March 22, 2021

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

Dear Ms Long:

EB-2020-0249 – PUC Distribution Inc. SSG – 2022 Incremental Capital Module

Please find, attached, Final Submissions of the Consumers Council of Canada pursuant to the above-referenced proceeding.

Please feel free to contact me if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: EB-2020-0249

PUC DISTRIBUTION INC.

2022 – INCREMENTAL CAPITAL MODULE – SSG PROJECT

Introduction:

On January 31, 2019, PUC Distribution Inc. ("PUC Distribution") filed an incentive rate-setting ("IRM") with the Ontario Energy Board ("OEB") seeking approval of rates effective May 1, 2019. As part of that Application, PUC Distribution applied for an Incremental Capital Module ("ICM") to recover costs associated with the implementation of its Sault Smart Grid ("SSG") Project ("Original Application").

Following a Technical Conference, on June 28, 2019, PUC Distribution indicated its intent to amend its Application and the OEB subsequently issued a Procedural order holding the Application in abeyance. The OEB also expressed some concerns regarding the Application and provided the following guidance:

> The OEB expects the amended application to show that the approval of the amended application by the OEB is independent of any OEB decision in a future application. The OEB also expects PUC Distribution to demonstrate that the scope of the project, for which approval is being sought, has tangible benefits to ratepayers commensurate with the proposed cost. Furthermore, the OEB expects PUC Distribution to update information related to project cost certainty, percentage of completed design work, structure and status of contracts, and associated risk allocation.[1]

On October 28, 2020, PUC Distribution filed an amended and restated ICM Application for ICM funding for the SSG Project effective May 1, 2022 ("Amended Application"). These are the submissions of the Consumers Council of Canada ("Council") regarding the request for ICM funding.

Background and Context:

The SSG Project involves the implementation of smart grid technologies across the Applicant's entire distribution system. The specific smart grid technologies include distribution automation systems ("DAs"), Voltage/VAR Optimization technology ("VVO") and improved operational control and data availability through the integration into the advanced metering infrastructure ("AMI"). PUC Distribution is proposing to implement the technologies across the entire distribution service area to align the SSG Project benefits with the costs. It is PUC Distribution's

[1] EB-2018-0219 – Decision and Procedural Oder No. 5 dated July 16, 2019, p. 2

position that if all customers are paying for the project through distribution rates rolling it out across the entire system ensures that all customers benefit[2].

The genesis of this project goes back to 2013. As set out in the Application the chronology is as follows:

- In 2013 PUC Distribution began developing a smart grid strategy. A public-private partnership ("P3") type financing was explored in an effort to reduce PUC Distribution's development cost exposure as well as to transfer risk and credit risk to the developer while striving to achieve a positive customer value project;

- In 2014, Leidos Engineering LLC ("Leidos") was retained to prepare preliminary design reports for the various smart grid components and to quantify benefits of a smart grid;

- In 2015 Navigant Consulting Ltd. ("Navigant") undertook two reviews – *Review of Business Case for Smart Grid Project for PUC Distribution* and *Review of Project costs for Smart Grid Project*;

- In May 2016 Navigant prepared a further report entitled *Community Microgrid Business Case Review;*

- Following the Navigant Reviews PUC Distribution found it need to de-scope the smart grid project to lower costs and set to modify the scope by eliminating station upgrades and by seeking grant funding;

- The project was initially going to be developed through a special purpose vehicle and funded through the North American Grid Modernization Fund managed by Stonepeak Infrastructure Partners and Infrastructure Energy LLC. Black & Veatch was selected as the EPC contractor for the project. SSG would be transferred the asset title at completion and commissioning of the project;[3]

- PUC Distribution established a "no net bill increase" criteria which was contingent on grant funding;

- The Federal Government launched its Smart Grid Project in January 2018. PUC submitted its application for funding under that program in March 2018 and a Contribution Agreement was executed in December 2018. The project was delayed and an amended Contribution Agreement was executed in December 2019[4];

[2] Argument in Chief, pp. 3-4
[3] EB-2018-0219 – Original ICM Application, p. 14
[4] Amended Application, dated October 28, 2020, pp. 12-15

- PUC's latest Distribution System Plan ("DSP") was filed in support of its 2018 Cost of Service rate application on March 29, 2018. The SSG project was not included as the NRCan funding had not been secured and the program requirements included confidentiality provisions. One paragraph in that DSP referred to the multi-year project indicating that if funding was secured the ICM option would be pursued. It is PUC Distribution's position that this project is incremental to the projects identified in the DSP[5].

In its Amended Application PUC sets out the key differences between it and the Original Application. These are as follows:

- The scope of the SSG Project remains the same. The specific smart grid technologies include distribution automation systems, voltage/VAR management systems, line regulators and associated communication systems, all of which will be integrated into PUC Distribution's AMI system;

- The SSG project will be developed, owned and operated by PUC Distribution replacing the original P3 financing structure using a special purpose vehicle known as Sault Smart Grid Inc. in light of concerns expressed by numerous parties at the original Technical Conference;

- PUC issued an RFP on October 4, 2019, seeking competitive proposals for engineering, procurement and construction ("EPC") services for the implementation of the SSG project for the implementation of the SSG Project to provide community-scale smart grid technology applications and integrated and intelligent distribution management platform for the PUC Distribution service area;

- Black & Veatch was awarded the project and the contract executed by Overland Contracting Canada Inc. a wholly owned subsidiary of Black and Veatch;

- The revised capital cost of $33,007,038 and is projected to achieve an annual net benefit to PUC Distribution customers of approximately $616,897 excluding reliability benefits. The benefits are derived from an assumption of 2.7% energy savings;

- The Amended Application is seeking approval of the full ICM amount effective May 1, 2022 as the project is expected to be in-service on December 31, 2022;

- The contribution agreement with NRCan has been updated. The NRCan contribution is now estimated to be $8.126 million. The eligible expense end date is March 31, 2023[6];

[5] Amended Application, p. 14
[6] Amended Application, pp. 8-10

- The reliability benefits, which do not show up on customer bills are projected to be $2.017 million.[7]

- The requested ratepayer contribution for this project is $24.828 million[8];

- PUC Distribution has spent $2.262,556 million to date on the project for labour and expenses, external engineering, legal and regulatory costs.[9]

Submissions:

The Council is not opposed to innovation or smart grid enhancements to utility distribution systems as long as these represent sound investments that will benefit the ratepayers. In fact, in many circumstances, the business case for such investments is clear. The Council is not necessarily opposed to the SSG project for which PUC Distribution is seeking approval, but is of the view that approval at this time is premature. The scope and timing may need to be reassessed. The Council does not accept that PUC Distribution can necessarily secure, or is willing to secure its promise for "no net bill increases" for all of its customers. Ratepayers are now being asked to bear the risk that it may not happen. This is not appropriate in our view.

PUC Distribution is scheduled to rebase its rates in 2023. The Council proposes that it bring forward the project at that time, when it can be considered, assessed and prioritized in the context of a new DSP. Asking ratepayers to fund $24 million in investments should only be considered when the overall needs of the system are being evaluated. It would not be prudent to do otherwise.

The Council's conclusions are based on the following concerns and considerations:

- PUC is seeking approval of a project that was essentially initiated in 2013. It is relying on a number of studies that were undertaken in the period 2014-2016 by Navigant and Leidos. PUC chose not to update those reports and continues to rely on the smart grid technologies identified in those reports. Given that over time technology does change, the relevance of those reports for a project with an in-service date of December 22, 2022 should be reassessed[10];

- PUC claims the scope of the project is the same as the one in the Original Application, but they have completely reconfigured the mix between the VVO work and the Distribution Automation work;[11]

[7] Amended Application, p. 20
[8] Argument in Chief, p. 9
[9] OEB Staff 45
[10] CCC-11
[11] CCC-3 and OEB Staff 13

- In the 2018 DSP, prepared by Metsco smart grid investments were given the lowest priority among all of the possible investments for PUC Distribution[12]. This project was not included or considered as part of that DSP;

- PUC is planning to spend over $33 million for one project (which includes the ratepayer funded amounts and the NRCan grant). This will increase the overall rate base of PUC Distribution by about 30%. In its last proceeding, the proposed annual average capital spending was $6.85 million for the period 2018-2022. It was slightly lower in the previous five- year period.[13]

- PUC Distribution has not undertaken any pilots with respect to this technology, but intends to implement the across its entire distribution system. The Council is of the view that a more prudent approach would be to phase it in following a pilot stage that would determine the feasibility and cost-effectiveness. The results of any pilot could be brought forward when the next DSP is filed;

- PUC Distribution has indicated that no other utility has proceeded with the implementation of these distribution system improvements in a coordinated manner across the entire distribution system[14]. This is a first.;

- The revenue requirement in 2023 at the time of rebasing will increase by $2.069 million per year as a result of this project, with the annual benefits projected to be $616,897. The annual benefits are derived from an energy savings assumption of 2.7%;[15]

- The City of Sault Ste. Marie did not formally "approve" the Amended Application, but was informed of the details in January 2021[16]. It is PUC Distribution's view that no amended Shareholder approval was required because the overall project got less expensive[17].

- The expected in-service date is December 31, 2022. This is based on OEB approval in March 2021[18]. If the in-service date was any later it would not qualify as a 2022 ICM project, and PUC Distribution would be required to file its funding request as part of it 2023 rebasing application.

- One of PUC Distribution's objectives is a "no net bill increase" on average for its residential customers, but some residential consumers are expected to see bill

[12] CCC-13, Attachment (DSP) pp. 49-50
[13] CCC-13, Attachment (DSP), pp. 110-111
[14] SEC-8
[15] SEC-11 and Argument in Chief, p. 17
[16] OEB Staff 10
[17] OEB Staff 10
[18] CCC-27

increases, particularly the low-volume consumers (as the savings are derived from energy savings associated with the VVO implementation). Accordingly, some of PUC Distribution customers will not benefit from reduced bills as a result of this project.

- If the savings are not realized the scope of the project is expected to change.[19]

The Council submits that the benefits of this project relative to the costs, for residential customers are not aligned. Residential customers are paying for most of the costs of this project (net of the proposed NRCan grant), but do not benefit in any material way through bill savings. The cost of this project, relative to PUC Distribution's annual capital program spending is significant. Simply because PUC Distribution has access to a level of funding through NRCan should not be reason alone to approve the project.

The Council is of the view that it would be unfair to place the risks of pursuing this project strictly with ratepayers. Benefits may not materialize as predicted. Cost overruns could occur and the work could be delayed. Rolling out the proposed technologies across an entire distribution system has not been tested and is not necessarily justified.

The Council submits that the most prudent approach would be for PUC Distribution to bring this project forward in the context of its 2023 rebasing Application. At that time the OEB can assess the project in the context of a refreshed DSP and PUC's overall rate application. The pacing and prioritization of all projects can be considered at that time.

All of which is respectfully submitted.

[19] OEB Staff 26