



**Oakville Hydro Electricity Distribution Inc.**  
**2020 Distribution Rate Adjustment Application (EB-2019-0059)**  
**Effective January 1, 2020**

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 Oakville Hydro  
Electricity Distribution Inc. 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.

(ICM Element)

Reply Submission

Filed: February 7, 2020

## INTRODUCTION

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application with the Ontario Energy Board (the “OEB”) on August 12, 2019 pursuant to Section 78 of the *Ontario Energy Board Act, 1998* for the approval of its proposed adjustments to its distribution rates effective January 1, 2020 (the “Application”). The Application was filed under the OEB’s Price Cap Incentive Rate-Setting Option (“Price Cap IR”) and included a request to recover amounts related to four system access projects through the OEB’s Incremental Capital Module (“ICM”).

The Association of Major Power Consumers of Ontario (“AMPCO”), Consumers Council of Canada (“CCC”), Energy Probe Research Foundation (“EP”), School Energy Coalition (“SEC”) and Vulnerable Energy Consumers Coalition (“VECC”) were granted intervenor status.

On September 17, 2019, the OEB issued Procedural Order No. 1, which set out dates for written interrogatories and submissions.

On September 23, 2019, SEC, VECC, CCC, AMPCO, and EP (collectively referred to as the “Intervenors”) filed a Notice of Motion with the OEB seeking an order of the Board amending Procedural Order No. 1:

1. Bifurcating the proceeding between consideration of the ICM funding request and all other aspects of the Application; and
2. Seeking submissions from the Intervenors on whether it is appropriate for Oakville Hydro to seek ICM funding in its Application.

On September 27, 2019, the OEB issued Procedural Order No. 2 in which it determined that it wished to receive submissions from the intervenors and OEB staff on the preliminary question of whether it was appropriate for Oakville Hydro to seek ICM funding in its Application (the “Preliminary Question”).

OEB staff and intervenors filed written submissions on the Preliminary Question on October 10, 2019 and Oakville Hydro filed its reply to those submissions on October 24, 2019.

On November 14, 2019, the OEB issued its Decision and Order on the Preliminary Question. In its Decision and Order, the OEB found that it was appropriate for the OEB to 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.<sup>1</sup>

On January 13, 2020, Oakville Hydro filed its Argument-in-Chief and on January 27, 2020 OEB staff and Intervenors filed written submissions.

## OVERVIEW

In its 2020 Application, Oakville Hydro requested approval for incremental capital funding for four system access projects. Three of the projects were related to road widening projects undertaken by Oakville

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<sup>1</sup> Decision and Order On Preliminary Question On ICM Funding, EB-2019-0059, Page 6.

Hydro to fulfil its obligations under the *Public Service Works on Highways Act* (“PSWHA”). The fourth project was undertaken to accommodate Hydro One’s Transmission System Plan.

**Table 1 - ICM Projects**

Project	Amount	Completion
1. Town of Oakville Road Widening – Speers Rd	\$2,000,000	2019
2. Halton Region Road Widening – Trafalgar Road	2,200,000	2019
3. Halton Region Road Widening – William Halton Parkway	1,200,000	2020
Sub-total	\$5,400,000	
4. Hydro One Bronte TS Feeder Replacement and Relocation	1,700,000	2019
<b>Total</b>	<b>\$7,100,000</b>	

In its Argument-in-Chief, Oakville Hydro submitted that its 2020 Application was filed under the Price Cap Incentive Regulation (“Price Cap IR”) and that, as such, it is eligible for incremental capital funding through the OEB’s Incremental Capital Module (“ICM”) and that the projects for which it is seeking approval meet the ICM criteria of materiality, need and prudence.

This document is Oakville Hydro’s reply to the written submissions of OEB staff and Intervenor on the ICM element of this proceeding.

## ICM ELIGIBILITY

### MATERIALITY THRESHOLD

The OEB’s policy for the funding of incremental capital is set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (the “ACM Report”) and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report*, January 22, 2016 (the “Supplemental Report”).

The ICM materiality threshold is, in effect, a capital expenditure threshold, which serves to demonstrate the level of capital expenditures that a distributor should be able to manage with its current rates.<sup>2</sup> A capital budget is deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold.

In its Application, Oakville Hydro sought approval for incremental capital funding of \$7,100,000 for four discrete capital projects that were expected to be complete in 2019. During the course of the proceeding, it became evident that the William Halton Parkway road widening project would not be in-service until 2020.

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<sup>2</sup> ACM Report, page 17.

1 In their submissions, OEB staff and SEC made submission on the appropriate application of the ICM given  
2 that three of the projects had in-service dates in 2019 and the fourth project is now expected to be in-  
3 service in 2020.

4 In its submission, OEB staff proposed that, due to the unique nature of Oakville Hydro's ICM request, it is  
5 necessary to test the materiality of the three projects that were complete in 2019 against its 2019  
6 materiality threshold. The fourth project, which is expected to be in service in 2020, should be tested  
7 separately against Oakville Hydro's 2020 materiality threshold.<sup>3</sup> SEC made a similar proposal.<sup>4</sup>

8 OEB staff proposed that the 2019 materiality threshold amount of \$14,924,048 that was filed as part of  
9 Oakville Hydro's 2020 application be used to assess the materiality of the three 2019 projects. Based on  
10 this, OEB staff proposed that its 2019 capital expenditures should be \$19,974,000 and that its maximum  
11 eligible incremental capital for 2019 is \$5,049,952. OEB staff concluded that, since the three projects total  
12 \$5,900,000, Oakville Hydro should be eligible to recover a maximum of \$5,049,952.<sup>5</sup> OEB staff calculated  
13 the maximum eligible capital amount to be zero for 2020.<sup>6</sup>

14 SEC submitted that the maximum eligible capital amount is \$4,176,172 in 2019 and zero in 2020.<sup>7</sup> While  
15 SEC did not provide the details for this calculation, Oakville Hydro believes that SEC arrived at this value  
16 by using the 2019 budget of \$21,174,000 and the materiality threshold in the ICM spreadsheet of  
17 \$16,997,828 provided in response to OEB staff interrogatory number seven. In that response, the ICM  
18 model was updated to include growth from the embedded distributor rate class and was based on the  
19 OEB's 2020 inflation factor of 2.0%

20 Oakville Hydro acknowledges that its request is unique and it appreciates OEB staff's guidance on the  
21 appropriate application of the ICM. Oakville Hydro agrees with OEB staff's proposal to use the 2019  
22 materiality threshold, which reflected the OEB's 2019 inflation factor, but suggests that the original ICM  
23 model be updated to include growth from Oakville Hydro's embedded distributor as set out in response  
24 to OEB staff interrogatory number seven.<sup>8</sup>

25 Oakville Hydro proposes that, for the purpose of calculating the 2019 materiality threshold, the 2019  
26 capital budget be reduced to \$19,974,000, the inflation factor be set at the 2019 level and the ICM model  
27 be updated to include growth from the embedded distributor rate class. Oakville Hydro's proposal results  
28 in a maximum incremental capital amount of \$4,202,378.

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<sup>3</sup> OEB staff submission, page 6.

<sup>4</sup> SEC submission, page 2.

<sup>5</sup> OEB staff submission, page 6.

<sup>6</sup> IBID.

<sup>7</sup> SEC submission, page 2

<sup>8</sup> Interrogatory response to OEB staff 7, page 8.

**Table 2 - Proposed Incremental Capital**

	OEB Staff	SEC	Oakville Hydro
Total Capital Budget	\$ 19,974,000	\$ 21,174,000	\$ 19,974,000
Materiality Threshold	\$ 14,924,048	\$ 16,997,828	\$ 15,771,622
Maximum Incremental Capital	\$ 5,049,952	\$ 4,176,172	\$ 4,202,378

Oakville Hydro submits that the maximum allowed incremental capital is \$4,202,378 for 2019. Oakville Hydro agrees with OEB staff and SEC that the eligible amount for 2020 is zero.

#### **INDIVIDUAL PROJECT MATERIALITY**

In its Argument-in-Chief, Oakville Hydro submitted that each of the individual projects meet the project-specific materiality level. Oakville Hydro also noted that the total of these mandatory system access projects is equal to approximately one half of its typical capital spending.<sup>9</sup>

As discussed in OEB staff's submission, Oakville Hydro relied on the OEB's decision in Alectra Utilities Corporation's ("Alectra") 2018 IRM application for guidance on its assessment of individual project materiality. In that decision, the lowest individual project approved for recovery of incremental funding was the York MS project with a total cost of \$2,300,000 or 1% of its total capital budget of \$267,700,000.<sup>10</sup>

OEB staff calculated the lowest project cost of \$1,200,000 to be 5% of Oakville Hydro's total capital expenditures and agreed that the proposed capital projects met the project-specific materiality threshold. OEB staff noted that the OEB's ICM policies make no mention of a particular percentage for the project-specific materiality threshold.<sup>11</sup>

SEC<sup>12</sup> and AMPCO<sup>13</sup> did not agree that the Alectra decision had established a materiality standard of 1% of capital budget. However, SEC agreed that the proposed projects are "significant undertakings" for Oakville Hydro.<sup>14</sup>

It was not Oakville Hydro's intention to suggest that the Alectra decision had established a materiality standard. In its Argument-in-Chief, Oakville Hydro noted that the OEB had stated in its decision that amending the ICM policy to include a mathematical materiality calculation for the

<sup>9</sup> Argument in Chief, page 4.

<sup>10</sup> OEB staff submission, page 6.

<sup>11</sup> IBID, page 7.

<sup>12</sup> SEC submission, page 5.

<sup>13</sup> AMPCO submission, page 5.

<sup>14</sup> SEC submission, page 5.

1 project-specific materiality threshold could only be done through a policy review.<sup>15</sup> In the absence of a  
2 defined materiality threshold, Oakville Hydro was simply guided by the OEB decision.

3 In its submission, EP suggested that, since none of the four projects exceed the maximum eligible  
4 incremental capital amount individually, that none of the projects meet the project specific materiality  
5 level.<sup>16</sup> Oakville Hydro respectfully disagrees with this suggestion. The ACM Report refers to the adoption  
6 of a project-specific materiality threshold, as identified in the Toronto Hydro decision in which specific  
7 projects were not approved on the basis that they were minor expenditures in comparison to the overall  
8 capital budget.<sup>17</sup> A similar, project-by-project evaluation of materiality in comparison to the overall capital  
9 budget was undertaken in Alectra's 2018 IRM application.<sup>18</sup>

10 Oakville Hydro reiterates its position that each of the ICM projects meets the project-specific materiality  
11 threshold. Both OEB staff and SEC agreed that the ICM projects meet the project-specific materiality test.

## 12 **NEED**

13 The ACM Report requires that a distributor satisfy the eligibility criteria of need, comprised of: a) passing  
14 the means test; b) amounts to be incurred must be based on discrete projects; and c) amounts to be  
15 incurred must be outside of the base upon which rates were derived.

### 16 a) Means Test

17 Under the means test, if a distributors Return on Equity ("ROE") exceeds 300 basis point above  
18 the deemed ROE embedded in the distributors rates, then the funding for any incremental project  
19 will not be allowed.

20 In its Argument-in-Chief, Oakville Hydro submitted that its ROE had never deviated between its  
21 approved ROE by more than 135 basis points between 2014 and 2018. It also noted that, when  
22 adjusted for unusual / non-recurring revenue that its weighted average ROE for the period 2014  
23 to 2018 was 12 basis points below its approved ROE.<sup>19</sup>

24 In its submission, OEB staff agreed that Oakville Hydro had passed the means test.<sup>20</sup>

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<sup>15</sup> Argument in chief, page 4

<sup>16</sup> EP submission, page 4.

<sup>17</sup> ACM Report, page 17.

<sup>18</sup> Decision and Order, Alectra Utilities Corporation, April 5, 2018, EB-2017-0024, pages 30 to 60.

<sup>19</sup> Argument in Chief, page 5.

<sup>20</sup> OEB staff submission, page 8.

1 In contrast, Intervenor submissions on why the OEB defined means test is not applicable  
2 to Oakville Hydro. AMPCO<sup>21</sup>, CCC<sup>22</sup>, EP<sup>23</sup>, and VECC<sup>24</sup> all commented that Oakville Hydro had  
3 exceeded the OEB's deemed ROE without reference to the means test. VECC submitted that  
4 Oakville Hydro had not demonstrated financial hardship despite there being no requirement to  
5 do so in the eligibility rules set out in the ACM Report.<sup>25</sup>

6 SEC provided a table that deviated from the prescribed ROE calculations by including non-rate  
7 regulated revenue and expenses in regulated net income and compared that to the OEB's annual  
8 deemed ROE rather than Oakville Hydro's approved ROE.<sup>26</sup>

9 Oakville Hydro respectfully disagrees with SEC's suggestion that the adjustments made to Oakville  
10 Hydro's net income to arrive at regulatory net income have not been supported with any evidence  
11 in this proceeding.<sup>27</sup> Oakville Hydro notes that, in its reply to OEB staff and Intervenor  
12 submissions, Oakville Hydro addressed SEC's concerns with Oakville Hydro's 2018 net income as  
13 reported in the OEB Yearbook as follows:

14 *"However, SEC would not have known that Oakville Hydro's 2018 net income, as published*  
15 *in the 2018 Yearbook, includes the impact of unusual/non-recurring prior period*  
16 *adjustments totaling \$1.3M for taxes, amortization and lost revenue as well as non-*  
17 *regulated revenue related to Conservation and Demand Management ("CDM") mid-term*  
18 *incentives."*<sup>28</sup>

19 Oakville Hydro also notes that it files its annual ROE in accordance with the OEB's Electricity  
20 Reporting and Record Keeping Requirements, which is reviewed and tested by OEB staff on  
21 an annual basis before being published in the annual distributor scorecard.

22 In conclusion, Oakville Hydro submits that it has passed the means test. Oakville Hydro also  
23 suggests that, a departure from the application of the OEB defined means test would serve  
24 as a disincentive to distributor efficiency and should not be undertaken without a thorough  
25 policy review.

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<sup>21</sup> AMPCO submission, page 4.

<sup>22</sup> CCC submission, page 3.

<sup>23</sup> EP submission, page 5.

<sup>24</sup> VECC submission, page 7.

<sup>25</sup> IBID.

<sup>26</sup> SEC submission, page 3.

<sup>27</sup> IBID.

<sup>28</sup> Oakville Hydro reply submission on the Preliminary Question, page 9.

1 As noted in the ACM Report, a means test that does not allow incremental funding if a  
2 distributor is earning more than its Board-approved ROE may be a barrier to a distributor  
3 seeking efficiency improvements during the IR term.<sup>29</sup>

4 b) Discrete Projects

5 In order to be eligible for an ICM, the distributor must also demonstrate that the amounts being  
6 requested for approval are based on discrete projects that are directly related to the claimed  
7 driver.<sup>30</sup> The discrete project criterion also requires that the ICM projects not be part of a typical  
8 annual capital program.<sup>31</sup>

9 In its Argument-in-Chief, Oakville Hydro submitted that the relocation of Oakville Hydro's assets  
10 at Hydro One owned municipal stations is not part of Oakville Hydro's typical annual capital plan  
11 and that the capital investment of \$5,400,000 for the three ICM road widening projects is clearly  
12 in excess of Oakville Hydro's typical annual road widening program.<sup>32</sup>

13 In its submission, OEB staff agreed that the proposed ICM projects are discrete and directly related  
14 to the claimed driver. OEB staff noted that Oakville Hydro's 2014 cost of service application  
15 included \$403,000 for road widening projects and that its actual in-service capital additions for  
16 road widening projects was \$2,008,678 or \$401,726 per year.<sup>33</sup>

17 SEC agreed that each of the proposed ICM projects qualify as discrete projects and that, while  
18 municipal road widening projects are in the same category as normal capital programs, the size  
19 of these projects makes them significantly different than Oakville Hydro's normal annual  
20 obligations.<sup>34</sup>

21 c) Amounts to be incurred must be outside of the base upon which rates were derived

22 OEB staff noted that Oakville Hydro's base rates support some amount of road widening projects  
23 and that, in its view, it is appropriate to view the \$403,000 as being part of the amount that must  
24 be funded through rates. OEB staff submitted that there was no adjustment necessary for the  
25 2019 projects. Oakville Hydro has calculated the amount to be included in rates as \$1,697,622,  
26 which is well in excess of the \$403,000 in Oakville Hydro's base rates.<sup>35</sup>

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<sup>29</sup> ACM Report, page 16.

<sup>30</sup> IBID, page 17.

<sup>31</sup> IBID, Page 13.

<sup>32</sup> Argument in chief, page 5.

<sup>33</sup> OEB staff submission, page 8.

<sup>34</sup> SEC submission, page 5.

<sup>35</sup> OEB staff submission, page 9.



Table 3 - ICM Project Costs Funded in Rates

Total Cost of ICM Projects	2019
Total Cost of ICM Projects	\$5,900,000
Maximum Allowed Incremental Capital	4,202,378
Funded in Rates	\$1,697,622

### REQUIREMENT FOR A DSP TO SUPPORT NEED

In its argument in chief, Oakville Hydro submitted that a DSP is not required to determine whether the proposed ICM projects are incremental to its capital needs. These projects were not undertaken to renew or expand Oakville Hydro's distribution system but rather to move its distribution assets to accommodate the needs of the third parties making the system access requests.<sup>36</sup>

OEB staff made no submissions on the question of whether a DSP is needed to support an ICM application.

AMPCO<sup>37</sup>, CCC<sup>38</sup> and SEC<sup>39</sup> made submissions that suggested that, without a DSP, the OEB is unable to test the reasonableness of Oakville Hydro's underlying budgets in order to assess the reasonableness of Oakville Hydro's ICM application.

SEC submitted that once the ICM projects were backed out of the 2019 budget the total budget of \$15,699,000 is \$3,167,796 higher than the average of the preceding four years.<sup>40</sup> Oakville Hydro submits that once the \$7,100,000 related to the four ICM projects is backed out, the total budget for 2019 is \$14,074,000, which is in line with Oakville Hydro's actual 2018 expenditures of \$14,777,378<sup>41</sup>.

SEC<sup>42</sup> and VECC<sup>43</sup> made specific submissions on Oakville Hydro's 2019 capital budget, which are related to the way in which the 2019 budget was presented as compared to the presentment of the 2018 actuals:

- Both SEC and VECC commented on the increase in the services program in 2019. Oakville Hydro wishes to clarify that the 2019 budget of \$7,453,400 includes the budget for both the distribution meter program and the new services program. The total expenditures in 2018 for these two programs was \$4,153,773. The 2019 increase in this program is attributable mainly to the \$1,700,000 investment for the Bronte Feeder Replacement and Relocation ICM project.
- Both SEC and VECC commented on the planned level of investments in transformers in 2019. Oakville Hydro wishes to clarify that the budget of \$1,509,000 in 2019 includes the budget for

<sup>36</sup> Argument in chief, page 7.

<sup>37</sup> AMPCO submission, page 4.

<sup>38</sup> CCC submission, page 3.

<sup>39</sup> SEC submission, page 6

<sup>40</sup> IBID

<sup>41</sup> Interrogatory response number AMPCO 5, page 14.

<sup>42</sup> SEC submission, page 6.

<sup>43</sup> VECC submission, page 9.

1 both transformer replacement and municipal station upgrade programs. The total expenditures  
2 for these two programs was \$1,472,928 in 2018.

3 Oakville Hydro remains of the view that, since the proposed ICM projects are not part of its typical capital  
4 plan, a DSP is not required to assess whether the ICM projects are incremental to its capital needs. There  
5 is no amount in its rates for the relocation of assets at Hydro One owned municipal stations and there is  
6 \$403,000 in its rates for road widening projects.

7 Oakville Hydro reiterates its submission that the question of whether a DSP is needed to support an ICM  
8 application should only be addressed through a policy review. Oakville Hydro submits that three of the  
9 four projects are road widening projects for which Oakville Hydro has no discretion, and the fourth relates  
10 to a major TS connection that is required. A DSP would not result in these projects being deprioritized.

11 As submitted in response to CCC interrogatory number seven, Oakville Hydro is currently working on its  
12 DSP.<sup>44</sup> Oakville Hydro acknowledges the importance of a robust DSP to plan and prioritize its investments  
13 and is committed to submitting its DSP upon completion.

#### 14 **PRUDENCE**

15 In its Argument-in-Chief, Oakville Hydro submitted that it had worked with Hydro One to optimize the  
16 design for the routing and interconnection of the new underground feeder location with the existing  
17 overhead infrastructure to minimize the impact on existing infrastructure. Oakville Hydro also worked  
18 with the Town and the Region to optimize the roadway design to minimize the relocation requirements.  
19 Oakville Hydro submitted that the cost associated with the ICM projects were prudent.<sup>45</sup>

20 OEB staff agreed that the costs associated with the road widening projects were prudent because they  
21 would allow Oakville Hydro to fulfill its obligations under the PSWHA. OEB staff also noted that the OEB  
22 has approved similar ICM requests related to road authority projects in the past. With respect to the  
23 Bronte TS project, OEB staff submitted that Oakville Hydro's efforts to optimize the project design and  
24 Hydro One's justification for implementing underground assets is reasonable and the cost associated with  
25 this project are prudently incurred.<sup>46</sup>

26 SEC submitted that nothing in the evidence leads them to believe that spending on any of the projects is  
27 not prudent and that any questions raised about the project design were answered appropriately. VECC  
28 submitted that, in its view, the ICM projects are prudent and needed.<sup>47</sup>

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<sup>44</sup> Interrogatory response number CCC 7, page 22.

<sup>45</sup> Argument in chief, page 7.

<sup>46</sup> OEB staff submission, page 10.

<sup>47</sup> VECC submission, page 10.

## OTHER ISSUES

### PROJECTS IN SERVICE IN 2019

In its evidence, Oakville Hydro submitted that, due to the uncertainty of the proposed road widening projects, it did not apply for ICM funding in its 2019 IRM application. As noted in OEB staff's submission, this uncertainty was driven by the fact that the in service dates for these projects had been repeatedly deferred by the road authorities in the past.<sup>48</sup>

In its reply to OEB staff and Intervenor submissions on the Preliminary Question, Oakville Hydro cited the OEB's decision in Rideau St. Lawrence Distribution Inc.'s ("Rideau St. Lawrence") 2018 IRM application. In that decision, the OEB agreed that the typical approach to the ICM is for incremental funding to start in the year that the assets is planned to go into service. However, the OEB noted that the ICM policy states that the Advance Capital Module ("ACM") and the ICM are incremental funding for capital projects to go into service during the IRM term.<sup>49</sup>

In their submission, OEB staff noted that specific and unique circumstances led to the OEB's decision in the Rideau St. Lawrence case.<sup>50</sup> OEB staff submitted that the practice applying for ICM funding in the rate year that assets go into service should continue to be the default expectation absent special circumstances. However, in Oakville Hydro's circumstance, OEB staff submitted that it would be reasonable to provide Oakville Hydro with ICM funding and suggested that it would be appropriate for Oakville Hydro to calculate the net book value of any approved assets as of January 1, 2020.<sup>51</sup>

VECC noted that the Rideau St. Lawrence case was the subject of a settlement agreement and that the OEB had agreed that the methodology adopted in the settlement proposal for the incremental funding was appropriate as part of the settlement.<sup>52</sup> However, VECC acknowledged that the OEB did make the clarification that it would not consider ICM project cost recovery out of period provided that the applicant were to seek recovery of amounts on a net basis going forward.<sup>53</sup>

VECC submitted that, should Oakville Hydro reduce the ICM project costs by an amount equals to six months amortization, as suggested in Oakville Hydro's response to OEB staff interrogatories, its request would meet the condition that costs can only be recovered on a go forward basis.<sup>54</sup>

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<sup>48</sup> OEB submission, page 2.

<sup>49</sup> Oakville Hydro reply submission – ICM Element, page 12.

<sup>50</sup> OEB staff submission, page 3.

<sup>51</sup> IBID, page 4.

<sup>52</sup> VECC submission, page 6.

<sup>53</sup> IBID

<sup>54</sup> IBID

Oakville Hydro agrees that it is appropriate to reduce the ICM project costs to an amount equal to six months amortization, as set out in response to OEB staff interrogatory number two.

### **ACCELERATED CCA**

In their submissions, SEC<sup>55</sup> and VECC<sup>56</sup> commented on the fact that Oakville Hydro had not reflected the accelerated CCA rules in the calculation of the revenue requirement for the proposed ICM projects. SEC submitted that to do so was incorrect. VECC noted that, in accordance with prior OEB directions, Oakville Hydro will record the impact in a deferral account.

In proposing to record the impact of the change to accelerated CCA in a variance account rather than reflecting it in the calculation of the revenue requirement for the proposed ICM project, Oakville Hydro relied on direction from OEB staff. Oakville Hydro has no position on this matter and will accept the decision of the OEB.

### **EMBEDDED DISTRIBUTOR**

In its Application, Oakville Hydro proposed that the costs associated with the proposed ICM projects be recovered from all rate classes except for the embedded distributor rate class. In response to interrogatories, Oakville Hydro clarified that this proposal was based on the fact that the proposed projects did not benefit the embedded distributor or its customers and that the embedded distributor's distribution rates were set based on a direct allocation of the costs to connect the embedded distributor to Oakville Hydro's Municipal Transformer Station.<sup>57</sup>

In its submission, OEB staff agreed that it is appropriate not to allocate a portion of the ICM costs to Oakville Hydro's Embedded distributor because costs attributable to the embedded distributor have been directly allocated and therefore no costs related to the embedded distributor are being socialized with the rest of Oakville Hydro customers.<sup>58</sup>

VECC submitted that, while Oakville Hydro's proposal is consistent with what was used in its last cost of service application, there has been no opportunity in this proceeding to test this allocation beyond the interrogatories.<sup>59</sup> SEC submitted that the cost allocation process assumes that there are puts and takes in each category and they balance each other out.<sup>60</sup>

While Oakville Hydro believes that it is appropriate to exclude the Embedded Distributor from the allocation of cost related to these ICM projects it will accept the decision of the OEB in this matter.

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<sup>55</sup> SECC submission, page 7.

<sup>56</sup> VECC submission, page 7.

<sup>57</sup> Interrogatory response, OEB staff 7, page 7 to 9.

<sup>58</sup> OEB staff submission, page 10.

<sup>59</sup> VECC submission, page 10.

<sup>60</sup> SEC submission, page 8.

## **HALF YEAR RULE**

Oakville Hydro has proposed that the revenue requirement associated with the ICM projects include a full year of depreciation. This proposal is consistent with the OEB's general guidance on the application of the half-year rule, as provided in the Supplemental Report, which states that the half-year rule should not apply so as not to build a deficiency for the subsequent years of the IRM plan term. However, the OEB's approach in decisions has been to apply the half-year rule in cases in which the ICM request coincided with the final year of a distributor's IRM plan term. Oakville Hydro submitted that, since it is its intention to request a deferral of rebasing beyond 2021, the application of the full year rule is appropriate.<sup>61</sup>

OEB staff did not object to the application of the full year rule for the purposes of this proceeding and suggested that, in the event that the OEB denies Oakville Hydro's request to defer rebasing for 2021 rates, the OEB will have an opportunity to address the full year treatment through the variance account that tracks ICM costs and revenues at that time.<sup>62</sup>

## **IMPLEMENTATION DATE**

In their submission, OEB staff noted that this proceeding has been prolonged due to the matter of the Preliminary Question and, given the circumstances; OEB staff supports a January 1, 2020 effective date for any potential ICM rate riders.<sup>63</sup>

Oakville Hydro agrees with OEB staff's submission and requests that any approved rate riders are effective January 1, 2020.

## **CONCLUSION**

Oakville Hydro submits that the parties agree that Oakville Hydro's request for incremental capital funding for the system access projects is material to its operations and that Oakville Hydro acted prudently in completing the projects.

OEB staff and Intervenor took no issue with the overall materiality of the proposed ICM projects or the need for Oakville Hydro to complete projects, nor did they question whether Oakville Hydro's costs were incurred prudently. In Oakville Hydro's view, the main issue in this proceeding is whether Oakville Hydro should be able to manage some or all of those costs within its current rates.

Oakville Hydro submits that the ICM materiality and means tests, as set out in the ACM Report, are the appropriate mechanisms for addressing this issue.

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<sup>61</sup> Application, page 15.

<sup>62</sup> OEB submission, page 4.

<sup>63</sup> IBID.

## Materiality

The materiality criteria are met if there is a positive variance between a distributor's capital budget and the OEB defined materiality threshold.

The total capital investment for the proposed ICM projects that will be in service in 2019 exceeds the 2019 materiality threshold by \$4,202,378 as set out in Table 2. The proposed ICM project that will now be in service in 2020 does not exceed the 2020 materiality threshold. Therefore, the answer to the question of whether Oakville Hydro should be able to manage some of the costs of the ICM projects in its current rates is yes. Oakville Hydro can manage a total of \$2,897,622 (\$1,679,622 in 2019 and \$1,200,000 in 2020) of the total ICM costs of \$7,100,000.

**Table 4 – Amount Funded in Current Rates**

	2019	2020
<b>Capital Budget Excluding ICM Projects</b>	\$14,074,000	\$15,600,000
<b>ICM Projects</b>	5,900,000	1,200,000
<b>Total Capital Budget</b>	\$19,974,000	\$16,800,000
<b>Materiality Threshold</b>	15,771,662	17,301,915
<b>Maximum Eligible Incremental Capital</b>	\$4,202,378	\$-
<b>ICM Projects</b>	5,900,000	1,200,000
<b>Amount Funded in Current Rates</b>	\$1,697,622	\$1,200,000

Oakville Hydro notes that its ability to manage incremental capital costs of \$1,697,622 in 2019 is consistent with its original position that, had the road widening projects not proceeded in 2019, Oakville Hydro would not have required incremental capital funding of \$1,700,000 for the Bronte TS project. Furthermore, the fact that one of the three road widening projects did not proceed as planned reinforces the level of uncertainty associated with these projects.

## Means Test

The OEB defined means test is met if the distributor's ROE is within the OEB defined band of 300 basis points above the deemed return on equity embedded in the distributor's rates. Oakville Hydro's ROE, which has been calculated in accordance with the OEB's RRR Guidelines, is well below 300 basis points of its deemed ROE.

Intervenors have made submissions requesting that Oakville Hydro's ICM application to be rejected because its ROE has exceeded its deemed ROE by 129 basis points. Oakville Hydro submits that it is inappropriate to suggest that Oakville Hydro's eligibility for incremental capital funding be decided on a basis other than that set out in the OEB's ACM Report.

Oakville Hydro suggests that it would create considerable regulatory uncertainty if the OEB determined whether Oakville Hydro had met the means test on a basis other than that set out in the ACM Report.

Oakville Hydro submits that its request for incremental capital funding has met the eligibility requirements set out in the ACM Report and the Supplemental Report.

Oakville Hydro requests that the OEB approve the recovery of the revenue requirement associated with its request for incremental capital funding of \$4,202,378 effective January 1, 2020.

All of which is respectfully submitted.

A handwritten signature in black ink, appearing to read 'K. Marner', written over a horizontal line.

Karen Marner

Chief Financial Officer