



January 27, 2020

Ms. Christine Long
Registrar & Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Oakville Hydro Electricity Distribution Inc. 2020 ICM Request
AMPCO's Final Submissions
Board File No. EB-2019-0059

Dear Ms. Long:

Attached please find AMPCO's final submission in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(Original Signed By)

Colin Anderson
President
Association of Major Power Consumers in Ontario

Copy to: Oakville Hydro Electricity Distribution Inc.

Oakville Hydro Electricity Distribution Inc.
Application for electricity distribution rates effective January 1, 2020

Incremental Capital Funding

AMPCO's Final Submissions January 27, 2020

Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 12, 2019, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates to be effective January 1, 2020.

As part of its 2020 IRM application, Oakville Hydro applied for an Incremental Capital Module (ICM) to recover costs associated with four system access projects that are to be completed before December 31, 2019. Of the four projects, three are related to road widening and one to the replacement and relocation of a feeder at the Bronte Transformer Station (Bronte TS). Oakville Hydro is seeking approval for the recovery of the incremental revenue requirement associated with the capital projects it proposes for ICM treatment.

In PO No. 2, dated September 27, 2019, the OEB determined that it would process the standard IRM elements of the application separate from the request for ICM funding.

AMPCO's submissions are related to Oakville Hydro's ICM request.

Background

Oakville Hydro last rebased for May 1, 2014 rates (EB-2013-0159). Under the 5-year rate term Oakville Hydro was scheduled to file a Cost of Service application for 2019 rates. In a letter dated January 8, 2018, Oakville Hydro requested approval to defer its 2019 cost of service application based on financial and non-financial scorecard performance from 2012 to 2016. The OEB approved Oakville Hydro's request and placed Oakville Hydro on the list of distributors whose rates will be scheduled for rebasing for the 2020 rate year.¹ For 2019 rates, Oakville Hydro's application was based on Price Cap Incentive Rate-setting (Price Cap IR). In its letter the OEB stated "If Oakville Hydro subsequently seeks a further deferral the OEB will consider whether the Annual Incentive Rate-setting Index method that was developed for distributors intending longer periods without rebasing should be applied. The OEB will also consider whether the filing of a distribution system plan would be required at that time."

For 2020 rates, Oakville Hydro again requested approval to defer its 2020 Cost of Service

¹ EB-2018-0059 OEB Letter dated August 14, 2018

application.² The OEB approved Oakville Hydro's request and placed Oakville Hydro on the list of distributors whose rates will be scheduled for rebasing for the 2021 rate year.³

The intervenors filed a Motion September 23, 2019 raising a threshold question of whether it is appropriate for the Applicant, in its second rebasing deferral year, and without prior disclosure to the Board of its intention to seek ICM funding, to apply for ICM funding in this IRM Application. In its Decision and Order on the Preliminary Question on ICM Funding dated November 14, 2019, the OEB determined that it will hear Oakville Hydro's request for ICM funding and that questions such as the in-service dates for the projects, the need for a DSP to support the need for ICM funding and Oakville Hydro's return on equity could be addressed within the proceeding.⁴

AMPCO does not dispute the mandatory nature of the four projects designed to accommodate the requests of road authorities and Hydro One. However, for the reasons discussed below, AMPCO submits the OEB should not approve Oakville Hydro's application for ICM funding for the four projects. Further, the OEB should require Oakville Hydro to file a Cost of Service application for 2021 rates.

Project Timing

Oakville Hydro was aware of the three proposed road widening projects and the Bronte Feeder Replacement project prior to the time that it requested approval for the deferral of its 2020 Cost of Service application.⁵ At the time Oakville Hydro filed its application in August 2019, all projects were underway and expected to be completed before December 31, 2019. As shown in the Table 1 below the Speers Road widening and Trafalgar Road widening, which account for 60% of the ICM, were 90% and 50% completed, respectively.

Table 1: ICM Projects

SYSTEM ACCESS			
Incremental Capital Projects	Initiated By	2019 Capital	% Completion
Road Widening - Speers Road	Town of Oakville	\$2,000,000	90%
Road Widening Trafalgar Road	Halton Region	\$2,200,000	50%
Road Widening - William Halton Parkway	Halton Region	\$1,200,000	20%
Feeder Replacement/Relocation - Bronte TS	Hydro One	\$1,700,000	30%
TOTAL		\$7,100,000	

AMPCO submits it is disingenuous for Oakville Hydro to essentially tell the OEB in January of 2019 that it does not need to rebase and everything is okay based on its financial and non-financial performance meaning it can manage with the rates set in its last cost of service

² EB-2019-0059 January 16, 2019

³ EB-2019-0059 OEB Letter dated May 13, 2019

⁴ Decision and Order on Preliminary Question on ICM Funding, P6

⁵ Oakville Reply Submission P5

application and adjusted annually through the Price Cap IR rate-setting method and then come back to the OEB a few months later in August 2019 with a request for more funding for projects it already knew were well underway, in essence saying now it can't manage its financial needs. The three road widening projects: Speers Road, Trafalgar Road and William Halton Parkway, commenced February 4, 2019, March 25, 2019 and April 30, 2019, respectively.⁶ If Oakville Hydro desired additional funds for capital, it should have opted to rebase as scheduled so that rates could be set with a proper review of revenues and operating and capital costs given that its 5-year rate setting term has expired. Instead, Oakville Hydro is proposing to increase 2020 rates beyond the Price Cap IR adjustment through ICM Rate Riders.

Inconsistency with ICM Policy

AMPCO submits Oakville Hydro's ICM approach is not consistent with the spirit of ICM. Oakville Hydro is requesting incremental funding after the fact. The ICM is intended to address the treatment of capital investment needs that arise during the 5-year rate-setting plan for projects on the horizon with an expected in-service date, in the context of an existing 5-year Distribution System Plan that aligns with the rate-making term. It is not intended for projects completed in a prior year, in the context of a request for deferred rebasing and in the absence of a current DSP. AMPCO submits the OEB should not accept Oakville Hydro's approach. Doing so would suggest to other distributors that they too can defer rebasing and then request an ICM all in the same rate year without a current DSP. AMPCO submits this approach is not appropriate, results in poor rate making, and is not in the best interest of customers.

No Current DSP

As part of its application, Oakville Hydro filed a five-year Distribution System Plan (DSP) for the years 2014 to 2018.

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.

As part of the 2014 rate year, the OEB approved a Settlement Proposal that reduced Oakville Hydro's Test Year (2014) capital expenditures by \$1,350,000 from the amount sought in the Application to \$17,047,224.⁷ Oakville Hydro's 2014 actuals were \$13.086 million, a reduction of 23.2% compared to OEB approved.⁸ Oakville Hydro indicates it has been able to manage its capital plan through the rates that were set in its last Cost of Service application and adjusted annually through the Price Cap IR rate-setting method.⁹ For the years 2014 to 2018, actual capital expenditures have been significantly below the 2014 OEB-approved amount of \$17.047 million.

⁶ AMPCO-2

⁷ EB-2013-0159 Settlement Proposal Filed: April 17, 2014, P11

⁸ AMPCO-6

⁹ Argument-in-Chief January 13, 2020 P7

Oakville Hydro's forecast net capital additions in 2019 are estimated at \$21,174,000 including \$5,475,000 for road widening. Oakville Hydro was unable to provide the forecast net capital additions for 2020 as the budget process is still underway.¹⁰

Without the opportunity to test a current DSP and the capital budgets for 2019 and 2020 compared to historical spending, the OEB cannot properly assess the reasonableness of Oakville Hydro's ICM request and whether or not the prioritization and pacing of other capital projects is appropriate or could be modified/deferred to accommodate the ICM projects. In the absence of this analysis, AMPCO submits it's not definitive that Oakville Hydro needs to increase rates to fund the four projects.

In the event that the OEB does not approve its ICM application, Oakville Hydro indicates it would need to consider significant reductions in its planned and paced investments in system service and system renewal projects in its 2020 capital plan.¹¹ Given the 2020 budget process is still underway and a DSP beyond 2018 does not exist, the OEB has no way of evaluating the impact/outcome of this proposal.

As for the Bronte TS feeder project, Oakville Hydro noted that it would not have sought approval for any ICM funding had the road widening projects been deferred, as the incremental revenue requirement associated with the project would have fallen below its materiality level. AMPCO submits the Bronte TS feeder project should not be considered for ICM funding.¹²

Return on Equity (ROE)

In each of the years 2014, 2016, 2017 and 2018, Oakville Hydro's achieved ROE exceeded the deemed ROE as shown in the table below.

Oakville Hydro's Regulated Rate of Return					
	Rebasing Year - 2014	2015	2016	2017	2018
Deemed ROE	936	936	936	936	936
Achieved ROE	994	935	1071	969	1065
Difference	+58	-1	+135	+033	+129

AMPCO questions the need for incremental funding. Oakville Hydro has substantially completed the projects in 2019 and has not demonstrated a financial hardship in doing so.

¹⁰ AMPCO-5

¹¹ Application Manager's Summary P15

¹² Oakville Hydro Reply Submission October 24, 2019 P6

Project-Specific Materiality

With respect to materiality, Oakville Hydro's evidence is that each of the ICM projects far exceeds 1% of its 2019 capital budget of \$21,174,000 and therefore, these projects meet the project-specific materiality threshold. This is based on Oakville Hydro's interpretation of the Board's Decision in Alectra's ICM application.

Alectra's combined capital budget was \$267,700,000 and Oakville Hydro concludes that the lowest individual project that was approved for the recovery of incremental capital funding was the York MS project with a total cost of \$2,300,000 or 1% of its total capital budget.

AMPCO submits the OEB did not explicitly put forward a 1% of capex project-specific materiality threshold in its Alectra ICM Decision as there were many factors at play in Alectra's application that the OEB relied upon in determining which projects received capital funding. AMPCO submits the OEB should not accept Oakville Hydro's interpretation of the Alectra Decision as the test that determines that each of the proposed ICM projects satisfies the OEB's materiality test.