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November 18, 2020

VIA RESS FILING

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

Dear Ms. Long,

**Re: EB-2020-0002 – Alectra Utilities Corporation Incentive
Regulation Mechanism Application for 2021 Electricity
Distribution Rates and Charges**

Attached please find the Submissions of the Power Workers' Union in connection with the above-noted proceedings. An electronic copy has been filed through the Board's RESS filing system.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP


Richard P. Stephenson
RPS:pb

Encl.

Doc 3550317 v1

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

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**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, 2021**

Submissions of the Power Workers' Union

2 INCREMENTAL CAPITAL MODULE ("ICM")

1. Alectra Utilities is requesting approval for incremental capital funding (i.e., for capital investments that are not funded through existing distribution rates) for the Brampton RZ (\$7,772,417) and PowerStream RZ (\$2,885,574) for 2021, as set out in Table 1:

Table 1: 2021 Eligible Capital Projects¹

Brampton RZ			
Project Description	Gross	Contribution	Capital Expenditure
Goreway TS Expansion CCRA - 10 Yr True-Up Payment	5,682,220	-	5,682,220
Goreway Road widening	3,245,197	(1,155,000)	2,090,197
Total BRZ Incremental Capital	\$8,927,417	(\$1,155,000)	\$7,772,417
PowerStream RZ			
Rutherford Road widening	4,425,574	(1,540,000)	2,885,574
Total PRZ Incremental Capital	\$4,425,574	(\$1,540,000)	\$2,885,574

¹ Exhibit 2 Tab 1 Schedule 1 Page 4 of 18, Table 4; Exhibit 2 Tab 1 Schedule 1 page 13, Table 12

2. The PWU notes that, on November 9, 2020, the OEB issued a letter which sets out the inflation parameter updates for IRM Applications with rates effective in 2021. In the letter, the OEB indicated that the 2021 inflation factor would be 2.2% for electricity distributors and 2.0% for electricity transmitters and OPG. The OEB has indicated that it is not mandatory that the calculated inflation factor be adopted for rate adjustments and that in light of the current COVID-19 pandemic, utilities could adopt an inflation factor less than that calculated by the OEB's methodology for each sector. Similarly, the PWU notes that Alectra Utilities, in its responses to interrogatories by the OEB, has corrected or provided some missing data in its evidence that could impact the calculation of certain parameters in the ICM. The PWU's submissions below are therefore subject to any potential updates Alectra Utilities will make to the numbers in in Table 1.

3. The PWU submits that the requested incremental capital amounts should be approved for the following reasons:

1. The Projects are Non-Discretionary

4. The incremental capital requested for the connection and cost recovery agreement ("CCRA") payment, which accounts for a little over half of the total incremental capital requested, and the two Road Authority projects scheduled to be in-service in 2021 are discrete and non-discretionary projects that are above the basis on which rates were set. The CCRA payment due to Hydro One Networks Inc. in the Brampton RZ in 2021 relates to the Goreway Transformer Station ("TS") ten-year true up payment and is therefore a contractual obligation. Similarly, the Goreway Road Widening project in the Brampton RZ and the Rutherford Road Widening project in the PowerStream RZ Road Authority investments are non-discretionary and are required to be initiated and completed in accordance with the direction from the Road Authorities. Alectra Utilities is required to remove, relocate, or reconstruct distribution system assets to accommodate projects conducted by road authorities. In other words, the projects are unrelated to recurring annual capital projects.

2. The requested ICM meets the eligibility criteria of materiality, need and prudence

5. The requested ICM satisfies the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (EB-2014-0219), issued on September (“the ACM Report”).

6. For Brampton RZ, Alectra Utilities has calculated the capital expenditure materiality threshold of \$31.5 million, which, given the 2021 total capital budget of \$42.2 million, results in \$10.7 million in maximum eligible incremental capital.² Alectra Utilities calculated the materiality threshold using the Board- approved rate base and depreciation amounts from its 2015 Cost of Service Application (EB-2014-0083), a price cap index (PCI) of 1.7% and a growth rate of 1.40%.³ The PCI of 1.7% is based on inflation of 2.0% less a productivity factor of 0% and a stretch factor of 0.3%.⁴ The PWU assumes that Alectra Utilities might choose to update the PCI using the Board’s recently published inflation number. The growth rate of 1.40% is calculated in accordance with the ACM Report.⁵ The requested incremental capital for Brampton RZ of \$7,772,417 therefore satisfies the Board’s materiality threshold criteria and is also significant amount in relation to the 2021 Capital expenditure budget.

7. For PowerStream RZ, Alectra Utilities has calculated the capital expenditure materiality threshold of \$79.3 million, which, given the 2021 total capital budget of \$101.8 million, results in \$22.4 million in maximum eligible incremental capital.⁶ Alectra Utilities calculated the materiality threshold using the Board- approved rate base and depreciation amounts from its 2017 Cost of

² Exhibit 2 Tab 1 Schedule 1 Page 4 of 18, Table 3

³ Exhibit 2 Tab 1 Schedule 1 Page 2 of 18

⁴ Ibid.

⁵ Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (EB-2014-0219), September 18, 2014

⁶ Exhibit 2 Tab 1 Schedule 1 Page 13 of 18, Table 11

Service Application (EB-2015-0003), a price cap index (PCI) of 1.7% and a growth rate of 0.20%.⁷ The PCI of 1.7%, which is based on inflation of 2.0% less a productivity factor of 0% and a stretch factor of 0.3%⁸ could be updated to reflect the Board's recently published inflation number to be used for 2021 IRM applications. The growth rate of 0.20% is calculated in accordance with the ACM Report.⁹ As a consequence, the requested incremental capital for PowerStream RZ of \$2,885,574 satisfies the Board's materiality threshold criteria.

8. Alectra's application also meets the Means Test set in the ACM Report and therefore qualifies for funding through an ICM. Specifically, if a distributor's regulated return, as calculated in its most recent calculation exceeds 300 basis points above the deemed return on equity ("ROE") embedded in the distributor's rates, the funding for any incremental capital project will not be allowed. Alectra Utilities 2019 ROE was calculated to be 7.21%, 174 basis points below a calculated ROE for Alectra of 8.95%.¹⁰

3. Not approving the requested ICM would result in further deterioration of assets

9. If the Board were to deny the requests for ICM funding, Alectra Utilities would be forced to redeploy its capital spending from other priorities in order to complete these non-discretionary projects. This would further reduce the capital investments contemplated in its DSM and continue to fall behind in its efforts to implement the DSM, which would increase the risk that Alectra Utilities will not be able to meet the service quality and reliability expectations of its customers in the years ahead.

⁷ Exhibit 2 Tab 1 Schedule 1 Page 11 of 18

⁸ Ibid.

⁹ Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (EB-2014-0219), September 18, 2014

¹⁰ Exhibit 2 Tab 1 Schedule 1 Page 4 of 18

10. Alectra Utilities points out that, as a result of the OEB's decision in EB-2019-0018, it has already reduced its system renewal and system service investments that were otherwise contemplated in its DSP by approximately \$33MM per year.¹¹ With those reductions, Alectra Utilities is continuing to fall behind in its efforts to address its growing backlog of deteriorated assets, specifically deteriorated underground cables and overhead assets including poles.¹² Alectra Utilities explains that for 2020, it has experienced lower customer driven investments in system access and repurposed available funding into urgently needed system renewal investments that enable Alectra Utilities to maintain customer reliability at historical levels during the COVID-19 global pandemic.¹³ For 2021 and onward, the evidence indicates that Alectra Utilities has also had to defer a substantial portion of planned system expansion investments, the risk of which (i.e. being unable to meet customers' expected connection dates due to the need to expand the system reactively at a higher cost) was also explained in the DSP. In this regard, if Alectra Utilities does not receive the ICM funding it has requested in the current application, it will have to defer the next tranche of otherwise planned investments, which includes urgently required investments in system protection equipment, switching and automation assets, as well as defer other station renewals.

4. Ontario's plan to accelerate transit and road projects

11. Bill 222, the *Ontario Rebuilding and Recovery Act, 2020*, which was introduced on October 22, 2020, is likely to increase the needs of utilities for capital expenditure in System Access and therefore warrants the Board's approval of requested incremental capital going forward. Bill 222 aims to accelerate the planning, design and construction process for major projects which include public transit and roads. Alectra states¹⁴:

¹¹ 2-PWU-5

¹² Ibid.

¹³ Ibid.

¹⁴ **2-PWU-5**

Bill 222 proposes to amend, among other legislation, the *Building Transit Faster Act, 2020* and the *Public Service Works on Highway Act* in order to accelerate road widening and transit projects already under consideration and to facilitate additional projects that are expected to be introduced over the 2021 to 2024 planning period.

12. The acceleration of system access work requirements (i.e., transit and road work which is outside of the utility's control) will increase pressure on Alectra Utilities to further reallocate available funds from system renewal and system service, which will further stymie Alectra Utilities' efforts to address its backlog of deteriorated assets. The appropriate method to address system access capital requirements for transit and road work projects that are expected to accelerate is through the ICM and therefore the Board should approve Alectra Utilities' requested incremental capital.

All of which is respectfully submitted

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