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December 9, 2019

VIA E-MAIL

Ms. Christine Long
Registrar & Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: **EB-2019-0002 – Brantford Power Inc. 2020 Electricity Distribution Rates/ICM**
WB-2019-0031 – Energy+ Inc. 2020 Electricity Distribution Rates/ICM
Final Submissions of VECC

Attached please find VECC's submissions in the above proceeding.

VECC apologizes for being late and asks that the Board please accept its submissions.

Yours truly,

(Original Signed By)

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EB-2019-0022
EB-2019-0031
Brantford Power Inc.
& Energy+ Inc.

Application for electricity distribution rates effective
January 1, 2020

VECC Submissions
December 8, 2019

On August 12, 2019, Brantford Power Inc. (BPI) filed an incentive rate setting mechanism (IRM) application with the Ontario Energy Board (OEB) under section 78 of the *Ontario Energy Board Act*, *1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2020. The application includes a request for an Incremental Capital Module (ICM) related to the relocation of Brantford Power's administration office and operations center.

On August 26, 2019, Energy+ Inc. (Energy+) filed an IRM application with the OEB under section 78 of the OEB Act seeking approval for changes to its electricity distribution rates to be effective January 1, 2020. The application includes a request for an ICM related to the relocation of Energy+'s operations center in its Brant County service territory, in a shared facility with BPI.

Pursuant to section 21(5) of the OEB Act, the OEB decided that the applications will be heard together as a combined hearing given the common issues and in order to facilitate regulatory efficiency.[1]

BPI seeks approval for incremental capital funding related to its Facility Relocation project with a total project cost of $15,028,188[2] ($14,378,438 space costs + $649,750 FFF&E costs allocated to BPI). BPI's ICM funding is for a consolidated facility (consolidated operations and an administrative building) at 150 Savannah Oaks Drive in Brantford, Ontario (Savannah Oaks) that will be shared with multiple tenants including its affiliates (Brantford Energy Corporation and Brantford Hydro Inc.), its neighbouring LDC Energy+, and the majority of the first floor of the office building will be leased to a third unnamed tenant. BPI will retain 100% ownership of the facility. Any references to "sharing" with other parties mean through lease, license, rent or shared services agreements.[3]

Energy + is seeking approval for incremental capital funding for a $3,482,492 capital lease investment in a shared Operations Facility with Brantford Power Inc. ("BPI"). This location will function as the Operations Centre to service customers in the Brant County Service territory. Energy+ is proposing to recover only the incremental revenue associated with the dedicated space to be occupied by Energy+ Inc.

[1] Procedural Order #1 October 4, 2019
[2] B-Staff-20 Supplemental November 26, 2019
[3] B-Staff-21

Based on the latest Class C Cost estimate, the total cost of the Savannah Oaks facility is $26,808,526 for 134,747 square feet of shared space.[4]

150 Savannah Oaks Shared Facility			
Tenant	Ft^2	Cost	Cost/ft2
BPI	71,539	$14,378,438	**$200.99**
Energy+	29,558	$8,352,524	**$282.58**
Affiliate	5,235	$634,407	**$121.19**
Tenant 3	28,415	$3,443,157	**$121.17**
Facility Total	**134,747**	**$26,808,526**	**$198.95**

For the reasons discussed below, VECC submits that BPI's ICM satisfies the ICM eligibility criteria of materiality, need and prudence.

With respect to Energy+, VECC supports the submissions of the School Energy Coalition (SEC) that for regulatory purposes lease costs are not an eligible capital expense. VECC submits the OEB should not approve Energy+'s ICM request.

For BPI, the leases payable to the city for the three locations were included as part of the OM&A expenses in BPI's last cost of service proceeding for its 2017 rates (EB-2016-0058) and as such were excluded from BPI's rate base.[5]

Background

Pertinent details regarding the evolution of the Shared Operations Facility are summarized below:

- BPI departments/employees currently operate out of three locations within Brantford (84 Market Street & 220 Colborne[6], 400 Grand River[7]). The total headcount for all three locations is 64.[8] BPI identifies several challenges, inefficiencies and space limitations related to the current configuration.[9]

- The existing three facilities are leased or rented from the City of Brantford under a Shared Services Agreement (SSA) and are no longer available to BPI after 2022. The leases will not be renewed when the SSA expires in 2022.[10] The City of Brantford served formal notice on January 11, 2018 that

[4] B-Staff-20 Supplemental November 26, 2019

[5] B-Staff-27
[6] Administrative buildings
[7] Vehicle and materials storage
[8] EB-2019-0022 Attachment A P13
[9] EB-2019-0022 Attachment A P14-19
[10] EB-2019-0022 Attachment A P13

the City will not be renewing existing leases.[11]

- The lease is set to expire on December 31, 2021 for all three locations. BPI is able to terminate the leases upon 6 months' notice.[12] BPI intends to terminate each of the leases at different points during 2020.

- In 2014, BPI initiated its search for a new consolidated facility.[13] The new building relocation profile includes requirements for office space, a warehouse area, truck and vehicle movement and outdoor storage.[14] AECOM was retained by BPI to determine space for each usage type and develop a Concept Site Plan.[15]

- Beginning in 2015, BPI worked with CBRE Group Inc. (CBRE) to review vacant land and existing properties for sale in Brantford. BPI chose two existing buildings that were closest to meeting BPI's requirements with respect to location, time to occupancy, cost, lot size and building profile,[16] one of which was 150 Savannah Oaks. Both facilities required additional construction. AECOM analyzed the two sites and determined 150 Savannah Oaks was a feasible option. BPI pursued the purchase of Savannah Oaks beginning in February 2015. [17]

- In November 2016, with little progress on Plan A to purchase Savannah Oaks, CBRE identified a 9.9 acre greenfield property at 79 Garden Avenue in Brantford.

- In January 2017, BPI purchased Garden Ave. in Brantford with the intent of building a new facility, first as a stand-alone building for BPI, then as a shared facility with Energy+. BPI and Energy+ discussed sharing the facility although BPI purchased the property at Garden Avenue prior to scoping the needs of Energy+.[18] An initial Memorandum of Understanding (MOU) for Garden Avenue facility was signed between BPI and Energy+ in November 2017.[19]

- In late 2018, BPI issued an RFP for a builder for the facility at Garden Avenue with a building cap of $27 million based on a Class C estimate. There were no bids on the RFP as the cap was seen as too low.[20]

[11] EB-2019-0022 Appendix B
[12] EB-2019-0022 B-Staff-11
[13] EB-2019-0022 Attachment A P19
[14] EB-2019-0022 Attachment A P19
[15] EB-2019-0022 Attachment A P20
[16] EB-2019-0022 Attachment A P20
[17] EB-2019-0022 Attachment A P21
[18] B-Staff-14
[19] B-Staff-14
[20] EB-2019-0022 Attachment A P20-21

- In late 2018, there was renewed interest from seller at 150 Savannah Oaks. Energy+ confirmed its ongoing support of a joint facilities project at Savannah Oaks in early 2019.[21]

- In February 2019, BPI purchased 150 Savannah Oaks Drive in Brantford, Ontario. BPI had AECOM transfer the detailed requirements and design developed for the new build at Garden Avenue to the existing facility at Savannah Oaks where possible, resulting in a Class D estimate for the new construction and refurbishment.

- BPI and Energy+ sign an amended Memorandum of Understanding or the Savannah Oaks shared facility in May 2019.

- The new location includes an existing facility that will undergo renovations prior to occupancy and new building construction.

- BPI has treated the property at Garden Ave as non-utility capital, as BPI has not requested any rate relief associated with this property. BPI intends to treat any gains or losses on the property as non-utility gains/losses.[22]

- BPI and Energy+ intend to move all of their operations to the new facility at 150 Savannah Oaks in 2020.

ICM Criteria

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of materiality, need and prudence.[23]

VECC concludes BPI's ICM satisfies the eligibility criterial of materiality, need and prudence.

<u>BPI - Materiality</u>

The OEB's Filing Requirements indicate a capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.

Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.

The project amount being proposed for recovery should be significant within the context of the distributor's overall capital budget.

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[21] B-Staff-14
[22] B-Staff-19
[23] ACM Report section 4.1.5

In 2020, BPI's forecast capital spend is $4,525,482.[24] 2020 is year four of the latest DSP approved by the OEB. With an overall ICM project cost of $15,028,188, the total forecast capital spending in 2020 is $19,553,670. BPI's ICM project costs are significant representing 77% of the total capital budget. The project costs exceed the materiality threshold of $5,927,906.[25] BPI satisfies the materiality criterion. However, BPI's total ICM project costs of $15,028,188 exceeds the maximum eligible capital available to BPI of $13,625,764.[26] As such, the OEB should approve an ICM at the maximum eligible incremental capital amount.

BPI - Need

The distributor must pass the Means Test. Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.[27]

The ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates. In BPI's last Cost of Service Rebasing application for 2017 rates the OEB approved an ROE of 8.78%. In 2017 and 2018 BPI has remained within the 300 basis points ROE deadband.[28] BPI satisfies the Means Test.

BPI first included a request for funding for the Savannah Oaks project in its 2017 Cost of Service (COS) Rebasing application but was unable to purchase the facility within the timelines for inclusion in rate base and BPI withdrew its request. Given the uncertainty regarding Savannah Oaks, BPI pursued the next option, a greenfield at 79 Garden Avenue to build a new facility, but it was still too early to put in an ACM in the COS application.[29]

BPI's ICM project is a discrete, non-discretionary project that is clearly outside of the base upon which the rates were derived. BPI satisfies the need criterion.

BPI - Prudence

The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.[30]

BPI has demonstrated the need for a new facility given that current leases with the City of Brantford are expiring and will not be renewed. BPI evidence adequately shows that operating out of three locations has created challenges and inefficiencies and that a shared facility with Energy+ addresses these

[24] EB-2019-0022 Attachment A P10
[25] Updated 2020_ACM_ICM Model 20191126
[26] Updated 2020_ACM_ICM Model 20191126
[27] Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications July 12, 2018 P24

[28] 2.60% in 2017 & -0.88% in 2018 (P 6)
[29] EB-2019-0022 P6
[30] Chapter 3 P24

challenges and creates benefits and efficiencies. BPI estimates the cost inefficiencies of the three locations totals $120,313.[31]

BPI indicates the advantages of sharing a facility with Energy+ include opportunities to reduce fixed costs and operating costs associated with the building by sharing them with a partner utility, as well as the ability to share the cost of certain core utility support functions which enable improved control and operations service levels. The realization of these cost savings and service improvements would not be possible with any other type of partner organization. BPI provides key areas where these advantages are expected to accrue.[32]

BPI made several further arrangements with other parties to mitigate project cost and improve the customer benefits of the project. There have been several benefits of sharing with Energy+. The cost savings are significant, and are estimated at up to $5.5M, before consideration of operating efficiencies.[33]

BPI reduced the Revenue Requirement by reducing the value of the land and components of the facility capital budget to be used by others.[34]

BPI anticipates the sharing of three FTEs with Energy+. At an estimated burdened cost of roughly $100k/employee and assuming a 50-50 cost sharing mechanism, the savings to either utility would be around $150k annually.[35]

BPI did not identify any disadvantages to sharing a facility with Energy+.

BPI investigated over 50 opportunities for its Facility Relocation project. As the negotiations for Savannah Oaks were underway, BPI and CBRE investigated other opportunities including 20 existing industrial/office buildings, 19 greenfield and brownfield properties and 16 off-market opportunities.[36] VECC submits BPI's evidence adequately demonstrates that BPI undertook a thorough review of options in its pursuit of a consolidated facility.

The estimated total project cost for Savannah Oaks is below Garden Avenue.

ICM	**Garden Avenue**	**Savannah Oaks**
Construction & Soft Costs	$29,039,398	$18,247,643
Land	$1,677,792	$8,560,884
Building Capital Cost	$30,717,190	$26,808,526
Furniture, Fixtures & Equipment	$1,222,500	$851,000
Total Proposed Budget	**$31,939,690**	**$27,659,526**

With the Savannah Oaks project, BPI appropriately took a different approach to the procurement compared to Garden Avenue. BPI has now chosen to work with a construction manager, which was

31 EB-2019-0022 Attachment A P17 Table 9
32 B-Staff-14
33 B-Staff-16 (b)
34 EB-2019-0022 Attachment A P4
35 B-Staff-14
36 EB-2019-0022 Attachment A P21

selected via RFP. The Construction Manager has been awarded a fixed fee contract. The construction manager will be responsible for procuring the Design and Engineering consultants (contract has been awarded), sub-contractors; and suppliers.[37]

BPI's third party independent evaluator indicates BPI purchased its facility for a price lower than the market value by $900,000.

BPI's benchmarking shows Savannah Oaks has the second lowest capital cost per square foot among its comparators.[38]

PBI reviewed its options with customers and received social permission for its plans.

BPI plans to recover only the rate base associated with the use of the new facility for its purposes.[39]

VECC supports BPI's plan to consolidate its operations and staff at the Savannah Oaks facility with Energy+. A shared facility is an innovative approach to reduce costs by sharing facilities and services. VECC submits BPI has satisfied the prudence criterion.

Effective Date

BPI requests that ICM Rate Riders be effective January 1, 2020 until its next rebasing application for 2022 rates. At that time, BPI plans to incorporate the actual capital expenditures into rate base and the facility costs will be accounted for through regular distribution rates.

BPI's operations staff are expected to move in Q4, following the completion of the garages and TDC renovations, which are expected to be complete October 15, 2020. The forecast date of Energy+'s move into the proposed facility is currently October 2020.

VECC submits a January 1, 2020 effective date is not appropriate when the expected move in date is Q4, as customers would be paying for a facility in advance of its in-service date. VECC submits any approved ICM rate riders should be effective November 1, 2020 to allow for completion of the renovations and moving.

Energy+ Gain on Sale

Energy+ calculates the total disposition amount for the gain on sale of the former operations facility in Paris as $411,861 which represents $402,807 and $9,053 projected interested from January 1, 2019 to December 31, 2019.[40] Energy+ proposes to refund $411,861 to customers. This amount reflects a $479,581 adjustment for the fair value increase paid by former CND on acquisition.[41]

VECC supports SEC's submissions that the Board should reject Energy+'s proposed adjustment and approve rate riders for the full amount. An adjustment to the gain on the sale is a way for Energy+ to recover part of the premium it paid to Brant County Power. VECC agrees with SEC that the OEB has been clear in its MAADs policies that a premium paid as part of a MAADs transaction is not recoverable

[37] B-Staff-20
[38] EB-2019-0022 Attachment A P26
[39] EB-2019-0022 Attachment A P4
[40] E-Staff-45
[41] EB-2019-0031 P61

from ratepayers. Low income and vulnerable customers should not be expected to pay for the premium paid and thus are entitled to a refund for the total net gain on the sale.