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File 96407

VIA COURIER and RESS FILING

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

Dear Ms. Walli,

Re: EB-2019-0018 – Alectra Rates Application – M-factor submissions

Attached please find the submissions of the PWU regarding Alectra's proposed M-factor.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP


Richard P. Stephenson
RPS:pb

Encl.

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

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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.

Submissions of the Power Workers' Union

Alectra's M-factor Proposal

I. INTRODUCTION

1. Alectra Utilities Corporation ("Alectra" or the "Applicant") filed an application with the Ontario Energy Board ("OEB" or the "Board") on May 28, 2019, 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 (the "Application").
2. The Application includes Alectra's first 5-year consolidated Distribution System Plan ("DSP") for its entire service area. Alectra is requesting, among other things, approval of a proposed incremental capital funding mechanism, the "M-factor."
3. The Board is hearing the M-factor aspects of the Application separately from the other two aspects of the Application – Capitalization and IRM. 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”).

4. The following are the submissions of the Power Workers’ Union (“PWU”) in respect of the M-factor elements of the proceeding.

II. SUBMISSIONS OF THE PWU

5. For the reasons that follow, it is the PWU’s submission that the elements relating to the M-factor part of the proceeding should be approved as filed, subject to any updates filed by the Applicant in this proceeding and any adjustments thereof that the Board deems appropriate.

1. The Capital Expenditures proposed in the DSP are in line with Capital Expenditures Forecasts in the MAADs Application

6. The Board and intervenors routinely scrutinize mergers, acquisitions, amalgamation and divestitures (“MAADs”) applications for possible overstatement of forecast cost savings and synergies that the consolidating parties claim would be achieved post-consolidation. Such scrutiny in turn involves ensuring forecast OM&A and capital spends are not unreasonably understated for the purpose of overstating savings. Logically, there is no incentive for the applicants to have overstated capital and OM&A expenditure forecasts at the time of MAADs applications.

7. In EB-2016-0025, the MAADs application that formed Alectra (the MAADs application), the Applicant filed the annual total amount of forecasted capital expenditures, including for the 2020 – 2024 period, based on the sum of forecasted capital for each of the then four predecessor utilities. The total capital expenditure for

the utilities under the merged scenario was forecast to be \$1,417.1 million.¹ In the current proceeding, Alectra has provided the following table that compares the capital expenditures forecast at the time of the MAADs application with the forecast in the Current DSP.

Table 1 – Comparison of Capital Expenditure Plans (\$MM)²

	2020	2021	2022	2023	2024	Total 2020 - 2024
MAADs Application	269.0	299.7	299.9	277.4	271.1	1,417.1
2020-2024 DSP	282.7	280.2	288.3	295.8	309.4	1,456.5
Variance	13.7	(19.5)	(11.6)	18.4	38.4	39.3

8. The Applicant explains that the variance of the \$39.3 million is related to the inclusion of Guelph within the Current DSP.³ The total expenditures for the Guelph operational area over the 5 years is \$56.8MM, which means without this, the total forecasted capital expenditure in the Current DSP would in fact be lower than the forecast in the MAADs application by \$17.5MM. The PWU's understanding is that this reduction is achieved because the Applicant considered customer preferences in developing the DSP which resulted in the adjustment of the pace of investments and deferral of certain projects. The current application arises, not as a consequence of unexpectedly higher capital needs, but rather the inadequacy of the current rate levels to funds those needs.

9. Alectra Utilities indicated in its 2016 MAADs application that it planned to file a consolidated 5-year DSP for all of its rate zones in 2019.⁴ The Applicant also confirmed in the MAADs application that it intended to file Incremental Capital Module ("ICM") applications during the rebasing deferral period in accordance with the applicable policies of the Board.⁵ At the time, the Applicants estimated the need to seek \$587.7

¹ EB, 2016-0025, JTC1.1

² EB-2019-0018, G-Staff-12, C

³ Ibid.

⁴ MAADs Application, EB-2016-0025, Interrogatory B-SEC-17.

⁵ EB-2016-0025 (MAADs application), Applicant's Reply Submissions, October 18, 2016, Page 22

million through ICMs over the course of the 10-year deferred rebasing period.⁶ This means, on average, the Applicant would have sought \$294 million (half of \$587.7) in ICM for the 5-year (2020-2024) deferral period. This amount is higher than the \$265 million that the Applicants are seeking in the current DSP through the M-factor for the same period.

10. Clearly, both the capital expenditures forecasted in the current DSP and the incremental capital expenditures the Applicants are seeking to fund through the M-factor are not only consistent with the amounts foreseen in the MAADs application but also a reduction from previous forecasts, which is made possible through the deferral of projects.

2. The Capital Expenditures proposed in the DSP are far below what is Needed to Address Asset Deterioration and Declining Reliability

11. The DSP provides a comprehensive and detailed description of Alectra's consolidated 5-year capital investment needs, including those aspects that require funding by means of the proposed M-factor. Alectra's evidence indicates that the DSP is informed by asset condition assessment ("ACA"), the CopperLeaf C55 Investment Prioritization and Optimization System, third party expert reviews and customer preferences established through Alectra's customer engagement that it describes as the largest public consultation ever conducted in the Ontario electricity sector.⁷ Alectra also indicates that the capital investments proposed in the DSP are needed to address reliability, safety, service and other objectives for the benefit of Alectra's customers.⁸ The PWU submits there is no serious argument that the expenditures reflected in the DSP are not needed and prudent. The issue in this case is whether the Board is prepared to approve a mechanism which provides adequate rate-based funding for those expenditures.

⁶ EB-2016-0025, OEB Decision and Order, December 8, 2016

⁷ EB-2019-0018, Exhibit 2, Tab 1, Schedule 2, Page 7 of 11

⁸ EB-2019-0018, Alectra Argument-In-Chief, Page 12

Table 2: Annual Capital Expenditure by OEB Investment Category⁹

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

12. As can be observed from the table, the DSP identifies total capital investment requirements over the 2020-2024 planning period of \$1,456.5 million, of which investment in System Renewal accounts for the largest share (53%) followed by System Access (23%).

13. Alectra points out that in preparing the DSP, it in fact identified over \$1.7B of potential investment needs comprised of 1,184 distinct capital projects and investments; however, based on a consideration of the needs and preferences of its customers, it settled on a level of capital investment of \$1,456.5 million for 884 projects in the 2020-2024 period for an average of \$291 million per year.¹⁰

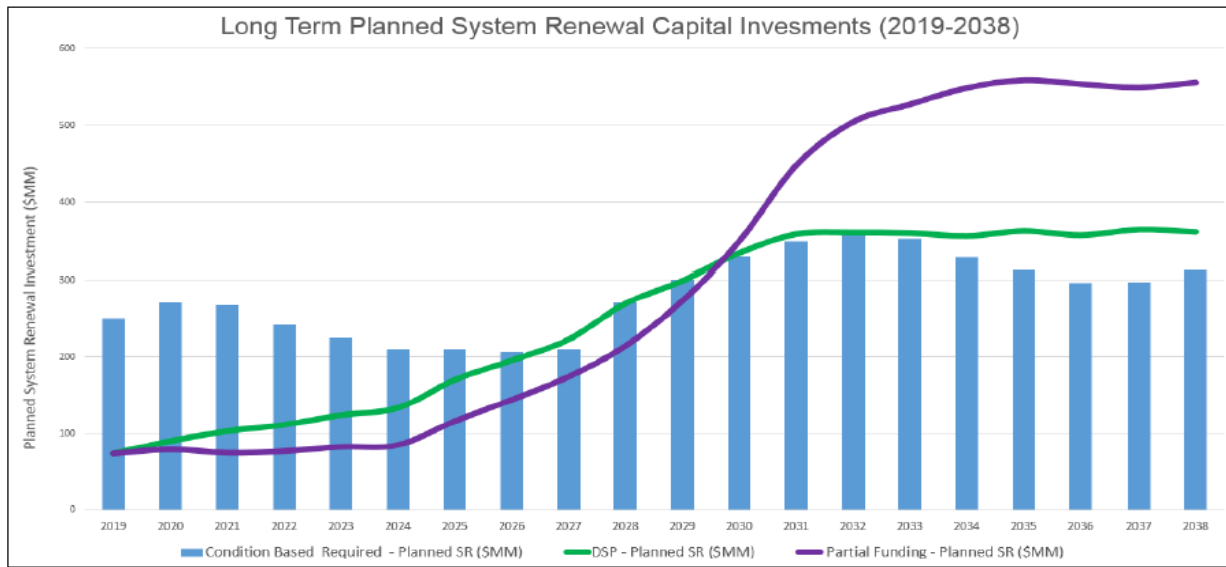
14. It is clear that the proposed capital expenditures are far short of the amount that Alectra's system planners would have recommended based on the needs of the system if not for consideration of customer preferences with respect to price. This can be seen from the following chart which compares the amount of funding needed for system renewal based on ACA with the amount that is being proposed:¹¹

⁹ EB-2019-0018, Exhibit 4, Tab 1, Schedule 1, 5.2.1 Distribution System Plan Overview Page 49 of 438

¹⁰ EB-2019-0018, Alectra Argument-In-Chief, Page 4

¹¹ EB-2019-0018, Exhibit 4, Tab 1, Schedule 1, Page 12 of 438

Figure 1: Long-Term System Renewal Trends



15. The chart shows that the system renewal investment proposed in the DSP (the green line) is already significantly below the level that the condition of the utility's assets stipulates (the blue bars). Alectra considered a scenario in which the DSP is funded only partially (the purple line). This scenario reveals two outcomes:

- If Alectra is unable to invest in system renewal at the level set out in the DSP, the result will be an increasing population of deteriorated assets; and
- if the DSP is not fully funded (i.e., the purple line), Alectra would be forced to defer even more projects, and the result will be a significant increase in renewal investments over the long term, leading to what the Applicant refers to as a "snowplow" of capital costs for future customers.

16. Alectra's witness testified that the chart does not include reactive capital that would be required in the event that it is forced to defer investment in system renewal:

The first outcome is that by deferring these needs, there is an increased cost over the long term, when you look at it from a 20-year perspective...

This graph only reflects the planned system renewals, and does not include reactive capital in there. So this is simply a consistent comparison of planned renewals over the two different scenarios, and does not include reactive.¹²

¹² EB-2019-0018, Hearing Transcript, Volume 2, October 17, 2019, Page 8

17. The Board should be concerned about the implications to cost and reliability of not fully funding the DSP and particularly the proposed system renewal investment. Vanry & Associates, the independent experts retained by Alectra expressed their concerns that the proposed investments in underground assets, a major component of the system renewal category, are the absolute minimum and should be increased; or else Alectra would be exposed to a risk of entering a vicious cycle:

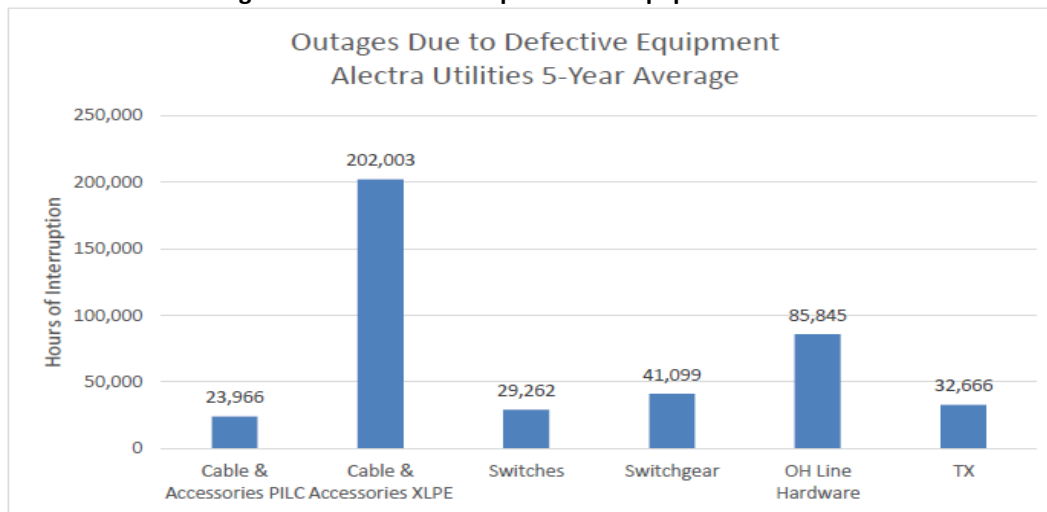
We are concerned that Alectra may not have allocated sufficient funding required to keep up with the cable failure rates. This leaves Alectra and its customers exposed to risk of entering a vicious cycle . . . While we understand, and greatly respect, that Alectra has selected this level of investment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

18. The concern expressed by Vanry and Associates becomes more apparent from the evidence that Alectra's ACA identified 3,156 km of XLPE cables in "Very Poor" and "Poor" condition.¹⁴ As the following chart shows, it is not surprising that the failure of XLPE cable and accessories is the highest contributor to customer hours of interruption, reflecting the volume and vintage of XLPE cable currently in service in Alectra's service area.

¹³ Exhibit 4, Tab 1, Schedule 1, Appendix G – Vanry, DSP Assurance Review Report, May 23, 2019, Page 5

¹⁴ Exhibit 4, Tab 1, Schedule 1, 5.3.3 Asset Lifecycle Optimization Policies and Practices Page 260 of 438, Figure 5.3.3 - 25: Primary XLPE cables Health Index Distribution

Figure 2: Hours of Interruption from Equipment Failures¹⁵



19. Similarly, Alectra's 4,883 and 3,634 wood poles (9% of Alectra's total wood poles) are in Very Poor or Poor condition, respectively. Also 5% of Alectra's concrete poles are in Very Poor or Poor condition.¹⁶ However, Alectra's plan is to replace 896 poles per year on average under the pole renewal category and to remediate 416 poles through other investments: that is a total of 1,312 poles over the 2020-2024 period. Alectra states that it chose what it refers to as a "moderate pacing" strategy that would cost on average \$15.7 million per year, rejecting the accelerated pace option that would have replaced 1,968 poles over the 2020-2024 period at an average annual cost of \$27.7 million.¹⁷ Alectra's claim that the moderate pacing strategy strikes the best balance between mitigating public safety risks, resource constraints, and annual cost¹⁸ is very concerning given that its pole replacement plan would only address about 25% of poles in the "Very Poor" category.

20. Alectra's concern over cost can also be seen in its plan to renew only two power transformers over the 2020-2024 plan period even though it operates 34 power transformers that are in Poor condition.¹⁹ Alectra explains that the cost to replace

¹⁵ EB-2019-0018, Exhibit 4, Tab 1, Schedule 1, 5.3.3 Asset Lifecycle Optimization Policies and Practices, Page 262 of 438

¹⁶ Exhibit 4, Tab 1, Schedule 1, 5.3.3 Asset Lifecycle Optimization Policies and Practices, Page 248 of 438

¹⁷ Exhibit 4, Tab 1, Schedule 1, Appendix A05 — Overhead Asset Renewal, Page 14 of 53

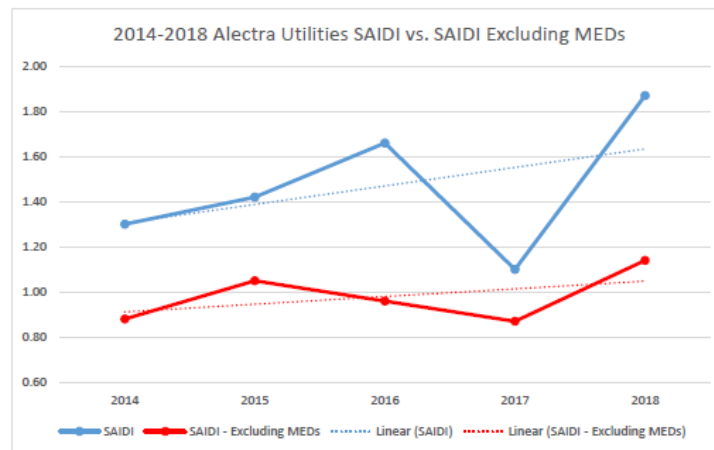
¹⁸ Ibid.

¹⁹ G-Staff-2 (b)

transformer units is high and not warranted at this time and therefore chose an alternative solution which is to install on-line monitoring and/or increase condition monitoring and maintenance as deemed necessary.²⁰

21. The decision to defer investment in asset replacement in the face of Alectra's large population of deteriorating assets that are reaching their end-of-life will not only result in future replacement at a higher cost but also will adversely impact reliability that has been declining in recent years as the following charts show.

Figure 3: SAIDI vs. SAIDI Excluding MEDs from 2014 to 2018²¹

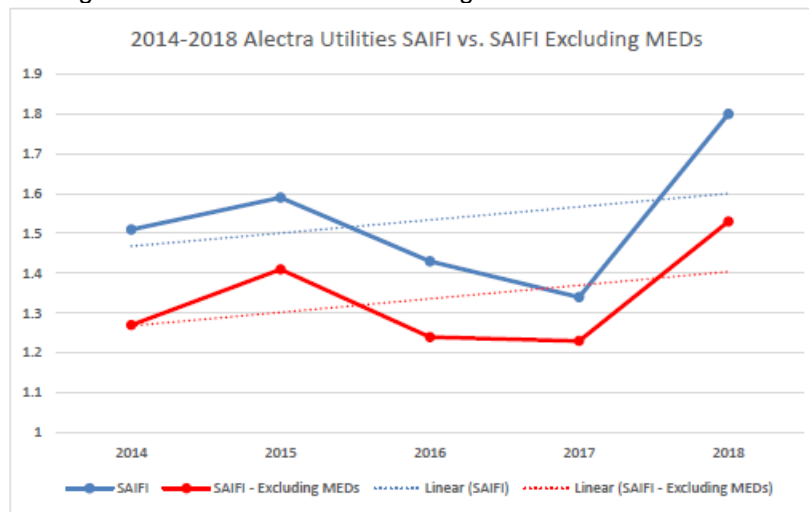


22. The figure illustrates an increasing SAIDI trend at Alectra (including its predecessors) since 2014. The five year SAIDI measure indicates a 16% average annual increase on system outage duration. When MEDs are excluded, the 2018 SAIDI measure indicates an 8% increase in annual outage duration since 2014.

²⁰ Exhibit 4, Tab 1, Schedule 1, Appendix A08 — Substation Renewal, Page 30 of 32

²¹ EB-2019-0018, Exhibit 4, Tab 1, Schedule 1, 5.2.3 Performance Measurement for Continuous Improvement Page 108 of 438

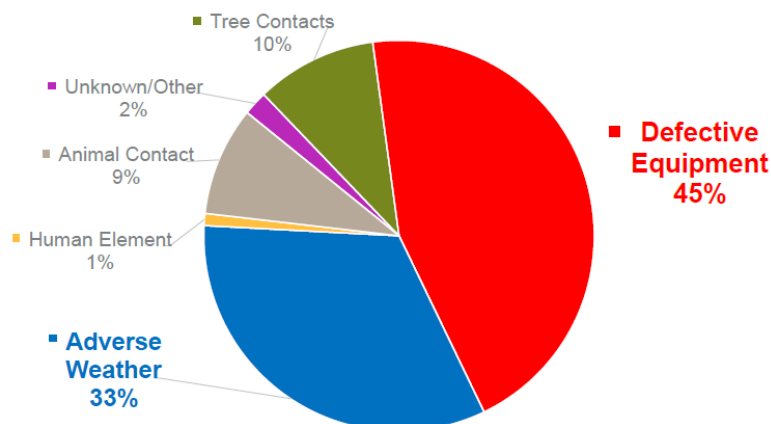
Figure 4: SAIFI vs. SAIFI Excluding MEDs from 2014 to 2018²²



23. Alectra's SAIFI has been showing an increasing trend over the five year period from 2014 to 2018. The five year SAIFI measure indicates a 6% annual average increase on system outage frequency. When MEDs are excluded, the SAIFI measure also indicates a 6% annual increase in outage duration since 2014.

24. Customers are experiencing longer and more frequent power outages and the main culprit has been defective equipment which accounts for 45% of the outages. Increased investment in system renewal is required to reverse this trend.

Figure 5: Outages by Cause²³



²² Exhibit 4, Tab 1, Schedule 1, 5.2.3 Performance Measurement for Continuous Improvement Page 110 of 438

²³ Alectra Presentation on the M-Factor proposal, August 7, 2019, Slide 16

25. In summary, the capital expenditures proposed in the DSP should be understood as the absolute minimum required to maintaining the already poor and deteriorating reliability levels.

3. *The Proposed M-factor is Reasonable, Flexible, Beneficial to Customers and Needed to Fully Execute the DSP*

26. As indicated earlier, Alectra has proposed a capital investment of \$1,456.5 million for the 2020-2024 period, or an average of \$291 million per year. Alectra calculated that its base distribution rates would support \$1,182.2 million of the total capital expenditures required during the 2020-2024 planning period, for an average annual capital expenditure level of approximately \$236 million compared to the \$291 million of annual capital investment required to fully execute the DSP.²⁴ This resulted in a capital expenditure funding gap of \$55 million each year, for a total funding gap of a \$275 million over the 5-year DSP period. Consequently, Alectra proposed M-factor funding for a total of \$265 million over the five years (averaging \$53 million per year), along with the CIVA which could be trued-up to a ceiling of an additional \$9.3 million. In other words, Alectra is proposing incremental capital through the M-factor so as to fully execute the DSP; in the context of system renewal, the M-factor is needed to execute the green line (See Figure 1 on page 4 of this submission). This was confirmed by Alectra's witness during cross examination.²⁵

MS. GRICE: Okay, thank you. So if the M-factor investments are added on to the purple line, then the gap decreases. Is that the idea?

MR. WASIK: Yes, so they are a part of the green line. So the M-factor funding allows us to implement the green line.

MS. GRICE: Okay. So the M-factor funding is in the green line?

MR. WASIK: That is correct. The M-factor projects are in the DSP and the DSP is reflected in the green line.

²⁴ EB-2019-0018, Alectra Argument-In-Chief, Page 4

²⁵ Oral Hearing Transcript, Volume 2, October 17, 2019, Page 9

27. Alectra has provided a breakdown of the M-factor investments by DSP priority need²⁶, by rate zone and by year²⁷ and has identified 203 M-factor projects.²⁸

28. The main issue with respect to the proposed M-factor mechanism in this proceeding has been Alectra's decision to propose this approach over the ICM approach. Alectra argues that the default ICM approach is not working, as it has not allowed it to make the investments that its customers need and want and that:²⁹

- ICM funds only large, discrete investments, which are only part of the gap;
- ICM funding is inflexible and not suited to a multi-year capital needs; and
- The ICM regulatory process is inefficient and expensive for all parties.

29. The PWU submits that the Board should approve the proposed M-factor approach for the following reasons:

- i. Alectra's proposal is not inconsistent with its MAADs application, or the Board's approval of the application. To the contrary, this application is entirely consistent with, and anticipated by that application. Approval of this proposal does not mean that Alectra customers will not receive the benefits contemplated by the amalgamation. Even in the most successful amalgamation, a utility will continue to have the need to maintain and refresh its capital assets. Customers benefit from these investments. While the Board must be vigilant to ensure the proposed capital proposals are prudent, where it is satisfied that this standard has been met, the Board must ensure that mechanisms can be put in place which permit an amalgamating utility to fund needed capital investments through its rates.
- ii. The Board should recognize that the drivers behind the proposed approach are Alectra's real and present needs of its system that have made the ICM approach unworkable, in the circumstances. The Board's policy stipulates that

²⁶ G-Staff-2 (a)

²⁷ Exhibit 5, Attachment 3, Page 1

²⁸ Undertaking J1.3

²⁹ Alectra Presentation on the M-Factor proposal, August 7, 2019, Slide 26

the ICM/ACM mechanisms are available for consolidating utilities during the rebasing deferral period and that was what Alectra stated in its MAADs application would use. Under the Board's policy, the ICM is now available for any prudent discrete capital project that fits within an incremental capital budget envelope, not just expenditures that were unanticipated or unplanned. However, Alectra indicates that the Board's prior decisions on Alectra's ICM requests have confirmed that the ICM is not able to accommodate many of the investments that Alectra must make during the DSP period.³⁰ The reality is that while not all the 203 M-factor projects that Alectra identified would necessarily qualify for ICM, a decision to partially fund them or not at all would expose the system to further deterioration and declining reliability;

- iii. As a consequence, to the PWU's understanding, Alectra's application is based upon the underlying philosophy the Board has espoused with respect to ICM/ACMs, but has tailored the application of that philosophy to the specific needs and circumstances of Alectra at the present time. The PWU agrees with Alectra's submission that the Board has broad discretion in its approach to establishing just and reasonable rates and that this discretion is not limited by policy considerations or mechanisms such as those relating to the ICM/ACM;
- iv. Alectra filed its 5-year DSP for the first time and therefore it would be reasonable to approve the proposed M-factor approach so as to enable the utility to take advantage of the flexibility that it would provide in executing the DSP more efficiently and cost-effectively by establishing additional linkages between legacy systems and balancing loads across its entire service area, which would mitigate the need for system expansions;
- v. Alectra has confirmed³¹ that there would be no subsidization across rate zones as the proposed M-factor rate riders included in this Application are based on a proposed list of M-factor projects that have been identified by rate zone and

³⁰ Alectra Argument-in-Chief, Page 25

³¹ G-Staff-9 (e)

the rate riders are based on the proposed level of M-factor capital for the respective rate zone. This means Alectra is proposing to true-up variances by rate zone at the end of the DSP term;

- vi. The M-factor approach avoids the filing of significant incremental capital applications every year, which is the case with the ICM approach, thereby avoiding significant regulatory costs that are ultimately borne by customers; and
- vii. The average monthly bill impacts of the M-factor in each year over the 2020 to 2024 period are not material. The average monthly total bill impact for a typical residential customer ranges from \$0.10 (0.09%) to \$0.30 (0.28%), depending on rate zone.³²

All of which is respectfully submitted.

³² Alectra Argument-in-Chief, Page 34