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April 1, 2021

Delivered by Email & RESS
Ms. Christine Long
Registrar
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON
M4P 1E4

Dear Ms. Long:

Re: EB-2020-0249/EB-2018-0219 – PUC Distribution Inc.
SSG ICM Application
Reply Submission

Pursuant to Decision on Confidentiality and Procedural Order No. 7 dated February 3, 2021, please find attached PUC Distribution Inc.'s Reply Submission in this proceeding.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Flora Ho
/Encl.
cc: Intervenors of record in EB-2020-0249/2018-0219

EB-2018-0219/EB-2020-0249

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 PUC Distribution Inc. for an Order or Orders approving or fixing a proposed schedule of adjusted distribution rates and other charges, effective May 1, 2022.

REPLY SUBMISSIONS

PUC DISTIRBUTION INC.

April 1, 2021

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A. INTRODUCTION

1. On March 12, 2021, PUC Distribution Inc. ("**PUC Distribution**") filed its Argument-In-Chief (the "**AIC**") setting out its reasons why the Ontario Energy Board (the "**OEB**") should grant the request for 2022 Incremental Capital Module ("**ICM**") funding related to the Sault Smart Grid project ("the "**SSG Project**") as set out in the amended and restated ICM application filed October 29, 2020 (the "**Amended Application**").

2. Capitalized terms used in these reply submissions but not otherwise defined herein have the meaning ascribed to those terms in the AIC.

3. On March 22, 2021, OEB Staff, SEC, ED and CCC filed submissions and on March 23, 2021 VECC filed submissions in respect of the SSG Project and PUC Distribution's request for 2022 ICM funding.

4. In summary, each of OEB Staff,[1] SEC,[2] and ED[3] support the approval of the ICM request for the SSG Project while VECC does not support the approval of the ICM request for the SSG Project <u>as structured</u>[4] and CCC does not support the approval <u>at this time</u>.[5] Both SEC[6] and OEB Staff[7] also recommended additional conditions of approval.

5. PUC Distribution continues to rely upon the submissions made in its Argument-In-Chief, and in reply PUC Distribution will focus its submissions first on areas of agreement before addressing areas of concern, proposed conditions and finally addressing requested clarifications identified by OEB Staff in their submissions. However, PUC Distribution will first address an evidence update.

B. EVIDENCE UPDATE

6. On Feb 22, 2021 PUC Distribution received a signed copy of Addendum No. 2 to the Contribution Agreement from NRCan. This is the amendment agreement discussed in response to Staff-16, and has the effect of formalizing the extension of NRCan funding to March 31, 2023.

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[1] EB-2018-0219/EB-2020-0249 OEB Staff Submissions dated March 22, 2021 ("OEB Staff Submissions"), page 7.
[2] EB-2018-0219/EB-2020-0249 SEC Submissions dated March 22, 2021 ("SEC Submissions"), page 1.
[3] EB-2018-0219/EB-2020-0249 ED Submissions dated March 22, 2021 ("ED Submissions"), page 2.
[4] EB-2018-0219/EB-2020-0249 VECC Submissions dated March 23, 2021 ("VECC Submissions"), page 6.
[5] EB-2018-0219/EB-2020-0249 CCC Submissions dated March 22, 2021 ("CCC Submissions"), page 4.
[6] SEC Submissions at pages 5-6.
[7] OEB Staff Submissions at pages 3, 9, 11, and 26.

7. On March 31, 2021, PUC Distribution received a letter from NRCan approving an extension to the Contribution Agreement deadline to receive OEB approval to May 31, 2021.

8. A copy of this new evidence has been filed concurrently with these reply submissions in accordance with Section 11.02 of the OEB *Rules of Practice and Procedure.*

C. AREAS OF AGREEMENT

9. Each of OEB Staff,[8] SEC,[9] ED,[10] CCC[11] and VECC[12] recognize that the SSG Project reflects an innovative ICM proposal, and most of the intervenors' submissions focus on the innovative aspect of the proposal, which while topical, does not directly address the specifics of the OEB's ICM funding criteria.

10. Only the OEB Staff Submissions directly address each of the ICM funding criteria. In this context, it is worth noting at the outset that:

    - *Eligible Incremental Capital Amount:* No party disagrees with PUC Distribution that the SSG Project meets the Eligible Incremental Capital requirements under the Materiality Test.[13] OEB staff submits that net cost of the SSG Project being requested under the ICM is $24,828,660, which is well within the maximum eligible incremental capital amount of $28,080,902.[14]

    - *Project-Specific Materiality Threshold:* No party disagrees with PUC Distribution that the SSG Project meets the Project-Specific Materiality Threshold under the Materiality Test.[15] OEB Staff submits that the SSG Project makes up a significant portion of PUC Distribution's capital budget and therefore satisfies the project-specific materiality threshold.[16] OEB Staff submits that while the *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*[17] does not define what constitutes "significant influence", OEB staff notes that the materiality threshold, as defined in Chapter 2 of the Filing Requirements, is approximately

[8] OEB Staff Submission at page 7.
[9] SEC Submissions at page 2.
[10] ED Submissions at page 4.
[11] CCC Submissions, at page 4.
[12] VECC Submissions, at page 4.
[13] AIC at para 30.
[14] OEB Staff Submission at page 12.
[15] AIC at paras. 31-32.
[16] OEB Staff Submission at page 12.
[17] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014

$109,000 for PUC Distribution. On this basis, OEB Staff submits that the as-filed ICM project would, absent other factors, have a significant influence on the PUC Distribution's operations.[18] PUC Distribution will address OEB Staff's concerns about the impact of accelerated CCA on this test under the areas of concern heading below.

- *Need* - No party disagrees with PUC Distribution that the SSG Project need has been adequately demonstrated.[19] OEB staff agrees that the objectives that the SSG Project seeks to achieve are reasonably in line with certain objectives of the set out in the *Ontario Energy Board Act, 1998* ("OEB Act").[20] PUC Distribution agrees and notes with reference to Section 1(1) of the OEB Act that:

  1. As noted by OEB Staff,[21] the VVO aspect of the SSG Project will drive lower total bills for PUC Distribution's customers – consistent with protecting their interests with respect to price and consistent with promoting electricity conservation and demand management;

  2. In addition, the AMI aspect of the SSG Project will better inform customers providing improved outage information, and better and more accessible data regarding reliability, cost/usage trends, etc.; [22]

  3. The DA aspect of the SSG Project will improve the reliability performance of the PUC Distribution system – consistent with protecting the interests of consumers with regards to reliability of electricity services; and

  4. Approving the SSG Project will serve to facilitate innovation in the electricity sector – since PUC Distribution has agreed to make public a broad range of metrics about the performance of the project (see the proposed conditions below).

[18] OEB Staff Submission at page 12.
[19] Amended application at pages 46-49. AIC at paras 35-45.
[20] Ibid.
[21] OEB Staff Submission at page 19.
[22] Amended Application at page 35-36.

- *Means Test:* No party disagrees with PUC Distribution that it passes the Means Test.[23] OEB Staff illustrated this in Table 2 of OEB Staff Submissions before concluding that PUC Distribution's achieved ROE does not exceed 300 basis points above the deemed ROE for both actual and forecasted years.[24]

- *Discrete Project and Unfunded Through Base Rates:* No party disagrees that the SSG Project is a discrete project and unfunded through base rates. OEB staff submits that the SSG Project is discrete and unfunded through base rates. OEB Staff submits that the ICM funding relates specifically to the SSG Project and agrees that the SSG Project would introduce certain new smart grid technologies (e.g. VVO, self-healing circuits) that are not currently implemented anywhere in PUC Distribution's system.[25]

- *Prudence* **-** No party disagrees with PUC Distribution that the SSG Project meets the Prudence Test. OEB Staff agrees that pursuing the SSG Project as contemplated in the ICM appears to be the most prudent option.[26]

D. AREAS OF REMAINING CONCERN

D.1 VVO Savings and Risk Sharing

11. Most of the concern expressed by the intervenors arises from the fact that the VVO savings are estimated based credible research to reflect an Ontario industry average of 2.7%.[27]

12. 2.7% is an estimate. By using an average estimate for VVO savings, there is an equal probability the estimate being exceeded as coming in short.

13. In this context, many of the intervenor groups signalled a concern about the risk that the forecasted VVO savings of 2.7% may not be achieved.

14. PUC Distribution directly addressed this concern with the sensitivity analysis conducted in response to SEC-12, showing that the NPV of annual net benefits to customers from VVO

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[23] AIC at paras 46-48.
[24] OEB Staff Submissions at page 17.
[25] Ibid at page 18.
[26] Ibid at page 20.
[27] The 2.7% VVO reduction is based on EB-2018-0219, Interrogatory Responses, May 31, 2019, Appendix 5, Navigant Final Report – Considerations for Deploying In-Front-of-the-Meter Conservation technologies in Ontario (Navigant Final Report), July 18, 2017.

savings (2022-2041) range from low of \$3.729m (2% VVO savings), to \$12.507m (2.7% VVO savings), and increasing to \$28.806m (4% VVO savings).

15. In addition to these benefits, customers will also receive improved reliability with a NPV (2022-2041) of \$26.865m, as well as a host of other benefits that are well articulated in the ED submissions.

16. Regardless of whether you use 2.0%, 2.7%, or 4% - customers are better off by a significant margin with the SSG Project than they are without it.

17. In this context, each of SEC,[28] CCC,[29] VEC[30] and OEB Staff[31] argue that PUC Distribution should accept incremental risk if VVO savings are not achieved.

18. These parties argue that ratepayers shouldn't carry 100% of the risk if VVO savings are not achieved. Of course, the problem with this is that ratepayers also stand to gain from 100% of the benefits if the VVO savings are exceeded. Risk and reward is currently allocated to the ratepayers, with one exception.

19. Specifically, PUC Distribution negotiated a liquidated damages clause[32] in the EPC Contract which will have the effect of reducing the total cost of the SSG Project for ratepayers if specific targeted VVO savings are not achieved.[33]

20. In this way, Black & Veatch, a leading global EPC contractor that has undertaken a detailed review or project scope and preliminary engineering work,[34] is willing to share the risk that VVO savings won't be achieved with ratepayers.

21. This should give ratepayers comfort that, if the independent work done by Navigant in 2017 to assess the impacts of this technology in Ontario is not enough, Black & Veatch has also confirmed that the 2.7% estimate is credible for the specifics of the SSG Project. Black & Veatch has put a significant amount of money on the line if this target is not achieved.

[28] SEC Submissions at para. 7.5.
[29] CCC Submissions at page 6.
[30] VECC Submissions at pages 5-6.
[31] OEB Staff Submissions at page 26.
[32] Appendix AA3_7 – EPC Contract_Redacted_20201215.PDF at Article 22.
[33] CCC-17.
[34] AIC at para 69.

22. It is also worth noting that the results of a recent Hydro Ottawa VVO pilot project in Kanata demonstrated energy savings of 3.7% as well significant peak demand savings.[35]

23. In this context, and as discussed in the section on conditions below, PUC Distribution is willing to propose as part of its next cost of service application an appropriate metric and performance targets to symmetrically link VVO performance of the SSG Project to PUC Distribution's allowable ROE in respect of the SSG Project.

24. PUC Distribution has two key conditions on this proposal:

- First, in terms of timing, PUC Distribution agrees with OEB Staff Submissions[36] that the performance metrics are not yet well enough defined to propose meaningful metrics or targets in this proceeding. However, if the OEB approves this ICM request, significantly more engineering and design work will be completed by the time the 2023 cost of service application is filed.

- Second, any risk sharing proposal would need to be symmetrical. If PUC Distribution accepts downside risk based on VVO savings performance being less than target then PUC Distribution must also have upside benefit if VVO savings are higher than target. If customers don't see the VVO savings predicted, PUC Distribution is willing to share in the pain only if, should customers see greater savings than predicted, PUC Distribution will also share in the gain.

D.2 Bill C-97 Accelerated Investment Incentive Program (AIIP)

25. PUC Distribution agrees with OEB Staff that the Chapter 3 Filing Requirements[37] generally require accelerated CCA to be excluded from the ICM calculation and that the OEB would assess the impact of accelerated CCA on all capital investments at the time of rebasing to minimize the complexity of the review.[38]

26. OEB Staff then proceed on pages 13-16 of the OEB Staff Submissions to make extensive arguments about the implications of applying accelerated CCA on the application of the ICM materiality threshold test.

[35] TC Transcript dated Feb. 17, 2021 at pg. 25, line 21 to pg. 26, line 4, and at pg. 51, line 14 to line 17.
[36] OEB Staff Submissions at pg. 26.
[37] Section 3.3.2.5 of the Chapter 3 Filing Requirements.
[38] OEB Staff Submissions at page 13.

27. For the reasons that follow, PUC Distribution submits that OEB Staff erred in calculating an ICM revenue requirement of $38,212 when accelerated CCA is applied, that the correct ICM revenue requirement if accelerated CCA is applied is $702,347.23, and that consequently the SSG Project passes the materiality test by a substantial margin regardless of which approach is used to assess materiality.

28. Specifically, PUC Distribution does not agree with OEB Staff that the ICM revenue requirement reflecting accelerated CCA would be $38,212.[39] This calculation is explained at footnote 51 of the OEB Staff's Submissions. In PUC Distribution's submissions, OEB Staff failed to properly adjust the accelerated CCA amount of $3,684,076 by the half-year rule to properly calculate the impact on the ICM revenue requirement.

29. The CCA amount of $3,684,076 is a full-year amount as shown in response to SEC-18.

30. Pursuant to Section 3.3.2.4 of the Chapter 3 Filing Requirements, the OEB's approach has been to apply the half-year rule in cases where an ICM request coincides with the final year of a distributor's IRM plan term. OEB Staff noted that PUC Distribution is scheduled to rebase in 2023 and is requesting ICM funding in 2022, and as a consequence "it has applied the half-year rule and calculated its annual incremental revenue requirement to be $875,610."[40]

31. Pursuant to the OEB issued ACM/ICM Model, when the half-year rule is applied to the amount of capital claimed, the same rule is also applied to both depreciation and CCA. This is shown in Figure 1 below (which is taken from Tab 10 of "PUC_App_AA16_PUC 2021_ACM_ICM_Model_20200928_Half Year Rev Req_20200129.xls").

[39] OEB Staff Submissions at page 13.
[40] OEB Staff Submissions at page 3.

Figure 1: The half-year rule is applied to capital, depreciation and CCA.

Ontario Energy Board

Capital Module
Applicable to ACM and ICM

PUC Distribution Inc.

Incremental Capital Adjustment | **Rate Year:** | **2022**

Current Revenue Requirement		
Current Revenue Requirement - Total	$ 19,273,165	A

Eligible Incremental Capital for ACM/ICM Recovery	Total Claim	Eligible for ACM/ICM (Half Year* Prorated Amount) (from Sheet 10b)	
Amount of Capital Projects Claimed	$ 24,828,660	$ 12,414,330	B
Depreciation Expense	$ 695,799	$ 347,900	C
CCA	$ 2,722,959	$ 1,361,480	V

*The half year rule is applied as the distributor is scheduled to rebase in the next rate year.

32. This approach makes logical sense. PUC Distribution will need to apply half of its eligible CCA allowance against the balance of its capital expenditures that are not being funded through the ICM rate rider due to the application of the half-year rule.

33. In Figure 2 below, PUC Distribution corrects OEB Staff's footnote 51 calculation, showing clearly that the impact of correctly applying accelerated CCA with the half-year rule on the ICM revenue requirement results in an accelerated CCA revenue requirement of $702,347.23.

34. Notably, this amount still greatly exceeds the materiality threshold calculated for PUC Distribution pursuant to the Ch. 2 Filing Requirements ($109,000). Consequently, PUC Distribution submits that the SSG Project passes the materiality component of the ICM test regardless of whether accelerated CCA is applied or not.

Figure 2: Impact of accelerated CCA with the half-year rule applied [41]

	FootNote 51			
	AS presented (no half year)		Revised (half year)	
Accelerated CCA	$	3,684,076.00	$	1,842,038.00
Legacy CCA (half year)	$	1,361,479.00	$	1,361,479.00
	$	2,322,597.00	$	480,559.00
		26.5%		26.5%
	$	615,488.21	$	127,348.14
		73.50%		73.50%
Reduction in Rev Req	$	837,398.92	$	173,262.77
Original Rev Req	$	875,610.00	$	875,610.00
Updated Rev Req using Acc CCA	$	38,211.08	$	702,347.23

D.3 Timing of the ICM Application

35. While acknowledging that it is not opposed to innovation or smart grid enhancements to utility distribution systems, and while not necessarily opposing the SSG Project, CCC expresses its concern that the timing of the project is premature.[42]

36. The timing of this ICM request is driven primarily by the need to obtain OEB approval by a specified date in order to not lose out on the NRCan funding (see the evidence update above). If the OEB does not approve this ICM request, then NRCan funding will be forfeited and PUC Distribution will not proceed with the SSG Project (because it would no longer deliver on PUC Distribution's no net bill increase criterion).[43]

37. CCC then provides a long list of concerns to support its position, spanning pages 4-6 of the CCC Submissions. PUC Distribution provides the following responses to each of these concerns, appearing in the same order identified by CCC:

[41] It is noteworthy that to arrive at the updated revenue requirement calculation of $38,211.08, OEB Staff had to compare a full-year of accelerated CCA to a half-year of legacy CCA. Referring to Figure 1 above, $1,361,479 is CCA that is calculated after applying the half-year rule.
[42] CCC Submissions at page 4.
[43] Amended Application at footnote 11.

- The SSG Project assumptions and technologies were completely reviewed and revisited as part of the RFP issued October 4, 2019[44] which culminated in a legally binding EPC Contract dated October 7, 2020[45] pursuant to which Overland Contracting Canada Inc., a subsidiary of Black & Veatch, provided updated detailed scoping documents[46] to be delivered under a maximum price limit contract with clearly defined performance obligations and liquidated damages tied to those obligations. No additional updates are required.

- PUC Distribution did not reconfigure the mix between VVO and DA work. Overland Contracting Canada Inc., a subsidiary of Black & Veatch, the contractor that is contractually obligated to deliver on the SSG Project proposed a mix of VVO and DA work in its response to the RFP process that differed from the assumed mix that IE/SSG Inc. made previously.[47] It is entirely normal for two different proponents (previously IE/SSG Inc. and now a subsidiary of B&V) to arrive at different conclusions about the respective costs of different aspects of a large project based on their particular capabilities and experiences.

- The relative ranking of smart grid development was clearly qualified and explained in PUC Distribution's 2018 DSP noting that "*Because there are no pending applications for connecting renewable generation, a lower ranking for investments into smart grid development and facilitating renewable generation connections has no significant adverse impact.*"[48] As discussed in the AIC,[49] the need for the SSG Project is not driven by the need to connect renewable generation. PUC Distribution would continue to rank as low priority smart grid investments aimed at connecting renewable generation resources. In this context, PUC Distribution's 2018 DSP did directly discuss the SSG Project, noting:

  "**Sault Smart Grid Project**
  PUC Distribution has been exploring an innovative and large scale system smart grid project for a few years that could provide significant benefit to our customers. The project would include elements for distribution automation, voltage control and improved customer care and outage management capabilities. The project

[44] Appendix AA2-1
[45] Appendix AA3_7.
[46] See PUC_Appendix AA3_Redacted_20211126.PDF.
[47] OEB Staff-13.
[48] CCC-13, Attachment 9 at page 50.
[49] AIC at paras. 35-45.

conceptually has included a "no net bill increase" hurdle for customers as a primary evaluation criteria recognizing the high concern for customers on current costs for electricity. To meet this hurdle a significant level of financial support is being sought and will be needed for internal project approval. It is anticipated that PUC Distribution would be utilizing the Incremental Capital Module process for this project should the analysis and financial feasibility criteria, including the "no net bill increase" be achieved. Should the project funding applications be approved and OEB approval attained, and subject to final PUC Board of Directors approval this 2 to 3 year project would represent a substantial advancement in smart grid technologies being implemented by PUC Distribution."[50]

- PUC Distribution has taken prudent steps to manage risk in respect of the sizeable capital expenditure involved in the SSG Project, including executing a maximum price EPC Contract with the subsidiary of a globally recognized and reputable company (Black & Veatch), implementing legally binding liquidated damages provisions into that EPC Contract to ensure performance metrics are met, and designing a process to deal with potential cost overruns by scaling back on the scope of DA to ensure the no net bill increase commitment is met.

- PUC Distribution would not pursue a smaller scope pilot across a part of its system, as that would require all of PUC Distribution's customers to pay for a pilot that only a very small subset of customers would benefit from (see also AIC at para 6). In addition, PUC Distribution has had an opportunity to review the results of a recent Hydro Ottawa pilot project, which demonstrated energy savings of 3.7% as well significant peak demand savings (no impacts of peak demand savings have been included in the benefit estimates in this Amended Application, even though key upstream charges are billed based on a peak demand billing determinant).[51]

- If you were to compare PUC Distribution's SSG Project proposal to any other utility, it is likely that they wouldn't have had access to a 25% NRCan funding. In the absence of this funding, PUC Distribution would not have been able to achieve a no-net-bill increase and would not have pursued the project. As a consequence of this funding, customers will see immediate total bill savings (not increases), reliability improvements, and a better quality of service from PUC Distribution.

[50] CCC-13, Attachment 9 at page 98.
[51] TC Transcript dated Feb. 17, 2021 at pg. 25, line 21 to pg. 26, line 4, and at pg. 51, line 14 to line 17.

- The annual benefits of $616,897 have been calculated based on the energy savings from VVO as reduced by the full-year revenue requirement of the SSG Project, demonstrating that although distribution revenue requirement does go up there is a sizeable net benefit to PUC Distribution customers.

- As part of its corporate governance processes, PUC Distribution relies on the judgement of its board of directors the majority of which are independent in accordance with the OEB’s corporate governance guidelines. Consistent with these process, PUC Distribution did not require formal approval from the City of Sault Ste. Marie to file the Amended Application with the OEB. The previously approved SSG Project proposal remained largely the same, except that the costs of the project were reduced following the competitive RFP process. PUC Distribution did provide an information update to the City of Sault Ste. Marie in January 2021.

- PUC Distribution does not expect a delay in issuance of OEB approval of this application to April or May 2021 to alter the expected in-service date of December 31, 2022.

- It is true that specific individual consumers, particularly those that use very low volumes of electricity (might benefit as much from VVO savings) may see slight bill increases. However, the vast majority of PUC Distribution customers will see no net bill increase and on aggregate across all PUC Distribution customers a 2.7% VVO energy savings will result in a NPV of annual net benefits to customers of $12.507m.

- PUC Distribution has acknowledged that the estimated average VVO energy savings of 2.7% may change, and has performed a detailed sensitivity analysis on a range of potential VVO savings from 2% to 4% to illustrate that in all cases, the NPV of annual net benefit to customers over a 20 year period ranges from $3.729m (at 2% VVO) to $28.806m (at 4% VVO). In addition, PUC Distribution has built in contractual commitments from its EPC contractor to achieve a minimum performance requirement.

38. CCC goes on to argue that “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."[52]

39. This is not factually accurate. PUC Distribution is in agreement with OEB Staff's recalculated proxy May 1, 2022 bill impacts included at Table 4 of OEB Staff Submissions. These calculations show that for an average 750 kWh residential consumer they will see a total bill decrease of 0.36% while at the same time gaining the benefit of significant improvements in reliability due to DA implementation as well as improved outage and other information as a result of AMI improvements. These residential customers stand to get a better quality of service for less money.

40. CCC goes on to suggest that it would be unfair to place the risks of pursuing this project strictly with ratepayers. PUC Distribution is currently at risk for in excess of $2.262m in sunk costs related to the SSG Project if the OEB refuses to approve this ICM application.[53] That's a real at risk amount. In addition, as discussed further below, PUC Distribution is willing to propose a symmetrical risk/benefit sharing arrangement as part of its next cost of service application.

D.4 Cost vs. Scope Variability

41. Each of OEB Staff[54] and VECC[55] comment about project cost variability.

42. This is surprising since PUC Distribution specifically designed the EPC Contract to eliminate a significant amount of variability on project costs.

43. Specifically, pursuant to Appendix B of the EPC Contract, the fees payable are contractually capped at a *Maximum Price* of $27,745,044.

44. This represents a contractually fixed price limit on 82.8% of the total project costs of $33,495,218, where the only risk of price variability is downside risk (i.e. prices come in less than anticipated).

45. PUC Distribution has been explicit in response to SEC-6 and elsewhere that in the event the costs of Step 2 under the EPC Contract exceed the price originally planned, then PUC Distribution will keep costs within the Maximum Price limit and will instead reduce the

[52] CCC Submissions at page 6.
[53] Staff-45(a).
[54] OEB Staff Submissions at pages 24-25.
[55] VECC Submissions at pages 4-5.

scope of the DA rollout (focusing the available DA improvements on the feeders with the highest potential impacts for reliability improvements). PUC Distribution believes that this can be done in a way so as to still achieve significant reliability improvements for a large number of customers, while also controlling total price variability.

46. During PUC Distribution's customer engagement efforts, PUC Distribution has learned that while customers do express support for reliability improvements – the level of support diminishes the more it costs to achieve these improvements. For this reason, PUC Distribution has prioritized maintaining a "no net bill increase" (i.e. on average the reliability improvements will cost nothing) by maximizing the VVO rollout and strictly capping EPC Contract price increases.

47. This means that the only remaining variability in project costs is in respect of the remaining 17.2% of the total costs ($5,750,174). These costs are largely attributable to work being performed by PUC Services. Based on experience and the large volume of engineering and other work done on the SSG Project to-date (more than $2.262m have been spent on labour, expenses, external engineering, legal and regulatory costs to-date)[56] PUC Services believes that its estimate has a +/-20% variability embedded.

48. This results in a maximum price variability of $1,150,034.8 on a total project cost of $33,495,218 (or +/- 3.4%). This is well within the range of price variabilities the OEB has approved in respect of other ICM applications.

D.5 Acquisition of the Preliminary Engineering Works

49. PUC Distribution agrees with OEB Staff[57] that the preliminary engineering work was acquired at a discount to the actual costs to produce the reports, that these reports form the foundation of the SSG Project in both the RFP that led to the EPC Contract as well as in the Amended Application, and consequently these costs are appropriate to capitalize and include in the overall SSG Project costs. No other parties objected to this approach.

D.6 Metrics

50. PUC Distribution agrees with OEB Staff[58] that performance metrics (once they are created) will be a key component in assessing the realized benefits and outcomes that the SSG Project is seeking to achieve. This is why, under the proposed conditions below, PUC

[56] Staff-45.
[57] OEB Staff Submissions at pages 9-10.
[58] OEB Staff Submissions at page 26.

Distribution is agreeable to begin publically reporting on these benefits and outcomes annually on its website beginning 18 months after the SSG Project goes into service, and continuing over the next 10 years.

51. PUC Distribution believes that publically accessible website represents an improvement over filing the information with subsequent rate applications as the information would be more readily accessible to all PUC Distribution customers, other utilities considering similar initiatives, as well as parties to any subsequent PUC Distribution applications on the website.

D.7 Treatment of Liquidated Damages

52. PUC Distribution agrees with OEB Staff[59] that, consistent with the evidence given during the technical conference,[60] any liquidated damages (whether for delay or for performance) would be used to reduce the capital expenditures associated with the SSG Project and would be settled at the time of PUC Distribution's next cost of service application.

E. PROPOSED CONDITIONS

53. Given the novelty of the proposed SSG Project, both OEB Staff[61] and SEC[62] proposed that the OEB attach certain conditions to the approval of the SSG Project.

54. If the OEB approves this ICM application, PUC Distribution would agree to conditions of approval that require PUC Distribution to:

- consistent with the response to Staff-5 and OEB Staff Submissions,[63] file as part of its 2022 IRM application an update to the ICM model that reflects (i) the OEB-approved inflation factor applicable for 2022 rates; (ii) an update to the forecasted 2022 capital budget; and (iii) actual 2020 demand data on Tab 3 of the ICM Model;

- file for rebasing no later than 2023 so that the progress and implications of the SSG Project can be reviewed by the OEB in the context of a new and updated Distribution System Plan;

[59] OEB Staff Submissions at pages 27-28.
[60] TC Transcript dated Feb. 17, 2021 at pg. 24.
[61] OEB Staff Submissions at pages 26,
[62] SEC Submission at page 5.
[63] OEB Staff Submission at page 11.

- propose as part of its next cost of service application[64] an appropriate metric and performance targets to symmetrically[65] link VVO performance of the SSG Project to PUC Distribution's allowable ROE in respect of the SSG Project;

- prepare and file a report as part of its next rebasing application which identifies and quantifies all material capital and operating impacts of the SSG Project on test year capital expenditures, OM&A and revenue requirement calculations as well as on the proposed five-year capital expenditure plan established in the Distribution System Plan;

- prepare and file updated evidence as part of its next rebasing application on the details of SSG Project implementation including trade-offs made to manage potential cost overruns as well as the best available information on the costs and benefits of the SSG Project;

- report on the benefits[66] of the SSG Project within 18 months of completion of the SSG Project on PUC Distribution's public website with annual updates on performance thereafter over the first 10 years of the SSG Project in service;[67] and

- consider the impact[68] of the SSG Project, together with other relevant information (such as the Asset Condition Assessment) when pacing and prioritizing capital expenditures in PUC Distribution's Distribution System Plans going forward .

F. REQUESTED CLARIFICATIONS

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[64] PUC Distribution agrees with OEB Staff Submissions at page 25-26 that the performance metrics are not yet defined well enough for PUC Distribution to make such a proposal as part of this Amended Application. However, significantly more engineering and design work will be completed by the 2023 cost of service application that

[65] If PUC Distribution accepts downside risk based on VVO savings performance being less than target then PUC Distribution must also have upside benefit if VVO savings are higher than target. If customers don't see the VVO savings predicted, PUC Distribution is willing to share in the pain. If customers see greater savings than predicted, PUC Distribution should share in the gain.

[66] Note that the actual performance metrics will need to be defined during the design phase of the SSG Project. To the extent reasonably practical the benefits would be broken down by customer class, with specific consideration of variation in cost responsibility and benefits by groups within each customer class.

[67] A sunset date for public reporting makes sense. At some point in time the novelty of the SSG Project will wear off, performance will be well documented and understood, and the costs of ongoing reporting will start to outweigh the benefits.

[68] As a prudent distributor responsible for the reliability, safety and quality of electricity service in its service area, it would not be prudent for PUC Distribution to, at this stage make, a blanket commitment to reduce future capital spending. However, PUC Distribution will agree to factor in the impact of the SSG Project on its pacing and prioritization decisions going forward.

55. OEB Staff is correct in its submission noting that the amended Contribution Agreement with NRCan indicates that funding will not exceed the lesser of 25% of total project costs incurred or $10,626,500.[69] PUC Distribution had incorrectly cited the original NRCan Contribution Agreement value of $11,807,000 in error in footnote number 4 of its Argument-in-Chief.

56. Finally, if the OEB approve the SSG Project and require that any updates be made to the NRCan Agreement, PUC Distribution would promptly notify NRCan of the results of the OEB's Decision and work with NRCan to update the Contribution Agreement as required. While PUC Distribution cannot predict how long it may take NRCan to process such an update, one would hope it could be completed prior to the October 2021 deadline to file PUC Distribution's 2022 IRM application. In any event, PUC Distribution would undertake to file such an updated NRCan Contribution Agreement as soon as it becomes available. PUC Distribution agrees with OEB Staff's observation that the updates provided as part of the 2022 IRM application are quite unlikely to change the maximum eligible incremental capital as a result of the requested 2022 updates.

G. CONCLUSION

57. The SSG Project is a unique and innovative ICM proposal.

58. By combining energy savings, reduced losses and reduced greenhouse gas emissions using VVO technologies with improved reliability from DA technologies and improved information and control with AMI technologies, the SSG Project will deliver a better quality of service to customers while costing them less money overall.

59. This unique outcome would not have been possible but for the support of the NRCan funding, and PUC Distribution is incredibly grateful for the patience and unwavering support that NRCan has demonstrated for the SSG Project.

60. PUC Distribution believes that implementing the SSG Project is the right thing to do for its customers and its distribution system. ED, SEC and OEB Staff all agree. In addition, PUC Distribution has agreed to a range of conditions of approval in an effort to address any lingering concerns in a clear and direct way.

[69] PUC Amended ICM Application dated October 29, 2020, Appendix AA4-2 Contribution Agreement (amended), Page 2

61. In this context, the SSG Project meets all of the requirements for ICM funding and no party to this proceeding debates this. PUC Distribution submits that the OEB should approve the request for ICM funding for the SSG Project, subject to the conditions identified in Part E above.

- All of which is respectfully submitted –

BORDEN LADNER GERVAIS LLP

Per:

J Vellone

John A. D. Vellone