarifies that consistent with its request for flexibility to execute the M-factor projects, these projects must fit within the total eligible capital envelope derived from the materiality threshold over the 5 year DSP period. On this basis, the threshold capital expenditure value over the 2020 to 2024 DSP period is $1.182B. Given that the DSP contemplates a total capital investment need of $1.457B over this period, Alectra Utilities' maximum M-factor eligible capital is $274.3MM. Alectra Utilities is proposing to establish riders that reflect total M-factor capital expenditures of $265MM over the five-year period, which is less than the maximum eligible amount. As explained in greater detail below, the $9.3MM difference between this and the $274.3MM maximum M-factor eligible capital amount represents the maximum amount that Alectra Utilities would be able to recover from customers through the Capital Investment Variance Account ("CIVA") true-up at the end of the five-year period, in the event there is a credit balance in the account at that time.

The revenue requirement impact associated with the M-factor capital expenditures of $265MM over five years is proposed to be recovered through M-factor Capital Funding Rate Riders. These riders will be calculated for each rate class within each rate zone, for each of the DSP years, to reflect the particular M-factor Projects that go into service in the corresponding rate zone in the relevant year. These rate riders will remain in place until rebasing and will thereby be cumulative in that, by 2024, customers would be charged the M-factor riders applicable to their rate class/rate zone for each of the five preceding years. In 2024, when all of the M-factor riders would be in effect, Alectra Utilities' total capital revenue requirement associated with the M-factor funding request, reflective of all DSP years, would be $21.8MM. This is shown in Exhibit 2, Tab 1, Schedule 3 at p. 16, with detailed calculations in Exhibit 5, Attachment 3, and as revised for a 'typo' noted in Alectra Utilities' response to G-Staff-1. The resulting M-factor Capital Funding Rate Riders are presented, for each year by rate zone, and for each customer class, on pages 18-19 of Exhibit 2, Tab 1, Schedule 3.

M-factor Funding Amounts Relate to Specific and Identifiable Capital Investments

The proposed M-factor will provide funding for a specific and identifiable set of planned capital investments that are contemplated in the DSP ("M-factor Projects"). M-factor Projects relate to specific rate zones, or in some cases to multiple rate zones. A breakdown of the total planned capital expenditures for M-factor Projects by rate zone and by year is provided in Exhibit 5, Attachment 3, p. 1. A breakdown by rate zone of the individual M-factor Projects is provided in Alectra Utilities' responses to G-Staff-4-1 through G-Staff-4-6. In total, there are 194 individual M-factor Projects that the company proposes for funding through the M-factor.

As is the case for all of its capital investment needs, including those to be funded through base rates and those that are proposed to be funded through the M-factor, Alectra Utilities identified its capital investment requirements through the DSP investment planning process. This process included: multiple rounds of customer engagement; asset condition and needs assessment; identification of options; business case development; risk/value assessment and investment prioritization and optimization using the CopperLeaf C55 software system.

Through this process, Alectra Utilities prioritized all of its identified investment needs so as to develop a portfolio of investments that provides maximum value, while meeting various needs.

This was done by considering factors such as: compliance requirements; safety risks; environmental risks; regulatory risks; reliability impacts; and customer service benefits and costs. Higher value investments are funded through base rates to the extent that such funding is available. Where funding through base rates is not available, investments would be funded through the proposed M-factor. While the investments to be funded through the M-factor would therefore be those considered to be of lower value relative to those that would be funded by base rates, they are of a higher value relative to the numerous other potential investment needs that Alectra Utilities identified but did not ultimately include in its capital investment plan. The M-factor Projects are considered to be important investments that need to be executed during the DSP planning period.

M-factor Riders are Calculated with Reference to Specific and Identifiable Investments

As specified in Exhibit 2, Tab 1, Schedule 3 at p. 16, the proposed M-factor Capital Funding Rate Riders have been calculated based on specific M-factor Projects that are contemplated in the DSP for the corresponding rate zones during particular years. At p. 15 of that Schedule, Alectra Utilities states that, while the M-factor riders are calculated based on specific investments, they "are not tied to those specific investments". This means that the M-factor riders would provide Alectra Utilities with an envelope of capital funding. While the company plans to execute all of the individual M-factor Projects as planned within the DSP period, to effectively implement the DSP, Alectra Utilities requires the ability to accommodate changing circumstances that may require some work to be accelerated and other work to be deferred. For instance, this may result in a particular M-factor Project in one rate zone being deferred to accommodate the acceleration of a different M-factor Project in the same or a different rate zone. As discussed below, such deviations from plan will be tracked in the CIVA over the five-year DSP period to enable any necessary true-ups at the end of this period as between Alectra Utilities and its customers, and as between rate zones.

Amounts will be Recorded in CIVA Annually

As described in Exhibit 2, Tab 1, Schedule 4, Alectra Utilities is proposing to establish a CIVA for the 2020-2024 period to track the difference between capital funding provided through the M-factor and the actual revenue requirement for M-factor Projects placed into service during this period. The CIVA is proposed as a symmetrical account and would include rate zone-specific

sub-accounts to enable tracking of investments for each rate zone. While Alectra Utilities would record amounts in the CIVA (including the relevant sub-accounts) on an annual basis, it would not seek to dispose of any amounts recorded in the account until the conclusion of the DSP planning period. As identified above, tracking amounts in the CIVA during the 2020-2024 period will enable any necessary true-ups at the end of this period to ensure fairness as between the company and its customers, and as between rate zones.

Each year during the 2020-2024 period, Alectra Utilities would track the revenue requirement impacts of the individual M-factor Projects that it puts into service in each rate zone and compare these to the revenue requirement impacts that were expected for that rate zone in that year in calculating the M-Factor Capital Funding Rate Riders. Any variances, including those attributable to differences in depreciation expense and return on capital due to the timing of M-factor Projects, would be recorded in the relevant sub-account for that year. Alectra Utilities would also document the reasons for any such variances, which might include that the actual costs of execution are higher or lower than planned, that the scope of an M-factor Project needed to be changed, that a particular M-factor Project is deferred or that a particular M-factor Project is accelerated.

CIVA Will be Trued-Up and Cleared at the End of the 5-Year DSP Planning Period

Through the CIVA true-up process, Alectra Utilities will be able to ensure fairness as between its shareholders and its customers, as well as among customers in its various rate zones. At the end of the five-year DSP period, Alectra Utilities will assess the impacts of the variances that have been recorded in the CIVA in each of the prior five years. The company will identify any revenue requirement impacts resulting from differences between proposed and actual levels of M-factor investments, by rate zone. In doing so, the company will be able to determine whether it may have over-collected or under-recovered, as well as whether customers in any particular rate zone may have overpaid or underpaid, relative to the specific M-factor Projects that were actually put into service and when they were put into service in their rate zone.

If on an overall basis Alectra Utilities has over-collected relative to the M-factor Projects that it has actually put into service, then it would propose to return the difference to customers by calculating negative rate riders for each rate zone that are reflective of the differences between

planned and actual investments in each rate zone. For example, if instead of investing $265MM the company only puts $215MM into service and the difference is attributed to $40MM of planned M-factor Projects not being completed in one rate zone and $10MM of planned M-factor Projects not being completed in another rate zone, then the revenue requirement impact of the $40MM would be returned to customers in the first rate zone, the revenue requirement impact of the $10MM would be returned to customers in the second rate zone, and there would be no adjustments for the remaining rate zones.

If on an overall basis Alectra Utilities has under-recovered relative to the M-factor Projects that it has actually put into service, then it would propose to recover the difference from customers by calculating rate riders for each rate zone, similar to the example above, that are reflective of the differences between planned and actual investments in each rate zone. While this aspect is a key element of what makes the proposed CIVA "symmetrical", it is important to note that the CIVA would, in this respect, not be entirely symmetrical. This is because the company's ability to recover additional amounts from customers through the CIVA true-up would be limited to the revenue requirement associated with incremental capital in-service of $9.3MM. This amount represents the difference between the $265MM of proposed M-factor funding and the $274.3MM maximum M-factor eligible capital amount that, as described above, has been calculated based on the ICM materiality threshold. It is important to recognize that an additional $9.3MM of capital in service would have a revenue requirement impact of approximately $0.8MM. As such, the CIVA would be symmetrical for purposes of recording amounts in the account on an annual basis but, overall, it is only symmetrical to the extent of the maximum M-factor eligible capital amount.

It is also important to recognize that, in circumstances where Alectra Utilities has under-recovered relative to the level of investment it actually puts into service and it seeks additional recovery from customers for the revenue requirement impact of up to $9.3MM of additional capital in service by means of the CIVA true-up, the company's ability to recover such additional amounts would be subject to a prudence review by the OEB. Alectra Utilities expects that the evidence it would provide to the OEB to enable such prudence review would include details of the specific drivers of the variances that have contributed to the incremental amount not funded by the M-factor riders. For example, this might include explanations as to why the costs of

certain M-factor Projects were higher than forecasted, why the scope of certain M-factor Projects needed to be expanded or why the timing of certain M-factor Projects changed relative to plan and how those timing changes had the effect of increasing the revenue requirement (i.e., by incurring additional depreciation expense or return on capital).

On an overall basis, whether or not Alectra Utilities over- or under-recovers M-factor amounts, the CIVA true-up process will enable the company to ensure fairness as between customers in different rate zones. Specifically, through the tracking of variances in the account, Alectra Utilities will be able to identify any revenue requirement impacts particular to each rate zone. If customers in a particular rate zone have overpaid or underpaid relative to the M-factor related capital actually put into service in their rate zone during the DSP period (which could occur as a result of shifting the timing of specific M-factor Projects, due to the need to expand or reduce the scope of an M-factor Projects, or in the event a planned M-factor Projects is not put into service during the DSP period), then those differences would be addressed through riders that would effectively redistribute amounts as between rate zones to ensure the costs of M-factor Projects are appropriately borne by customers in the rate zones that are benefiting from those investments.

No Approval or Partial Approval of M-factor Funding Will Adversely Impact Reliability

In the event that the OEB does not approve the proposed incremental capital funding through the M-factor, or the OEB only provides approval for a portion of the proposed incremental capital funding through the M-factor, it is generally expected that this would result in a growing population of deteriorated assets, declining reliability and a “snowplow” of capital costs that will need to be borne by future generations of Alectra Utilities’ customers (KP1.1, Slide 24; Exhibit 4, Tab 1, Schedule 1, Section 5.0.1, p. 12). As a further consequence, the company would be expected to incur a greater volume of more expensive reactive capital investment needs due to the need to respond to more frequent asset failures. This more costly approach to system investment would further erode the capital available for planned investments, thereby exacerbating the snowplow effect. The company would need to consider any such decision of the OEB in its full context before it determines which investments, if any, would be able to proceed on a planned basis and which would not.

In response to the specific questions in this G-Staff-9:

a) Confirmed. Please see Alectra Utilities' response, above.

b) Please see Alectra Utilities' response, above.

c) Not confirmed. Alectra Utilities will use all reasonable efforts to track approved M-factor Projects at a project level and by rate zone. Please see Alectra Utilities' response above.

d) Please see Alectra Utilities' response, above.

e) Alectra Utilities' proposed M-factor rate riders included in this Application are based on a proposed list of M-factor Projects that have been identified by rate zone. The rate riders are based on the proposed level of M-factor capital for the respective rate zone. Therefore, Alectra Utilities proposes to true-up the CIVA by rate zone at the end of the DSP term. Please see Alectra Utilities' response, above.

f) Alectra Utilities is not proposing to dispose of the CIVA annually. Please see Alectra Utilities' response, above.

CCC-11

Reference

Presentation Day Transcript p. 41

Please provide examples of any OEB approved CIVA's that are symmetrical.

Response:

Alectra Utilities is not aware of any OEB approved Capital Investment Variance Accounts ("CIVA") that are symmetrical.

However, as Alectra Utilities has identified in the Application, it is applying for a symmetrical CIVA to capture variances between the actual and forecast capital related revenue requirement for the Distribution System Plan ("DSP") term, to be credited to or debited from customers at the end of the five-year DSP plan term (Exhibit 1, Tab 2, Schedule 1, p.2).

Alectra Utilities undertook extensive customer engagement[1] in order to develop and finalize its DSP. Customers will benefit from any prudent investment made in Alectra Utilities' distribution system. Accordingly, Alectra Utilities has proposed that the funding provided through M-factor riders be subject to reconciliation with actual capital investments during the DSP period. At Exhibit 2, Tab 1, Schedule 4, Alectra Utilities has proposed that a CIVA be established to track the difference between the capital funding provided through M-factor riders and the utility's actual capital investments during the term of the DSP. This account will operate symmetrically, such that customers will be refunded for overall under-investment and any prudent spending above the level funded through M-factor riders will be recovered by Alectra Utilities.

[1] Exhibit 1, Tab 3, Schedule 1, p. 3

TAB 10

EP-13

References: Exhibit 2, Tab 1, Schedule 4, Page 7; EB-2014-0219 Decision, Page 25, Section 7.3

Preamble: "The EDCVA would operate symmetrically, such that the revenue requirement associated with any prudent expenditures in excess of the level reflected in rates would be recoverable by the Applicant, and any excess funding in rates would be refundable to customers in a future proceeding. Carrying charges would apply to the opening balances in the account at the OEB-approved rate."

Question:

a) Does Alectra expect to add/delete projects or change project timing/pacing from the approved DSP during the Rebasing Period? If so what mechanism is there to review such changes?

b) How frequently will the EDCVA balances be reviewed and disposed of?

Response:

a) As provided in Exhibit 2, Tab 1, Schedule 4, the DSP includes forecasts for the capital costs associated with confirmed road authority and transit projects. The proposed EDCVA is intended to capture differences between those forecasts and Alectra Utilities' actual capital costs for such relocation and reconstruction work, including for changes to the scope or timing of anticipated road authority and transit projects and for additional road authority and transit projects not currently contemplated. Please also see Alectra Utilities' response to EP-9.

b) The proposed effective date for the variance account is January 1, 2020, the start of the five year Distribution System Plan ("DSP") period. As identified in Exhibit 2, Tab 1, Schedule 4, p.6, Alectra Utilities anticipates reviewing and disposing of EDCVA balances every five years.

G-Staff-97

Reference: Exhibit 4, Tab 1, Schedule 1, Appendix A03

In Appendix A03, Alectra Utilities discusses Road Authority projects governed by the Public Service on Highways Act (PSWHA) and Transit projects driven by provincially governed rail transit agencies.

Alectra Utilities proposes the creation of an Externally Driven Capital Variance Account (EDCVA) to track the differences between its revenue requirement in rates and externally-driven capital expenditures.

a) Please explain the need for the EDCVA if the CIVA already captures any differences between the level of actual investment and what is funded through Alectra Utilities' base rates plus M-factor funding.

b) What is Alectra Utilities' proposed effective date for this variance account? Please explain why the proposed effective date is appropriate.

c) Please indicate whether the true-up amounts will be on a per-project basis, or if the true-up will be based on the total account balance.

d) Please explain how Alectra Utilities intends to isolate its revenue requirement in rates for specifically Road Authority and Transit projects.

e) Please explain what steps Alectra Utilities has taken towards mitigating risks associated with third party driven projects (e.g. negotiating agreements with third parties).

Response:

a) The Capital Investment Variance Account ("CIVA") does not capture the difference between the level of actual investment and what is funded through Alectra Utilities' base rates plus M-factor funding. Please see Alectra Utilities' response to G-Staff-9. The CIVA reflects the difference between the forecasted M-factor capital additions and the actual in-service M-factor capital additions for the respective year.

b) The proposed effective date for the variance account is January 1, 2020, the start of the five year Distribution System Plan ("DSP") period.

c) As identified in Exhibit 2, Tab 1, Schedule 4, p.6, Alectra Utilities intends to true-up the EDCVA at the end of the five-year term. In Table 17 of Exhibit 2, and in Exhibit 4, Tab 1, Schedule 1, Appendix A03, Alectra Utilities identified a base level of externally driven capital expenditures over the five year DSP period. Alectra Utilities will track actual externally driven capital expenditures incurred against this baseline, and true-up the cumulative difference at the end of the five-year term.

d) Alectra Utilities has forecast capital expenditures of approximately $20MM per year (net of contributions) for externally driven capital related work. The expenditures were excluded from the list of M-factor capital projects. Therefore, if Alectra Utilities incurs capital in excess of $20MM, Alectra Utilities will calculate the revenue requirement associated with the additional investment.

e) Road Authority investments are entirely driven by the requests from the third parties and, as such, the timing when the project starts and is completed depends on the Road Authority. Alectra Utilities participates during the preliminary stages of project planning with the Road Authority, city planners and civil consultants. Costs associated with the projects are dependent on the size, type and complexity of the individual projects, and divided between the parties as specified in the PSWHA. The allocation of costs is discussed in detail in Exhibit 4, Tab 1, Schedule 1, Appendix A03, pp. 5-6.

The cost sharing for relocating public utilities within a municipal road allowance is determined in accordance with the *Public Service Works on Highways Act* ("PSWHA"). For Road Authority relocation requests, Alectra Utilities follows the PSWHA and associated regulations and collects contributed capital of 50% of the labour and labour-saving devices for Road Authority driven projects. As a result, in the absence of an agreement, the costs of a typical road widening project would be allocated 30-40% to the road authority and 60-70% to Alectra Utilities.

As permitted under the PSWHA, Alectra Utilities and the Road Authority may agree on different apportionment of the cost responsibility for different portions of the relocation project based on the incremental costs of certain requests made by the Road Authority. At the request of the Road Authority, Alectra Utilities may be required for specific portions of

the road widening project to relocate some sections underground, install concrete poles with specifications beyond existing standards and relocate assets at different spacing requirements. Alectra Utilities and the Road Authority may agree to reflect these incremental relocation costs by having the Road Authority bear greater portions of those costs. The most efficient way to relocate assets is initially established by Alectra Utilities. If the Road Authority wants to upgrade from the proposed solution to a more expensive approach, they are required to pay for 100% of the difference in cost between Alectra Utilities' initial solution and the Road Authority preferred approach.

G-Staff-98

Reference: Exhibit 4, Tab 1, Schedule 1, Appendix A03, Page 17 of 26

Alectra Utilities forecasts $91.3 million in capital expenditures on Road Authority projects over 2020-2024 as shown in the table below:

Table A03 - 5: Material Projects and Initiatives

Project Code	Project Name	CAPEX ($MM)
150645	Road Authority	$91.3
150343	Bathurst Street Widening	$3.4

Please provide a table of all Road Authority projects that have a capital expenditure over $1 million that Alectra Utilities is expecting to undertake between 2020-2024. Please include in the table the forecasted capital expenditures of each individual project.

Response:

Please refer to Table 1, below.

Table 1 – Road Authority Project >$1MM

Project Description	2020 ($MM)	2021 ($MM)	2022 ($MM)	2023 ($MM)	2024 ($MM)
Dixie Rd. - Countryside to Bovaird	1.2				
Williams Pkwy. - Kennedy to North Park	1.7				
Goreway Dr. - Countryside to Castlemore	1.2				
Square One Dr. Extension - Confederation to Rathburn	1.4				
QEW Evans/Cawthra – Phase 1	2.0				
Anne St Bridge	1.1				
Rutherford Rd - Jane to Westburne	2.0				
Keele Street – Steels to Snidercroft Phase 2	1.4				
Mississauga Rd. - Queen to Financial		1.1			
Goreway Dr. - Castlemore to Humberwest		4.0			
Torbram Rd. - Queen to City Limit – Phase 1		1.7			
QEW Evans/Cawthra – Phase 1		2.0			

Duckworth Street (Bell Farm to St.Vincent)		1.4			
Rutherford Rd - Bathurst to Peter Rupert		1.6			
Teston Rd - PVD to Teston		1.4			
Highway 5/6 Interchange (Hamilton)		2.0			
Mayfield Rd. - Hurontario to Heart Lake Rd.			1.1		
Sandalwood Pkwy. -Torbram to Airport			1.6		
Torbram Rd. - Queen to City Limit – Phase 2			1.7		
Mapleview Drive Grade Separation at Yonge to Royal Jubilee			1.7		
Garden City Skyway - Bridge Replacement			3.0		
Mississauga Rd. - Bovaird to Queen				1.5	
Sandalwood Pkwy. - Bramalea to Torbram				1.5	
Torbram Rd. - Bovaird to Queen				1.7	
Sandalwood Pkwy. - Dixie to Bramalea					1.3
Williams Pkwy. - North Park to Torbram					3.5

Some Municipalities, regional authorities and the Ministry of Transportation of Ontario ("MTO") establish their road works program for each year, some of which are annual plans, and some multi-year which are published in advance. Some are not published at all. Despite the existence of long-term plans, the specific projects being conducted each year are subject to change by the Road Authority, making it challenging to accurately forecast the associated capital expenditures. Alectra Utilities constantly attempts to better anticipate these possible requests through participating in meetings with the Cities and Regions and through reviewing site plans and zoning amendments. The expected impact on Alectra Utilities' plant relocation is also based on new, approved work projects from the municipalities, MTO and the regions. The forecast is based on a combination of historical trends and known costs for specific projects identified through coordination with Road Authorities and through a review of published road works plans from the Regions, Municipalities and MTO that are within Alectra Utilities' service territory.

Alectra Utilities has proposed to create an Externally Driven Capital Variance Account ("EDCVA") to mitigate the inherent uncertainty of third-party requirements. Please refer to Exhibit 2, Tab 1, Schedule 4, p. 4 for details on the proposed EDCVA.

TAB 11

3.0-VECC-11

ATTACH 4- DBRS Ratings Report Dated June 27, 2019

Rating Report

Alectra Inc.

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Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On June 27, 2019, DBRS Limited (DBRS) confirmed the ratings of Alectra Inc. (Alectra or the Company) as listed above. This reflects Alectra's stable business risk profile following the merger with Guelph Hydro Electric Systems Inc. (Guelph Hydro; the Merger) in January 2019 and solid credit metrics. The stability and low risk of the Company's electricity distribution business (96% of earnings in 2018) is underpinned by a reasonable and supportive regulatory regime in Ontario, which is regulated by the Ontario Energy Board (OEB). The Stable trends incorporate DBRS's expectation that the Company's key credit metrics will likely remain in line with the current ratings.

In January 2019, Alectra merged with Guelph Hydro in which the City of Guelph holds approximately 4.6% ownership in the merged entity (being Alectra). The Merger will likely not materially affect Alectra's credit profile as (1) Guelph Hydro operates under the same regulatory framework as the Horizon, Brampton, Enersource and PowerStream rate zones; (2) no incremental debt was issued for the Merger; and (3) Guelph Hydro's financial risk profile was in line with Alectra's. The integration risk should be manageable; the Company is already merging the systems of the four predecessor utilities, and Guelph Hydro will then adopt Alectra's systems and processes.

Alectra's financial profile remains consistent with the current ratings; its credit metrics for 2018 and the last 12 months ended March 31, 2019 (LTM 2019) were solid despite the 70% debt financing for the acquisition of Hydro One Brampton Networks Inc. (HOBNI) in 2017. Since the HOBNI acquisition, Alectra's credit ratios have been supported by strong cash flow through its solid financial performance and earlier-than-expected synergy realization.

Capex for 2019 is expected to be approximately $272 million (net of contributions). A majority of capex will be spent on system renewal and access projects. Alectra is expected to finance capex through debt and cash flow surplus. In 2017 and 2018, significant cash flow surplus was retained as the dividend payout as a percentage of cash flow was relatively low, which should continue. Thus, Alectra's credit metrics should remain stable and supportive of the current ratings over the medium term. However, although unlikely, a negative rating action could occur if the cash flow-to-debt and debt-to-capital ratios weaken to below 12.5% and above 65.0%, respectively, on a sustained basis.

Financial Information

	12 mos. to Mar. 31	For the year ended December 31	
	2019	**2018**	**2017**
Total debt in capital structure 1 2	60.2%	60.9%	61.2%
Cash flow/Total debt 2	14.5%	15.6%	13.6%
EBIT gross interest coverage (times) 2	3.07	3.02	3.08

1 Equity excludes goodwill resulting from the amalgamation of PowerStream, Horizon and Enersource. 2 Adjusted for operating leases.

Issuer Description

Alectra is the largest municipally owned electricity distribution company in Ontario, with over 1 million customers. Its service franchise areas include Mississauga, Markham, Richmond Hill, Vaughan, Barrie, St. Catharines, Hamilton, Brampton and Guelph.

Rating Considerations

Strengths

1. Stability from regulated business

Approximately 96.5% of the Company's assets is in the regulated distribution business, which generates stable cash flow. The regulated electricity distribution business operates under a reasonable regulatory framework in Ontario.

2. Strong franchise area with good growth

Alectra's franchise area is one of the strongest in Ontario, with above-average customer growth that has helped to offset energy conservation pressure on consumption volumes. The customer mix is also favourable, with residential customers accounting for approximately 90% of total customers. Residential customers reduce the Company's exposure to cyclicality.

3. Solid financial profile

Alectra's key credit metrics are solid for the current rating category. The Company's cash flow-to-total debt and debt-to-capital ratios (14.5% and 60.2%, respectively, for LTM 2019) were in line with the "A" ratings, while the EBIT-interest coverage ratio was strong at 3.07 times.

Challenges

1. Operational challenges and performance pressure under IR

Under performance-based regulation, Alectra must forecast its operating, maintenance and administrative expenses and capital investment for a specified time period. As a result, earnings and cash flows could be negatively affected by large unforeseen discrepancies between forecast and actual costs. Additionally, under the Price Cap Incentive Rate-Setting (IR) method, the Enersource, PowerStream, Brampton, Horizon and Guelph rate zones' annual rate increases are based on a regulatory formula that includes inflation, a productivity factor and a stretch factor. Alectra Utilities Corporation (AUC), the regulated utility, must achieve productivity at least equal to the regulatory productivity and stretch factor in order to achieve the allowed return on equity (ROE). However, DBRS views earnings pressure as manageable given that the rate adjustment parameters for the productivity and stretch factors for 2018 and 2019 were reasonable, at 0.0% and 0.3%, respectively.

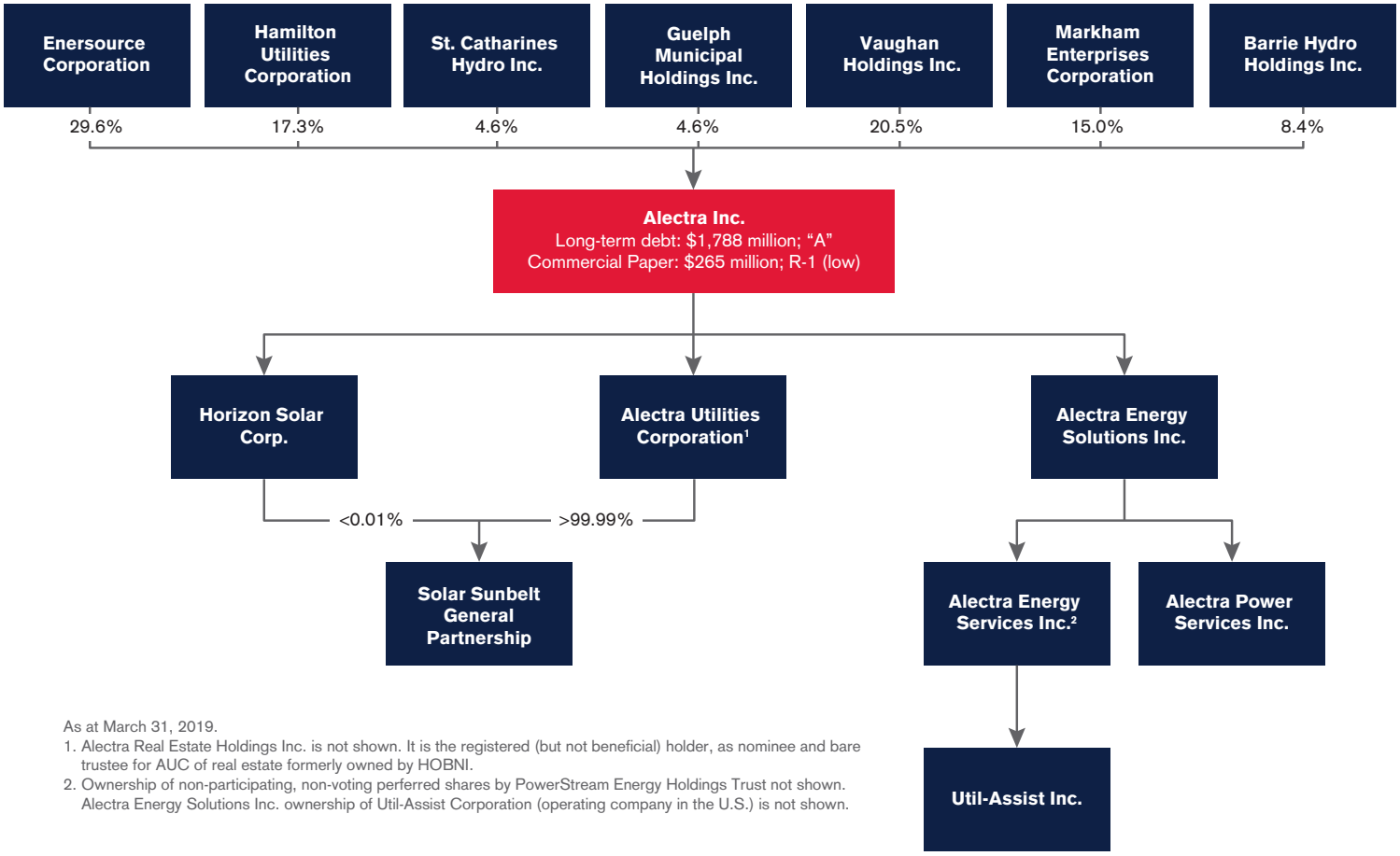
2. Exposure to higher-risk non-regulated business

DBRS considers the non-regulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with non-regulated operations. Non-regulated operations for the Company include solar generation and a sub-metering business. DBRS notes that although commodity price risk for the generation business has been mitigated through long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS), increasing exposure to the non-regulated segment could result in greater volatility in Alectra's earnings and cash flows. In 2018, non-regulated operations accounted for approximately 4% of total EBITDA. Should earnings from the non-regulated business exceed the 20% threshold on a sustained basis, the Company's business risk assessment could be negatively affected.

3. Limited access to equity capital market

Alectra's ownership structure (owned largely by several municipalities) limits its ability to directly access the equity market. As a result, free cash flow deficits have been largely financed through revolving credit facilities and debt issuances. However, DBRS notes that the Company's dividend/cash flow ratio has been low in the last few years, resulting in significant cash flow surpluses being used to partially fund capex.

Simplified Ownership Structure



As at March 31, 2019.
1. Alectra Real Estate Holdings Inc. is not shown. It is the registered (but not beneficial) holder, as nominee and bare trustee for AUC of real estate formerly owned by HOBNI.
2. Ownership of non-participating, non-voting perferred shares by PowerStream Energy Holdings Trust not shown. Alectra Energy Solutions Inc. ownership of Util-Assist Corporation (operating company in the U.S.) is not shown.

- Alectra was created though the amalgamation of Enersource Holdings Inc., Horizon Holdings Inc. and PowerStream Holdings Inc. on January 31, 2017.
  - Alectra is indirectly owned by municipalities; the only non-municipal owner is Enersource Corporation, which is 90% owned by the City of Mississauga and 10% owned by BPC Energy Corporation, a wholly owned indirect subsidiary of the Ontario Municipal Employees' Retirement System.
- AUC was created through the amalgamation of the predecessor local distribution companies (LDCs): PowerStream Inc., Enersource Hydro Mississauga Inc. and Horizon Utilities Corporation (Horizon Utilities) on January 31, 2017. On February 28, 2017, AUC acquired all shares of HOBNI.
  - On January 1, 2019, Guelph Hydro merged with AUC. The City of Guelph, through its wholly owned subsidiary Guelph Municipal Holdings Inc., holds approximately 4.6% of shares in Alectra.
  - AUC is the second-largest municipally owned electric utility by customer base in North America and the largest municipally owned LDC in Ontario, serving over 1.0 million customers.
- Alectra Energy Solutions Inc. holds the large majority of the non-regulated business, managing total assets of approximately $172 million, mainly consisting of solar generation assets under long-term contract with the IESO and a sub-metering business.

Earnings and Outlook

	12 mos. to Mar. 31	For the year ended December 31	
(CAD millions where applicable)	**2019**	**2018**	**2017**
Net Sales	621	602	546
EBITDA	354	345	304
EBIT	220	214	184
Gross interest expense	72	70	59
Net income before non-recurring items	137	133	110
Reported net income	91	109	74
Return on equity	10.6%	10.7%	9.9%
Rate base 1	N/A	2,886	2,731
Deemed common equity	40.0%	40.0%	40.0%
Allowed ROE 2	N/A	8.9%	8.9%
Achieved regulatory ROE	N/A	7.7%	8.4%

Note: Alectra IFRS financial results have been adjusted by DBRS; values do not reflect Modified IFRS reporting required by the OEB.
1 Rate base amounts are management estimate and differ from approved OEB rate base; and excludes Guelph's rate base.
2 Based on weighted-average of last OEB-approved rate base.

2018 Summary

- Alectra benefits from predictable earnings underpinned by its regulated assets in Ontario.
  - Regulated activities accounted for over 96% of earnings in 2018.
  - Earnings from the non-regulated segment largely consist of solar generation assets under long-term Feed-In Tariff contracts with the IESO.
- Earnings increased in 2018 because of (1) a full year's operations (2017 results consist of 11 months of operations, with only ten months with Brampton); (2) distribution rate increases for the rate zones; and (3) lower transition costs related to the amalgamation.
  - This was partly offset by higher interest costs from the increase in debt load and higher depreciation from the growing rate base.
- Reported net income included $14 million of incentives from conservation and demand management programs, transition costs, a $6 million gain on the disposal of Collus PowerStream and DBRS regulatory adjustments.

2019 Summary and Outlook

- Earnings for LTM 2019 increased compared with 2018 because of (1) rate increases for the four rate zones and (2) the amalgamation with Guelph Hydro effective January 1, 2019.
  - Reported net income includes loss on disposal of property, plant and equipment, as well as DBRS regulatory adjustments.
- DBRS expects earnings in 2019 to remain relatively stable.
  - Alectra's earnings for the year should benefit from the addition of Guelph Hydro and from synergies realized from the mergers.
  - Rates for the Brampton, Enersource and PowerStream rate zones increased by the Price Cap adjustment of 1.2% effective January 1, 2019. The OEB also approved incremental capital modules (ICM) funding of $7.5 million for the Enersource rate zone and $18.8 million for the PowerStream rate zone.
  - Earnings for the Horizon Utilities rate zone should see a modest increase during the Custom IR term, tracking annual growth in the rate base.
  - These increases are expected to be partly offset by continuing transition costs and merger costs with Guelph Hydro.

Financial Profile

	12 mos. to Mar. 31	For the year ended December 31	
(CAD millions where applicable)	**2019**	**2018**	**2017**
Net income before non-recurring items	137	133	110
Depreciation & amortization	144	140	124
Deferred income taxes and other	25	37	2
Cash flow from operations	**306**	**310**	**236**
Dividends	(81)	(69)	(36)
Capital expenditures	(294)	(289)	(234)
Free cash flow (bef. working cap. changes)	**(69)**	**(48)**	**(34)**
Changes in non-cash work. cap. items	(99)	(112)	193
Regulatory assets/Liabilities	(53)	(30)	(8)
Net free cash flow	**(221)**	**(190)**	**151**
Acquisitions & long-term investments	0	0	(615)
Proceeds on asset sales	17	17	0
Net equity change	(5)	(5)	46
Net debt change	188	73	385
Other investing and financing	13	(1)	0
Change in cash	**(9)**	**(106)**	**(33)**
Total debt	2,114	1,984	1,892
Total debt in capital structure 1 2	60.2%	60.9%	61.2%
Cash flow/Total debt 2	14.5%	15.6%	13.6%
EBIT gross interest coverage (times) 2	3.07	3.02	3.08
Dividend payout ratio	59.1%	51.7%	32.7%

1 Equity excludes goodwill resulting form the amalgamation of PowerStream, Horizon and Enersource.
2 Adjusted for operating leases.

2018 Summary

- Alectra's key credit metrics for 2018 strengthened modestly because of the stronger earnings and cash flows for the year.
- Capex (net of contributions) of approximately $289 million in 2018 was largely for connecting new customers, including for transit projects and the replacement and rehabilitation of aging infrastructure and merger and transition costs.
- Dividends of $69 million were in line with the Company's policy to pay up to 60% of its net income, excluding Ring-Fenced Solar Projects (previously PowerStream Solar), as dividends.
- Alectra had a net free cash flow deficit of $190 million in 2018 because of the large capex program. The Company funded this with cash on hand and through its Commercial Paper program.

2019 Summary and Outlook

- Alectra's key credit metrics were relatively steady in LTM 2019.
  - The increase in total debt largely represents $95 million of Guelph Hydro Senior Unsecured Debentures absorbed through the Merger.
- Cash flow from operations was modestly lower in LTM 2019.
- Alectra has planned net capex (net of contributions) of around $272 million for the year, with the majority for renewing aging infrastructure or to connect new customers ($51.4 million spent as of March 31, 2019).
- DBRS expects any net free cash flow deficits from the ongoing capex program to be funded through cash on hand and debt issuances.
  - DBRS expects the Company to manage its capex and dividends in a prudent manner to maintain its key credit metrics in line with the "A" rating category.

Debt and Liquidity

Credit Facilities as at Mar. 31., 2019

(CAD millions)	Amount	Drawn/LOC	Available	Maturity
364-day committed revolving credit facility	500.0	335.7	164.3	Oct. 2020
Uncommitted credit facility	100.0	0.0	100.0	-
Secured demand facility	1.0	0.0	1.0	-

- Alectra has a 364-day committed revolving credit facility of $500 million. This facility backstops the Company's $300 million Commercial Paper program ($265 million outstanding as at March 31, 2019).
- The Company also has an uncommitted credit facility of $100 million and a secured demand facility of $1 million (both undrawn as at March 31, 2019).

Long-Term Debt Maturity as at Mar. 31, 2019

(CAD millions)	Amount	Rate	Maturity
Senior Unsecured Debentures Series A	40	4.770%	Jul. 2020
Series A Senior Unsecured Debentures	110	4.521%	Apr. 2021
Senior Unsecured Debentures Series B	150	3.033%	Apr. 2022
Series B Senior Unsecured Debentures	150	3.239%	Nov. 2024
Series A Senior Unsecured Debentures	675	2.488%	May 2027
Series B Senior Unsecured Debentures	210	5.297%	Apr. 2041
Series A Senior Unsecured Debentures	200	3.958%	Jul. 2042
Series A Senior Unsecured Debentures	65	5.264%	Dec. 2030
Series B Senior Unsecured Debentures	30	4.121%	Sep. 2045
Promissory note issued to the City of Vaughan	78	4.410%	May 2024
Promissory note issued to the City of Markham	68	4.410%	May 2024
Promissory note issued to the City of Barrie	20	4.410%	May 2024
Total	**1,796**		
Unamortized issuance costs	(8)		
Total long-term debt	**1,788**		

- Alectra's long-term debt maturity is relatively well spread out, with a modest amount of debt maturing within the next five years.
- The Company's long-term debt consists of the following:
  - Senior Unsecured Debentures totalling $1,630 million and
  - Subordinate debt to shareholders (promissory notes) totalling $166.1 million. The three promissory notes are repayable as of 366 days following demand from its owners. The owners have an option to extend the term of the notes based on market conditions at the original maturity date.
- In April 2019, the Company issued $200 million of 3.458% Series 2019-1 Senior Unsecured Debentures due April 2049.
- Covenants on Alectra's trust indenture and credit facilities include restrictions of the ability of the Company to issue priority debt and merge or dispose of assets as well as to maintain a ratio of funded debt-to-capitalization ratio of not greater than 75% (in compliance as at March 31, 2019).

Regulation

- AUC, a subsidiary of Alectra, is regulated by the OEB under the *Ontario Electricity Act, 1998*.
- In April 2016, the predecessor utilities filed a Mergers, Acquisitions, Amalgamations and Divestitures (MAADs) application with the OEB. The OEB approved the application in December 2016 with the following:
  - AUC can defer rebasing for ten years following the closing of the Merger. This will allow AUC to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns in excess of 300 basis points (bps) above the allowed ROE for the latter five years.
  - During the deferral period, the predecessor utilities' distribution rates and franchise areas will remain as separate rate zones. As well, rate zones that were operating under Price Cap IR (Brampton, Enersource and PowerStream) would continue to have their rates adjusted annually by the Price Cap adjustment mechanism. Rate zones that operate under Custom IR (Horizon Utilities) will transition to a Price Cap IR following the expiry of its Custom IR term.
- In October 2018, the OEB approved AUC's MAADs application to merge with Guelph Hydro.
  - Similar to the other rate zones, AUC is allowed to defer rebasing for the Guelph Hydro rate zone for ten years, with an earnings-sharing mechanism of any returns in excess of 300 bps above the allowed ROE for the latter five years.

Brampton, Enersource, PowerStream and Guelph Rate Zones

- The Brampton rate zone (formerly HOBNI) comprises the City of Brampton.
- The Enersource rate zone (formerly Enersource Hydro Mississauga Inc.) comprises the City of Mississauga.
- The PowerStream rate zone (formerly PowerStream Inc.) comprises the Cities of Barrie, Markham and Vaughan and the Towns of Aurora, Richmond Hill, Alliston, Beeton, Bradford, West Gwillimbury, Penetanguishene, Thornton and Tottenham.
- The Guelph rate zone (formerly Guelph Hydro Electric Systems Inc.) comprises the City of Guelph and the Village of Rockwood.
- The Brampton, Enersource, PowerStream and Guelph rate zones operate under a Price Cap IR, where rates are subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and a utility-specific stretch factor that can be reset annually.
- Under a Price Cap IR, AUC could file an ICM for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
- In its 2018 Electricity Distribution Rate (EDR) application, AUC requested a Price Cap adjustment of 0.9% (based on an inflation factor of 1.2%, productivity factor of 0.0% and stretch factor of 0.3%) for each of the Brampton, Enersource and PowerStream rate zones.
  - In April 2018, the OEB approved the 0.9% rate increases effective January 1, 2018.
  - The OEB approved $28.8 million of the requested $56.2 million in ICM funding. The disallowance was largely because the OEB used a project-specific materiality threshold based on the consolidated AUC level rather than at the applied-for individual rate zone level. Alectra does not plan to undertake the capex that was disallowed in its ICM application.
  - The OEB also approved the disposal of balances in the deferral and variance accounts. Brampton, Enersource and PowerStream will return, respectively, $5.7 million, $7.4 million and $22.2 million to customers.
- In December 2017, the OEB approved Guelph Hydro's application to increase rates by 0.9% effective January 1, 2018.
- In its 2019 EDR application, AUC requested a Price Cap adjustment of 1.2% (based on an inflation factor of 1.5%, productivity factor of 0.0% and stretch factor of 0.3%) for each of the Brampton, Enersource and PowerStream rate zones.
  - In December 2018, the OEB approved the 1.2% rate increases effective January 1, 2019.
  - The OEB also approved the disposal of balances in the deferral and variance accounts. Brampton and PowerStream will return, respectively, $2.1 million and $7.5 million to customers, while Enersource will collect $4.8 million from customers.
  - In January 2019, the OEB approved $26.3 million of the requested $31.6 million in ICM funding.
- In December 2018, the OEB approved Guelph Hydro's application to increase rates by 1.2% effective January 1, 2019, and to dispose of balances in the deferral and variance accounts to collect $6.2 million from customers.

Horizon Utilities Rate Zone

- The Horizon Utilities rate zone (formerly Horizon Utilities Corporation) comprises the Cities of Hamilton and St. Catharines.
- In October 2014, the OEB had approved a Custom IR settlement proposal for Horizon Utilities Corporation that had set its revenue requirement for each year from 2015 to 2019, subject to annual adjustments.
- In its 2018 EDR application, AUC applied for the year-four update of the Horizon Utilities rate plan under a Custom IR.
- In April 2018, the OEB approved the 2018 revenue requirement of approximately $120.7 million for the Horizon Utilities rate

Regulation (CONTINUED)

zone, based on an allowed ROE of 9.00%. The OEB also approved AUC disposing of balances in the Horizon Utilities rate zone deferral and variance accounts, including returning approximately $7.4 million to its ratepayers. The Horizon Utilities rate zone will also return earnings sharing of $0.7 million to ratepayers.

- In its 2019 EDR application, AUC applied for the year-five update of the Horizon Utilities rate plan under Custom IR.
  - In December 2018, the OEB approved the 2019 revenue requirement of approximately $124.2 million for the Horizon Utilities rate zone, based on an allowed ROE of 8.98%. The OEB also approved for AUC to dispose balances in the Horizon Utilities rate zone deferral and variance accounts, including returning approximately $7.3 million to ratepayers. The Horizon Utilities rate zone will also return earnings sharing of $0.8 million to ratepayers.
- For rates effective 2020, the Horizon Utilities rate zone will transition to a Price Cap IR.

Alectra Inc.

(CAD millions)	March 31	Dec. 31			March 31	Dec. 31	
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	0	16	122	S.T. borrowings	290	274	182
Accounts receivable	607	596	523	Accounts payable	367	368	414
Inventories	23	21	21	Current portion L.T.D.	2	1	1
Prepaid expenses & other	32	30	36	Other current liab.	161	145	142
Total current assets	**662**	**663**	**702**	**Total current liab.**	**819**	**788**	**739**
Net fixed assets	3,219	3,052	2,892	Long-term debt	1,823	1,709	1,709
Future income tax assets	3	3	4	Deferred income taxes	38	45	15
Goodwill & intangibles	989	936	879	Other L.T. liab.	464	424	370
Investments & others	34	1	4	Shareholders' equity	1,763	1,689	1,648
Total assets	**4,908**	**4,655**	**4,481**	**Total liab. & SE**	**4,908**	**4,655**	**4,481**

	12 mos. to Mar. 31	For the year ended December 31	
Balance Sheet & Liquidity & Capital Ratios	**2019**	**2018**	**2017**
Current ratio	0.81	0.84	0.95
Total debt in capital structure	54.5%	54.0%	53.4%
Total debt in capital structure 1 2	60.2%	60.9%	61.2%
Cash flow/Total debt	14.5%	15.6%	13.6%
Cash flow/Total debt 2	14.5%	15.6%	13.6%
(Cash flow - dividends)/Capex	0.77	0.83	0.85
Dividend payout ratio	59.1%	51.7%	32.7%
Coverage Ratios (times)			
EBIT gross interest coverage	3.07	3.05	3.12
EBIT gross interest coverage 2	3.07	3.02	3.08
EBITDA gross interest coverage	4.95	4.93	5.15
Fixed-charges coverage	3.07	3.02	3.08
Profitability Ratios			
EBITDA margin	57.0%	57.3%	55.7%
EBIT margin	35.4%	35.5%	33.7%
Profit margin	22.1%	22.2%	20.1%
Return on equity	10.6%	10.7%	9.9%

1 Equity excludes goodwill resulting from the amalgamation of PowerStream, Horizon and Enersource.
2 Adjusted for operating leases.

Rating History

	Current	2018	2017	2016	2015
Issuer Rating	A	A	A	NR	NR
Senior Unsecured Debentures	A	A	A	NR	NR
Commercial Paper	R-1 (low)	R-1 (low)	NR	NR	NR

Commercial Paper Limit

- $300 million.

Previous Actions

- "DBRS Assigns Rating of R-1 (low) with a Stable Trend to Alectra Inc.'s Proposed Commercial Paper Program," October 2, 2018.
- "DBRS Confirms Alectra Inc. at 'A' with Stable Trends," June 29, 2018.

Related Research

- "DBRS Assigns a Rating of 'A' to Alectra Inc.'s $200 Million Senior Unsecured Debentures," April 11, 2019.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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