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November 18, 2020

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

Dear Ms. Long,

**RE: EB-2020-0002 Alectra Utilities 2021 Rates Proceeding
Argument Submission of Energy Probe**

Attached is the argument submission of Energy Probe Research Foundation (Energy Probe) in the EB-2020-0002 proceeding, the application by Alectra Utilities to the Ontario Energy Board for approval of its 2021 rates.

Respectfully submitted on behalf of Energy Probe by its consultant.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Indy Butany-DeSouza (Alectra Utilities Corporation)
Charles Keizer (Torys LLP)
Patricia Adams (Energy Probe Research Foundation)
Jerry Wang (OEB Staff)

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ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy 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, 2021.

**Alectra Utilities Application for electricity distribution rates and other charges effective
January 1, 2021**

Energy Probe Argument Submission

November 18, 2020

Executive Summary

Energy Probe submits that Alectra does not need incremental funding from its ratepayers for the Goreway CCRA True-up payment to Hydro One, nor for the two road widening relocation projects, the Goreway Road Widening, and the Rutherford Road Widening. The OEB should not approve Alectra's three requests for ICM funding.

Introduction

In Procedural Order No.1 the OEB ordered Board Staff and parties to file by November 18, 2020 written submissions on issues related to the Alectra Utilities IRM application. This is the submission of Energy Probe. As stated in its letter of intervention, Energy Probe's interest in this proceeding is the impact on customers of the Incremental Capital Module Funding requests by Alectra Utilities and its submission only deals with the ICM requests.

Alectra Utilities is seeking OEB approval for ICM rate riders to fund two projects in the Brampton Rate Zone and one project in the PowerStream Rate Zone. The two projects in the Brampton RZ are the \$5.7 million 10 year true-up payment to Hydro One under the Capital Cost Recovery Agreement for the Goreway Transformer Station and the \$2.1 million Goreway Road Widening relocation project. The project in the PowerStream RZ is the \$2.9 million Rutherford Road Widening relocation project.

Goreway CCRA True Up - \$5.7 Million

At the start of incentive regulation (originally called performance-based regulation or PBR) of electricity distributors by the OEB, there was no provision for a rider that would fund capital expenditures. Initially the method used by the OEB was referred to as Comprehensive PBR to indicate that both capital and OM&A were to be set by a rate setting I-X Price Cap formula that took into account inflation "I" and productivity "X". Distributors were expected to fund all their capital expenditures through rates produced by the application of the formula.

This seemed to work reasonably well for a few years until the legendary Ice Storm caused some distributors to incur large and unexpected capital expenditures to replace damaged facilities. In response to this the OEB put in place a method, the ICM, that would allow distributors to deal

with such large and unexpected expenditures in the future by funding them through rate riders to be charged to ratepayers.

Over the years since the ICM was introduced the criteria for projects that would be accepted for ICM treatment has changed several times in response to demands from distributors. These changes came about through OEB reports or OEB decisions in specific cases. It seems to Energy Probe that each change further opened the door to what projects were acceptable for ICM treatment.

In this case Alectra is seeking ICM funding for a true-up payment to Hydro One under the Capital Cost Recovery Agreement for a transformer station. Energy Probe is not aware that the OEB has ever approved ICM funding for true-up payments for decade old assets. If the OEB approves this it will open the door still further to what is acceptable for ICM funding.

Energy Probe submits that Goreway CCRA True Up is not a 2021 capital project at all. The Goreway TS was placed in service over a decade ago. The Goreway CCRA true-up was a liability that was known to Alectra when it acquired Hydro One Brampton in 2017. It must have been reflected in the purchase price. If it was not, it would have been a failure in due diligence by the management and the board of directors of Alectra Utilities. The purchase price paid by Alectra should have been lower because of the liability to pay the CCRA true-up at a future date. Asking ratepayers to pay for the CCRA True-up through an ICM rate rider would compensate shareholders of Alectra for a cost they were already compensated for through a lower purchase price paid for Hydro One Brampton. Energy Probe submits that Goreway CCRA True-up is not a 2021 capital project but a payment for an obligation on the Alectra balance sheet. It should not be eligible for ICM funding from ratepayers. Moreover, such funding would be a gift from ratepayers to Alectra's shareholders.

Goreway Road Widening - \$2.1 Million

Alectra is requesting \$2.1 million of ICM funding from ratepayers for the Goreway Road Widening relocation project. The Goreway Road Widening relocation total cost estimate prior to contributions is \$3,245 thousand¹. Out of that total only the Contractor Cost of \$458 thousand and the Material Cost of \$861 thousand are incremental costs. They total \$1,319. All other costs

¹ 4-EP-5, page 2

are the costs of Alectra's own employees and vehicles. It is unlikely that Alectra would hire new employees or purchase new vehicles for the Gorway Road relocation project, so these costs are not incremental costs. Alectra expects to get \$1,155 thousand in contribution from the road authority. Its incremental spending for Gorway Road relocation is therefore \$1,319 thousand less \$1,155 thousand or \$164 thousand.

In its 2019 Rates Application, Alectra Utilities proposed ICM funding of \$2.1 million to relocate feeders to the Barrie Transmission Station. The OEB did not approve the proposed funding.

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2019. The 2019 capital budget is forecast to be \$257.3 million²⁴, and this project is 0.8% of that total. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is approved.

This project does not meet the OEB's requirement that it have a significant influence on the operations of Alectra Utilities. The OEB notes that the revenue requirement related to this project is only \$168,198.²

Energy Probe submits that \$2.1 million for the Goreway Road Widening project is a very small amount that Alectra with its \$250.3 million capital budget³ should be able to fund, particularly when one considers that Alectra actually needs only \$164 thousand of incremental spending.

Rutherford Road Widening - \$2.9 Million

Alectra is requesting ICM funding of \$2.9 million Rutherford Road Widening relocation project. The project has a 2021 revenue requirement of \$204,411 and \$162,795 with accelerated CCA.⁴

The Rutherford Road Widening relocation total cost estimate prior to contribution is \$4,450 thousand⁵. Out of that total only the Contractor Cost of \$611 thousand and the Material Cost of \$1,174 thousand are incremental costs. They total \$1,785. All other costs are the costs of

² EB-2018-0016 Decision and Order, January 13, 2019, page 15

³ Exhibit 2, Tab 1, Schedule 1, Page 14

⁴ Ibid., Page 17

⁵ 4-EP-8, page 2

Alectra's own employees and vehicles. It is unlikely that Alectra would hire new employees or purchase new vehicles for the Rutherford Road Widening relocation project, so these costs are not incremental costs. Alectra expects to get \$1,550 thousand in contribution from the road authority. Its incremental spending for Rutherford Road Widening relocation is therefore \$1,785 thousand less \$1,550 thousand or \$235 thousand.

Energy Probe submits that \$2.9 million for the Rutherford Road Widening project with a revenue requirement of only \$162,795 is a very small amount that Alectra with its \$250.3 million capital budget⁶ should be able to fund, particularly when one considers that Alectra actually needs only \$235 thousand of incremental spending.

Conclusion

To prove to the OEB that it needs ICM funding from ratepayers for its incremental capital projects a utility has to prove to the OEB that it can not fund the projects because it lacks the money from its own operations.

Energy Probe submits that the Goreway Road Widening project and the Rutherford Road widening project are small projects with minimal incremental funding needs that Alectra should be able to fund on its own without incremental funding from ratepayers.

In its ACM Report, the OEB provided its view on incremental capital funding of projects

*The Board is of the view that projects proposed for incremental capital funding during the IR term must be discrete projects, and not part of typical annual capital programs. This would apply to both ACMs and ICMs going forward.*⁷

*In addition, the OEB finds that a discrete project is not simply one that is distinguishable or defined at a new location - or all capital would be eligible. ICM projects do need to be different in kind from those that are carried out through typical base capital programs. Otherwise, the OEB would need to scrutinize all capital projects for optimization, not just the ICM projects.*⁸

⁶ Exhibit 2, Tab 1, Schedule 1, Page 14

⁷ EB-2014-0219, *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014, page 13

⁸ EB-2017-0024 Decision, April 6, 2018, Page 27

Energy Probe submits that the two road widening projects are typical relocation projects that distributors carry out on a regular basis within their annual budgets. Their only distinguishing feature is that they may be slightly larger.

It is clear from the evidence that Alectra has the employees and equipment to do road widening relocations. The cost of the employees and equipment is already covered in base rates. ICM funding for these relocation projects is not needed.

The Goreway CCRA True-up is not a capital project but a deferred liability that Alectra must have been aware of at the time of its purchase of Hydro One Brampton. It was or should have been reflected in the lower purchase price that benefited Alectra's shareholders. ICM funding of the Goreway CCRA True-up is not needed.

For reasons given above, Energy Probe submits that the OEB should not approve any of Alectra's three requests for ICM funding.

Respectfully submitted on behalf of Energy Probe by its consultant,

Tom Ladanyi

TL Energy Regulatory Consultants Inc.