PUC Distribution Inc.
500 SECOND LINE EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 6P2

February 7, 2020

Delivered by Courier, Email and RESS

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

Attention: Ms. Long

Re: PUC Distribution Inc.
Application for 2020 Electricity Distribution Rates
Ontario Energy Board File Number: EB-2019-0170
Reply Submission

Pursuant to Procedural Order No. 1, please find enclosed the Reply Submission of PUC Distribution Inc.

Sincerely,

Tyler Kasubeck

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Introduction

On October 15, 2019, PUC Distribution Inc. ("PUC") filed its Price Cap Incentive Rate-setting application with the Ontario Energy Board ("OEB" or the "Board") under section 78 of the *Ontario Energy Board Act*, 1998, seeking approval for changes to the rates that PUC charges for electricity distribution, to be effective May 1, 2020 ("Application"). OEB Staff and the Vulnerable Energy Consumers Coalition ("VECC") filed interrogatories on December 17, 2019 and PUC subsequently filed its interrogatory Responses ("IRR") on January 10, 2020.

On January 24, 2020, OEB Staff and VECC issued written submissions to the Board based on its review of PUC's Application and IRR. PUC respectfully submits this document as a reply submission to the Board.

PUC reiterates and relies on its submissions and evidence in its Application and IRR and notes that OEB Staff and VECC are in agreement with PUC regarding the following:

- Fully Fixed Distribution Charge – Residential Customers
- Price Cap Adjustment
- Retail Transmission Service Rates (RTSRs)
- Group 1 Deferral and Variance Accounts
- Incremental Capital Module (ICM) Request

Incremental Capital Module (ICM) Request

Below is a summary of the points to which OEB Staff and VECC are in agreement with PUC on its ICM request.

OEB Staff and VECC both submit that PUC's request for ICM funding for the renewal of Substation 16 meets the ICM eligibility criteria of materiality, need and prudence as set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,* September 18, 2014 ("ACM Report").

Materiality

Both OEB Staff and VECC agree that PUC meets the Materiality test set out in the ACM Report.

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OEB Staff and VECC both submit that the project total capital required by the utility, which includes Substation 16 renewal, exceeds the OEB-defined materiality threshold of $6,497,525. In addition, the project also meets the project-specific materiality threshold as it is a significant capital expenditure for PUC. The cost of Substation 16 represents approximately 52% of PUC's 2020 capital budget.

Need

Both OEB Staff and VECC agrees that PUC meets the three components of the Needs test set out in the ACM Report.

(i) PUC's Return on Equity projections for 2019 and 2020 do not exceed the dead band of 300 basis points;
(ii) the Substation 16 renewal is a discrete project directly related to the claimed driver; and
(iii) the proposed capital costs for the Substation 16 renewal are outside the base upon which PUC's current rates were derived.

Prudence

Both OEB Staff and VECC agrees that PUC meets the Prudence test as set out in the ACM Report.

OEB Staff and VECC reviewed the six options evaluated by PUC with regards to the Substation 16 renewal project and agreed that Option 3: Renew Sub-16 now ($4,728,229) was the most cost-effective option. VECC submits that the renewal of Substation 16 now appropriately responds to the capacity issues that PUC is facing and OEB Staff submits that PUC has used a prudent procurement process to be cost-effective for the construction of Substation 16.

Accelerated Capital Cost Allowance for ICM

OEB staff has submitted that accelerated CCA should not be reflected in PUC's PILS and ICM revenue requirement, but instead, that it should be included in the Account 1592 sub-account for CCA changes as per the Guidance. OEB staff noted the Guidance stated that any impacts arising from the CCA rule changes are to be reflected in cost-based applications for 2020 rates and beyond. The current application is an ICM application and therefore, may not fully capture all tax implications. OEB staff notes that if the ICM is approved, the appropriate revenue requirement excluding the impacts of accelerated CCA would be $237,816.

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PUC has proposed the smoothing of CCA as a method to ensure it does not incur a revenue deficiency until its next Cost of Service rate application. However, PUC submits that it is not opposed to utilizing Account 1592 sub-account per the OEB's staff's submission regarding the treatment of the accelerated CCA in its calculation of PIL's.

- All of which is respectfully submitted -

Sincerely,

Tyler Kasubeck

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