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Alectra Utilities Corporation
EB-2020-0002

Submission
of the
Vulnerable Energy Consumers Coalition
(VECC)

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

November 18, 2020

Vulnerable Energy Consumers Coalition

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Summary of the Submissions

1. The Application is divided into two parts the ICM proposals for the Brampton and PowerStream Rate Zones and the IRM adjustment including issues as the Horizon Rate Zones earning sharing and other issues. With the exception of the issue of the IESO billing error VECC's submissions are only with respect to the ICM proposal.

2. VECC submits the proposal for ICM treatment for the two road widening projects (Goreway and Rutherford) should be denied because they are not material in respect to the overall capital budget of this Utility.

3. VECC notes that the Applicant's proposal for ICM treatment for payments to be made to Hydro One with respect to the Goreway station are similar to costs approved by the Board for Alectra in prior proceedings.

4. VECC submits the Board should allow the recovery of the amounts for the error in IESO payments but net of any carrying charges.

ICM Proposal

5. Alectra is seeking to have ICM treatment for 3 projects representing $10,657,991 in capital spending. Of that amount $4,975,771 is related to works required as part of municipal road widening. Both ICM road projects are subject to a 50% sharing agreement with respect to the cost of labour and labour saving devices[1].

6. The remaining ICM request is for a true-up payment to Hydro One with respect to the Goreway TS. This is the second such payment arising from a Connection and Cost Recovery Agreement (CCRA) since the building of this station.

7. The revenue requirement impact of the two rate zone ICMs are shown in the tables below.[2]

Table 5 – Incremental Revenue Requirement – Brampton RZ

Incremental Revenue Requirement	Amount
Return on Rate base - Total	$553,381
Amortization	$188,504
Incremental Grossed Up PILs	($25,923)
Total	**$715,963**

[1] VECC-1

[2] Exhibit 2, Tab 1, Schedule 1, pages 9, 16

Table 13 – Incremental Revenue Requirement – PowerStream RZ

Incremental Revenue Requirement Amount	
Return on Rate base - Total	$164,265
Amortization	$64,124
Incremental Grossed Up PILs	($23,979)
Total	**$204,411**

Criteria for review

8. The criteria for ICM/ACM eligibility are set out in the ACM Report of the Board.[3]

Criteria	Description
Materiality	A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the Board-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Minor expenditures in comparison to the overall capital budget should be considered ineligible for 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.
Need	The distributor must pass the Means Test (as defined in this ACM Report). Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

[3] Report of the Board EB-2014-0291 New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 17.

9. The issue of Need and Prudence are not, we submit, at issue in this proceeding. Clearly there is a need for the road widening projects as witnessed by the various municipalities ability to require them. As for prudence, the actual cost prudence of the projects is something that cannot be determined until the funds are expended. With respect to materiality however the Board has reiterated and refined that principle in its findings in EB-2018-0016, a prior application by Alectra for ICM funding. In that Decision the Board rejected one ICM proposal (Barrie Transmission Station Feeder Relocation) of $2.1 million finding that the "*project does not meet the OEB's requirement that it have a significant influence on the operations of Alectra Utilities."* While it accepted another project of $5.5 for the Bathurst Street Widening.

10. In EB-2016-0016 VECC supported the Applicant's proposal for both projects. We also argued in that case (as we have in other proceedings) that capital expenditures subject to Public Service Works on Highways Act ("PSWHA") are best dealt with by way of deferral and variance accounting since these projects are outside the control of the Utility and their timing and costs can be highly variable. However, to date the Board has rejected those arguments. What we do conclude from those past decisions is that the materiality threshold for an Alectra ICM eligible projects is somewhere north of $2.1 million. Alectra itself appears to have adopted a slightly lower figure, noting in its presentation to its Board of directors:[4]

    "*The OEB also adopted a project-specific materiality where projects must be material in comparison to the overall capital budget of the utility. The OEB has not defined the project-specific threshold. Based on the outcome of Alectra's 2018 and 2018 Rate Application Decisions, Alectra has used $2MM* [sic] *as the threshold*."

11. We also note that Alectra has other similar road widening projects in its 2021 budget (in Brampton at Dixie Road and Tobram Road and in PowerStream rate zone at East North and PS South), but because these fell below the $2 million mark the Utility believes "*these projects may not satisfy the OEB's 2 second project-specific materiality test*."[5] While it is not clear to us the matter should be devolved to a simple number the question does arise out of the Board's past decisions - what precisely the cost of a material ICM project?

12. To answer that question, one might look at whether materiality should be considered at the rate zone or overall utility capital expenditure level. Alectra calculates the materiality threshold for ICMs as a whole according to the Board's prescribed formula, but on a rate zone, rather than utility, basis. It does so, we think, for pragmatics and because the formula relies on last approved rate base and depreciation amounts and growth rates determined at the pre-merger rate zone level. However, this way of calculating the threshold value is inherently inconsistent with the test of project materiality which the Board appears, based on past decisions, to apply, which is on a whole utility basis. And it is certainly different than the way the Utility calculates its earnings. It also belies the fact that like any other utility Alectra has the flexibility to move funds as between rate zones and depending on such things as urgency (e.g. storms) or in light of cost over and under runs among the hundreds of projects

[4] CCC-2, Attachment 1, Slide 3
[5] VECC-2 and VECC-6

undertaken by the Utility as a whole. Therefore, in considering what is a reasonable materiality value for ICM projects it is logically coherent to consider the overall capital expenditures and budgets of the now amalgamated Utility.

13. To give a sense of the proportion of these projects to the overall capital budgets consider that in 2019 actual capital spending of Alectra was $253.9 million, yet the 2021 Distribution System Plan spending for that year was forecast at $280.2 million. The current forecast spending for 2020 is $256 million[6]. The total amounts sought for ICM treatment are therefore in the order of 4% of the normal capital spending of the Utility.

14. If one looks at the ICM proposals from the perspective of the overall capital budget of Alectra the amounts sought are within the margins of budget forecast error in any given year. Consider that the capital budget has been reduced from $283.4 to $250.3 in 2021. Alectra suggests that $26.7 million of this was the result of previous Board Decisions, such as the denial of a M-Factor[7]. However, even if that explanation is taken at face value that leaves an unexplained difference of around $6.4 million. An annual variance of 2.5% in a capital budget as large as that of Alectra would seem normal and would certainly accommodate the two road widening projects for which ICM funding is sought.

15. Another way to consider materiality is to look at the projects individually and from the standpoint of the capital expenditure category (system access) that they are in.

Brampton Rate Zone ICM related projects

16. The ICM proposal is the first of three expected to be sought by Alectra as shown in the table below.[8] Notwithstanding the pandemic the 1st stage of Goreway road widening appears to be on schedule to be completed in 2021.[9]

Table 1 – Goreway Road Widening Project Costs

Description	Gross Cost	Contributions	Net Cost	Timing
Goreway: Cottrelle Boulevard to Countryside Drive	$3.2MM	$1.1MM	$2.1MM	2021
Goreway: Humberwest Parkway to Cotrelle Boulevard (Rough Estimated Cost)	$3.8MM	$1.3MM	$2.5MM	2022
Goreway: Countryside Drive to Mayfield Road (Rough Estimated Cost)	$0.7MM	$0.2MM	$0.5MM	2023

[6] AMPCO-1 Attachment 1
[7] SEC-3
[8] SEC-9
[9] BRZ-Staff-24

PowerStream ICM proposal

17. In contrast to the Goreway project the Rutherford project is the final piece of three segments[10]. It is noteworthy that Alectra did not seek ICM funding for the prior two segments.

Table 1 – Rutherford Road Widening Projects ($/MM)

Description	Gross Cost	Contributions	Net Cost	Timing
Rutherford from Westburne Drive to Confederation Parkway	$2.8MM	$0.4MM	$2.4MM	Completed Oct 2019
Rutherford from Westburne Drive to Jane Street	$4.4MM	$1.5MM	$2.9MM	In Construction (completion by no later than the 1st week of Nov 2020)
Rutherford from Bathurst Street to Prince Rupert Avenue (Estimated Cost)	$4.4MM	$1.5MM	$2.9MM	To be completed in 2021

18. When considering whether the two projects are material it is worth considering that there is significant variation in the actual vs. budget for these types of projects as shown in the table below:[11] In 2019, for example, the $10.8 million variance in budget to actuals is larger than the entire proposed ICM for road widening in this Application.

Table 2 – Road Authority Actual and Budget 2015 - 2019 ($MM)

Rate Zone	Budget 2015	Actual 2015	Budget 2016	Actual 2016	Budget 2017	Actual 2017	Budget 2018	Actual 2018	Budget 2019	Actual 2019
Brampton	4.6	1.5	4.6	3.9	4.5	1.3	4.6	1.5	4.8	2.9
PowerStream	6.3	7.4	12.0	7.3	13.1	20.9	12.8	26.9	15.9	11.5
Horizon	2.1	1.3	2.3	2.6	1.7	0.7	1.8	1.5	4.1	2.1
Enersource	1.0	0.0	2.4	0.5	0.9	0.2	3.1	0.9	4.8	1.6
Guelph	0.8	(0.7)	0.9	0.1	0.9	0.2	0.9	0.2	0.4	1.1
Total	**14.8**	**9.6**	**22.3**	**14.4**	**21.1**	**23.5**	**23.2**	**31.0**	**29.9**	**19.1**

19. Alectra has explained that these variances are largely due to the uncertainties as to the plans of the relevant municipalities. As pointed out by the Utility the Ontario government has introduced new legislation such as the *Ontario Rebuilding and Recovery Act,* and the *Building Transit Faster Act* [12] which along with the current pandemic has introduced even more variability and uncertainty into the capital planning related to third-party induced projects.

[10] SEC-13
[11] AMPCO-2
[12] AMPCO-2

20. As VECC has argued in past cases the preferred approach would be to address all third-party driven projects separately. Most system access type of projects are subject to forces outside the control of the Utility and therefore might best be considered separately from other forms of capital spending. Among these PSWH related projects appear to have the greatest uncertainty.[13]

21. Another way to consider materiality is to look at forecast and subsequent actual capital spending by rate zone. The 2020 capital expenditures in the Brampton rate zone is estimated to be $1.6 million below DSP estimates. Yet Alectra is also forecasting a greater than 25% increase in the Brampton 2021 capital budget from the original DSP estimates[14].

Table 1 – Brampton RZ 2020 Capital Expenditures Comparison to DSP ($MM)

Investment Category	2020 DSP	2020 Current	Variance
System Access	8.9	11.4	2.5
System Renewal	17.4	17.3	(0.1)
System Service	5.4	2.5	(2.9)
General Plant	5.7	4.6	(1.1)
Total Brampton	**37.4**	**35.8**	**(1.6)**

Table 2 – Brampton 2021 Capital Expenditures Comparison to DSP ($MM)

Investment Category	2021 DSP	2021 Current	Variance
System Access	8.6	13.2	4.6
System Renewal	15.8	21.9	6.1
System Service	3.9	1.6	(2.3)
General Plant	5.0	5.5	0.5
Total Brampton	**33.3**	**42.2**	**8.9**

22. Similarly, in the PowerStream Rate Zone 2020 actual capital expenditures appear to be below the DSP projections. In this case the overall capital spending for 2021 is below DSP projections in all investment areas save one - General Plant.[15]

Table 1 – PowerStream RZ 2020 Capital Expenditures Comparison to DSP ($MM)

Investment Category	2020 DSP	2020 Current	Variance
System Access	30.0	27.0	(3.0)
System Renewal	52.1	42.2	(9.9)
System Service	15.7	14.8	(0.9)
General Plant	14.4	11.6	(2.8)
Total PowerStream	**112.2**	**95.6**	**(16.6)**

[13] See CCC-1 for tables showing variation between ICM applications and actual in-service amounts.
[14] SEC-5
[15] SEC-12

Table 2 – PowerStream 2021 Capital Expenditures Comparison to DSP ($MM)

Investment Category	2021 DSP	2021 Current	Variance
System Access	30.0	28.7	(1.3)
System Renewal	52.2	50.2	(2.0)
System Service	14.9	9.0	(5.9)
General Plant	12.6	13.8	1.2
Total PowerStream	**109.7**	**101.7**	**(8.0)**

23. Our conclusion from these facts is that by any measure - whether it is the small dollar amount each project represents as compared to the entire Utility capital budget, or the project estimate as compared to normal variation in the amount and number of street widening projects in any given year, or if one considers the budget to actual variation of total capital spending in either rate zone - the amounts do not represent a significant amount of capital spending for Alectra. The two road widening projects are easily absorbed within the envelope of projects undertaken by Alectra in 2021. Therefore, we submit the Board should reject the proposal for ICM treatment for these projects.

Goreway TS CCRA True-up

24. The $5,682,220 represents the second true-up under the Cost Recovery Agreement (CCRA) with Hydro One for this station. The prior settlement was in 2015 and was for an amount of $680,000.[16] By the agreement's schedule the current true-up should be made in 2020 and not 2021 as anticipated by Alectra. The reason given for the delay is that Alectra is waiting for a "customer input package" from Hydro One. The explanation given for the dramatic increase in contributions under the CCRA is the decline in anticipated load which Alectra has correlated with the overall decline in peak demand in the province.[17]

25. Specifically, the CCRA true-up is based on an economic evaluation that considers the lower monthly average peak demand experienced for the Goreway Study Area between years 5 to 10 and a revised lower forecasted 7 monthly peak demand for years 10 to 25. Relative to the 2015 forecast applied at the 5-year true-8 up, Alectra Utilities has reduced the forecast from an average annual growth rate of 2.9% to a revised average annual growth rate of 1.4% over the remaining 15-year period of the Goreway 10 TS CCRA[18].

26. It is clear is that the original estimates for the Goreway station are significantly different than current projections as shown in the charts below:

[16] BRZ-Staff-21
[17] Ibid.
[18] SEC-8

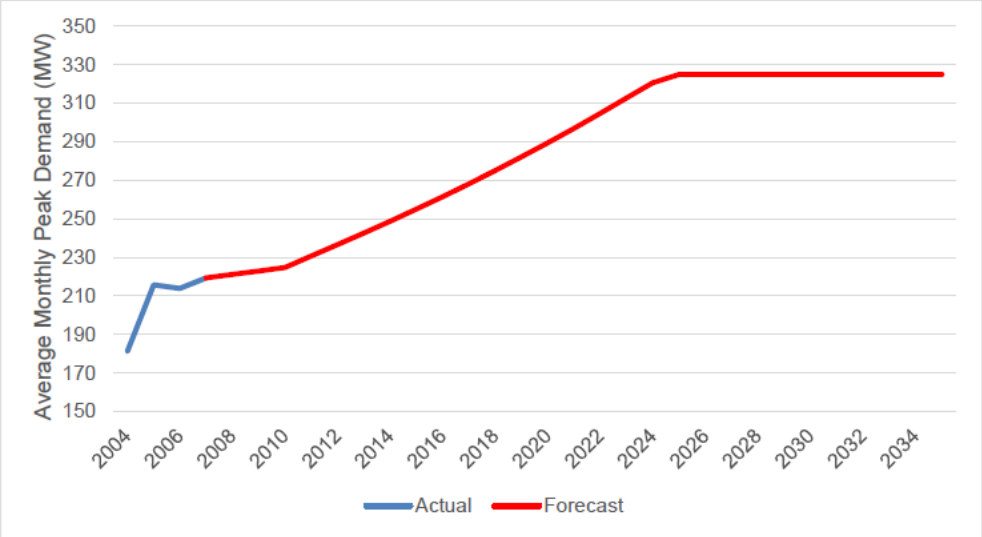

Figure 4: Initial Load Forecast for the Goreway 27.6kV Study Area

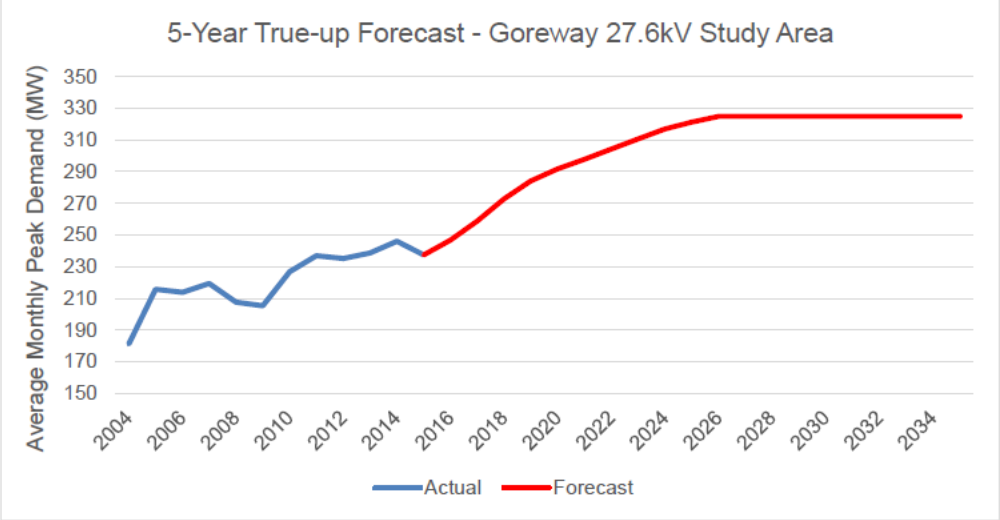

Figure 5: Updated Forecast for 5-Year True-Up - Goreway 27.6kV Study Area

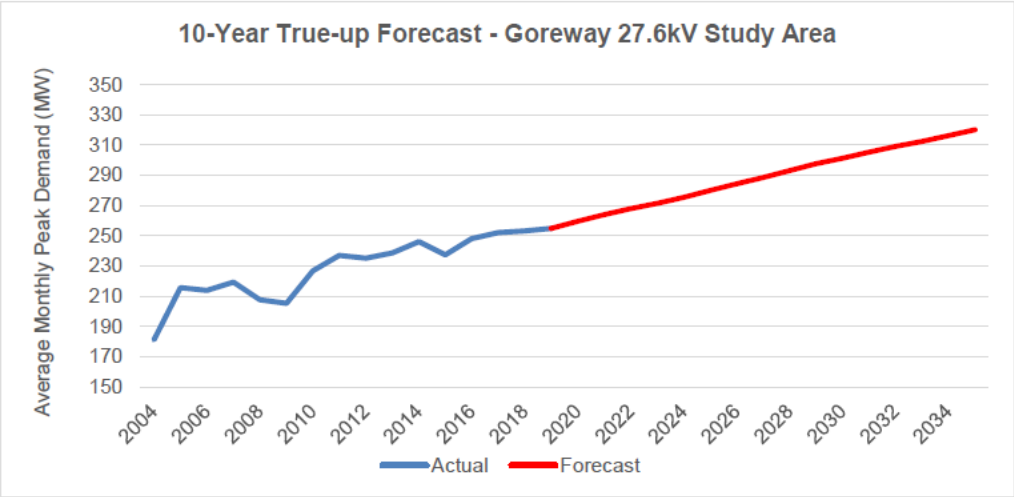

Figure 7: Updated Forecast for 10-Year True-Up - Goreway 27.6kV Study Area

27. The proposal for CCRA recovery in this proceeding is much like that in the ICM proposal made by Alectra in its application EB-2017-0024. In that proceeding the Pleasant TS, also in the Brampton Rate Zone, had a CCRA related shortfall of $6.8 million. The reasons (and supporting charts) were remarkably similar to those presented in this Application. The Board summed up the arguments made by the parties in that case[19]:

> *Intervenors opposed to this proposal made four major arguments against it which were: (1) the inaccuracy of the original load forecast on which the arrangements were determined, (2) the CCRA governing the true-up payment between Hydro One Brampton and Hydro One was not an arms-length transaction, (3) Hydro One Brampton's liability for the true-up was not disclosed in the merger proceeding and should have been addressed at that time, and (4) the cost of the ten-year true-up payment under the CCRA was not included in the DSP and is not incremental to historic spending levels. Alectra Utilities submitted that none of these arguments had any merit*.

28. VECC was among the intervenors making those arguments. Notwithstanding, the Board approved the recovery of the amounts sought. We do not see much to distinguish the circumstances in this case. We would only observe that we are not aware of any other electricity utility, who related to the transmitter at the time, constructed not one, but two TS stations and for which there are now such significant true-up payments. Worse it appears to us that neither Alectra nor Hydro One shareholders will bear any of the cost of these errors. This, we submit, only serves to undermine the premise that rates of return are set on basis of the sharing of forecast risk. This in turn undermines the just and reasonable premise of rates.

[19] Decision and Order, EB-2017-0024, April 6, 2018, page 32

IESO Liabilities

29. "*Alectra Utilities identified an omission relating to the Horizon Utilities Rate Zone in reporting embedded generation energy kWh's produced from FIT and MicroFIT generators. The omission, which was the result of a spreadsheet error, likely occurred in 2010 and affected Form 1598 submissions to the IESO and the associated settlements from that time until the error was identified in 2019. Alectra Utilities has corrected the error, immediately notified the IESO and remitted an amount of $8.1MM to the IESO*."[20]

30. The error was discovered as part of a reconciliation exercise involving Alectra's rate zones. It resulted in adjustments to three IESO charge types: CT 2148 Global Adjustment Prior Period Adjustments; CT 9990 IESO administration charge and CT 1351 Capacity Based Demand Response Program Recovery Amount for Class B load.[21]

31. The amounts proposed for recovery are shown below[22]:

Table 1 - $8.1MM Adjustment and Associated Interest Charges for each year 2011 to 2018 ($000s)

Year	CT 2148	CT 9990	CT 1351	Balances
2011	20	0	0	20
2012	90	2	0	92
2013	311	4	0	316
2014	669	9	0	678
2015	1,150	12	4	1,165
2016	1,683	15	6	1,704
2017	2,034	25	8	2,066
2018	2,032	28	8	2,068
Principal Subtotal	**7,989**	**94**	**27**	**8,109**
Interest Charges	168	2	1	170
Grand Total	**8,157**	**96**	**27**	**8,280**

[20] Exhibit 3, Tab 1, Schedule 8, page 1
[21] VECC-8
[22] Ibid.

32. The allocations to the customer classes are shown in Tables 2 through 4[23]

Table 2 -Allocation of CT 2148 by rate class ($000s)

Rate Class	% of total kWh	CT 2148
Residential Service Classification	3.5%	287
General Service Less than 50 kW Service Classification	7.9%	641
General Service 50 to 4,999 kW Service Classification	87.1%	7,108
Large Use Service Classification	0.0%	0
Large Use with Dedicated Assets Service Classification	0.0%	0
Standby Power Service Classification	0.0%	0
Unmetered Scattered Load Service Classification	0.1%	9
Sentinel Lighting Service Classification	0.02%	1
Street Lighting Service Classification	1.4%	110
Total	**100.0%**	**8,157**

Table 3 – Allocation of CT 9990 by rate class ($000s)

Rate Class	% of Total kWh adjusted for WMP	CT 9990
Residential Service Classification	34.9%	33
General Service Less than 50 kW Service Classification	12.9%	12
General Service 50 to 4,999 kW Service Classification	39.8%	38
Large Use Service Classification	4.2%	4
Large Use with Dedicated Assets Service Classification	7.5%	7
Standby Power Service Classification	0.0%	0
Unmetered Scattered Load Service Classification	0.3%	0
Sentinel Lighting Service Classification	0.0%	0
Street Lighting Service Classification	0.4%	0
Total	**100.0%**	**96**

[23] Op cit.

Table 4 – Allocation of CT 1351 by rate class ($000s)

Rate Class	% of total kWh	CT 1351
Residential Service Classification	45.3%	12
General Service Less than 50 kW Service Classification	16.8%	5
General Service 50 to 4,999 kW Service Classification	37.0%	10
Large Use Service Classification	0.0%	0
Large Use with Dedicated Assets Service Classification	0.0%	0
Standby Power Service Classification	0.0%	0
Unmetered Scattered Load Service Classification	0.3%	0
Sentinel Lighting Service Classification	0.0%	0
Street Lighting Service Classification	0.5%	0
Total	**100.0%**	**27**

33. We accept that there was an error. That the error went undetected for over 8 years is somewhat surprising. Should the error have been in favour of ratepayers many parties, including VECC, would likely have argued for restitution. That would include monies representing the opportunity costs lost due to the error since it was not the fault of the ratepayer. The burden lies with the management of the Utility, past and present and therefore no costs should be borne by ratepayers to cover the management of this error.

34. VECC submits the Board should not include any interest charges in the recovery of monies from ratepayers for this error.

Reasonably Incurred Costs

35. VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

THESE ARE OUR RESPECTFUL SUBMISSION

November 18, 2020