

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.

ALECTRA UTILITIES CORPORATION

**Submissions of Energy Probe Research Foundation on the M-factor, Capitalization,
and other Issues**

November 14, 2019

1. Executive Summary

In Procedural Order No. 1, the OEB ordered that submissions on the M-factor proposal be filed on November 15. In Procedural Order No. 4, the OEB ordered that submissions on the Capitalization, Horizon Rate Zone ESM and CIVA issues be filed on November 14. This is combined submission that deals with all of these issues.

The OEB should turn down Alectra's application for the approval of its proposed M-factor because it is contrary to OEB's filing requirements and its MAADs policy. The evidence before the Board does not allow it to issue a partial approval. The OEB should direct Alectra to re-file the 2020 rates application according to the OEB filing requirement and policy.

If the Board does not either reject the Application, or constrains it to the rules for ACM and finds that some level of incremental M-Factor Capital is appropriate, then Energy Probe proposes this amount - 2020-2024 *M-Factor Envelope* should be capped based on the initial ICM threshold calculation in 2020.

The CIVA should be approved but only as a mechanism to true up annual In-Service Additions over the 5 year DSP Plan.

Energy Probe supports the position of SEC on capitalization, IFRS 16 impact on leases, and Horizon ESM issues.

2. Background

Alectra Utilities Corporation ("Alectra Utilities", "Utility" or "Alectra") filed an application with the *Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates for each of its Horizon Utilities, Brampton, PowerStream, Enersource and Guelph Hydro rate zones ("RZs") to be effective January 1, 2020.

Alectra Utilities is requesting, among other things, approval for incremental capital funding based on a rate-adjustment mechanism that requests multi-year capital funding based on its Distribution System Plan (DSP) with the capital-related revenue requirement being recovered in rates (the "M-factor").

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

Alectra's request for the reversal of the OEB's decision in EB-2017-0024 in order to reduce Alectra Utilities' revenue subject to ESM as a result of its adoption of a common Capitalization Policy was a separate part of this proceeding.

3. Policy Context

In 2018, Alectra received Approval under OEB MAADs Guidelines to merge into a single Utility the service areas of Horizon Utilities, Brampton, PowerStream, Enersource, and in 2019 Guelph Hydro (“Predecessor Utilities”) - Alectra.

In the Board’s MAADs Decision, inter-alia, Alectra was granted a deferral period from 2018-2027 (“the Deferral Period”). It was also allowed to use the Board’s Incremental Capital Module (ICM) or the Advanced Capital Module (ACM) to request annual incremental capital for projects not funded by the Incentive Regulation Mechanism (IRM) Formula.

Submission

The Utility knew exactly what the OEB Policy and Rules were for merged utilities. Both the original MAADs Application and the subsequent Alectra / Guelph MAADs Application were based on the OEB’s policy that merging utilities would have both a reasonable opportunity to use savings to at least offset the costs of a MAADs transaction during the Deferral Period and a mechanism to fund normal and expected capital investments.

In its Application, Alectra states¹:

“The first two rate-setting decisions for Alectra Utilities have frustrated those expectations. By providing stable base rates over the deferred rebasing period, the MAADs policy reduced the risk posed by mergers, and allowed utilities to manage within their own specific circumstances as they transition to a new, unified utility”.

It then reaches the critical Conclusion:

“Alectra Utilities has been unable to fund essential capital investments within the funding approved in its first two EDR applications². The MAADs Application and the creation of Alectra Utilities was based on the availability of capital funding sufficient to maintain the distribution system and deliver performance at the level that customers expect. However, in the two annual rate-setting applications that followed, the OEB determined that the ICM is unable to accommodate many of the investments needed to maintain Alectra Utilities’ distribution system. In particular, ICM funding is not available for “typical annual capital programs” or smaller projects that do not on their own meet an undefined, secondary materiality threshold”.³

Energy Probe submits Alectra is now trying to change the playing field.

It characterizes the M-factor as “an ICM but not an ICM”. (It should be noted that two projects that were previously turned down by the OEB as ICM projects are now listed as M-factor

¹ Exhibit 2 Tab 1 Schedule 1

² EB-2017-0024 and EB-2018-0016.

³ EB-2017-0024 Decision page 30

projects.⁴) Under the Board's filing requirements there are three options for setting rates that apply to all Ontario Electricity Distribution Utilities⁵. Alectra's M-factor proposal does not reconcile with any of the three options. It is closest to a Custom IRM, except that a Custom IRM follows rebasing of rates. Alectra has not rebased and therefore a Custom IR option is not available. During cross-examination Alectra stated that it started with ICM and made some changes but claimed that M-factor is not a modification of ICM.⁶ In its AIC Alectra claims that its M-factor proposal is a "variation or enhancement to the ICM".⁷ Energy Probe submits that these are mere semantics.

Alectra claims that it has not been provided with adequate funding because the OEB has not approved all of its past applications for ICM projects. According to Alectra the OEB only approved "fifty to 60 percent"⁸ of its applications for ICM capital projects. Energy Probe submits that the OEB in approving applications for ICM projects considers the merits of the projects according to its rules and guidelines. Any projects that it rejects did not merit approval. The onus was on Alectra to put forward ICM project applications supported by evidence that merited approval. Alectra is blaming the OEB for its own failures. Considering the quality of Alectra's evidence in past proceedings, Energy Probe submits that Alectra's executives were naïve if they expected more than "fifty to 60 percent" approval.

One of the justifications for the M-factor is the need for "flexibility"⁹. Alectra already has complete flexibility for \$1.086 billion of total capital expenditures funded by base rates during the 2020-2024 planning period. It is not clear from the evidence why it needs flexibility for its proposed M-factor spending above that amount.¹⁰ Under RRFE a distributor seeking approval for incremental funding must provide evidence for specific ICM projects and if the OEB approves these projects, the distributor is held accountable for completing those projects on time and on budget. The OEB does not allow for flexibility in spending on ICM projects. Alectra's M-factor proposal would, if approved, allow Alectra to spend money as it wishes with no accountability for results.

Alectra has now identified a material shortfall in funding relative to that available under the approved rate-setting mechanism (IRM+ICM/ACM). It is totally unreasonable to now ask the ratepayers to fund the shortfall by providing added incremental capital, without Alectra providing an offset from merger savings under rebasing.

Alectra states:

"...the OEB is not bound by any of its policies in relation to ICM/ACM funding in the discharge of its fundamental statutory obligation to establish just and reasonable rates for Alectra Utilities". At the conclusion of the oral hearing, one panel member suggested that, because Alectra Utilities has not sought funding through the ICM mechanism, the only options for the panel are to accept the proposed M-factor as applied for, to accept it

⁴ J1.1

⁵ Chapter 3, OEB Filing Requirements for Electricity Distributor Rate Applications, July 2018

⁶ Tr. Vol. 1, pages 60-64

⁷ AIC, page 8

⁸ Tr. Vol. 1, page 79

⁹ AIC, pages 19-20

¹⁰ Tr. Vol. 1, pages 46-49

with amendments or to reject it. With respect, this is not correct. As discussed in Section D below, consistent with its broad discretion to establish rates that are just and reasonable, the OEB has a wide array of options available to it for ensuring that Alectra Utilities is provided with the appropriate level of incremental capital funding to execute the capital investments it has identified in the DSP as being necessary to meet system and customer needs. Accordingly, the central question for the OEB is whether it should permit Alectra Utilities to use a variation of or enhancement to the ICM, in the form of the proposed M-factor, in order to fund and enable execution of the identified incremental capital needs that benefit Alectra Utilities' customers and which are in the public interest, or some other method of just and reasonable rate recovery to provide for that benefit. Simply rejecting the request without providing any incremental capital funding would, in Alectra Utilities' submission, not be consistent with the requirement to establish rates in accordance with the just and reasonable standard."¹¹

This Argument is severely flawed; it ignores the Boards Filing Guidelines for Merged Utilities and importantly the precedential implications of approving the Application.

As noted below, Energy probe urges the Board to reject Alectra's application as filed and direct Alectra to use the ICM/ACM policy until it rebases rates. At that time it may choose to make a Custom IRM application.

This is not a matter of process, but of fairness. Alectra predecessor utilities knew the state of their assets and projected the savings from the merger¹². They should and would have done all the financial projections in advance to justify the merger to the shareholders. The shareholders are now being allowed to keep the net savings from the merger for 5 years and the regulatory compact is Alectra must pay costs including capital costs out of existing rates, subject to annual inflationary increases and incremental funding available under ICM/ACM.

It is totally unfair that ratepayers should pay for this accelerated System Renewal Program under the present Alectra rate framework and deferred rebasing period.

The M-factor proposal is also unfair to other OEB regulated distributors. All distributors regulated by the OEB are required to use the same ROE in setting rates. The assumption is that all distributors are operating in an environment of similar risks and under similar regulatory rules and guidelines. Alectra is proposing to abide by some of the rules and guidelines and not others, essentially using a "cafeteria approach" to OEB regulation. Alectra is selecting rules and guidelines that it likes, because they favour its shareholders. For example, it ignores the statement in the filing requirements that "*minor expenditures in comparison to the overall capital budgets should not be considered eligible for ICM treatment*".¹³ The list of 194 M-factor projects contains numerous minor expenditures.¹⁴

¹¹ AIC Pages 7/8

¹² Undertaking J2.1 Deloitte Model Project Titan

¹³ Tr. Vol. 1, page 67

¹⁴ Undertaking J1.3. List of M-Factor Projects

Alectra refers to the MAADS handbook¹⁵ to justify its M-factor proposal but then ignores the ICM section of the handbook¹⁶.

If approved, the M-factor proposal would reduce the risk profile of Alectra and Energy Probe submits that Alectra's allowed ROE should be reduced to reflect its reduced risk.

A large part of Alectra's AIC is devoted to the "fair return standard". Energy Probe submits that if the OEB approves Alectra's M-factor proposal significantly reducing its business risk, the fair return standard would require the OEB to reduce Alectra's ROE.

In addition to reducing Alectra's business risk, the CIVA and EDCVA proposals also remove the incentive to deliver capital projects below cost. Moreover, EDCVA removes any incentive for Alectra to negotiate a cost sharing agreement with transit and road authorities that would provide savings for its ratepayers. The three alternative rate setting options in the 4GIRM are designed to provide incentives to distributors for productivity improvements in both OM&A and capital. Alectra's CIVA removes capital productivity incentives.¹⁷

The OEB should take a dim view of the threatening tone of Alectra's proposal. Alectra states the "no approval or partial approval of M-factor funding will adversely affect reliability". If the OEB does not give Alectra everything it wants, Alectra will blame the OEB for any future deterioration in reliability.¹⁸

However, if the Board approves the M-factor Proposal, Energy Probe advocates an offsetting amendment to the Earnings Sharing Mechanism (ESM) approved in the Merger. Commencing in 2020, until Rebasing, the Board will order Alectra to implement an asymmetric ESM with a 100 basis points dead-band and 50:50 sharing above the dead-band. This will ensure shareholders have responsibility for the state of Utility assets and may also compensate ratepayers for funding the System Renewal M-Factor Capital Program.

From this point on in its Argument Energy Probe will review and comment on the application as filed, with the major caveat that *Energy Probe does not accept Alectra's interpretation of the regulatory policy context of the application.*

4. Consolidated Distribution System Plan and Proposed Capital Spending

In the MAADs Application, Alectra Utilities indicated that it would file a consolidated five-year DSP in 2019. This was accepted by the OEB in the MAADs Decision. In its Decision on Alectra Utilities' 2018 EDR Application (EB-2017-0024), the OEB confirmed the importance of a consolidated DSP, and the relationship between capital planning and funding. In the 2018 Application Decision, the OEB stated that it *"requires Alectra Utilities to file a consolidated*

¹⁵ OEB Handbook for Distributor and Transmitter Consolidations, January 19, 2016; page 27

¹⁶ Tr.Vol.1, page 71

¹⁷ G-Staff-9, page 6

¹⁸ G-Staff-9, page 7

DSP as a filing requirement with any ICM application requesting rate changes for 2020 rates and beyond”¹⁹.

The filed DSP²⁰ provides a description of Alectra Utilities’ proposed capital investment plans for its distribution system as a single entity over the 2020 to 2024 planning period. Alectra indicates the DSP is based on the results of Customer Engagement and customer preferences that include maintaining system reliability and resistance to extreme weather events.

Its new Asset Management Framework has notable elements in addition to customer input: its use of project-level prioritization through the adoption of the CopperLeaf C55 system, and third party expert reviews.

CopperLeaf C55 is project prioritization software that is totally dependent on information input by Alectra. There is very little information on the record about the information that Alectra entered into CopperLeaf C55, and no information about what CopperLeaf C55 did with that information to arrive at the priority list. Energy Probe submits that the evidence that CopperLeaf C55 was used in producing the list of projects in the DSP does not give the list any particular credibility or legitimacy.

Alectra maintains the DSP is underfunded by base rates and it is seeking approval for its proposed M-factor, together with the CIVA. Alectra Utilities’ DSP identifies total capital investment requirements based on a portfolio of 884 projects, over the 2020-2024 planning period of \$1.456 billion.

Alectra Utilities plans to focus its DSP investments on five priority areas:

- (1) Underground Renewal,
- (2) Overhead Renewal,
- (3) Development and Intensification,
- (4) Linking Legacy Distribution Systems, and
- (5) Mitigating Future Expenses by Enhancing Station Investments.

Alectra states that incremental capital funding requested under the M-factor would enable the execution of 203 specific DSP projects²¹ that cannot be funded through base distribution rates. It should be noted that during cross-examination Alectra kept referring to 194 projects²². It is not clear from the evidence which number is correct.

5. Threshold Calculation and M-Factor Funding “Gap”

The M-factor proposal is made on the basis of the updated materiality threshold for ICM/ACM.

¹⁹ Ibid 4 Page 2

²⁰ Exhibit 4, Tab 1, Schedule 1

²¹ Undertaking J1.3. List of M-Factor Projects

²² Tr. Vol. 1, page 67

Alectra Utilities' base distribution rates are now projected to support \$1.086 million of total capital expenditures during the 2020-2024 planning period, for an average annual capital expenditure level of approximately \$217 million.²³

Alectra claims that the average annual level of capital investment required to execute the DSP is \$291 million, and with the updated threshold calculation, the funding gap is now calculated to be an average of \$74 million each year, or \$370.4 million over 2020-2024 period.

According to the testimony, CopperLeaf C55 was used to determine which projects would be above the M-factor Threshold and which projects would be above the Threshold ²⁴.

Mr. Wasik: So, Mr. Ladanyi, when we prioritize the capital investments, we utilize the Copperleaf C55 system to score each business case based on risk and benefits.

What we're referring to there, in that particular identification, is that we've included some of the higher-score projects in base rates and prioritized those to be included.

What has been left over is the -- the other projects that need to proceed but may not have a same high score as the ones that are in base rates, and those are the ones that have been identified for the M-factor project listing.

The only difference between the M-factor projects and the projects below the Threshold, is that M-factor projects have a lower CopperLeaf C55 score and are therefore of lower priority. It seems that Alectra calculated the Threshold and then put lower priority projects above it and named them M-factor projects. The fact that the M-factor projects are of lower priority is confirmed by the evidence²⁵ which lists such projects as a "roof deck" and purchases of sports utility vehicles. These projects clearly do not affect reliability²⁶.

Unlike an application for ICM approval where the OEB reviews a small number of projects, Alectra expects the OEB to review about 194 M-factor projects²⁷, which is a monumental task ²⁸. It is clear that Alectra has not fully thought through its M-factor proposal.

Submission

While not accepting the M-Factor rate rider construct along with our other caveats about the responsibility for the claimed funding "gap", Energy Probe notes that as structured, the ACM Threshold is a function of the ICM/ACM funding formula. However, this application is atypical and the normal rules should not apply.

Alectra is proposing that the OEB (a) fix the inflation rate, and thereby the materiality threshold, for the 5-year period from 2020-2024; and (b) permit Alectra Utilities to track and record in the

²³ Undertaking J3.1, Attachment 2.

²⁴ Tr. Vol.1, page 50

²⁵ CCC-9, Att. 1

²⁶ Tr. Vol. 1, page 52

²⁷ Tr. Vol. 1, page 67

²⁸ Tr. Vol. 1, pages 55 to 61

CIVA the capital related revenue requirement arising from the DSP projects (other than M-factor Projects) identified in this proceeding and which are executed but not funded through base rates based upon the applicable threshold calculation over the 5-year DSP period.²⁹ Alectra also proposes that variances in actual versus forecast costs of execution and variances in the scope of individual M-factor Projects that may be necessary. These types of variances, to the extent they result in a credit to the utility for the M-factor Projects, would continue to be capped at \$9.3MM.

If the Board does not either reject the Application, or constrains it to the rules for ACM and finds that some level of incremental M-Factor Capital is appropriate, then Energy Probe proposes this amount - **2020-2024 M-Factor Envelope** should be **capped** based on the initial ICM threshold calculation in 2020. The CIVA should be approved but only as a mechanism to true up annual In-Service Additions over the 5 year DSP Plan.

Further, if Alectra underspends the approved M-Factor Envelope, then the balance at the end of 5 years should be credited to ratepayers. Any overage would be to the account of the shareholders. The other issue is that the Project Portfolio may change over time and substitution of new projects in the Portfolio is expected. however this must be within the approved M-Factor Envelope.

In sum, Energy Probe urges the Board, should it decide to accept an M-factor type capital increment, to treat the M-Factor as an atypical a multi-year fixed envelope amount.

Energy Probe remains very concerned about the regulatory precedent of allowing a Merged Utility incremental Capital beyond ICM/ACM or under Custom IR following rebasing.

DSP and System Reliability

Alectra states that the primary goal of the DSP is to renew assets and arrest declining system reliability in the PRZ, HRZ, and ERZ Rate zones.

Historically, System Reliability has differed in the predecessor utilities (now Alectra Rate Zones). Energy Probe has unbundled reliability data. This can be seen in Energy Probe Technical Conference Exhibit KT 1.3.

Energy Probe Exhibit K2.1 shows that historic System Reliability (SR) is stable in the Brampton and Guelph Rate zones, and these utility/rate zones are in the second quartile of Ontario distribution utilities. However, SR has declined materially in the Powerstream, Horizon and Enersource Rate Zones and has continued to decline post-merger³⁰. Alectra attributes this increase in outages to defective equipment, in particular Underground Distribution Cable in the three Rate Zones.:

“There is currently a large population of deteriorated underground cable in the system, but there is a much larger wave of cable that will deteriorate over the next twenty years.

²⁹ AIC page 6

³⁰ EP Exhibit K2.1

Failing underground cable has been a major driver of declining reliability for Alectra Utilities customers.”³¹

Alectra indicated to the Board Panel that the lack of historic investment was the root cause of the problems.

Mr. Janigan: Well, it seemed from the AMPCO interrogatory that the replacement rate earlier in the decade lagged failure rates quite substantially. There was no effort to try to address that at the time by the individual distribution utilities?

Mr. Wasik: There was. There was effort, Mr. Janigan, in the sense that we have been trying to ramp up our investments.

We have unfortunately had to focus on other areas that have required us to move forward, and often times system renewal is pushed back, so that new connections and additional feeders to connect new customers to meet our filing -- excuse me, our distribution license requirements is maintained.

*So mandatory projects have been pushing higher priority for us, and unfortunately it has come at the expense of not keeping up with cable replacement.*³²

Customers in all Rate zones were asked about outages. The Powerstream, Horizon and Enersource Rate Zone customers were asked about the DSP, related to the decline in SR and Power Quality.

The Innovative Survey was, in Energy Probe’s view, not properly designed in that incomplete information on system reliability was provided as a precursor to the questions customers were asked. Accordingly Energy Probe suggests the results are questionable and cannot be relied upon, except at a high level/directionally.

Customers surveyed indicated that they were concerned about outages and a majority supported investment to maintain or improve future system reliability.

The proposed Investment Plan contained two different Capital Investment Scenarios including System Renewal. Customers generally supported the planned System Renewal investment and pace in the DSP.

The portfolio of projects forecast to improve reliability was provided in Undertaking J2.3 Q7³³

Submission

The admission that Alectra and its predecessors to deal with “the large population of deteriorated underground cable in the system” reinforces the fact this was known at the time of the Merger and brings that failure to the doorstep of customers. Energy Probe notes there is often a debate among customers between maintaining system reliability vs cost/rates.

³¹ AIC Page 19

³² Tr. Vol. 3 Pages 196/197

³³ J2.3 Q7 Table 11 Reliability Improvement for DSP Projects

In this case Alectra did not tell customers where their utility is in reliability performance relative to other Ontario distributors. It only indicated that System Reliability had declined/deteriorated. This is true for the PRZ, HRZ and ERZ that are in the third Quartile. This is not true for Brampton and Guelph.

Responsibility for failing assets and deteriorating system reliability lies with Alectra, due to Alectra and predecessor utilities failing to increase System Renewal spending over the historic years.

Noting once more, that increasing System Renewal should be part of a Custom IR post-rebasing, nonetheless Energy Probe finds there is enough evidence on the deteriorated condition of the Underground distribution system that *action is required now*.

6. DSP-Underground Assets Cable Renewal/Replacement Projects

Alectra states that Asset Condition is of general concern. However it points to the deteriorated condition of the underground distribution assets as the major cause of declining system reliability.

The problem facing ratepayers has been to distinguish which DSP System Renewal Projects³⁴, including underground cable replacement/renewal projects should be:

- Base –normal course of business and ICM/ACM eligible projects
- M-factor Projects.

The evidence was deliberately confusing. Alectra originally took the position that all project categories totaling 884 projects over the years 2020-2024, are now merged into the new DSP. It has taken numerous interrogatories and many hours of Technical Conference and Hearing time to unbundle the DSP System Renewal Capital into the two baskets.

The result is shown in Undertaking J 2.3. The 189 System Renewal underground cable projects are included (Appendix A).

All subsequent Energy Probe DSP submissions in this Section are based on J 1.2-Alectra's list of underground cable projects.

J 1.2 shows that 168 underground cable projects were/are “normal course of business or ICM Projects”; Some have been included in prior ICM applications and relabelled and 21 are designated as new M-factor incremental projects. This classification is important to ratepayers, since **funding for the M-Factor projects should be the sole basis for Alectra's Capital funding request in this Application.**

³⁴ Staff IRR 104 and Exhibit K1.5 Energy Probe Workbook page 1

Alectra Utilities considered three different investment strategies to manage the aging and deteriorating underground cable infrastructure within its service area. These include the following:

- Strategy 1: Accelerated pace (Improve cable reliability by 8%)
- Strategy 2: Moderate pace (Maintain cable reliability at 2018 level)
- Strategy 3: Reduced pace (Allow cable reliability to worsen by 10%)

The pace of renewal/replacement of U/G cable is presented differently in different parts of the Evidence.

Table A10 - 4: Cable and Cable Accessories Summary

	Historical Spending				Bridge	Forecast Spending				
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
CAPEX (\$MM)	\$38.8	\$36.4	\$46.5	\$40.8	\$34.6	\$48.0	\$61.1	\$68.3	\$74.2	\$81.0
Primary Driver:	Failure Risk									
Secondary Drivers:	Reliability									
Outcomes:	Improved Reliability and Improved Efficiency									

DSP Appendix A10 Section 2 provides the basis for selection of the portfolio of U/G renewal and replacement projects.

The criteria for inclusion of projects appear to include decisions related to age, asset condition and experience with refurbishment versus replacement of cable, relative risk and benefit/cost. The CopperLeaf C55 Model is at the centre of the planning process.

Alectra states that a key factor in planning Alectra's Cable refurbishment strategy is that during the life of a cable there is a limited period during which lower cost injection/rehabilitation work can be executed and, if that window is missed, then cable replacement will be the only remaining option. As explained during the Oral Hearing, the cost of replacement is over 5 times greater than the cost of rehabilitation on a per kilometer basis.³⁵

Submission

Energy Probe does not have the ability to determine if, from a cost/risk perspective, Alectra has found the appropriate balance between refurbishment/injection and replacement for cable projects. Specifically, Energy Probe would have liked to see more technical analysis on the cost/benefit of extension of life for cable refurbishment. If Alectra has got this wrong, then investing in mid-life cable refurbishment (except repair) may not be an appropriate strategy and result in a waste of ratepayer's money. *Ratepayers are being asked to take this risk.*

Reliability Improvement

If the budget for Scenario 1 is approved, Alectra forecasts an 8% improvement in reliability due to less underground cable failures. This outcome is based on extensive analysis using the CopperLeaf C55 risk analysis model. Alectra is placing a great deal of weight on the Model

³⁵ Transcript, Vol. 2, pp. 17-18.

scores, including and SAIDI/SAIFI improvements from the U/G Cable refurbishment and replacement program. However, if Alectra has got this cost/benefit equation wrong, the improvements will not happen and the Reliability Outcomes promised to Ratepayers will not be realized. In particular the forecast of Reliability improvements attached to each project. **Ratepayers are being asked to assume this risk.**

Energy Probe concludes that both the choice of DSP projects and the technical aspects of the Underground Cable Program place Ratepayers at risk for any failure.

Energy Probe submits that Alectra and its Shareholders must also be at risk for the success or failure of the DSP and the Underground Cable Program. Hence, Energy Probe's proposes advancement of the Earnings Sharing Mechanism to 2020-2024.

Information on the performance of the DSP and as a specific sub-set of M- Factor projects should be required at the end of each year. The Board should increase the annual reporting requirement regarding the Alectra DSP, including the Underground Cable Program.

Annual performance data should be provided to the Board for each rate zone and placed on the public record. The data provided annually should include: aggregate DSP performance, list of projects completed, actual and budget cost, forecast/actual reliability improvement, ISA, CIVA, revenue requirement amount and rate rider comparison.

This is not a typical reporting requirement, but this is not a typical application. There should be annual opportunity for Ratepayers to review Financial Results and the Deferral and Variance Accounts. This could be a written Proceeding.

It is too much of a risk to ratepayers to put the Alectra DSP on auto-pilot. The RRR is meant for a different purpose. If the M-Factor proposal is approved in whole or part, as a condition of approval, supplementary Reporting is required.

Alectra has calculated the annual and cumulative M-factor capital revenue requirements for 2020-2024³⁶.

Table 2 – Annual M-factor Capital Revenue Requirement (SMM)

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

³⁶ Exhibit 2, Tab 1, Schedule 3, Table 6, p. 16

Table 3 – Cumulative M-factor Revenue Requirement (SMM)

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

The resulting Rate Riders have been calculated as follows:

1. The total capital revenue requirement by rate zone based on the projects to be completed in each of the rate zones³⁷.
2. The M-factor capital revenue requirement allocated to rate classes based on the current allocation of revenue using the current Revenue Proportions for each rate zone as identified in the M-factor Model,

Energy Probe has not examined in detail the updated Revenue Requirement calculation for each Rate Zone and the allocation the Rate Classes and requests that Alectra confirm in its Reply Argument that the Model update reconciles to the List of Projects in Undertaking J2.3.

7. Capitalization, IFRS Impact on Leases, Horizon ESM and CIVA

In its EB-2017-0024 decision the OEB established three deferral accounts to track changes in Alectra's capitalization policy for Horizon, Enersource and Brampton Rate Zones. In this application Alectra requested that the OEB reverse its EB-2017-0024 decision creating these three deferral accounts. The reason that Alectra provided in support of its assertion is that the basis for the change in capitalization policy has no cash consequences and is an inappropriate change to Alectra Utilities' revenue requirement during the rebasing deferral period, and as such is contrary to OEB's MAADs policy.³⁸

Energy Probe submits that "cash consequences" is not and never has been a condition for the creation of deferral accounts. Even if it were, Alectra has not met the burden of proof that there are no cash consequences. Indeed, from ratepayers' perspective the change in capitalization policy impacts earnings sharing and definitely has cash consequences.

Alectra goes on to claim that the OEB decision establishing the three deferral accounts has the effect of reducing funding for distribution related activities³⁹. This argument conflicts with Alectra's claim that synergy savings from its mergers are for shareholder only and can not be used to fund capital needs.

³⁷ Updated Exhibit 5 Attach 03 M-factor Revenue Requirement.xls

³⁸ Exhibit B, Tab 1, Sch. 5, page 2

³⁹ *ibid*

Then contrary to its claim that change in capitalization has no cash consequences, Alectra claims that it would suffer “cash impairment” if its capitalization proposals are not approved.⁴⁰ The twists and turns in Alectra’s claims are breathtaking.

But Alectra is not finished. It then claims that the deferral mechanism is “tantamount to the rebasing of Alectra Utilities’ revenue requirement.” It then goes on to state that “rebasings an isolated issue in this manner does not consider the full range of other uncontrollable events that may impact the revenue of a distributor”. Energy Probe submits that deferral mechanisms are not rebasing. By definition they defer decision on a cost or revenue item for disposition to a future date. They can result in a timing difference which is regularly dealt with through the use of interest on deferral accounts. In some respects Alectra’s M-factor proposal can be considered rebasing since it attempts to change Alectra’s rate setting formula, which can only be done at rebasing.

To prop up its weak arguments, Alectra refers to the “Di Cerni Report” suggesting that OEB’s decisions lacked “predictability”. Energy Probe submits that there is nothing unpredictable about the creation of deferral accounts by the OEB. Deferral accounts are one of the regular tools that the OEB uses in its decisions. The claim about their unpredictability is a reflection of the inexperience of Alectra’s management.

In its Submission on Capitalization of September 16, 2019, Alectra states that it has “considered various treatments for the disposition of the capitalization policy balances in the deferral account, including options involving adjustments to rate base.” It asks that the OEB “refer to Exhibit 2, Tab 1, Schedule 5, pp. 8-9 for **complete discussion** on this item.” However, there is no discussion, either complete or incomplete, provided on those pages. When asked for clarification in an interrogatory, ⁴¹ Alectra refers to its response to another interrogatory that also does not provide a **complete discussion**⁴². Energy Probe submits that Alectra has failed to provide adequate evidence on this issue. However, through the efforts of Board Staff and intervenors there is now sufficient evidence on the record for the OEB to make a decision.

Energy Probe has read the submission of SEC and supports its position on capitalization, IFRS 16 impact on leases, and Horizon ESM issues.

Respectfully submitted on behalf of Energy Probe,

Roger Higgin, SPA Inc. and Tom Ladanyi, TL Energy Regulatory Consultants Inc.

⁴⁰ ibid

⁴¹ EP-36

⁴² G-Staff-3