

November 1, 2019

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PO Box 2319
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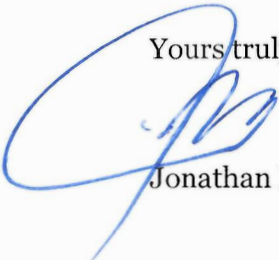
Attention: Ms. Christine E. Long

Dear Ms. Long:

Re: Alectra Utilities Corporation (“Alectra Utilities”) – Application for Distribution Rates and Other Charges Effective January 1, 2020 – Applicant Argument-in-Chief re M-factor Proposal (OEB File No. EB-2019-0018)

We are legal counsel to Alectra Utilities in connection with the above-referenced proceeding. Pursuant to Procedural Order No. 1, please find enclosed Alectra Utilities’ Argument-in-Chief regarding the M-factor Proposal set out in its Application. Copies have been filed on RESS and served on each party in the proceeding.

Yours truly,



Jonathan Myers

Enclosure

cc: Ms. Indy Butany-DeSouza, Alectra Utilities
Mr. Charles Keizer, Torys LLP
All Parties

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Alectra Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2020.

ARGUMENT-IN-CHIEF**ALECTRA UTILITIES CORPORATION**

November 1, 2019

1 **A. INTRODUCTION**

2 Alectra Utilities Corporation (“Alectra Utilities” or the “Applicant”) filed an application with the
3 Ontario Energy Board (“OEB” or the “Board”) on May 28, 2019, under section 78 of the *Ontario*
4 *Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates for each
5 of its Horizon Utilities, Brampton, PowerStream, Enersource and Guelph Hydro rate zones
6 (“RZs”) to be effective January 1, 2020 (the “Application”). The Application was prepared in
7 accordance with the OEB’s *Filing Requirements for Incentive Regulation Rate Applications* (the
8 “Filing Requirements”) and other relevant OEB guidance.

9 As part of the Application, Alectra Utilities filed its first five-year Distribution System Plan
10 (“DSP”) on an integrated basis for its entire service area. The consolidated DSP was prepared in
11 accordance with the OEB’s *Filing Requirements for Electricity Distribution Rate Applications –*
12 *Chapter 5 Consolidated Distribution System Plan Filing Requirements*, updated July 12, 2018.
13 Alectra Utilities is requesting, among other things, approval for incremental capital funding based
14 on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the
15 capital-related revenue in rates (the “M-factor”).

1 As set out in Procedural Order No. 1, the OEB is hearing the M-factor aspects of the Application
2 separately from the other aspects of the Application. The M-factor elements of the proceeding
3 include issues related to the M-factor proposal, the consolidated DSP and two deferral accounts –
4 the Capital Investment Variance Account (“CIVA”) and the Externally Driven Capital Variance
5 Account (“EDCVA”).

6 This is Alectra Utilities’ Argument-in-Chief in respect of the M-factor elements of the proceeding.

7 **B. OVERVIEW**

8 For the reasons that follow, it is Alectra Utilities’ submission that the elements relating to the M-
9 factor part of the proceeding should be approved as filed, and as updated and further articulated
10 by the Applicant during the proceeding.

11 Alectra Utilities’ consolidated 5-year DSP establishes a clear and present capital investment need
12 that is in the best interests of ratepayers. It is, however, underfunded by base rates. The focus of
13 the Application is on identifying the best mechanism to provide incremental capital funding for
14 Alectra Utilities, to enable execution of the full DSP, through just and reasonable rates. It is for
15 this reason that Alectra Utilities is seeking approval for the M-factor, together with the CIVA. The
16 capital funding that is requested through the M-factor, and for tracking in the CIVA, will enable
17 Alectra Utilities to fully execute its DSP for the benefit of its customers. The DSP prioritizes the
18 most important system investment needs to address reliability, service and other imperatives,
19 consistent with identified customer preferences and expectations. If the DSP is not fully funded,
20 it will not be able to be fully executed and Alectra Utilities’ customers will be adversely impacted.
21 The monthly bill impacts of the proposed M-factor riders are not material, but they provide
22 customers with assurance that the necessary investments are being funded and executed, while also
23 providing customers with rate certainty and stability.

24 In the sections that follow, Alectra Utilities sets out (i) the nature of the funding gap and the relief
25 requested to address that funding gap, (ii) the OEB’s jurisdiction to provide that relief, (iii) the
26 justification of the capital need through the DSP, (iv) the basis of the M-factor and the CIVA as a
27 mechanism for establishing just and reasonable rates, and (v) the basis of the EDCVA.

1 **C. INCREMENTAL CAPITAL FUNDING RELIEF**

2 **1. *Capital Funding Need Established by the DSP is Not Fully Funded by Base Rates***

3 The OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* (the "MAADs
4 Handbook") encourages consolidating entities to operate as a single entity as soon as possible
5 because doing so is in the best interest of rate payers.¹ Consistent with this objective, Alectra
6 Utilities indicated in its 2016 MAADs application that it planned to file a consolidated 5-year DSP
7 for all of its rate zones in 2019.² The OEB, in its MAADs decision, accepted this implicitly.³
8 Moreover, in its decision on Alectra Utilities' 2018 distribution rates application (EB-2017-0024),
9 the OEB made its expectations explicit when it confirmed the importance of a consolidated DSP,
10 as well as the relationship between capital planning and funding; the OEB also made it a filing
11 requirement for Alectra Utilities to include a consolidated DSP to support any incremental capital
12 funding application requesting rate changes for 2020 rates and beyond.⁴ Based on its earlier
13 commitment and in response to the OEB's explicit requirement, Alectra Utilities included a
14 consolidated, 5-year DSP for its entire distribution system in the present Application.

15 Through the development of its consolidated 5-year DSP, Alectra Utilities has comprehensively
16 assessed the condition of the assets that comprise its distribution system, the needs and preferences
17 of its customers, the means by which required investments can be effectively and efficiently
18 planned and executed, as well as the appropriate pacing for those investments. The result of this
19 process is that Alectra Utilities has identified and defined a clear system need, which it must satisfy
20 if it is to meet and respond to its system requirements and the needs, preferences and expectations
21 of its customers with respect to reliability, safety, service quality, price and other imperatives.
22 Execution of the consolidated 5-year DSP, in its entirety, is therefore in the best interests of Alectra
23 Utilities' customers.

24 Alectra Utilities' DSP identifies total capital investment requirements over the 2020-2024 planning
25 period of \$1,456.5MM. This represents the total amount of capital investment that the company

¹ OEB, MAADs Handbook, p. 13.

² Alectra Utilities, MAADs Application, EB-2016-0025, Interrogatory B-SEC-17.

³ See OEB, Decision and Order in EB-2016-0025 ("MAADs Decision"), pp. 25-26.

⁴ OEB, Decision and Order in EB-2017-0024, April 6, 2018, p. 29.

1 considers to be necessary within this 5-year horizon, based on the comprehensive planning process
2 carried out in connection with the DSP. In fact, in preparing the DSP, Alectra Utilities identified
3 over \$1.7B of potential investment needs, comprised of 1,184 distinct capital projects and
4 investments.⁵ However, based on a consideration of the needs and preferences of its customers,
5 including in respect of price, and with the aid of a sophisticated investment prioritization process
6 and optimization tool through which it was able to weigh a range of variables, Alectra Utilities
7 determined that the appropriate and necessary level of capital investment for the 2020-2024 period,
8 based on a portfolio of 884 projects, is \$1,456.5MM, for an average of \$291MM per year. As such,
9 this is the level of capital investment contemplated in the DSP over the 5-year planning period,
10 which Alectra Utilities plans to execute to achieve the outcomes that its system requires and that
11 its customers expect.⁶

12 In its Application, as initially filed, Alectra Utilities calculated - based on the OEB's ICM
13 materiality threshold calculation methodology - that its base distribution rates would support
14 \$1,182.2MM of total capital expenditures during the 2020-2024 planning period, for an average
15 annual capital expenditure level of approximately \$236MM. Given the \$291MM of annual capital
16 investment required to fully execute the DSP, Alectra Utilities initially identified a capital
17 expenditure funding gap of \$55MM each year, for a total of a \$275MM funding gap over the 5-
18 year DSP period. On that basis, Alectra Utilities proposed M-factor funding for a total of \$265MM
19 over the five years (averaging \$53MM per year), along with the CIVA which could be true-up to
20 a ceiling of an additional \$9.3MM so that the total of M-factor funding plus CIVA true-up amounts
21 would not exceed the total funding gap, as represented by the Maximum M-factor Eligible Capital
22 amount.

23 During the proceeding, two factors have arisen that have affected the specifics of Alectra Utilities'
24 M-factor proposal. First, Alectra Utilities corrected errors that were identified in certain billing
25 determinants underlying the calculation of the materiality threshold.⁷ Second, although Alectra
26 Utilities used a Price Cap Index (PCI) of 1.2% (based on an inflation rate of 1.5%) in the materiality

⁵ Response to AMPCO-27.

⁶ Exhibit 2, Tab 1, Schedule 3, p. 3; AMPCO-27.

⁷ See Oral Hearing Transcript, Vol. 2, pp. 1-6; Oral Hearing Transcript, Vol. 3, pp. 121-123; and Undertakings J2.1, J3.1 and J3.2.

1 threshold formula as a placeholder pending the update to the PCI for 2020, Alectra Utilities
2 updated its evidence to a new placeholder PCI of 1.36% (based on an inflation rate of 1.66%).⁸
3 Whereas the initial application adopted the OEB’s most current inflation rate as at the time of
4 filing, the updated inflation rate is based on a five-year historical average, which is appropriate
5 because it aligns with the historical period that was taken into account in the DSP. Alectra Utilities
6 is prepared to further update the PCI based on the PCI for 2020, if the OEB so requires as part of
7 any draft rate order. These factors are discussed in greater detail in Section F, below.

8 Because of the corrections to the billing determinants and the updated inflation rate calculation,
9 Alectra Utilities’ M-factor proposal is made on the basis of an updated materiality threshold. In
10 particular, based on that updated threshold, Alectra Utilities’ base distribution rates are expected
11 to support \$1,086MM of total capital expenditures during the 2020-2024 planning period, for an
12 average annual capital expenditure level of approximately \$217MM.⁹ Given that the average
13 annual level of capital investment required to fully execute the DSP is unchanged at \$291MM, and
14 that the amount of capital funded by base rates has declined as a result of the updated threshold
15 calculation, Alectra Utilities’ capital expenditure funding gap is calculated to be an average of
16 \$74MM each year. This equates to a total of \$370.4MM of necessary capital expenditures over
17 the next five years for which the utility does not currently have funding. During the oral hearing,
18 Alectra Utilities clarified that, notwithstanding these changes in the threshold calculations, it is
19 still seeking \$265MM of incremental capital funding through the M-factor and that the list of
20 projects to be funded by the M-factor remains the same.¹⁰ As discussed in Section F, the \$265MM
21 of incremental capital funding will enable Alectra Utilities to execute 203 specific “M-factor
22 Projects” across its five rate zones.¹¹

23 The above result does not impact the set list of M-factor Projects for which \$265MM of
24 incremental capital funding is being requested by means of the M-factor, but it does mean that

⁸ Undertaking J3.1, Attachment 2.

⁹ See response to J3.1.

¹⁰ Oral Hearing Transcript, Vol. 2, pp. 3-4.

¹¹ Undertaking J1.3; Note: Alectra Utilities identified 193 M-factor projects in response to interrogatory G-Staff-4. As identified in response to undertaking J1.3, there were 9 projects that have spending less than \$0.05MM and which rounded to \$0 in Table 1 of G-Staff-4. As a result, these projects were inadvertently removed from the table. Alectra Utilities also provided a project list in response to CCC-9, which included all 203 projects.

1 some of the capital investments forming part of the DSP that were initially expected to be
2 supported by base rates would no longer be.

3 In order to address this circumstance, Alectra Utilities is proposing that the OEB (a) fix the
4 inflation rate, and thereby the materiality threshold, for the 5-year period from 2020-2024; and (b)
5 permit Alectra Utilities to track and record in the CIVA the capital related revenue requirement
6 arising from the DSP projects (other than M-factor Projects) identified in this proceeding and
7 which are executed but not funded through base rates based upon the applicable threshold
8 calculation over the 5-year DSP period.

9 With respect to the M-factor Projects, the only variances that would be recorded in the CIVA
10 would continue to be variances attributable to work being accelerated or deferred or re-prioritized
11 as between rate zones, including depreciation expense and return on capital changes due to such
12 timing or locational differences, variances in actual versus forecast costs of execution and
13 variances in the scope of individual M-factor Projects that may be necessary.¹² These types of
14 variances, to the extent they result in a credit to the utility for the M-factor Projects, would continue
15 to be capped at \$9.3MM. As such, the M-factor Projects would be tracked separately from any
16 other DSP projects that are recorded in the account. Through these changes, Alectra Utilities seeks
17 to accommodate the updated materiality threshold while addressing the underlying objective of
18 obtaining incremental capital funding that enables full execution of the investments identified in
19 the DSP, which are for the benefit of its customers, but with minimal impact to the balance of the
20 M-factor aspects of the Application.

21 **2. *Need to Solve Capital Funding Gap to Establish Rates that are Just and Reasonable***

22 Alectra Utilities is in the unique situation of being a consolidated distributor comprised of five
23 predecessor utilities which, having prepared a “ground up” consolidated 5-year DSP during a 10-
24 year rebasing deferral period, have identified and defined a capital funding gap relative to the
25 amount of capital funded by base rates.¹³ The incremental capital funding aspect of the Application

¹² G-Staff-9, pp. 5-6.

¹³ See Oral Hearing Transcript, Vol. 3, p. 129.

1 is, in essence, a question of how best to solve the identified capital funding gap in these unique
2 circumstances.

3 Alectra Utilities recognizes that the OEB has established certain policies and mechanisms to permit
4 incremental capital funding for utilities in different circumstances, including the Incremental
5 Capital Module (“ICM”) and the Advanced Capital Module (“ACM”). However, due to
6 limitations associated with ICM/ACM and how the ICM has been applied by the OEB (see Section
7 F, below), these mechanisms do not enable Alectra Utilities to address the incremental capital
8 funding needs arising from its 5-year consolidated DSP and do not solve the capital funding gap.
9 As such, Alectra Utilities is proposing the M-factor mechanism, along with the CIVA, as the
10 preferred and most effective means of overcoming those limitations and solving the capital funding
11 gap, so that it will be in a position to fully execute the DSP and achieve the outcomes that its
12 system requires and that its customers expect.

13 As discussed in Section D, below, the OEB is obligated by legislation to establish rates for Alectra
14 Utilities that are in accordance with the ‘just and reasonable’ standard, and in doing so the courts
15 have said that the OEB has broad discretion. If the DSP, which is to be executed for the benefit
16 of Alectra Utilities’ customers, were accepted by the OEB without also approving the incremental
17 capital funding necessary to execute the investments contemplated by the DSP, this would result
18 in Alectra Utilities’ distribution rates falling short of the just and reasonable standard. It is,
19 therefore, not open to the OEB to establish Alectra Utilities’ rates on that basis.

20 In this regard, it is important to note that the OEB is not bound by any of its policies in relation to
21 ICM/ACM funding in the discharge of its fundamental statutory obligation to establish just and
22 reasonable rates for Alectra Utilities. At the conclusion of the oral hearing, one panel member
23 suggested that, because Alectra Utilities has not sought funding through the ICM mechanism, the
24 only options for the panel are to accept the proposed M-factor as applied for, to accept it with
25 amendments or to reject it.¹⁴ With respect, this is not correct. As discussed in Section D below,
26 consistent with its broad discretion to establish rates that are just and reasonable, the OEB has a
27 wide array of options available to it for ensuring that Alectra Utilities is provided with the

¹⁴ Oral Hearing Transcript, Vol. 3, EB-2019-0018, October 18, 2019, p. 198.

1 appropriate level of incremental capital funding to execute the capital investments it has identified
2 in the DSP as being necessary to meet system and customer needs.

3 Accordingly, the central question for the OEB is whether it should permit Alectra Utilities to use
4 a variation of or enhancement to the ICM, in the form of the proposed M-factor, in order to fund
5 and enable execution of the identified incremental capital needs that benefit Alectra Utilities'
6 customers and which are in the public interest, or some other method of just and reasonable rate
7 recovery to provide for that benefit. Simply rejecting the request without providing any
8 incremental capital funding would, in Alectra Utilities' submission, not be consistent with the
9 requirement to establish rates in accordance with the just and reasonable standard.

10 3. *Specific Relief Requested*

11 Alectra Utilities therefore requests, in connection with the M-factor proposal set out in the
12 Application,

- 13 • incremental capital funding based on the M-factor proposed, which reconciles the capital
14 needs set out in Alectra Utilities' consolidated 5-year DSP, with the capital-related revenue
15 in rates, together with the associated 2020-2024 capital riders for each rate zone ("RZ"), to
16 be updated annually, if needed, as part of future Price Cap IR applications; and
- 17 • a symmetrical Capital Investment Variance Account to capture capital funding in excess
18 of the revenue requirement associated with Alectra Utilities' actual in-service additions, to
19 be credited or debited to customers at the end of the five-year plan term of the DSP.

20 In addition, in relation to the DSP, Alectra Utilities requests:

- 21 • a symmetrical Externally Driven Capital Variance Account to capture differences between
22 the revenue requirement associated with externally driven capital expenditures (related to
23 regional transit projects and capital works required by road authorities) as forecasted in the
24 DSP, and the actual revenue requirement for in-service additions associated with such
25 projects in the same period. The EDCVA is discussed in Section G, below.

26 Alectra Utilities requests that the proposed M-factor, CIVA and EDCVA each be effective January
27 1, 2020, which aligns with the effective date for the IRM elements of the Application. If the OEB

1 does not expect that the final rate order would be issued prior to such date, Alectra Utilities has
2 requested in the Application, and reiterates here, that the OEB issue an Order declaring the
3 Applicant's current distribution rates and charges to be effective on an interim basis as of January
4 1, 2020, and establishing an account to record and facilitate recovery of any differences between
5 the interim rates and the final rates (inclusive of changes regarding both base rates and incremental
6 capital funding) from January 1, 2020 until the implementation date of the OEB's Decision and
7 Order establishing final rates and charges. Alectra Utilities filed the Application sufficiently in
8 advance of the requested effective date, has met all timelines established by the OEB during the
9 proceeding and has not caused any delays.

10 **D. OEB RATE RELIEF JURISDICTION**

11 As referenced above, Panel Member Janigan asked at the conclusion of the oral hearing that
12 Alectra Utilities consider in its Argument-in-Chief the potential choices that the OEB has available
13 to it when making a determination on the relief requested by the Applicant.¹⁵ In this regard, the
14 OEB's jurisdiction, including its statutory obligation to establish just and reasonable rates, is of
15 fundamental importance since it is the basis on which the OEB's determination must be made.

16 ***1. OEB is Required to Establish Rates that are Just and Reasonable***

17 Under the *Ontario Energy Board Act, 1998* (the "OEB Act"), Section 78(3) provides that the OEB
18 may make orders approving or fixing just and reasonable rates for the distribution of electricity.
19 Furthermore, Section 78(7) provides that "[u]pon an application for an order approving or fixing
20 rates, the Board may, if it is not satisfied that the rates applied for are just and reasonable, fix such
21 other rates as it finds to be just and reasonable." Together, these legislative requirements dictate
22 that, whenever the OEB establishes rates for the distribution of electricity, it must do so in
23 accordance with the just and reasonable standard.

24 The Supreme Court of Canada explains that "(t)he just-and-reasonable approach . . . captures the
25 essential balance at the heart of utilities regulation: to encourage investment in a robust utility
26 infrastructure and to protect consumer interests, utilities must be allowed, over the long run, to
27 earn their cost of capital, no more, no less".¹⁶ To strike this balance, "just and reasonable rates

¹⁵ Oral Hearing Transcript, Vol. 3, EB-2019-0018, October 18, 2019, p. 198.

¹⁶ *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44, [2015] 2 S.C.R. 147, Para 76.

1 must be those that ensure consumers are paying what the Board expects it to cost to efficiently
2 provide the services they receive, taking account of both operating and capital costs. In that way,
3 consumers may be assured that, overall, they are paying no more than what is necessary for the
4 service they receive, and utilities may be assured of an opportunity to earn a fair return for
5 providing those services”.¹⁷

6 With respect to a utility’s opportunity to earn a fair return, the Supreme Court explains that “(t)his
7 means that that the utility must, over the long run, be given the opportunity to recover, through the
8 rates it is permitted to charge, its operating and capital costs (“capital costs” in this sense refers to
9 all costs associated with the utility’s invested capital) . . . [and that a utility’s cost of capital]
10 represents the amount investors require by way of a return on their investment in order to justify
11 an investment in the utility. The required return is one that is equivalent to what they could earn
12 from an investment of comparable risk. Over the long run, unless a regulated utility is allowed to
13 earn its cost of capital, further investment will be discouraged, and it will be unable to expand its
14 operations or even maintain existing ones. This will harm not only its shareholders, but also its
15 customers”.¹⁸

16 **2. *Rates Would Not be Just and Reasonable if the Capital Funding Request is Rejected***

17 In the circumstances of the present Application, if the OEB were to reject the M-factor proposal
18 and provide no other form of incremental capital funding to Alectra Utilities, then the utility would
19 be left with two choices in respect of the unfunded capital investments contemplated in the DSP.
20 It could either forego those investments by deferring the M-factor Projects indefinitely until such
21 time as it receives the necessary capital funding through OEB-approved rates, or it could proceed
22 with the investments without such incremental funding.

23 If Alectra Utilities foregoes the investments during the DSP plan period, there would be adverse
24 impacts for customers with respect to reliability, quality of service, safety and other factors as
25 documented in the DSP, and the utility would fall short of meeting the identified needs and
26 expectations of its customers. It is difficult to see how that outcome could be consistent with the
27 OEB’s statutory objectives, by which the OEB is guided in carrying out its responsibilities in

¹⁷*Ontario (Energy Board) v. Ontario Power Generation Inc.*, Para 20.

¹⁸*Ontario (Energy Board) v. Ontario Power Generation Inc.*, Para 15-16.

1 relation to electricity, as set out in Section 1 of the OEB Act. Those objectives include protecting
2 the interests of consumers with respect to prices and the adequacy, reliability and quality of
3 electricity service.¹⁹ However, if the utility proceeds with the investments without approval for
4 recovery of the corresponding capital funding, then the shareholders of the utility would have to
5 absorb the cost by receiving less than their anticipated rate of return on their investment in the
6 utility. In these circumstances, the utility would effectively be deprived of the opportunity to earn
7 a fair return, which would be contrary to the just and reasonable standard.

8 **3. *The OEB Has Broad Discretion in How It Establishes Just and Reasonable Rates***

9 Also significant is the extent of the OEB's discretion in establishing just and reasonable rates. The
10 Supreme Court of Canada states that "(t)he [OEB Act] and associated regulations give the Board
11 broad latitude to determine the methodology it uses in assessing utility costs, subject to the Board's
12 ultimate duty to ensure that payment amounts it orders be just and reasonable to both the utility
13 and consumers".²⁰ In addition, "where a statute requires only that the regulator set "just and
14 reasonable" payments, as the [OEB Act] does in Ontario, the regulator may make use of a variety
15 of analytical tools in assessing the justness and reasonableness of a utility's proposed payment
16 amounts".²¹

17 Based on the foregoing, the OEB has broad discretion and is not bound in its approach to setting
18 just and reasonable rates. Accordingly, the OEB is not limited by policy considerations or
19 mechanisms such as those set out in relation to the ICM/ACM in exercising its discretion. The
20 OEB's ICM/ACM are not binding law and do not constrain the OEB. Rather, they are policies
21 that are subject to the OEB's fundamental obligation to establish just and reasonable rates. In this
22 regard, the OEB can choose the M-factor as proposed by the Applicant, or it can choose any other
23 form of rate relief, including any form of incremental capital funding, to establish rates for Alectra
24 Utilities, so long as the rates it establishes are in accordance with the just and reasonable standard.
25 The OEB has a statutory obligation to do so under Section 78(3) of the OEB Act.

¹⁹ OEB Act, s. 1(1)1.

²⁰ *Ontario (Energy Board) v. Ontario Power Generation Inc.*, Para 7.

²¹ *Ontario (Energy Board) v. Ontario Power Generation Inc.*, Para 103.

1 Because of this obligation, and pursuant to Section 78(7), where rates are sought, the OEB has an
2 obligation to set rates that are just and reasonable even if the OEB is not satisfied that the rates
3 *applied for* are just and reasonable. Given that the DSP is comprehensive, in line with the
4 applicable filing requirements, appropriate and to the benefit of (and supported by) Alectra
5 Utilities’ customers, capital funding through just and reasonable rates is required such that
6 customers, who stand to benefit from the capital expenditures, will, through rates, fund the needed
7 capital. This is consistent with the ‘benefits follow the costs’ principle, which is fundamental to
8 utility rate-making. The OEB must, because of Section 78(7) of the OEB Act, set some form of
9 just and reasonable rates. Unlike the issuance of a licence or the granting of leave to construct
10 under the OEB Act (where the licence or leave is either granted or it is not), the requirement to set
11 just and reasonable rates under Section 78 is not a binary decision of all or nothing. Where rates
12 are applied for and required, they are to be granted in some form by the OEB in accordance with
13 the just and reasonable standard.

14 **E. THE DSP CAPITAL EXPENDITURES ARE REASONABLE AND IN THE**
15 **INTEREST OF RATEPAYERS**

16 Alectra Utilities’ consolidated 5-year DSP clearly establishes the company’s capital investment
17 needs, including those aspects that require funding by means of the proposed M-factor. These
18 needs have been informed by customers and the execution of the capital investments contemplated
19 by the plan will address reliability, safety, service and other objectives for the benefit of Alectra
20 Utilities’ customers.

21 ***1. The DSP Establishes Alectra Utilities’ First Five-Year Integrated Capital Plan***

22 Alectra Utilities’ first five-year DSP provides a comprehensive and detailed description of Alectra
23 Utilities’ capital investment plans for its entire distribution system over the 2020 to 2024 period.
24 The DSP contemplates a consistent level of annual capital investment in each year over this period.
25 It represents the largest single planning exercise in the company’s history and is a major milestone
26 in its transition from five separate utilities to a single company serving a single service area. The
27 DSP is not a simple amalgamation of five distinct investment plans. Rather, it is a unified
28 investment plan, built “from the ground up” to address the needs of the system as a whole in
29 consideration of the identified priorities and preferences of Alectra Utilities customers and a wide

1 range of other planning considerations.²² Alectra Utilities requires the certainty of five years of
2 committed, incremental capital funding on an envelope basis in order to effectively, efficiently and
3 flexibly execute the full 5-year investment plan that is contemplated by the DSP.

4 Each of Alectra Utilities' predecessor companies had its own capital plan. While those predecessor
5 plans were appropriate for the individual predecessor utilities, the DSP is based on the needs of
6 the entire Alectra Utilities distribution system, its operation as a single utility, and the effective
7 and efficient planning of capital expenditures across the entire service area. As such, the DSP was
8 developed from identified investment needs using a common and uniform asset management
9 framework. It is based on the priorities and preferences of Alectra Utilities' customers, as identified
10 through ongoing engagement activities along with multiple rounds of more formal, DSP-specific
11 customer engagement. As a result, the DSP prioritizes prudent investments in accordance with
12 customer preferences in order to maintain overall reliability and address the adverse reliability
13 impacts associated with deteriorated underground cable and extreme weather events, as well as
14 other priorities.²³

15 **2. *The Asset Management Framework***

16 Alectra Utilities' Asset Management Framework is the foundation of the DSP. It is based on
17 leading asset management processes and best industry practices. The result is a uniform and
18 systematic asset management process that allows Alectra Utilities to ensure all system, customer
19 and operational needs are considered for its expansive and diverse service territory, in alignment
20 with identified customer preferences and priorities, regional planning needs, public policy
21 objectives, and corporate objectives.²⁴ While the Asset Management Framework includes several
22 important advancements for the utility, three particularly notable elements are its reliance on
23 customer input at multiple stages, its use of project-level prioritization through the adoption of the
24 CopperLeaf C55 system, and its validation through third party expert reviews.

²² Exhibit 1, Tab 3, Schedule 1.

²³ Exhibit 2, Tab 1, Schedule 2.

²⁴ Exhibit 4, Tab 1, Schedule 1, section 5.2.1.

1 **(a) Multi-Stage and Ongoing Customer Engagement**

2 Customer engagement has a significant influence on the resulting capital investment plan, as it
3 serves as a key input at multiple stages of the capital planning process. In developing the 2020-
4 2024 DSP, Alectra Utilities engaged a third-party expert, Innovative Research Group Inc., to assist
5 it in identifying customers' needs and preferences. Customer engagement activities were carried
6 out in multiple rounds, namely, before investment options were identified, and again once specific
7 options and outcomes were defined.²⁵ With more than 32,000 customers fully completing an online
8 workbook, the Alectra Utilities 2020-2024 DSP customer engagement is the largest public
9 consultation ever conducted in the Ontario electricity sector.²⁶

10 The first round of customer engagement took place at the outset of the planning process and
11 involved identifying and assessing customer needs and priorities. Alectra Utilities then created a
12 preliminary portfolio of investments responsive to those needs and priorities, which formed the
13 basis of the second round of customer engagement. The second round of customer engagement
14 was carried out prior to finalizing the proposed capital plan with the objective of identifying
15 customer preferences between specific investment options and outcomes. Customer input from the
16 second phase of engagement was used in the capital investment optimization process to finalize
17 the investment portfolio set out in the DSP.²⁷

18 Based on the two rounds of customer engagement, Alectra Utilities obtained a clear understanding
19 of the priorities of its customers: the utility must invest to maintain reliability and respond to
20 adverse weather, and it must do so in a way that provides the best value to customers.²⁸ Alectra
21 Utilities has reflected these priorities and preferences throughout its planning processes, resulting
22 in a plan that is designed to maintain reliability while deferring investments where appropriate to
23 minimize the impact on customer bills.²⁹

²⁵ Exhibit 4, Tab 1, Schedule 1, sections 5.2.1 and 5.3.1.

²⁶ Exhibit 4, Tab 1, Schedule 1, DSP, Appendix C, Customer Engagement Overview; See also Oral Hearing Transcript, Vol. 2, p. 98.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Exhibit 4, Tab 1, Schedule 1, Section 5.4.2.

1 **(b) CopperLeaf C55 Investment Prioritization and Optimization System**

2 Alectra Utilities selected the CopperLeaf C55 system as the solution to provide it with a repository
3 for all capital project business cases and to manage the entire investment portfolio for the company.
4 The CopperLeaf C55 system provides a uniform approach for the analysis and verification of the
5 company's numerous and diverse capital project needs. By implementing this industry-leading
6 solution with proven multivariate capital investment optimization capability, Alectra Utilities has
7 the ability to run multiple investment scenarios considering financial, risk and resource driven
8 constraints while ensuring capital investments are aligned with customer preferences and
9 priorities, the utility's objectives, and public policy goals. This results in a capital investment
10 portfolio that yields maximum value, is risk-informed, and incorporates financial and non-financial
11 benefits and other attributes on a common scale across Alectra Utilities' entire service area.³⁰

12 **(c) Third Party Expert Reviews**

13 In order to objectively confirm that the methodologies and approaches undertaken by Alectra
14 Utilities in preparing the DSP are reasonable and appropriate, it engaged Kinectrics Inc.
15 ("Kinectrics") and Vanry & Associates ("Vanry") as third-party experts to provide independent
16 reviews of the Asset Condition Assessment ("ACA") and the overall plan, respectively.

17 With respect to the ACA, Kinectrics found that the "ACA methodology utilized in the report is in
18 line with good utility practices. It provides the required input regarding condition based asset
19 needs. ACA results are used in conjunction with other considerations to develop (an) investment
20 portfolio that address Alectra's sustainment needs." Kinectrics also found that the ACA
21 "represents a significant step in establishing corporate-wide, consistent Asset Management
22 processes."³¹

23 With respect to the overall process and methodology used to develop the DSP, Vanry found that
24 Alectra Utilities' DSP "represents a well-reasoned, fact-based assessment of the needs of the
25 system and that it reflects the concerns of the relevant stakeholders and the desires of customers".
26 In addition, Vanry concluded that "the proposed investment plans align with what we see as being
27 needed by the system to deliver the required performance levels and to meet the regulatory

³⁰ Exhibit 2, Tab 1, Schedule 2; See also Oral Hearing Transcript, Vol. 1, pp. 50-51 and Vol. 2, p. 202.

³¹ Exhibit 4, Tab 1, Schedule 1, p. 52. See also DSP, Appendix E.

1 requirements. The pacing of the investments appears reasonable and reflective of a need to balance
2 between costs and performance obligations and risks. The quality and caliber of the report, and the
3 continually improving work that underpins it, is reflective of sound asset management processes
4 and thinking".³²

5 **3. DSP Investment Priority Areas**

6 As discussed in the DSP, Alectra Utilities must balance multiple priorities over the 2020-2024
7 period, which include, among other things, maintaining reliability, providing appropriate service
8 to growing communities, and doing so while keeping rates as low as possible. Customer reliability
9 has been suffering due to various factors. Some of the most significant challenges come from
10 deteriorated equipment in its underground and overhead systems, and from the impacts of adverse
11 weather events. In order to address these challenges over the 2020-2024 period, Alectra Utilities
12 plans to focus its investments on five priority areas: (1) Underground Renewal, (2) Overhead
13 Renewal, (3) Development and Intensification, (4) Linking Legacy Distribution Systems, and (5)
14 Mitigating Future Expenses by Enhancing Station Investments. These are discussed below.

15 **(a) Underground Renewal**

16 Alectra Utilities' proposed capital plan aims to prevent further decline in reliability due to
17 deteriorating underground assets. Alectra Utilities has experienced declining levels of reliability,
18 both in terms of frequency and duration of outages, which are unacceptable to the company and
19 its customers. The leading cause of this trend is defective equipment; specifically, failures of
20 underground direct-buried cable and cable accessories. Alectra Utilities has been accelerating the
21 underground cable replacements where possible, has introduced cable injection to slow down the
22 rate of deterioration of cables and has spent considerable time and effort to understand, document
23 and track cable condition. Despite this, Alectra Utilities' efforts are being overwhelmed.
24 Furthermore, Alectra Utilities is entering a period of heightened capital asset renewal, as a large
25 population of deteriorating assets are reaching their end-of-life and will soon require replacements.
26 This capital asset bubble is especially pronounced in the underground cable population. In order
27 to address the challenges and to mitigate reliability and customer impacts, renewal of deteriorated

³² Exhibit 4, Tab 1, Schedule 1, p. 53. See also DSP, Appendix G.

1 underground system assets is a key focus for the DSP.³³ A key factor in planning these investments
2 is that during the life of a cable there is a limited period during which lower cost
3 injection/rehabilitation work can be executed and, if that window is missed, then cable replacement
4 will be the only remaining option. As explained during the Oral Hearing, the cost of replacement
5 is over 5 times greater than the cost of rehabilitation on a per kilometer basis.³⁴

6 In its assessment of the DSP, Vanry & Associates comments that the level of investment in
7 underground renewal contemplated in the DSP should be considered the absolute minimum and
8 that an even higher level of investment in these facilities may be warranted:

9 We are concerned that Alectra may not have allocated sufficient funding required to keep up
10 with the cable failure rates. This leaves Alectra and its customers exposed to risk of entering a
11 vicious cycle . . . While we understand, and greatly respect, that Alectra has selected this level
12 of investment in its efforts to balance rates/costs to customers, we are concerned that the
13 deference to customer concerns regarding rates may have outweighed cost and underweighted
14 risk. We recognize that Alectra has selected the most aggressive investment option that it had
15 proposed to customers and yet we believe that Alectra should consider increasing the level of
16 URD [Underground Residential Distribution cable, referred to by Alectra as XLPE]
17 replacements in its plan to put further distance between Alectra and the threshold of the vicious
18 cycle. We believe that doing so would ultimately serve the customers' concerns regarding cost,
19 while also ensuring that there is no deterioration in reliability. Should Alectra not elect to
20 increase the investment in URD replacement above what it has proposed in the DSP, we
21 strongly encourage Alectra to ensure that it secures and deploys all of the investment that it has
22 proposed and that Alectra not allow itself to be distracted from executing on the replacement
23 of the URD cables in its plan.³⁵

24 **(b) Overhead Renewal**

25 Alectra Utilities plans to enhance the resilience of its overhead system to adverse weather events.
26 Investments to replace and remediate overhead assets that are deteriorated or otherwise prone to
27 failure from adverse weather conditions will address public and worker safety concerns as well as
28 reliability needs. A particular focus will be on renewing deteriorated poles that have been identified
29 through the utility's asset condition assessment as being in poor or very poor condition.³⁶
30 Reinforced and replacement poles are more resilient to ice and wind loading standards. Alectra
31 Utilities plans to target a particular population of wood poles in circumstances where they carry

³³ Exhibit 4, Tab 1, Schedule 1 & Appendix A10.

³⁴ See Oral Hearing Transcript, Vol. 2, pp. 17-18.

³⁵ Exhibit 4, Tab 1, Schedule 1, Appendix G – Vanry, DSP Assurance Review Report, May 23, 2019, p. 5.

³⁶ Exhibit 4, Tab 1, Schedule 1, DSP, Appendix D – 2018 Asset Condition Assessment.

1 four circuits. This is a scenario that Alectra Utilities has found to be particularly susceptible to
2 failure during storm and high wind events.³⁷

3 **(c) Development and Intensification**

4 The plan responds to anticipated needs in areas of new greenfield development and urban
5 redevelopment and intensification. Alectra Utilities must ensure that its system has sufficient
6 capacity to connect new customers based on forecasted needs and to alleviate existing and
7 anticipated capacity constraints. The utility's planned capacity investments are primarily driven
8 by (i) the pace and extent of urban development into greenfield areas; (ii) the intensification and
9 redevelopment of downtown areas; and (iii) the need to address specific locations where adequate
10 backup capacity is not available due to the configuration of existing supply lines.³⁸

11 **(d) Linking Legacy Distribution Systems**

12 The DSP takes advantage of opportunities to establish additional linkages between legacy systems
13 and balance loads across Alectra Utilities' entire service area to mitigate the need for system
14 expansions. Alectra Utilities plans to make targeted investments in establishing additional
15 connections between adjacent legacy systems to assist it in balancing loads more effectively,
16 thereby enabling it to defer more costly system expansions.³⁹

17 **(e) Mitigating Future Expenses by Enhancing Station Investments**

18 The investment plan aims to mitigate the need to rebuild or construct new stations by enhancing
19 the use of monitoring technologies, investing in environmental protection measures and
20 strategically managing inventory on a consolidated basis. Alectra Utilities plans to focus
21 investment on renewing key equipment that is associated with controlling, monitoring and
22 protecting core system assets. Much of this equipment is deteriorated and obsolete, which
23 adversely affects reliability. Furthermore, investments in monitoring equipment, along with

³⁷ Exhibit 2, Tab 1, Schedule 2, pp. 3-4; Exhibit 4, Tab 1, Schedule 1, Appendix A05.

³⁸ Exhibit 2, Tab 1, Schedule 2, p. 4; Exhibit 4, Tab 1, Schedule 1, Appendices A02, A12 & A13.

³⁹ Exhibit 2, Tab 1, Schedule 2, p 4; Exhibit 4, Tab 1, Schedule 1, pp. 388-389.

1 investments in oil spill containment, have potential capital savings by enabling the company to
2 defer station renewal investments that would otherwise be needed.⁴⁰

3 **4. *Alectra Utilities Needs Flexibility to Achieve DSP Outcomes***

4 As noted, Alectra Utilities' DSP is a single, harmonized plan comprised of a wide range of
5 investments. The DSP is not organized on a rate zone basis, nor is it driven by specific large
6 projects. In order to effectively and efficiently implement the plan, and achieve the outcomes that
7 its customers require and expect, Alectra Utilities must be able to execute all of the work in the
8 DSP, while having enough flexibility to accommodate changing circumstances that may require
9 acceleration of some work and the deferral of other work within the 5-year planning period.⁴¹ In
10 order to achieve this flexibility, Alectra Utilities has proposed the implementation of the M-factor
11 and CIVA over the five-year DSP planning period, which overcomes the annual limitation of the
12 ICM/ACM. As noted in Part C and described further in Part F, below, the M-factor only funds the
13 incremental DSP capital needs that are outside of the calculated threshold amount. The
14 incremental capital funding supported by the M-factor would therefore enable the execution of
15 203 specific DSP projects that cannot be funded by Alectra Utilities' through base distribution
16 rates.⁴²

17 If Alectra Utilities is unable to execute its capital plan at the level contemplated in the DSP, there
18 would be significant, long-term adverse consequences for the utility's distribution system and its
19 customers. As summarized above, and demonstrated in detail in the DSP, significant investment
20 is needed to address declining reliability that is largely driven by deteriorated assets. The single
21 largest example of this trend is the large population of direct-buried cable. There is currently a
22 large population of deteriorated underground cable in the system, but there is a much larger wave
23 of cable that will deteriorate over the next twenty years. Failing underground cable has been a
24 major driver of declining reliability for Alectra Utilities customers. The significant expenditures

⁴⁰ Exhibit 2, Tab 1, Schedule 2, pp. 4-5; Exhibit 4, Tab 1, Schedule 1, Appendices A08 & 09.

⁴¹ Oral Hearing Transcript, Vol. 1, p. 118.

⁴² A list of the 203 M-factor Projects is provided in response to Undertaking J1.3.

1 in Underground Asset Renewal during the DSP period are intended to maintain reliability by
2 addressing cable that will be in very poor condition during the 2020-2024 period.⁴³

3 While the potential backlog in underground cable is significant, it is only a component of a larger
4 capital investment backlog that Alectra Utilities forecasts will develop if it is unable to execute the
5 level of system of renewal investment set out in the DSP. If Alectra Utilities is unable to invest in
6 system renewal at the level set out in the DSP, the result will be an increasing population of
7 deteriorated assets, leading to a “snowplow” of capital costs for future customers.⁴⁴ The outcome
8 of this is very likely a continued decline in reliability and an increase in expensive reactive capital
9 expenditure, which is significantly more costly than planned capital expenditures.⁴⁵

10 In light of the foregoing, Alectra Utilities is planning a five-year capital investment program that
11 meets customer expectations and addresses the challenges facing the system, one that takes a
12 pragmatic approach, where possible, to moderate costs for customers. The plan establishes a
13 prioritized investment portfolio that will provide optimal value, thereby resulting in reasonable
14 capital expenditures that are in the interests of Alectra Utilities’ customers.

15 **F. M-FACTOR ADDRESSES ALECTRA’S INCREMENTAL CAPITAL NEEDS AND**
16 **IS JUST AND REASONABLE**

17 As noted at the outset of these submissions, the focus of the Application is on identifying the best
18 mechanism to provide incremental capital funding for Alectra Utilities, through just and reasonable
19 rates, to enable execution of the full DSP. It is for this reason that Alectra Utilities is seeking
20 approval for the M-factor, together with the CIVA.

21 ***1. Basis of the M-factor Amounts and Mechanics***

22 As stated above, Alectra Utilities identified its capital investment requirements through the DSP
23 investment planning process, which included: multiple rounds of customer engagement; asset
24 condition and needs assessments; the identification of options; business case development;

⁴³ Planned Underground Asset Renewal investments are filed in Exhibit 4, Tab 1, Schedule 1, Appendix A10.

⁴⁴ Exhibit 1, Tab 1, Schedule 1, Figure 2.

⁴⁵ Interrogatory responses to AMPCO-52 and SEC-51.

1 risk/value assessment; and investment prioritization and optimization using the CopperLeaf C55
2 system.

3 In identifying, planning, prioritizing and optimizing its investments, Alectra Utilities considered
4 factors such as: compliance requirements; safety risks; environmental risks; regulatory risks;
5 reliability impacts; and customer service benefits and costs. Investments were ranked based on a
6 risk score, which means that part of the investment portfolio's projects will be funded through base
7 rates to the extent that such funding is available; for the remaining projects, incremental capital
8 funding is required. These latter projects are referred to as the "M-factor Projects".⁴⁶ The DSP is
9 an integrated plan with projects ranked on risk. The relative ranking enables Alectra Utilities to
10 prioritize work. It does not mean that some projects are required and that some are not.⁴⁷ The M-
11 factor Projects, and indeed all of the projects contemplated in the DSP, are important investments
12 that Alectra Utilities has determined, through its investment planning and prioritization process,
13 need to be executed during the 2020-2024 DSP planning period.⁴⁸

14 Alectra Utilities submits that the ICM materiality threshold (including the deadband of 10%) is the
15 appropriate method for calculating the level of capital funding that Alectra Utilities should be
16 expected to absorb within its funding from base rates.⁴⁹ Accordingly, Alectra Utilities would only
17 be eligible for incremental funding to the extent that its capital expenditures in a given year fit
18 within the total eligible capital envelope derived from the materiality threshold for that year (i.e.,
19 the difference between the total capital budget for the year and the materiality threshold
20 calculation).⁵⁰ As the threshold value is anchored on each predecessor utility's last rebasing
21 application, the materiality threshold for Alectra Utilities has been calculated as the sum of the
22 threshold values for each predecessor utility.

⁴⁶ As described in Sections C and F, due to updates in the materiality threshold calculation there are some projects that were initially expected to be funded through base rates but which, as a result of the updates and subject to determination as to the PCI to be applied in the threshold calculation, will not be supported by base rates and which are not M-factor Projects. These projects are nevertheless part of the DSP and must be executed during the plan period. Alectra Utilities is proposing to track and record in the CIVA the capital related revenue requirement arising from such projects to allow for cost recovery at such time that the account is cleared.

⁴⁷ Oral Hearing Transcript, Vol. 1, p. 50-51.

⁴⁸ Oral Hearing Transcript, Vol. 1, p. 50-51.

⁴⁹ Exhibit 2, Tab 1, Schedule 3 at pp. 11-13

⁵⁰ Exhibit 2, Tab 1, Schedule 3, p. 11 and 12; Undertaking J3.1, Attachment 2.

1 As noted in Section C, above, Alectra Utilities used a PCI of 1.2% (based on an inflation rate of
2 1.5%) as a placeholder input into the materiality threshold value calculation in its pre-filed
3 evidence. As discussed at the Technical Conference⁵¹ and Oral Hearing⁵², as well as in response
4 to Undertaking J3.1, Alectra Utilities has since proposed to use a placeholder PCI of 1.36%, which
5 is based on a five-year historical average inflation growth rate of 1.66%, less a productivity factor
6 of 0.00% and a stretch factor of 0.30%. It is Alectra Utilities' submission that use of a five-year
7 historical average growth rate of 1.66% is appropriate because it is consistent with the presentation
8 of five years of historical information in its DSP.⁵³ Alectra Utilities is prepared to further update
9 the PCI on the basis of the PCI for 2020 if the OEB so requires as part of any draft rate order.

10 The calculation of the PCI, growth rate and overall threshold capital expenditure amount using the
11 OEB's formula from the ACM Report are appropriate. The result of the updated calculation is a
12 threshold capital expenditure value over the 2020-24 DSP period of \$1.086B.⁵⁴ Overall, relative
13 to the amounts initially filed, these updates resulted in a lower overall threshold value over the
14 2020 to 2024 DSP period and a corresponding increase to the Maximum M-factor Eligible Capital.

15 During the oral hearing, Alectra Utilities clarified that, notwithstanding these changes in the
16 threshold calculations, it is still seeking \$265MM of incremental capital funding through the M-
17 factor and that the list of projects to be funded by the M-factor remains the same.⁵⁵ The \$265MM
18 of incremental capital funding through the M-factor, which is within the maximum eligible
19 amount, will enable Alectra Utilities to execute 203 "M-factor Projects" across its five rate zones.⁵⁶

20 As further noted in Section C, above, Alectra Utilities is proposing that the CIVA true-up
21 mechanism remain as contemplated in the evidence and that it be capped at \$9.3MM in relation to

⁵¹ Technical Conference Transcript, Day 1, pp. 138-139.

⁵² Oral Hearing Transcript, Volume 3, pp. 111-113.

⁵³ As provided in the OEB's *Filing Requirements for Electricity Distribution Rate Applications – Chapter 5 Consolidated Distribution System Plan Filing Requirements* (the "Chapter 5 Filing Requirements"), the "DSP's duration is a minimum of ten years in total, comprising of a historical period and a forecast period. The historical period is the first five years of the DSP duration, consisting of five historical years, ending with the Bridge year. The forecast period is the last five years of the DSP duration, consisting of five forecast years, beginning with the Test year."

⁵⁴ Undertakings J2.1 and J3.2.

⁵⁵ Oral Hearing Transcript, Vol. 2, pp. 3-4.

⁵⁶ Undertaking J1.3.

1 the M-factor Projects. However, Alectra Utilities is also proposing that it be permitted to track
2 and record in the CIVA the capital related revenue requirement arising from the execution of DSP
3 projects (other than M-factor Projects) which are executed and not funded through base rates based
4 upon the applicable threshold calculation over the 5-year DSP period. At such time that Alectra
5 Utilities seeks disposition of the CIVA, any such amounts that have been recorded in the CIVA
6 would be subject to prudence review with reference back to the project plans set out in the DSP.

7 In addition, to assist it in tracking these amounts and avoiding future changes in the materiality
8 threshold calculation during the DSP term, which in turn would impact the calculation of the
9 Maximum M-factor eligible capital amount, Alectra Utilities is requesting that the OEB fix the
10 inflation rate, and thereby the PCI and the materiality threshold, for the 5-year period from 2020-
11 2024. This would provide Alectra Utilities with certainty during the 5-year period as to which
12 projects are funded through base rates, which projects are funded through the M-factor and which
13 projects were initially expected to be funded through base rates but as a result of the updates are
14 not funded by base rates or the M-factor, and thereby need to be recorded separately from the M-
15 factor Projects in the CIVA.

16 Through these proposals, Alectra Utilities seeks to accommodate the updates to the materiality
17 threshold calculation, while also addressing its underlying objective of obtaining incremental
18 capital funding that enables full execution of the investments identified in the DSP, which are for
19 the benefit of its customers, but with minimal impacts to the balance of the M-factor aspects of the
20 Application.

21 **2. *Two Fundamental Issues for Executing the DSP***

22 There are two fundamental issues that Alectra Utilities faces in respect of DSP execution. First,
23 the ICM/ACM does not provide the flexibility that Alectra Utilities requires to efficiently execute
24 its DSP. Second, the ICM does not provide sufficient incremental funding to address the identified
25 funding gap. These are discussed below.

26 **(a) ICM/ACM Do Not Provide Required Flexibility**

27 The ACM/ICM does not provide the flexibility or the longer-term availability of funding that is
28 needed in order for Alectra Utilities to confidently invest in and efficiently execute its 5-year DSP.

1 The DSP in this Application spans Alectra Utilities’ entire service territory and was developed on
2 the basis that it would be implemented over a 5-year period. Accordingly, the investments in the
3 DSP must be reviewed on that basis. It would not be meaningful for the OEB to review them on
4 the basis of “annual slices” in time. The OEB’s ACM/ICM does not address this need for flexibility
5 between years and within years, as well as between different rate zones, to efficiently and
6 effectively execute a comprehensive capital plan. The ACM must be requested within the context
7 of a cost of service application filing with fixed forecast in-service dates. The ICM is on an annual
8 basis only and does not provide multi-year flexibility.⁵⁷

9 In order to effectively implement the consolidated 5-year DSP and achieve the outcomes that its
10 customers require and expect, Alectra Utilities must be able to execute all of the work in the DSP,
11 while simultaneously accommodating changing circumstances that may require the acceleration
12 of some work and the deferral of other work within the 5-year period, both within and as between
13 rate zones. Accordingly, the M-factor must be able to fund the range of capital work that comprises
14 the DSP, not just a particular large project or subset of projects. This is consistent with the MAADs
15 Policy, which provides for the ongoing incremental capital needs of distributors during a post-
16 consolidation rebasing deferral period. While the M-factor riders are calculated based on the
17 specific investments contemplated by the DSP, they are not tied to the specific timing of
18 investments. Unlike other funding mechanisms during an IRM term, the M-factor provides an
19 envelope of capital funding to fund prudent investments during the 2020-2024 DSP planning
20 period.⁵⁸ As a result, Alectra Utilities has proposed capital riders based on “M-factor” investments
21 in every year of the five year planning period to reflect execution of the entire consolidated DSP.⁵⁹
22 This, combined with the implementation of the CIVA, provides the necessary flexibility that is
23 lacking in the ICM.

24 **(b) ICM Does Not Provide Sufficient Funding**

25 Under the MAADs policy, the default capital funding mechanism for post-merger utilities is the
26 ICM. However, the ICM is not suitable to provide sufficient incremental funding to implement the
27 DSP for the benefit of Alectra Utilities’ ratepayers. This is because (i) the ICM is only available

⁵⁷ Exhibit 2, Tab 1, Schedule 3, pp. 2-3.

⁵⁸ Exhibit 2, Tab 1, Schedule 3, p. 15.

⁵⁹ Exhibit 2, Tab 1, Schedule 3, p. 3.

1 on an annual basis, and (ii) the OEB's prior decisions on Alectra Utilities' ICM requests have
2 demonstrated and confirmed that the ICM is not able to accommodate many of the investments
3 that Alectra Utilities must make during the DSP period.⁶⁰

4 Alectra Utilities will not be able to achieve the outcomes that its customers expect if it does not
5 have sufficient incremental capital funding to fully execute the DSP. The OEB's application of the
6 ICM in EB-2017-0024 (the "2018 ICM Decision") and in EB-2018-0016 (the "2019 ICM
7 Decision") limited the availability of funding. In the 2018 ICM Decision, the OEB significantly
8 reduced the ICM recovery to fund important capital investments, relative to what was sought, not
9 because of any issue with the investments themselves, but because the OEB determined that the
10 ICM required the application of an additional test for determining investment eligibility. The
11 additional test was based on a prior decision of the OEB on an application by Toronto Hydro,
12 where the OEB assessed each project individually for its significance against Toronto Hydro's
13 total planned capital spending.⁶¹ The OEB applied its judgement to consider whether each capital
14 project proposed for ICM funding was significant relative to Alectra Utilities' total capital budget,
15 not relative to the capital budgets identified for each rate zone. In denying ICM funding for projects
16 in respect of the 2018 rate year, the OEB found that Alectra Utilities' projects were not a significant
17 capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. The OEB
18 stated that Alectra Utilities should be able to fund those projects through its normal capital budget
19 during the IRM term.

20 In the 2018 ICM Decision, the OEB awarded Alectra Utilities only 51.1% of the capital funding
21 relief that it sought. As a result of the 2018 ICM Decision, Alectra Utilities revised its 2019 ICM
22 application before filing to reduce its ICM request downward, from \$39.2MM to \$31.6MM. On a
23 cumulative basis over 2018-2019, Alectra Utilities received approval for 62.6% of its required
24 incremental capital.⁶²

⁶⁰ Exhibit 2, Tab 1, Schedule 3, p. 8.

⁶¹ Whereas the OEB additional eligibility test was applied to Toronto Hydro in a rebasing proceeding on account of special circumstances applicable to Toronto Hydro (EB-2012-0064), the MAADs policy applicable to Alectra Utilities contemplates the availability of incremental capital funding for 'normal and expected' investment needs, without regard for the impact of those investments on the utility's overall budget.

⁶² Presentation Day, KP1.1, Slide 7.

1 Furthermore, the OEB’s determination in the 2018 ICM Decision that ICM funding will not be
2 available for ‘typical annual capital programs’ (notwithstanding its previously stated policy that
3 ‘normal and expected capital investments’ would be eligible) is another reason why Alectra
4 Utilities considers the ICM unable to provide sufficient funding for its capital needs.⁶³

5 Based on the 2018 ICM Decision, Alectra Utilities did not include capital investment plans related
6 to underground cable or rear lot renewal in its ICM application for the 2019 rate year. In the
7 absence of available ICM funding for underground renewal, rear lot conversion and specific
8 system expansion investments, Alectra Utilities reduced the pace of underground cable and rear
9 lot renewal from levels proposed in predecessor Distribution System Plans. For 2019, Alectra
10 Utilities deferred two cable renewal projects and two rear lot replacement projects. Where possible,
11 Alectra Utilities deferred System Service investments to accommodate more pressing system
12 renewal investment needs. Alectra Utilities recognizes that deferral of system expansion required
13 to support the development, intensification and redevelopment of communities that it serves is a
14 short-term strategy that is not sustainable and that carries the risk of much higher system expansion
15 implementation costs once communities are built, roads are paved and streetscapes are completed.
16 The deferral of both system renewal and system service projects has the compounding effect of
17 increasing reactive renewal costs, introducing the potential for higher expansion costs and negative
18 impacts on system reliability.⁶⁴

19 Over the five-year term of the DSP, Alectra Utilities plans to invest approximately \$768MM in
20 System Renewal. These investments are needed to be responsive to customer expectations that
21 Alectra Utilities maintain the reliability of its system. The DSP provides detailed evidence on the
22 prudence of the planned investments, including the need to execute them over the 2020 to 2024
23 period, in order to prevent reliability from declining further. These investments cannot be funded
24 under the current ICM. The funding deficiency is not sustainable over time and is to the detriment
25 of Alectra Utilities’ customers.⁶⁵

⁶³ OEB, Decision and Order, EB-2017-0024, April 6, 2018, p 30.

⁶⁴ G-Staff 18.

⁶⁵ Exhibit 2, Tab 1, Schedule 3, p. 9.

1 Planning capital work on a consolidated basis is an important milestone in the utility’s progress
2 toward operating as a single entity. However, unless funding is available on a basis that is
3 consistent with that consolidated investment plan, Alectra Utilities will be increasingly challenged
4 to operate on that basis or deliver the outcomes that could otherwise result from the work set out
5 in the DSP. The M-factor is consistent with this unified approach to investment planning.⁶⁶

6 In recent years, Alectra Utilities has been required to defer a significant amount of System Renewal
7 investments to accommodate other mandatory expenditures. In particular, the utility has had to
8 defer renewal investments to accommodate large System Access projects. In 2015, System Access
9 investments comprised 18% of the overall capital investments made by the company’s predecessor
10 utilities. This increased to 30% as of 2019 as a result of significant investments required in road
11 authority projects. Decreasing reliability in that same period is due in part to the deferral of renewal
12 investments. The M-factor will provide Alectra Utilities with the flexible funding basis necessary
13 to execute both mandatory work and critical system renewal during the 2020 to 2024 period. The
14 M-factor will allow Alectra Utilities to renew the assets that are leading to declining reliability,
15 safety and other performance issues, while continuing to provide the utility with a reasonable
16 opportunity to realize the synergies that underpinned its creation.⁶⁷

17 In the event that the OEB does not approve the proposed incremental capital funding through the
18 M-factor, or the OEB only approves a portion of the proposed incremental capital funding through
19 the M-factor, it is generally expected that this would result in a growing population of deteriorated
20 assets, declining reliability and a “snowplow” of capital costs that will need to be borne by future
21 generations of Alectra Utilities’ customers.⁶⁸ As a further consequence, the company would be
22 expected to incur a greater volume of more expensive reactive capital investment needs due to the
23 need to respond to more frequent asset failures. This more costly approach to system investment
24 would further erode the capital available for planned investments, thereby exacerbating the
25 snowplow effect. The company would need to consider any such decision of the OEB in its full

⁶⁶ Exhibit 2, Tab 1, Schedule 3, p. 8.

⁶⁷ Exhibit 2, Tab 1, Schedule 3, p. 9.

⁶⁸ Exhibit KP1.1, Slide 24; Exhibit 4, Tab 1, Schedule 1, Section 5.0.1, p. 12.

1 context before it determines which investments, if any, would be able to proceed on a planned
2 basis and which would not.⁶⁹

3 During the oral hearing, OEB staff and intervenors were preoccupied with interpretation of the
4 OEB's MAAD's policy and the ACM/ICM policies. As stated by Alectra Utilities in the
5 proceeding and here - this is not an ICM application. The relevance of the MAAD's policy is that
6 utilities in the midst of a rebasing deferral period can seek incremental funding and that "normal
7 and expected" capital is eligible for incremental funding. The only relevance of the 2018 and 2019
8 ICM Decisions is that they confirm the OEB's application of the ICM policy does not permit the
9 implementation of Alectra Utilities' consolidated 5-year DSP. What is relevant is that Alectra
10 Utilities has a clear and present need for five years of incremental capital funding for which no
11 existing incremental funding mechanism provides sufficient relief and, in the absence of such,
12 Alectra Utilities has proposed the M-factor, along with the CIVA, to address the funding gap and
13 provide for just and reasonable rates.

14 **3. *The M-factor Provides Regulatory Efficiency***

15 The M-factor will provide Alectra Utilities with multi-year funding intended to address its planned
16 capital expenditure for the next five years corresponding to its DSP, at a stable and predictable rate
17 pursuant to a framework that adheres as closely as possible to OEB-policy and accords with past
18 precedent.

19 The MAADs Handbook affirms the OEB's policy of "providing consolidating distributors with
20 the ability to finance capital investments during the deferral period without being required to
21 rebase earlier than planned".⁷⁰ While Alectra Utilities is proposing a modification to the funding
22 mechanism used to accomplish that goal, the objective of the M-factor and the ICM are the same:
23 to allow the post-merger utility to fund prudent capital investments during the rebasing deferral
24 period, which in turn allows it to recover transaction and integration costs and achieve the
25 operational efficiencies that will ultimately lower rates for customers.⁷¹

⁶⁹ G-Staff-9.

⁷⁰ MAADs Handbook, p. 17.

⁷¹ G-Staff-16.

1 Funding capital investments through the M-factor creates significant efficiencies both for the OEB
2 and for the Applicant, which ultimately is for the benefit of customers. By establishing a
3 mechanism to fund prudent capital expenditures based on a DSP over a five-year period, annual
4 incremental capital proceedings are avoided. Without the M-factor, Alectra Utilities would need
5 to continue to file significant applications with the OEB each year. A significant proportion of the
6 past two ICM applications has focused on different phases of the same projects. In some
7 circumstances, parties were required to re-litigate the same issues on the same projects, one year
8 apart. The cost and time involved, by Alectra Utilities in filing and by the OEB in adjudicating,
9 these additional serial applications, for which the costs are ultimately borne by customers, will be
10 significant but will not contribute additional value for customers or for the OEB.⁷² Such annual
11 applications can also be an impediment to efficient project execution where projects need to be
12 implemented in stages and each stage is subject to the need for further annual funding approval.

13 The M-factor is designed to work within the basic paradigm of the ICM, with some deviations to
14 address the nature of the investments contemplated in the DSP and the need for flexibility in order
15 to execute and fund the capital need. On this basis, the MAADs Policy remains intact whereby the
16 merged utility retains the benefit of the synergies for the deferral period and the incremental capital
17 needs are satisfied.⁷³

18 The M-factor is no less mechanistic than the ICM, which is available to all utilities on a Price Cap
19 IR plan. As Alectra Utilities described at the Presentation Day,⁷⁴ and in its pre-filed evidence,⁷⁵
20 the M-factor is calculated using a methodology that is based on and that to a significant extent
21 mirrors the ICM. The differences between the two methods largely relate to the nature of the work
22 in Alectra Utilities' consolidated 5-year DSP.⁷⁶ Table 1 of Exhibit 2, Tab 1, Schedule 3 provides
23 a succinct comparison of the M-factor and ICM, and is reproduced below in Table 1.

⁷² Exhibit 2, Tab 1, Schedule 3, pp. 9-10.

⁷³ G-Staff-11.

⁷⁴ Presentation Day Transcript, p. 38.

⁷⁵ Exhibit 2, Tab 1, Schedule 3, p. 7.

⁷⁶ G-Staff-16.

1 **Table 1: M-factor Elements**

M-factor Element	Purpose	Comparison to ICM
<p>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.</p>	<p>To ensure that the M-factor only provides funding for capital investments that are materially above the level funded in base rates. ... the maximum M-factor eligible capital is calculated on a five-year basis, spanning the entire DSP period.</p>	<p>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.</p>
<p>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.</p>	<p>Flexibility is critical to allow Alectra Utilities to address evolving needs and priorities over the course of the DSP period.</p>	<p>ICM funding is typically tied to specific projects and years, making it poorly suited to a capital plan spanning multiple years and investments.</p>
<p>CIVA As set out further below in the Section titled “Proposed Variance Accounts”, funding provided through the M-factor is subject to reconciliation through a symmetrical variance account.</p>	<p>To ensure that any underinvestment 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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>	<p>No change.</p>
<p>Means Test The M-factor includes a means Test consistent with the OEB’s ICM policy.</p>	<p>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.</p>	<p>No change.</p>

2

3 **4. CIVA Provides Fairness**

4 Alectra Utilities is proposing the CIVA for the 2020-2024 period to track (a) the difference
5 between capital funding provided through the M-factor and the actual revenue requirement for M-
6 factor Projects placed into service during this period, and (b) the capital related revenue
7 requirement arising from the execution of DSP projects (other than M-factor Projects) which are
8 executed and not funded through base rates based upon the applicable threshold calculation over

1 the 5-year DSP period. The CIVA is proposed as a symmetrical account and would include rate
2 zone-specific sub-accounts to enable tracking of investments for each rate zone. While Alectra
3 Utilities would record amounts in the CIVA (including the relevant sub-accounts) on an annual
4 basis, it would not seek to dispose of any amounts recorded in the account, for either of the
5 purposes identified above, until the conclusion of the DSP planning period. The CIVA will enable
6 any necessary true-ups at the end of the 2020-2024 period. Through the CIVA true-up process,
7 Alectra Utilities will be able to ensure fairness as between its shareholders and its customers, as
8 well as among customers in its various rate zones.

9 **(a) Amounts Relating to M-factor Projects**

10 At the end of the five-year DSP period, Alectra Utilities will assess the impacts of the variances
11 that have been recorded in the CIVA in each of the prior five years in respect of the M-factor
12 Projects. The company will identify any revenue requirement impacts resulting from differences
13 between proposed and actual levels of M-factor investments, by rate zone. In doing so, the
14 company will be able to determine whether it may have over-collected or under-recovered, as well
15 as whether customers in any particular rate zone may have overpaid or underpaid, relative to the
16 specific M-factor Projects that were actually put into service and when they were put into service
17 in their rate zone.

18 It is important to note that, in respect of the M-factor Projects, the CIVA is not entirely symmetrical
19 and that a cap would apply to certain amounts that may be recorded. In particular, variances
20 relating to the M-factor Projects that are to the account of the utility will be capped at the revenue
21 requirement associated with incremental capital in-service of \$9.3MM. This amount originally
22 represented the difference between the \$265MM of proposed M-factor funding and the \$274.3MM
23 maximum M-factor eligible capital amount that has been calculated based on the ICM materiality
24 threshold. Alectra Utilities has committed to maintaining the \$9.3MM limit in relation to the M-
25 factor Projects even though the Maximum M-factor Eligible Capital amount has been amended
26 through an update to \$370.4MM.⁷⁷ In circumstances where Alectra Utilities has under-recovered
27 relative to the level of investment it actually puts into service and it seeks additional recovery from
28 customers for the revenue requirement impact of up to \$9.3MM of additional capital in service by

⁷⁷ Undertaking Responses J2.1, J3.1 and J3.2.

1 means of the CIVA true-up, the company's ability to recover such additional amounts would be
2 subject to a prudence review by the OEB.

3 **(b) Amounts Relating to DSP Projects Other Than M-factor Projects**

4 In respect of amounts that may be recorded in the CIVA to reflect the capital related revenue
5 requirement arising from the execution of DSP projects (other than M-factor Projects) which are
6 executed and not funded through base rates based upon the applicable threshold calculation over
7 the 5-year DSP period, this aspect arises from the corrections made to billing determinants and the
8 updated placeholder PCI based on a 5-year historical average of inflation rates. Alectra Utilities
9 will track and record these amounts within the CIVA, but separately from the M-factor Projects.
10 At such time that Alectra Utilities seeks disposition of the CIVA, any amounts that have been
11 recorded in the CIVA arising from the execution of DSP projects (other than M-factor Projects)
12 which are executed and not funded through base rates based upon the applicable threshold
13 calculation over the 5-year DSP period, would be subject to review by the OEB with reference to
14 the relevant project plans that are included in the DSP. Without the ability to record these amounts
15 for future recovery through rates, Alectra Utilities would not have the opportunity to receive all of
16 the capital funding that it requires to execute its DSP.

17 **5. Rate Rider Calculations and Immaterial Bill Impacts**

18 This section sets out Alectra Utilities' proposal for how the M-factor and resulting riders should
19 be calculated during the 2020-2024 DSP period, along with the resulting bill impacts for
20 customers, which are not material – particularly when taking into consideration the significant
21 benefits that customers will receive for that immaterial bill impact in terms of reliability, service,
22 safety and other factors.

23 **(a) Calculation of M-factor Funding and Riders**

24 Table 2, below, summarizes the annual M-factor capital revenue requirement for 2020 through
25 2024.⁷⁸

⁷⁸ Exhibit 2, Tab 1, Schedule 3, Table 6, p. 16.

1 **Table 2 – Annual M-factor Capital Revenue Requirement (\$MM)**

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

2

3 Table 3 below summarizes the cumulative 5-year M-factor revenue requirement for 2020 to 2024,
4 which reflect that the M-factor riders will continue until rebasing.⁷⁹

5 **Table 3 – Cumulative M-factor Revenue Requirement (\$MM)**

M-factor Revenue Requirement	2020	2021	2022	2023	2024	Total
Return on Rate Base	\$3.2	\$5.8	\$9.0	\$12.0	\$15.9	\$45.9
Amortization	\$1.9	\$3.9	\$6.0	\$8.8	\$11.2	\$31.8
Incremental Grossed Up PILs	(\$0.4)	(\$2.7)	(\$4.0)	(\$4.3)	(\$5.1)	(\$16.5)
Total	\$4.7	\$7.0	\$10.9	\$16.5	\$21.8	\$60.9

6

7 Alectra Utilities has calculated the capital revenue requirement by rate zone based on the projects
8 to be completed in each of the rate zones. In the MAADs Application, Alectra Utilities identified
9 that rates will not be harmonized until rate differences are immaterial. The Rate of Return has
10 been calculated using the cost of capital parameters approved by the OEB in the predecessor
11 utility's last rebasing application.⁸⁰ A full year of depreciation has been recovered, which is
12 consistent with OEB policy.⁸¹ Similarly, PILs have been calculated using a full year of Capital
13 Cost Allowance.

14 The detailed calculation of the M-factor capital revenue requirement was filed as Exhibit 5, Tab 1,
15 Schedule 1, Attachment 3 in the pre-filed evidence. Alectra Utilities is seeking approval for the
16 M-factor rate riders identified in that Attachment 3, which are also included in Exhibit 2, Tab 1,
17 Schedule 4, pp. 20-21. The M-factor capital revenue requirement has been allocated to rate classes

⁷⁹ Oral Hearing Transcript, Vol. 3, pp. 14-16.

⁸⁰ The exception to this is the HRZ-related cost of capital parameters that were updated in 2019, per the Horizon Utilities Settlement Agreement (EB-2014-0002) and as approved by the OEB in the Decision and Order in Alectra Utilities 2019 EDR Application (EB-2018-0016)

⁸¹ See *Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (EB-2014-0219), issued September 18, 2014.

1 based on the current allocation of revenue using the current Revenue Proportions for each rate
2 zone as identified in the M-factor Model, filed as Attachment 3. The M-factor capital revenue
3 requirement for the residential class will be recovered via a fixed rate rider.⁸² Rate riders for all
4 other rate classes are based on the current fixed/variable revenue split identified in the M-factor
5 Model. Tables A-1 to A-5, in **Schedule ‘A’** attached hereto, identify the M-factor rider, inclusive
6 of HST, based on the average consumption and demand billing determinants for each rate zone.

7 As indicated during the Technical Conference, Alectra Utilities proposes to update the M-factor
8 rate rider calculations to incorporate the most recent billing determinants at the time of the annual
9 IRM application, consistent with its calculation of the rate riders for the IRM elements of the
10 application (e.g. Group 1 disposition).⁸³

11 **(b) Bill Impacts**

12 Tables B-1 to B-5 in **Schedule ‘B’** attached hereto provide the average monthly bill impacts of the
13 M-factor in each year over the 2020 to 2024 period, for each rate class in each of the rate zones.
14 The average monthly total bill impact for a typical residential customer ranges from 0.09% to
15 0.28%. The monthly bill impacts are not material, but they provide customers with the assurance
16 that necessary investments are being funded, while providing customers with both rate certainty
17 and rate stability. Tables B-1 to B-5 also identify the cumulative 5-year monthly bill impact for
18 each customer class. The cumulative monthly impact at the end of the 5-year period for a typical
19 residential customer ranges from 0.43% to 1.4%. The cumulative 5-year impacts are also
20 immaterial from a customer perspective but will allow Alectra Utilities to execute \$265MM in
21 necessary capital investments across its service territories to support reliability and other important
22 benefits. The bill impacts for each rate class in each of the rate zones are included in the M-factor
23 model, filed in Exhibit 5, Tab 1, Schedule 1, Attachment 3 of the pre-filed evidence.

24 **G. EXTERNALLY DRIVEN CAPITAL VARIANCE ACCOUNT**

25 As explained in Exhibit 2, Tab 1, Schedule 4, Alectra Utilities is required each year to remove,
26 relocate, or reconstruct distribution system assets to accommodate projects conducted by road

⁸² This is consistent with p. 8 of the OEB’s *Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-Setting Applications*, issued July 12, 2018.

⁸³ Technical Conference Transcript, Bay 1, p. 132.

1 authorities (as defined under the *Public Service Works on Highways Act*, or “PSWHA”) or related
2 to regional transit initiatives. This work is mandatory, the timing and scope of the work is not
3 within Alectra Utilities’ control, and the need may arise with little notice to the utility.
4 Notwithstanding that the costs of such work are typically shared with the project proponent
5 pursuant to the PSWHA or otherwise, material unplanned expenditures may be required by Alectra
6 Utilities to respond to such externally-driven work.

7 If additional mandatory, externally-driven work beyond the level forecasted in the DSP arises
8 during the 2020 to 2024 period, Alectra Utilities would, in the absence of this proposed account,
9 need to defer other necessary and planned investments in its distribution system. Deferral of those
10 investments would adversely impact Alectra Utilities’ ability to achieve its planned DSP outcomes.
11 Alternatively, if the anticipated level of mandatory, externally-driven work does not materialize
12 over the planning period, then in the absence of this proposed account customers would incur costs
13 for work that does not ultimately need to be performed during that period.

14 The proposed EDCVA would be used to record differences between the revenue requirement
15 associated with externally driven capital expenditures in rates, as forecasted in Section 5.4.3,
16 Appendix 3 of the DSP, and the actual revenue requirement for in-service additions associated
17 with such projects in the same period. Alectra Utilities intends to true-up the variance account at
18 the end of the five year term. However, it may request earlier disposition of the account should the
19 balance be material. The EDCVA would operate symmetrically, such that the revenue requirement
20 associated with prudent expenditures in excess of the level reflected in rates would be recoverable
21 by the Applicant, and excess funding in rates would be refundable to customers in a future
22 proceeding. Carrying charges would apply to the opening balances in the account at the OEB-
23 approved rate. The EDCVA satisfies the OEB’s eligibility criteria of causation, materiality and
24 prudence.⁸⁴ A draft accounting order for the EDCVA is included in the Application.⁸⁵

⁸⁴ Exhibit 2, Tab 1, Schedule 4, pp. 6-7.

⁸⁵ Exhibit 2, Tab 1, Schedule 4, Appendix ‘B’.

1 **H. CONCLUSION**

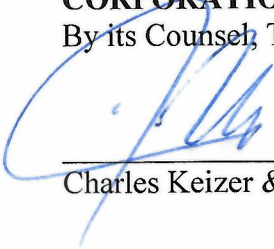
2 Alectra Utilities' consolidated 5-year DSP clearly establishes the capital investment needs for its
3 distribution system over the 2020 – 2024 period. Addressing those needs is in the best interests of
4 Alectra Utilities' customers because execution of the DSP is needed and without it customers will
5 be adversely affected in terms of reliability, service and other imperatives. Because the capital
6 needs established by the DSP are not fully funded by base distribution rates, the M-factor, together
7 with the CIVA, is the regulatory mechanism best suited to fund Alectra Utilities' capital needs that
8 are not funded in base rates. However, whether it is the M-factor or another mechanism that is
9 implemented, the result must be rates that are just and reasonable. With minor enhancements to
10 the ICM, the M-factor provides sufficient funding and flexibility to enable Alectra Utilities to
11 efficiently execute its 5-year DSP for the benefit of its customers. It also provides customers with
12 rate certainty and stability. Moreover, it achieves these important objectives without causing
13 material bill impacts. Alectra Utilities therefore submits that the OEB should approve Alectra
14 Utilities' proposed M-factor and CIVA, together with the proposed EDCVA.

15 All of which is respectfully submitted this 1st day of November 2019.

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**ALECTRA UTILITIES
CORPORATION**

By its Counsel, Torys LLP



Charles Keizer & Jonathan Myers

SCHEDULE 'A'

Table A-1 – Monthly M-factor Capital Funding Charge, Including HST - ERZ

ERZ - M-factor Monthly Charge Incl HST	Unit	kWh	kW	2020	2021	2022	2023	2024	Total
Residential	kWh	750		\$ 0.13	\$ 0.06	\$ 0.17	\$ 0.20	\$ 0.39	\$ 0.95
General Service < 50 kW	kWh	2,000		\$ 0.37	\$ 0.17	\$ 0.50	\$ 0.59	\$ 1.15	\$ 2.77
General Service 50 to 499 kW	kW	100,000	230	\$ 6.53	\$ 3.01	\$ 8.83	\$ 10.48	\$ 20.38	\$ 49.23
General Service 500 to 4999 kW	kW	400,000	2,250	\$ 40.70	\$ 18.74	\$ 54.98	\$ 65.30	\$ 126.93	\$ 306.65
Large Use	kW	3,000,000	5,000	\$ 163.63	\$ 75.35	\$ 221.08	\$ 262.57	\$ 510.39	\$ 1,233.03
Unmetered	kWh	300		\$ 0.08	\$ 0.04	\$ 0.11	\$ 0.13	\$ 0.25	\$ 0.60
Street Lighting	kW	33	0	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.12

Table A-2 – Monthly M-factor Capital Funding Charge, Including HST – BRZ

BRZ - M-factor Monthly Charge Incl HST	Unit	kWh	kW	2020	2021	2022	2023	2024	Total
Residential	kWh	750		\$ 0.32	\$ 0.04	\$ 0.23	\$ 0.20	\$ 0.12	\$ 0.92
General Service < 50 kW	kWh	2,000		\$ 0.80	\$ 0.11	\$ 0.56	\$ 0.50	\$ 0.30	\$ 2.26
General Service 50 to 699 kW	kW	182,500	500	\$ 22.58	\$ 3.02	\$ 15.88	\$ 14.16	\$ 8.46	\$ 64.10
General Service 700 to 4999 kW	kW	627,216	1,432	\$ 85.50	\$ 11.45	\$ 60.12	\$ 53.63	\$ 32.03	\$ 242.74
Large Use	kW	10,220,000	20,000	\$ 798.09	\$ 106.92	\$ 561.20	\$ 500.59	\$ 299.01	\$ 2,265.82
Unmetered	kWh	21,296		\$ 6.17	\$ 0.83	\$ 4.34	\$ 3.87	\$ 2.31	\$ 17.53
Street Lighting	kW	2,787,508	7,922	\$ 1,336.07	\$ 178.99	\$ 939.50	\$ 838.03	\$ 500.57	\$ 3,793.17
Embedded Distributor	kWh	1,417,701	4,000	\$ 60.80	\$ 8.15	\$ 42.75	\$ 38.14	\$ 22.78	\$ 172.61
Distributed Generation	kWh	156		\$ 1.52	\$ 0.20	\$ 1.07	\$ 0.95	\$ 0.57	\$ 4.31

Table A-3 – Monthly M-factor Capital Funding Charge, Including HST – HRZ

HRZ - M-factor Monthly Charge Incl HST	Unit	kWh	kW	2020	2021	2022	2023	2024	Total
Residential	kWh	750		\$ 0.23	\$ 0.16	\$ 0.19	\$ 0.15	\$ 0.23	\$ 0.98
General Service Less Than 50 Kw	kWh	2,000		\$ 0.56	\$ 0.39	\$ 0.47	\$ 0.36	\$ 0.56	\$ 2.34
General Service 50 To 4,999 Kw	kW	110,000	250	\$ 9.76	\$ 6.91	\$ 8.16	\$ 6.35	\$ 9.83	\$ 41.01
Large Use	kW	2,555,000	5,000	\$ 294.17	\$ 208.28	\$ 245.81	\$ 191.47	\$ 296.35	\$ 1,236.09
Large Use With Dedicated Assets	kW	10,220,000	20,000	\$ 117.40	\$ 83.12	\$ 98.10	\$ 76.41	\$ 118.27	\$ 493.30
Unmetered Scattered Load	kWh	250		\$ 0.11	\$ 0.08	\$ 0.09	\$ 0.07	\$ 0.11	\$ 0.47
Sentinel Lighting	kW	97,008	216	\$ 31.26	\$ 22.13	\$ 26.12	\$ 20.35	\$ 31.49	\$ 131.35
Street Lighting	kW	1,782,038	4,974	\$ 240.86	\$ 170.54	\$ 201.26	\$ 156.77	\$ 242.64	\$ 1,012.07

Table A-4 – Monthly M-factor Capital Funding Charge, Including HST – PRZ

PRZ - M-factor Monthly Charge Incl HST	Unit	kWh	kW	2020	2021	2022	2023	2024	Total
Residential	kWh	750		\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.49	\$ 0.29	\$ 1.50
General Service Less Than 50 Kw	kWh	2,000		\$ 0.68	\$ 0.38	\$ 0.46	\$ 1.04	\$ 0.62	\$ 3.19
General Service 50 To 4,999 Kw	kW	80,000	250	\$ 13.34	\$ 7.42	\$ 9.05	\$ 20.47	\$ 12.21	\$ 62.50
Large Use	kW	2,800,000	7,350	\$ 252.45	\$ 140.45	\$ 171.34	\$ 387.40	\$ 231.07	\$ 1,182.70
Unmetered Scattered Load	kWh	150	0	\$ 0.13	\$ 0.07	\$ 0.09	\$ 0.20	\$ 0.12	\$ 0.60
Sentinel Lighting	kW	180	1	\$ 0.16	\$ 0.09	\$ 0.11	\$ 0.24	\$ 0.14	\$ 0.74
Street Lighting	kW	280	1	\$ 0.08	\$ 0.05	\$ 0.06	\$ 0.13	\$ 0.08	\$ 0.39

Table A-5 – Monthly M-factor Capital Funding Charge, Including HST – GRZ

GRZ - M-factor Monthly Charge Incl HST	Unit	kWh	kW	2020	2021	2022	2023	2024	Total
Residential	kWh	750		\$ 0.03	\$ 0.07	\$ 0.15	\$ 0.15	\$ 0.09	\$ 0.49
General Service Less Than 50 Kw	kWh	2,000		\$ 0.05	\$ 0.11	\$ 0.23	\$ 0.24	\$ 0.14	\$ 0.76
General Service 50 To 999 Kw	kW	189,800	500	\$ 1.85	\$ 4.02	\$ 8.54	\$ 8.89	\$ 5.11	\$ 28.39
General Service 1,000 To 4,999 Kw	kW	489,100	1,000	\$ 4.31	\$ 9.35	\$ 19.89	\$ 20.70	\$ 11.89	\$ 66.14
Large Use	kW	4,215,750	7,500	\$ 25.76	\$ 55.93	\$ 118.91	\$ 123.79	\$ 71.12	\$ 395.51
Unmetered Scattered Load	kWh	750		\$ 0.03	\$ 0.06	\$ 0.12	\$ 0.12	\$ 0.07	\$ 0.39
Sentinel Lighting	kW	140	2	\$ 0.03	\$ 0.06	\$ 0.13	\$ 0.14	\$ 0.08	\$ 0.44
Street Lighting	kW	800,000	2,200	\$ 26.75	\$ 58.09	\$ 123.49	\$ 128.56	\$ 73.86	\$ 410.76

SCHEDULE 'B'

1

2 **Table B-1 – M-factor Monthly Bill Impacts (Total Bill) – ERZ**

ERZ - M-factor bill impact	Unit	kWh	kW	Avg. Monthly Charge	Avg. % Monthly Bill Increase	5-Year Cumulative Monthly Charge	5-Year Cumulative % Increase
Residential	kWh	750		\$ 0.19	0.18%	\$ 0.95	0.88%
General Service < 50 kW	kWh	2,000		\$ 0.55	0.19%	\$ 2.77	0.94%
General Service 50 to 499 kW	kW	100,000	230	\$ 9.85	0.06%	\$ 49.23	0.30%
General Service 500 to 4999 kW	kW	400,000	2,250	\$ 61.33	0.08%	\$ 306.65	0.41%
Large Use	kW	3,000,000	5,000	\$ 246.61	0.05%	\$ 1,233.03	0.27%
Unmetered	kWh	300		\$ 0.12	0.23%	\$ 0.60	1.17%
Street Lighting	kW	33	0	\$ 0.02	0.57%	\$ 0.12	2.83%

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4 **Table B-2 – M-factor Monthly Bill Impacts (Total Bill) – BRZ**

BRZ - M-factor bill impact	Unit	kWh	kW	Avg. Monthly Charge	Avg. % Monthly Bill Increase	5-Year Cumulative Monthly Charge	5-Year Cumulative % Increase
Residential	kWh	750		\$ 0.18	0.17%	\$ 0.92	0.87%
General Service < 50 kW	kWh	2,000		\$ 0.45	0.17%	\$ 2.26	0.83%
General Service 50 to 699 kW	kW	182,500	500	\$ 12.82	0.05%	\$ 64.10	0.23%
General Service 700 to 4999 kW	kW	627,216	1,432	\$ 48.55	0.05%	\$ 242.74	0.25%
Large Use	kW	10,220,000	20,000	\$ 453.16	0.03%	\$ 2,265.82	0.15%
Unmetered	kWh	21,296		\$ 3.51	0.09%	\$ 17.53	0.46%
Street Lighting	kW	2,787,508	7,922	\$ 758.63	0.14%	\$ 3,793.17	0.68%
Embedded Distributor	kWh	1,417,701	4,000	\$ 34.52	0.02%	\$ 172.61	0.08%
Distributed Generation	kWh	156		\$ 0.86	0.60%	\$ 4.31	2.99%

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6 **Table B-3 – M-factor Monthly Bill Impacts (Total Bill) – HRZ**

HRZ - M-factor bill impact	Unit	kWh	kW	Avg. Monthly Charge	Avg. % Monthly Bill Increase	5-Year Cumulative Monthly Charge	5-Year Cumulative % Increase
Residential	kWh	750		\$ 0.20	0.18%	\$ 0.98	0.90%
General Service Less Than 50 Kw	kWh	2,000		\$ 0.47	0.17%	\$ 2.34	0.84%
General Service 50 To 4,999 Kw	kW	110,000	250	\$ 8.20	0.05%	\$ 41.01	0.25%
Large Use	kW	2,555,000	5,000	\$ 247.22	0.06%	\$ 1,236.09	0.32%
Large Use With Dedicated Assets	kW	10,220,000	20,000	\$ 98.66	0.01%	\$ 493.30	0.03%
Unmetered Scattered Load	kWh	250		\$ 0.09	0.24%	\$ 0.47	1.21%
Sentinel Lighting	kW	97,008	216	\$ 26.27	0.12%	\$ 131.35	0.61%
Street Lighting	kW	1,782,038	4,974	\$ 202.41	0.05%	\$ 1,012.07	0.27%

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8 **Table B-4 – M-factor Monthly Bill Impacts (Total Bill) – PRZ**

PRZ - M-factor bill impact	Unit	kWh	kW	Avg. Monthly Charge	Avg. % Monthly Bill Increase	5-Year Cumulative Monthly Charge	5-Year Cumulative % Increase
Residential	kWh	750		\$ 0.30	0.28%	\$ 1.50	1.40%
General Service Less Than 50 Kw	kWh	2,000		\$ 0.64	0.23%	\$ 3.19	1.16%
General Service 50 To 4,999 Kw	kW	80,000	250	\$ 12.50	0.10%	\$ 62.50	0.49%
Large Use	kW	2,800,000	7,350	\$ 236.54	0.06%	\$ 1,182.70	0.28%
Unmetered Scattered Load	kWh	150	0	\$ 0.12	0.41%	\$ 0.60	2.04%
Sentinel Lighting	kW	180	1	\$ 0.15	0.41%	\$ 0.74	2.07%
Street Lighting	kW	280	1	\$ 0.08	0.15%	\$ 0.39	0.76%

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1 **Table B-5 – M-factor Monthly Bill Impacts (Total Bill) – GRZ**

GRZ - M-factor bill impact	Unit	kWh	kW	Avg. Monthly Charge	Avg. % Monthly Bill Increase	5-Year Cumulative Monthly Charge	5-Year Cumulative % Increase
Residential	kWh	750		\$ 0.10	0.09%	\$ 0.49	0.43%
General Service Less Than 50 Kw	kWh	2,000		\$ 0.15	0.06%	\$ 0.76	0.29%
General Service 50 To 999 Kw	kW	189,800	500	\$ 5.68	0.02%	\$ 28.39	0.09%
General Service 1,000 To 4,999 Kw	kW	489,100	1,000	\$ 13.23	0.02%	\$ 66.14	0.08%
Large Use	kW	4,215,750	7,500	\$ 79.10	0.01%	\$ 395.51	0.06%
Unmetered Scattered Load	kWh	750		\$ 0.08	0.04%	\$ 0.39	0.21%
Sentinel Lighting	kW	140	2	\$ 0.09	0.13%	\$ 0.44	0.64%
Street Lighting	kW	800,000	2,200	\$ 82.15	0.05%	\$ 410.76	0.27%

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