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February 14, 2020

Reply To: Thomas Brett  
Direct Dial: 416.941.8861  
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Our File No. 192964

**VIA RESS, EMAIL AND COURIER**

Ontario Energy Board  
2300 Yonge Street  
27th Floor  
Toronto, Ontario  
M4P 1E4

Attention: Kirsten Walli,  
Board Secretary

Dear Ms. Walli:

**Re: EB-2019-0018: Alectra Utilities, 2020 Electricity Distribution Rates Application**

BOMA is writing to advise the Board that it appears that BOMA's submission on the M-Factor, which was submitted to the Board and parties on November 14, 2019 pursuant to Procedural Order No. 1 (p2), was not considered by the Board in its deliberations on that issue. As can be seen, BOMA prepared a substantial submission on M-Factor proposal and Rate-Setting Mechanism. A copy of BOMA's submission on M-Factor is attached as Appendix 1 to this letter. BOMA's M-Factor submission was considered by Alectra counsel in its Reply Argument.

In that part of the EB-2019-0018 Decision, dealing with the M-Factor (pp5-28), at pp5-6, the Board noted that BOMA filed Interrogatories, attended the Technical Conference, and participated in the Oral Hearing. However, the subsequent paragraph that described the intervenors' submissions stated:

*"Energy Probe and MANA filed submissions on the M-Factor proposal on November 14, 2019. DRC, PWU and OEB staff filed submissions on November 15, 2019. AMPCO, CCC and VECC filed submissions on November 18, 2019. SEC filed its submission on November 19, 2019." (Ibid, p6)*

BOMA's submission was not included.

Having reviewed the M-Factor part of the Board's Decision (pp5-28), BOMA finds no mention of BOMA's submission. The Board recognized and commented on submissions by other intervenors but made no mention, in any place in the Decision, of BOMA's submission on any topic.

Finally, Appendix 2 to this letter is an excerpt from the Board's detailed chronology of the proceeding on the Board's website, which shows BOMA's submission was received on November 14, 2019. However, it is labelled Alectra Rates Capitalization submission, rather than Alectra Rates M-Factor submission, as are all the other intervenor submissions on the excerpted page, immediately preceding BOMA's submission. In other words, the submission was incorrectly characterized. That said, and in fairness to the Board staff, my firm's email cover sheet attached to BOMA's submission began with the phrase "*Pursuant to Procedural Order No. 4*". Procedural Order No. 4 dealt only with the capitalization issue. The email cover sheet should have said "*Pursuant to Procedural Order No. 1*", which, as noted above, dealt with the date when intervenors' submission on the M-Factor were due. Our erroneous reference in the email cover sheet appears to have misled the Board staff. BOMA apologizes for the incorrect reference in the email cover sheet.

BOMA hopes this letter will complete the record, and be of assistance to the Board.

Yours truly,

**FOGLER, RUBINOFF LLP**



Thomas Brett

TB/dd

Encls.

cc: Katherine Wang, OEB (*via email*)  
Lawren Murray, OEB (*via email*)

**APPENDIX 1**

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November 14, 2019

Reply To: Thomas Brett  
Direct Dial: 416.941.8861  
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Our File No. 192964

**VIA RESS, EMAIL AND COURIER**

Ontario Energy Board  
2300 Yonge Street  
27th Floor  
Toronto, Ontario  
M4P 1E4

Attention: Kirsten Walli,  
Board Secretary

Dear Ms. Walli:

**Re: EB-2019-0018: Alectra Utilities, 2020 Electricity Distribution Rates Application**

Please find enclosed herewith BOMA's Written Submission.

Yours truly,

**FOGLER, RUBINOFF LLP**



Thomas Brett

TB/cm

Encls.

cc: All Parties (*via email*)

**EB-2019-0018**

**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.

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**Submission of Building Owners and Managers Association, Greater Toronto  
("BOMA")**

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**November 14, 2019**

**Tom Brett  
Fogler, Rubinoff LLP  
77 King Street West, Suite 3000  
Toronto, ON M5K 1G8**

**Counsel for BOMA**

**Submissions on the M-Factor and Related Issues**

1. BOMA is of the view that Alectra's rates submission should be rejected by the Board. The Board should approve a one year rate increase for 2020 applying the current Alectra IRM escalator for each of its rate zones, such formula not to include the M-Factor. The Board should direct Alectra to file either a fourth generation IRM plan or rebase with a custom IR plan, in either case effective January 1, 2021. BOMA sets out its reasons for this recommendation in the paragraphs that follow.
2. Alectra's M-Factor proposal is neither a fourth generation IRM proposal nor a custom IR proposal, and is not consistent with the Board's RRFE policy. It is a hybrid of the two approaches designed to give Alectra all of the funds required to implement all of the capital projects in its distribution system plan, without a rebasing, which allows the company shareholder to retain all of the merger related savings for the remaining years of its deferred rebasing term. It is allowing Alectra to have its cake and eat it too. It is, in short, totally unacceptable, a product of Alectra's arrogance and sense of entitlement.
3. Alectra's evidence states that in many respects, its proposal is "similar in approach" to a custom IR proposal, in that it requests additional rate increases over the five year plan period required to fund the entire capital budget included in its Distribution System Plan ("DSP"), in excess of the funding that would be recovered through the traditional fourth generation IRM formula,  $P=I-X$ , and customer growth. However, the proposal lacks the ratepayer protections the Board has mandated for custom IRs such as rebasing with a cost of service year, benchmarking and provisions for continuous improvement including verifiable productivity initiatives.

4. The Board directed Alectra to file a five year DSP as part of its 2020 rate case. The Board did this, presumably, to ensure that Alectra, which was created by a merger of four utilities, Powerstream, Horizon, Enersource, and Brampton, allocates capital on a company-wide basis, notwithstanding the fact that it maintains separate rate zones for each of its predecessor utilities. Alectra has filed the requested DSP in this case. The Board would direct any utility in a similar position to file a consolidated DSP. The Board has stated as follows:

*"The OEB believes that it is in the best interest of consumers to have consolidating entities operate as one entity as soon as possible after the MAADs transaction. The consolidated entity application will allow the OEB to establish rate that reflect the efficiency from the consolidation transaction. Therefore, there is no requirement for the consolidated entity to wait until the deferred rebasing period is completed to apply to the OEB for rebasing." (EB-2014-0138, page 7).*

5. The incremental amount, which Alectra plans to collect through the M-Factor, is analogous to the incremental amounts of funding required, that other utilities including Hydro One and Toronto Hydro have proposed to collect through their C-Factor proposals. However, there are some fundamental differences between what Alectra proposes and the C-Factor proposals by other utilities in recent Board proceedings. These utilities have anchored their five year IR plans with a rebasing, with the first year of their IR plans, budgeted on a cost of service basis. On the other hand, Alectra does not propose to rebase in 2020 because to do so would end the ten year deferred rebasing period it requested and received at the time of its foundational merger. Providing Alectra

does not rebase, Alectra shareholders and not its ratepayers will harvest any merger-driven savings that Alectra realizes over the full ten year period.

6. Pursuant to Board policy, Alectra has been under a fourth generation IRM with access to ICM funding since the merger in early 2017, and has already accessed substantial ICM funding for capital expenditures in each of 2018 and 2019. It has received \$28.8 million or 51% of its 2018 ICM request and \$26.8 million or 85% of its 2019 ICM request (EB-2017-0024, page 2). In these decisions the Board has implemented Board policy. However, Alectra now claims that, while only in the third year of its ten year rebasing period, it cannot fund all of the capital investments, some as small as \$100,000.00, that it needs to make to implement its DSP (our emphasis). So, it has applied for a five year custom IR-like proposal, including an M-Factor, which, if approved, would provide it with all of the funds it needs to finance its five year capital expenditure plan. This additional amount, to be funded by the M-Factor over and above the revenues that Alectra would collect under its fourth generation IRM I-X formula and growth, amounts to \$275 million. Moreover, hundreds of projects that it has included in its five year DSP would not be subject to any project-specific materiality factor.
7. Alectra's proposed M-Factor differs from the C-Factors requested by other utilities in their rebasing years for custom IR plans, in that the amount of the M-Factor will be reduced by a materiality factor and deadband calculated according to the Board's ACM/ICM policy.

**Board Policy**

8. As noted above, in BOMA's view, Alectra's proposal is not consistent with existing Board policy as discussed in more detail below.

**Results-Based Ratemaking**

9. In its seminal results based policy document, Report of the Board, Renewed Regulatory Framework for Electricity Distributors, a Performance Base Approach dated October 18, 2012, the Board laid out three ratemaking options for utilities. The options were annual IR index, fourth generation Price Cap IR ( $P=I-X$ ), and custom IR. The Board stated that fourth generation Price Cap IR would be the preference of most utilities, with some capital requirements over the five year plan term, which could be dealt with by the utilities' access to ICM funding. Those few utilities with large capital budgets relative to historical budgets, in each or most of the years of the five year plan should utilize the custom IR. In either case, the utilities were required to file a five year DSP at the outset. The Board also noted in the RRFE that fourth generation IRM would not be appropriate for utilities that were requesting large amounts of incremental capital in each year of their IRM plan.
10. In the RRFE the Board made it clear that its existing policies in respect of the ICM under third generation IR would continue to apply. The Board also noted that the 2012 Distribution Filing Requirements were revised to permit a distributor to request ICM financing for projects that were not unusual or unanticipated, although it retained the requirement that the proposed expenditure be non-discretionary. (RRFE, page 18)
11. The Board updated its ICM policy and introduced its ACM policy in two (2) documents:



- (a) EB-2014-0219, Report of the Board, New Policy Options for the Funding of the Capital Investments, The Advanced Capital Module, September 18, 2014 (the "September 18 Report"); and,
- (b) EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments, Supplementary Report, January 22, 2016.

First, it adopted a project specific materiality test for ICM projects. It stated that:

*"Minor expenditures in comparison to the overall capital budget should be considered ineligible ACM or ICM treatment. A certain degree of project expenditure over and above the board defined threshold calculation is expected to be absorbed within the total capital budget."* (September 18, 2014 Report page 17)

- 12. The policy was stated over two (2) years before the Alectra merger took place but Alectra Management did not appear to take it seriously.
- 13. Second, in the September 18 Report the Board clarified the discreet project criterion. It stated that:

*"The Board is of the view that projects purposed for incremental capital funding during the IR term must be discreet projects and not part of typical annual programs. This would apply to both ACM and ICM's going forward."* (September 18 Report, page 15)

- 14. The Board also noted that the amounts for the which ICM funding must exceed the Board approved materiality threshold and have a significant influence on the operation of the

utility. (our emphasis) (Ibid page 16) Alectra also ignored this principle in its application.

15. Finally, the Board stated that ICM funding could be provided for a project which is discretionary, as well as one that is mandatory. (Ibid page 15) It stated that:

*"The Board is of the view that the availability of Incremental Capital Funding (ICM) during the IR term should no longer be limited to non-discretionary projects. Any discreet project (discretionary or otherwise) adequately supported in the DSP is eligible for ACM funding subject to capital funding availability flowing from the formula results. The same approach shall apply going forward to new projects for proposed as ICM during the Price Cap IR Term."* (Ibid page 15)

16. The Board has consistently applied these principles enunciated in the September 18, 2014 Report in its recent post-merger Alectra rates decisions EB-2017-0024 and EB-2018-0016.
17. The Board ACM and ICM Policy was adopted long before the Alectra merger took place, and in any event was not qualified so as not to apply to utilities that result from a merger.
18. In the Report of the Board, Rate Making Associated With Distributor Consolidation (March 26, 2015), the Board quoted its policy statement in the September 18 Report reproduced immediately above and went on to say that:

*"The OEB believes that the clarification set out in the September 18 Report establishes that a distributor may apply for ICM that included normal and expected capital investments." (2015 Report page 9)*

19. It is clear that the clarifications provided in the two quotations immediately above are meant to confirm the distributor's ability to apply for ICM funding for discretionary as well as non-discretionary projects, and for projects that were expected, in addition to unanticipated projects that arise during the term of 4th generation IR plan. However, the paragraph from page 9 quoted immediately above in no way commits the Board to approve, or entitles the utility to assume that a utility created by a merger would be assured Board approval for each and every capital project for which the distributor might request ACM/ICM funding. Had the Board wished to make such a major change in its ACM/ICM policy it would have said so. Moreover, the strained and unwarranted interpretation which Alectra has adopted in its application, would lead to a 2<sup>nd</sup> ACM/ICM policy which applied to only to utilities that are a product of a merger. The Board has only one ACM/ICM Policy and it applies to all Ontario utilities whether those utilities are a result of a merger or not.
20. The Board's 4th generation policy applies to Alectra notwithstanding the fact that Alectra was created pursuant to a merger.

### **The Merger**

21. The merger decision did not deal with rate making. Under Board policy it could not. (see for example Handbook to Electricity Distributors and Transmitters Consolidations

January 19, 2016, page 13). Alectra agreed with this proposition (TR 2, page 80). Accordingly, the Board's Alectra merger decision did not deal with Alectra's rates after the merger, other than to allow Alectra to retain its predecessor utilities' individual rate zones (EB-2016-0025; EB-2016-0360).

22. Nor is there any indication in the September 18 Report or the Supplement to that report dated January 22, 2016, that a merged utility may expect that it will be entitled to recover all of its ICM funding requests post the merger. As noted above, the Board's subsequent decisions in EB-2018-0016 and EB-2017-0084 simply applied the existing OEB policy.
23. In addition, nowhere in the merger decision itself does the Board say that Alectra could recover all of any ICM funding that it might apply for in subsequent rate cases.
24. In summary, Alectra seriously misinterpreted the Board's ACM/ICM policy when it assumed at the time of the merger that it would be guaranteed full recovery of every one of its ICM funding requests. It should not have been shocked by the results of the Board's subsequent rate decisions.

### **Early Rebasing**

25. Alectra made another serious error in its interpretation of the Board's policy, which it admitted under cross examination (TR 2, page 92), when it stated in its pre-filed evidence that it was not entitled to apply for early rebasing prior to the end of the 10 year deferred rebasing period.
26. The Board made it clear in the RRFE, Report of the Board, Renewed Regulatory Framework for Electricity Distributors; a performance Based Approach, October 18,

2012, that distributors may make a Custom IR Application at any time within a 3rd or 4th generation IR or any annual IR index term. (RRFE, page 70)

27. The Board first discussed rate making for merged utilities in the Report of the Board, Rate Making Associated with Distributor Consolidation, July 23, 2007. ("July 23 2007 Report") In that proceeding the Board authorized deferred rebasing after a merger of up to five years. The Board addressed early rebasing as follows,

*"Allowing a distributor the option of scheduling the rate rebasing at any time up to the five year limit accommodates distributors that may require an increase in operating, maintenance, or capital expenditures shortly after the closing of the merger." (July 23 2007 Report, page 5)*

28. Furthermore, in the Handbook to Electricity Distributors and Transmitters Consolidations ("The Consolidation Handbook"), in a section entitled Early Termination or Extension of Selected Deferred Rebasing Periods, the Board made it clear that a utility created through a merger has the right to apply to amend the deferred rebasing period which it elected at the time of the merger. The Board stated that in the event of such a request,

*"The OEB will need to understand whether any change to the deferred rebasing time period is in the best interest of customers"*  
(page 13).

Further, it stated that:

*"Distributors who subsequently request a shorter deferred rebasing period than the one that has been selected will be required to file with the Board a rationale to support the need to amend the previously selected deferred rebasing period" (Ibid).*

29. In sum, Alectra has the right to apply for an early rebasing. Alectra's evidence was in error in stating that Alectra did not have the right to early rebasing during its deferred rebasing period. Such an application would of course, if approved, result in Alectra having to forego its shareholders claim to further merger driven savings. However, as an aside, it seems clear from the evidence that Alectra has already received sufficient merger driven savings to offset both the transaction costs (which are de minimis) and transition costs.

#### **The Merger and Early Rebasing**

30. The merger decision did not deal with rate making. Under Board policy it could not. (see for example Handbook to Electricity Distributors and Transmitters Consolidations January 19, 2016) Accordingly, the Board's Alectra merger decision did not deal with Alectra's rates after the merger, other than to allow Alectra to retain its predecessor utilities individual rate zones (EB-2016-0025; EB-2016-0360). Alectra agreed with this proposition (TR 2, Page 92).

#### **Customer Engagement**

31. Alectra engaged Innovative Research Group to assist in carrying out its customer engagement commitments under the RRFE. The results of the initial phase of the customer engagement in which customers priorities were determined are summarized in

the Customer Engagement Planning Placemat contained on a single page (Customer Engagement, Appendix C to the DSP, on the back of a title page, an unnumbered page).

32. Residential and small business customer responses to the question "What are customer needs?", in all of the four rate zones, Enersource, Powerstream, Brampton and Horizon, were "lower rates". The mid-market customers responded to that question with either "nothing" or "lower rates". Large users said either "nothing" or "they didn't know". In response to the question "Overall, what outcomes do customers prioritize?", residential, small business and mid-market customers chose price first and reliability second. Large customers ranked reliability first and price second.
33. Alectra's summary of its customers engagement activities is only a partial account of customers answers to the Innovative Research survey and misleads the Board. For example, Alectra states that for residential customers price is the first priority (Ex. 2, Tab 1, Sch. 2, Page 9). While that is correct, it is also the fact that general service less than 50 kW and mid-market customers also stated that price is their first priority, ranking ahead of reliability. It is only the large customers that rank reliability ahead of price (Ex. 4.1.1, Section 5.2.1.5, Page 31).
34. As in all of Innovative's previous work that BOMA has examined closely, Innovative has not provided a balanced and fair summary of the customers' responses. In particular, it has systematically downplayed the importance of customers' responses that lower rates are the consistent first priority of all customer classes except for very large customers.
35. Further, the information part of the Online Workbook for Small Business Customers mentions that "your future rate increases will be limited by an OEB set price cap formula

that requires Alectra to keep its cost increases below inflation". A footnote to the page states that the price cap index was set at 1.2% (Ibid, Page 95). The statement is not correct as it does not include the M-Factor driven rate increases (see below).

36. And by including Alectra's planners' preferred option in each of the questions in Innovative's online survey/workbook , Alectra is putting its finger on the scale. Planners are Alectra employees and their recommendations are never to allow any degradation in reliability or any options that contemplate such degradation even if they result in lower rates. See for example, their recommendation to spend substantial funds on underground cable replacement notwithstanding inputs from the consultation that lower prices were the customers highest priority. As an aside, Alectra and Innovative include only total bill impacts in the workbook rather than distribution rate impacts. Finally, the questions "on expansion, intensification and backup" (pages 119-120) are too vague. For example, expressions such as "many" and "some" of the intensification and required backup projects are too general. The planners recommended option on the list of choices with respect to expansion, intensification and required backup point to the answer Alectra wishes to receive. The only two cases in the online survey/workbook where the customers have selected an option other than the planners recommended option was for additional general plant expenditures (page 104) and expenditures on at-risk meters (page 102).

#### **No Material Financial Need**

37. BOMA is of the view that Alectra is in a relatively strong financial position and does not require all the M-Factor funds that it is requesting over the plan period. First, the most recent rating agency reports included in the evidence support Alectra's existing strong



credit rating. The company has also agreed that its failure to receive all of the requested M-Factor funds that it seeks will not lower its credit rating (TR 3, Page 17). Second, Mr. Bentz, Alectra's CEO reported to Alectra's shareholders at the June 2019 Annual General Meeting that 75% of the merger synergies were already achieved, that the company performed strongly in 2017 and 2018 and that the current financial outlook in 2019 and beyond was healthy, even if below the original merger expectations (2018 Annual General Meeting Proceedings at page 10).

38. Third, in his overview of Alectra's 2018 financial statements at the 2019 Annual General Meeting, Mr. Basilio, Alectra's CFO, reported *inter alia*, that:

- (i) 2018 MIFRS utility net income of 137.3 million was above budget (page 20);
- (ii) Alectra overachieved 2018 merger synergy targets;
- (iii) Utility revenues over the period 2014-2018 increased at an annual compound rate of 4.3%;
- (iv) EBITDA, a measure of operating profits increased over the same period increased by 13.7% per year (page 21);
- (v) Alectra paid dividends to its shareholders of \$48.2 million in 2017 (excluding special merger dividends), \$78.7 million in 2018, and forecasts a dividend of \$77.8 million in 2019;
- (vi) Alectra's capital structure is sound with a free cash flow to debt ratio projected to increase from 13% today to 15.5% in 2021, and the debt to total capital ratio of 50.3% well below the 60% debt level assumed in the OEB's return on equity guideline giving the company substantial unused debt capacity.

39. Moreover, Alectra's 2019 Financial Plan assumed only a 50% recovery of its M-Factor request of \$275 million or \$137.1 million. This is a clear indication that Alectra does not expect, nor need, the full amount that it has requested in its application.

**M-Factor Like the C-Factor With a Materiality Threshold Added**

40. Both Toronto Hydro and Hydro One transmission and distribution have recently applied for C-Factors to fund the capital budgets set out in their custom IR applications. The M-Factor, like the C-Factor provides the funds necessary to pay for the capital expenditure plan based on the distribution system plan or the transmission system plan, over and above the funds that are generated by base rates increased annually by the I-X formula and customer growth revenue. The M-Factor, like the C-Factor is not an index like I-X. It is simply a funding mechanism to ensure that the revenues generated by rates are sufficient to fund the company's proposed capital budget. The M-Factor, like the C-Factor, provides no incentive for the utility to constrain its capital expenditures or increase its productivity measures. If approved as proposed, it would fund the entire capital budget proposed in the DSP. The C-Factor has been opposed by most intervenors and board staff including the Board Staff's expert Dr. Lowrie, in the recently completed Toronto Hydro proceeding. Alectra has added an additional feature to the C-Factor by introducing a materiality factor calculated as set out in the Board's ICM policy. However, Alectra has not adopted the project specific materiality factor calculated as a percentage of the total corporate capital budget rather than as a percentage of the various individual rate zones, nor the need for the applicant to designate and justify the discreet projects which will have a significant impact on the operations of the utility, for which it is seeking ICM funding. In effect, Alectra has cherry picked those parts of the Board's

ACM/ICM policy that support its application and rejected and criticized as unfair other aspects of the Board's policy.

41. The failure to constrain spending is also shown by Alectra's declared intention to be able to overspend its capital budget and its request to establish the CIVA and the Externally Driven Capital Variance Account. In summary, the M-Factor has the same weaknesses as the C-Factor. The fact that the application seeks to use it after a merger does not remove those weaknesses. In BOMA's view, there is no reason for the CIVA account to be symmetric. It should operate to ensure that the company cannot keep funds that it has already requested in rates when it has not spent those funds on approved projects.

#### **Externally Driven Capital Variance Account**

42. Alectra has also applied for a third party (municipalities and provincial governments and their agencies) driven capital variance account. This account would allow Alectra to recover expenditures on these projects in excess of their forecasted amounts, and collect the amount from ratepayers when the variance account is cleared, notwithstanding the fact that Alectra has included substantial amounts in its system access capital budget for these projects.
43. Alectra is not required to offset the excess spending on Externally Driven Capital Variance Account projects by reducing its capital expenditures in other categories such as system renewal, system service or general plant. It merely increases its capital expenditure total to include the additional requirements for the third party driven projects. Alectra has little incentive to negotiate harder to increase the government's share of the capital expenditures in question.

44. Finally, the provisions for clearing the deferral accounts to dispose of debits or credits are not the same. With respect to credits (payment to ratepayers) the argument Alectra's Argument-in-Chief (page 35) states that the externally driven capital variance account will be cleared "in a future proceeding", however the disposition of debits (payments to shareholders) will be made at rebasing, subject to the caveat that "it (Alectra) may request earlier disposition of the account should the balance be material". The provisions for clearance should be identical and mandatory in both cases at rebasing.

#### **Materiality Factor**

45. BOMA has concerns about the method by which Alectra has calculated the materiality threshold for M-Factor funding. The Board's ACM/ICM policy statement (EB-2014-0219) states that the materiality threshold represents a distributor's financial capacity that is underpinned by existing rates, including revenues from customer growth. Alectra's evidence is that the rate base used to anchor the calculation of the utility's financial capacity is the sum of the most recently approved rate bases of the utility's four rate zones. That amount totals \$2.805 billion in 2019 (Ex. 2, T.1, Sch. 3, Page 13). The rate base for the initial year of the plan is the sum of the four predecessor utilities' most recently Board approved rate bases. However, that amount does not include either the additions to rate base in 2018 and 2019 or the rate increases obtained to finance approved ICM projects in 2018 and 2019 rates.
46. Under the Board policy, the sum of the above amounts are escalated to 2019 at Board approved inflation and growth rates. However, the current 2019 financial plan (Exhibit K.2.5) shows the forecast 2019 Alectra rate base as \$3.178 billion, and it is that number that will be used to calculate the real materiality threshold in 2020. The \$3.178 billion

number is approximately \$241 million higher than the \$2.805 billion rate base shown at Exhibit 2, T.1 Sch. 3, Page 13. If the \$3.178 billion rate base number were used, the materiality threshold for 2020 would be substantially higher, and the eligible M-Factor funding would be substantially lower than that presented in the evidence. The significant difference between the starting rate base of \$2.805 billion, from Exhibit 2, T.3 Sch. 3, page 13 and the actual rate base for 2019 shown in the current financial plan is that the most recently approved rate base for each of Alectra's four predecessor utilities escalated by the I-X and growth indexes has substantially underestimated the real increase in rate base and consequently the real earning power over the five year period. In addition, depreciation in 2019 as shown in the financial plan is \$130 million compared to \$126.8 million shown in the Ex.2 T. 1 Sch. 3, page 14, a difference of \$4 million per year.

**The Distribution System Plan, Capital Expenditures, and the M-Factor**

47. The OEB stated that it requires Alectra utilities to file a consolidated DSP as a filing requirement with any ICM application requesting rate changes for 2020 rates and beyond (EB-2017-0024, Decision and Order April 6, 2019, page 2). Accordingly, Alectra filed a DSP in this proceeding. The five year capital expenditure budget from the DSP for the period 2020-2024 estimated at \$1.456 billion is excessive. It means the average capital expenditure over the five year period is approximately \$291.3 million. This capital program drives a rate base increase of \$627 million from 2019 of \$3.185 billion to \$3.812 billion in 2024, an average annual increase of \$125 million per year (SEC (F), an undertaking filed at the outset of the hearing). In comparison, the average annual capital expenditure over the period 2015-2019 was \$264 million. If we consider Alectra's capital expenditure over the period 2017-2019 (forecast) the average capital expenditure was

about \$223 million. The 2020-2024 average is \$68 million over the \$223 million which represents an increase of over 30%. That is an increase more than three times the rate of forecast inflation rate over the same period.

48. The expenditure pattern shown above has led to a material increase in customer distribution bills, a partial display of which is shown in JT 2.10 page 2 (our emphasis). For example, in the Powerstream rate zone for the GS less than 50 rate class (small business and office buildings and institutions), the distribution bill increases for the M-Factor only (our emphasis) were 0.93% for 2020, 1.43% for 2021, 2.02% for 2022, 3.32% for 2023, and 4.05% in 2024. To those percentages must be added the annual IRM base rate increase permitted by the Board of 1.3%. The actual annual increase in the small business customers distribution bill is, for each year, the sum of the M-Factor increase and the base rate increase.
49. The average annual distribution rate increase from the proposed M-Factor alone (our emphasis) of 2.3% is well in excess of the forecast inflation over the period. Adding to that number, the regular IRM rate increase under the I-X formula leads to distribution rate increases ranging for 2.2% in 2020 to 5.3% in 2024, which averages to 3.3% per year over the term, an increase almost twice that of forecast inflation over the same period.
50. While Alectra repeatedly compares the M-Factor and IRM increases to the customer's total bill to obtain a much lower percentage increase (because the small business customer's total bill is at least four times its distribution bill, the distribution rate is the only part of the total Alectra bill that Alectra is directly responsible for. It cannot control the other parts of the bill. For example, recent increases in the electricity commodity

price and the global adjustment in themselves result in a lower total bill impact of Alectra's distribution rate increases, but not due to any improvement by Alectra. Moreover, the undertaking response at JT 2.10 did not exactly capture the question. What I wanted was the total rate impact in each year for each rate class in each rate zone of the M-Factor, in addition to the increase that resulted from the application of the I-X formula. What I received is the percentage impact of the M-Factor only.

### **The Precedent**

51. As noted earlier in this submission, the Board directed Alectra to file a consolidated distribution plan in conjunction with its 2020 rates application. Alectra noted that it is the first utility created by a merger to file a five year DSP only three years into its deferred rebasing period. However, given the number of utilities remaining in Ontario and the Board's requirement that all utilities must file a distribution system plan on a regular basis under RRFE, it is unlikely to be the last. For all practical purposes, the Board will be setting an important precedent in this case as to how future post-merger DSP related cases will be dealt with.
52. If the Board were to grant Alectra's requests in this proceeding, every other merged utility in the future will file what is, in effect, a custom IR seeking to fund the entirety of the capital budget established by the distribution plan, without having to rebase and forego the substantial cash flow it was awarded over the deferred rebasing period granted to it in the merger. Such an approach runs directly runs contrary to the Board's established policy that a merged utility must operate on Price Cap 4<sup>th</sup> Generation IR with access to ACM/ICM funding of capital projects that it can justify under the Board's ACM/ICM

policy while being able to retain the synergies from the merger. That result is also unfair to ratepayers.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED NOVEMBER 14, 2019**



## APPENDIX 2

EB-2019-0018	 Alectra Utilities_ReplySUB_M-Factor_20191129	Submission	2019-11-29	2019-11-29
EB-2019-0018	 Alectra_Rates_ReplySUB_Capitalization Policy_20191128	Submission	2019-11-28	2019-11-28
EB-2019-0018	 VECC_SUB_Alectra Rates_M-Factor_20191118	Submission	2019-11-18	2019-11-18
EB-2019-0018	 AMPCO_SUB_Appendix_Alectra Rates_M-Factor_20191117	Submission	2019-11-18	2019-11-18
EB-2019-0018	 AMPCO_SUB_Alectra Rates_M-factor_20191117	Submission	2019-11-18	2019-11-18
EB-2019-0018	 OEB Staff_SUB_Alectra_M-Factor_20191115	Submission	2019-11-15	2019-11-15
EB-2019-0018	 DRC_SUB_Alectra Rates_M-factor_20191115	Submission	2019-11-15	2019-11-15
EB-2019-0018	 PWU_SUB_Alectra Rates_M-Factor_20191115	Submission	2019-11-15	2019-11-15
EB-2019-0018	 VECC_SUB_Alectra Rates_Capitalization_20191114	Submission	2019-11-14	2019-11-14
EB-2019-0018	 EnergyProbe_SUB_Alectra Rates_M-Factor_20191114	Submission	2019-11-14	2019-11-14
EB-2019-0018	 MANA_SUB_Alectra Rates_M Factor_20191114	Submission	2019-11-14	2019-11-14
EB-2019-0018	 OEB Staff_SUB_Alectra Capitalization Policy_20191114	Submission	2019-11-14	2019-11-14
EB-2019-0018	 BOMA_SUB_Alectra Rates Capitalization_20191114	Submission	2019-11-14	2019-11-14
EB-2019-0018	 SEC_SUB_Alectra Rates_Capitalization Issue_20191114	Submission	2019-11-14	2019-11-14