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**BY E-MAIL**

August 23, 2022

Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Marconi:

**Re: Alectra Utilities Corporation (Alectra Utilities)  
Application for Incremental Capital Module  
Ontario Energy Board (OEB) Staff Submission  
OEB File No. EB-2022-0013**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission. This document is also being forwarded to the parties of the case.

Yours truly,

Original Signed By

Tyler Davids  
Analyst – Rates, Major Applications & Consolidations

Encl.

**INCREMENTAL CAPITAL MODULE  
Alectra Utilities Corporation**

**EB-2022-0013**

**OEB STAFF SUBMISSION**

**August 23, 2022**

## Introduction

Alectra Utilities Corporation (Alectra Utilities) filed a standalone incremental capital module (ICM) application with the Ontario Energy Board (OEB) on May 16, 2022, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for ICM rate riders to be effective January 1, 2023. In Procedural Order No. 1 issued June 27, 2022, the OEB made provisions for interrogatories and submissions on Alectra Utilities' application. This document provides OEB staff's submissions on the application.

Alectra Utilities has applied for incremental capital funding for a program consisting of cable renewal projects in 2023 within its PowerStream and Enersource rate zones. The requested funding, if approved, would be used for repairs to deteriorating underground cables through silicone injection (where possible). Underground cables will be replaced in areas where injection is not a viable option.

Alectra Utilities also seeks approval for the need and prudence of underground cable renewal investments in 2024. Approval for the need and prudence of 2024 investments is based on the OEB's guidance on advance capital module (ACM) requests as outlined in Section 3.3.1 of the *Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-Setting Applications* (Chapter 3 Filing Requirements).<sup>1</sup> Typically, ACMs are planned during cost-of-service applications when distributors seek incremental capital funding for projects that come into service during the Incentive Rate Mechanism (IRM) period. In this case, ACM treatment is being considered since Alectra Utilities has provided business cases in advance for the 2024 cable renewal projects. Rate riders for the ACM related funding, if approved, would be reviewed as part of Alectra Utilities' 2024 IRM application.

Alectra Utilities argues that the ICM and ACM requests are driven by the need to address worsening reliability attributed to deteriorating underground cables and related equipment. According to Alectra Utilities, the deterioration of underground cables has outpaced Alectra Utilities' expectations as well as the level of investment supported by base rates.

The ICM and ACM requests are for capital expenditures of \$25.3M in 2023 (\$8.7M for its Enersource rate zone and \$16.6M for its PowerStream rate zone) and \$26.9M in

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<sup>1</sup> *Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-Setting Applications*, June 24, 2021

2024 (\$8.7M for its Enersource rate zone and \$18.2M for its PowerStream rate zone). If approved, the funding would result in an incremental revenue requirement for the Enersource rate zone of \$685k in 2023 and an additional \$682k in 2024. The incremental revenue requirement for the PowerStream rate zone would be \$1.2 million in 2023 and an additional \$1.3 million in 2024.

In considering Alectra Utilities' request, it is important to consider both the OEB's established criteria for ICM and ACM funding set out in the *Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (the ACM Report)<sup>2</sup>; and the further update to the OEB's ICM policy for electricity distributors set out in the OEB letter from February 2022, titled *Incremental Capital Modules During Extended Deferred Rebasing Periods* (February 2022 ICM Update).<sup>3</sup>

Based on the criteria set out in the ACM Report and the February 2022 ICM Update, OEB staff supports the funding requested by Alectra Utilities with the following adjustment.

The total requested incremental capital of \$52.3 million should be reduced by \$9.5 million due to Alectra Utilities prioritizing certain other investments over cable renewal. Alectra Utilities plans to spend \$9.5 million more than what was planned in its last distribution system plan (DSP) for the period of 2020-2024 on these other investments that do not appear to be as urgent, while deferring \$125.2 million in underground asset renewal.

A breakdown of how Alectra Utilities' application relates to each criterion in the ACM Report and the February 2022 ICM Update is found in the subsequent sections below.

## **Materiality**

To satisfy whether the ICM is material, a distributor's application must meet three criteria. The application must first meet the materiality threshold, which determines a distributor's maximum eligible capital funding. Additionally, the distributor must demonstrate that the project is not a minor expenditure in comparison to the overall

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<sup>2</sup> Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014

<sup>3</sup> Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022

capital budget. Lastly, the incremental funding must have a significant influence on the operation of the distributor.<sup>4</sup>

## Materiality Threshold

The ACM Report explains the maximum eligible incremental capital and the materiality threshold as follows:

A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-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)...<sup>5</sup>

An ICM is available to distributors during the Price Cap IR years for capital investment needs that are incremental to the OEB's materiality threshold. The ICM materiality threshold is outlined in the *Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report*<sup>6</sup> and in the Chapter 3 Filing Requirements. It represents a distributor's financial capacities underpinned by existing rates, including growth and a 10% dead band. The equation used to calculate the materiality threshold is as follows:

$$\text{Threshold Value}(\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times (g + PCI \times (1 + g))\right]\right) \times ((1 + g) \times (1 + PCI))^{n-1} + X\%$$

Where:  $n$  = number of years since cost-of-service rebasing

$RB$  = Rate Base included in base rates (\$)

$d$  = depreciation expense included in base rates (\$)

$g$  = distribution revenue change from load growth (%)

$PCI$  = price cap index

$X$  = dead band of 10%

Alectra Utilities calculated the materiality thresholds for the PowerStream and Enersource rate zones using the OEB approved rate base and depreciation amounts. The rate base and depreciation amounts from the most recent cost-of-service applications resulted in approved rebased rates for each rate zone. Alectra Utilities

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<sup>4</sup> ACM Report, September 18, 2014, p. 17

<sup>5</sup> *ibid*

<sup>6</sup> Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016

proposes that the price cap index (PCI) of 3.0%, based on the OEB issued electricity distribution IPI of 3.3% less the standard (productivity + stretch) factor of 0.3%, used in the application be a placeholder that will be updated with the OEB's issued IPI for 2023 (and 2024 for ACM rate riders for the 2024 projects) when they are available.

The following table outlines the maximum eligible incremental capital based on Alectra Utilities' materiality threshold calculation:

**Table 1 – Maximum Incremental Capital Summary (\$ millions)**

	PowerStream		Enersource	
	2023	2024	2023	2024
<b>Capital Budget</b>	\$119.9	\$118.9	\$65.4	\$60.6
<b>Less: Materiality Threshold</b>	\$97.8	\$99.1	\$52.2	\$52.7
<b>Maximum Eligible Incremental Capital</b>	\$22.1	\$19.9	\$13.2	\$7.9
<b>Capital Requested</b>	\$16.6	\$18.2	\$8.7	\$8.7

OEB staff notes that given the current economic climate, the IPI used to calculate the PCI in the formula could be adjusted to better reflect the intent of the materiality threshold calculation. Specifically, instead of using the current year's IPI for each historical year, a historical average could be used.<sup>7</sup>

The intention of the materiality threshold is to calculate how historical Price Cap IR adjustments (i.e., historical IPIs) and growth have affected the level of depreciation expense being recovered in current rates, from the level of depreciation expense recovered as part of the revenue requirement underpinning approved rates at the utility's last rebasing.<sup>8</sup> The higher the price cap adjustment (due to higher IPIs) and/or growth, the higher the depreciation expense that is recovered in rates. This results in a higher level of capital expenditures that can be funded through current distribution rates. In turn, this reduces the amount of capital expenditure that would require incremental capital funding, all else being equal.

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<sup>7</sup> For example, the geometric mean of IPIs since the rate zone's last rebasing application up to the rate year of the application.

<sup>8</sup> EB-2007-0673, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, September 17, 2008, pp. 27-28.

The table below outlines the OEB-approved IPI values from 2013-2022.<sup>9</sup>

**Table 2 - OEB-Approved IPI Values from 2013-2022**

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1.90%	1.70%	1.60%	2.10%	1.90%	1.20%	1.50%	2.00%	2.20%	3.30%

There has been a sharp increase in the IPI beginning in mid-2021 due to socioeconomic pressures arising from the recovery of the COVID-19 pandemic, and other external factors. As a result, it is unlikely that the future 2023 IPI will accurately represent the historical effect of inflation on depreciation. Using the 2023 IPI would therefore inflate the materiality threshold value, relative to the impact that actual historical price cap rate adjustments and growth have had on rates and revenues. Using the 2023 IPI would thereby decrease the eligible maximum incremental capital for both the PowerStream and Enersource rate zones.

Based on published Statistics Canada data for 2022 Q1, OEB staff has calculated a preliminary value of 3.7% for the IPI for 2023. The calculations are documented in the following table. OEB staff notes that this is preliminary, and subject to revisions when Statistics Canada publishes 2022 Q2 data on August 31, 2022 (after this submission is filed). The OEB will issue the final 2023 IPI later this year.

**Table 3 – Input Price Index for Electricity Distributors (Preliminary)**

Year	Non-Labour GDP-IPI (FDD) – National							Labour AWE – All Employees Ontario			Resultant Values – Annual Growth for the 2-factor IPI	
	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2020	113.4	113.5	114	114.7	113.9			\$1,126.33			114.7	
2021	116.2	117.4	118.9	120.8	118.325	3.8%	70%	\$1,166.76	3.526%	30%	119.1	3.7%

**Sources:**

- GDP-IPI (FDD): Statistics Canada, Table 36-10-0106-01 (formerly CANSIM 380-0066) - Price Indexes, gross domestic product, quarterly (2012 = 100 unless otherwise noted) - 2022 Q1, data accessed June 7, 2022
- Average Weekly Earnings (AWE): Statistics Canada, Table 14-10-0204-01 (formerly CANSIM 281-0027), Ontario, all businesses excluding unclassified, annual (current dollars), data accessed June 7, 2022

<sup>9</sup> EB-2021-0212 Procedural Order No.1, August 27, 2021, Appendix B, p.23

OEB staff notes that adjusting the materiality threshold IPI values for the 2023 ICM using an alternative calculation such as a historical geometric mean of OEB-approved IPI values from each rate zone’s respective last cost-of-service year until 2023 would not result in a material change to the funding sought by Alectra Utilities for either rate zone. OEB staff notes that using a geometric mean for the period 2013 to 2023 results in an IPI average for each of the rate zones in the range of 2.2%. OEB staff has not provided these calculations as they have not previously been raised in this proceeding. As such, OEB staff is not recommending using an IPI other than the 2023 IPI that the OEB will post in early fall 2022 as per the current ICM policy.

OEB staff notes however that there may be material impacts on the 2024 funding. While the implementation of approved ACM funding is intended to be mechanistic, OEB staff recommends that the OEB consider allowing Alectra Utilities to file evidence on the potential use of an alternate calculation if the forecasted IPI for 2024 rates is expected to remain much higher than historical values, as part of the 2024 rate implementation application for any approved amounts.

Now, that said, OEB staff notes that using the preliminary 2023 IPI of 3.7%, Alectra Utilities would expect to see a decrease to its ICM funding by approximately \$400k for the PowerStream rate zone for 2023. There is no change to the funding requested for the Enersource rate zone. The table below outlines the expected change to the maximum eligible incremental capital with the preliminary 2023 IPI of 3.7%.

**Table 4 – Maximum Eligible Incremental Capital Using Estimated 2023 IPI (\$ millions)**

	<b>PowerStream</b>	<b>Enersource</b>
	<b>Estimated 2023 IPI (3.7%)</b>	<b>Estimated 2023 IPI (3.7%)</b>
<b>Materiality Threshold</b>	\$103.6	\$56.1
<b>Maximum Eligible Incremental Capital</b>	\$16.2	\$9.3
<b>Incremental Capital Requested</b>	\$16.6	\$8.7
<b>Max Incremental Capital</b>	\$16.2	\$8.7

OEB staff recommends that, per past practice and current OEB policy, Alectra Utilities should update its calculations using the final IPI posted by the OEB for 2023 rates in early fall 2022 as part of a draft rate order process for this application, including a calculation of the rate riders for 2023 rates using the final 2023 IPI for any approved ICM amounts.



Overall, OEB staff submits that Alectra Utilities has met the materiality threshold criteria for the 2023 ICM. Based on calculations performed by OEB staff, although the materiality threshold criteria is met, using the estimated 2023 IPI will cap the maximum eligible capital funding to levels slightly below the requested funding for the PowerStream rate zone. OEB staff also submits that the 2024 program meets the materiality threshold criteria needed to qualify for ACM treatment given the forecasted information in this application.

### **Project Specific Materiality Threshold**

The ACM Report addresses the project specific materiality threshold as follows:

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.

The project specific materiality criterion compares individual projects to the overall capital budget of the distributor. The ACM Report does not define a metric threshold to compare the project cost to the overall capital.

According to the February 2022 ICM Update, the OEB is providing additional flexibility for distributors to apply for ICM for an annual capital program. As such, each cable renewal program should be compared to Alectra Utilities' capital budget.<sup>10</sup>

OEB staff submits that the \$16.6 million requested in 2023 and \$18.2 million requested in 2024 for the PowerStream rate zone cable renewal program are significant in comparison to Alectra Utilities' capital budget of \$287.8 million and \$293.5 million in 2023 and 2024 respectively. The \$8.7 million requested in both 2023 and 2024 for the Enersource rate zone cable renewal program is also significant in comparison to the distributor's capital budget. The materiality of the cable renewal programs for 2024 will be reassessed as part of Alectra Utilities' 2024 IRM application.

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<sup>10</sup> Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022, p.2

## Significant Influence on Operations (Impact of Accelerated CCA)

To satisfy the materiality criteria, the ACM Report states, among other things, that any amounts being requested for ICM funding must clearly have a “significant influence” on the operation of the distributor. Furthermore, the OEB’s Chapter 2 Filing Requirements<sup>11</sup> indicate that even though the OEB generally requires accelerated capital cost allowance (CCA) to be excluded from ACM/ICM calculations, the OEB may take accelerated CCA into consideration in assessing the impact of the proposed capital project(s) on the operations of the distributor in determining if ACM/ICM funding is warranted.<sup>12</sup>

Bill C-97 introduced the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in CCA deductions (i.e. accelerated CCA) on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out from 2024 to 2027. In its July 25, 2019 CCA letter, the OEB provided accounting direction on the treatment of the impacts of accelerated CCA resulting from the AIIP.<sup>13</sup> The OEB established a separate sub-account, Account 1592 - PILs and Tax Variances, Sub-account CCA Changes, to track the impact of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

Consistent with the Chapter 2 Filing Requirements, Alectra Utilities proposed 2023 ICM revenue requirements exclude the impact of accelerated CCA and reflects full-year CCA deductions instead. In 2024, Alectra Utilities proposed 2024 ACM revenue requirements also reflect full-year CCA deductions, but this treatment is aligned with the AIIP phase out rules for 2024 and as a result, accelerated CCA does not have an impact on Alectra Utilities’ 2024 ACM revenue requirements.

In response to interrogatories, Alectra Utilities provided the revenue requirements including the impact of accelerated CCA.<sup>14</sup> The revenue requirements are as follows:

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<sup>11</sup> Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications, April 18, 2022, p. 21

<sup>12</sup> Generally accelerated CCA is excluded from the ACM/ICM revenue requirement. The OEB will assess the impact of accelerated CCA at the time of rebasing to minimize the complexity of review.

<sup>13</sup> *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, July 25, 2019

<sup>14</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-24

**Table 5 - PowerStream Rate Zone Incremental Revenue Requirement**

<b>Incremental Revenue Requirement</b>	<b>2023</b>	<b>2024</b>	<b>Total</b>
Exclude accelerated CCA	\$1,178,318	\$1,292,359	\$ 2,470,677
Include accelerated CCA	\$938,429	\$1,292,359	\$2,230,788
Difference	\$239,889	\$0	\$ 239,889

**Table 6 – Enersource Rate Zone Incremental Revenue Requirement**

<b>Incremental Revenue Requirement</b>	<b>2023</b>	<b>2024</b>	<b>Total</b>
Exclude accelerated CCA	\$684,953	\$681,792	\$1,366,745
Include accelerated CCA	\$559,063	\$681,792	\$1,240,855
Difference	\$125,890	\$0	125,890

OEB staff notes that the Chapter 2 Filing Requirement materiality thresholds used in cost-of-service rate applications (which differ from the materiality threshold for ICM/ACMs as discussed above) for the PowerStream rate zone and the Enersource rate zone, based on the approved revenue requirements in the last rebasing rate orders, are calculated to be \$998k and \$590k, respectively.<sup>15</sup> The difference between the 2023 revenue requirements and materiality thresholds are provided in the table below.

**Table 7 – Difference between 2023 Incremental Revenue Requirement and Materiality Threshold**

	<b>PowerStream</b>		<b>Enersource</b>	
	<b>2023 Revenue Requirement Over/(Under) Materiality</b>	<b>Difference as a % of Materiality</b>	<b>2023 Revenue Requirement Over/(Under) Materiality</b>	<b>Difference as a % of Materiality</b>
Excluding accelerated CCA	\$180,811	18%	\$94,978	16%
Including accelerated CCA	-\$59,078	-6%	-\$ 30,912	-5%

<sup>15</sup> Calculated as 0.5% of PowerStream Inc.'s approved 2017 base revenue requirement from the Nov. 2, 2016 rate order (EB-2015-0003), and 0.5% of Enersource's approved 2013 base revenue requirement from the January 11, 2013 rate order (EB-2012-0033).

As shown in the table above, for both the PowerStream and Enersource rate zones, the 2023 proposed revenue requirements excluding the impact of accelerated CCA are above the respective materiality thresholds, while the 2023 proposed revenue requirements including the impact of accelerated CCA are slightly below the respective materiality thresholds.

OEB staff does not take issue with Alectra Utilities' exclusion of the impacts of accelerated CCA in the proposed 2023 revenue requirements. OEB staff notes that the ACM Report does not define what constitutes "significant influence". OEB staff is of the view that the materiality threshold, as defined in Chapter 2 Filing Requirements used for the cost-of-service applications can be used as a proxy to assess significant influence in the context of considering the impact of accelerated CCA on the operations of a distributor.

As noted above, the OEB generally requires accelerated CCA to be excluded from ACM/ICM calculations. OEB staff notes that when the impacts of accelerated CCAs are excluded from the revenue requirements, the 2023 and 2024 revenue requirements are above the materiality thresholds and would be considered to have significant influence on the operations of Alectra Utilities.

When the impacts of accelerated CCAs are included in the 2023 revenue requirements for the two rate zones, the 2023 revenue requirements are only slightly below the materiality thresholds. Given that the OEB may or may not take the impact of accelerated CCA into consideration in determining whether ACM/ICM funding is warranted, OEB staff is of the view that greater reliance should be placed on the other materiality tests rather than the significance influence materiality test. As discussed in the Materiality Threshold and Project Specific Materiality Threshold sections above, OEB staff is of the view that Alectra Utilities' ICM meets the requirements of these two materiality tests. Therefore, with respect to accelerated CCA, OEB staff is of the view that accelerated CCA should not be applied to Alectra Utilities 2023 revenue requirements and the ICM impact from accelerated CCA should be recorded in Account 1592, Sub-account CCA Changes. This approach would be consistent with the Filing Requirements and also generally be consistent with other ICMs approved to date.<sup>16</sup>

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<sup>16</sup> Examples include Brantford Power Inc./Energy+ Inc. (EB-2019-0022/EB-2019-0031), PUC Distribution Inc. EB-2020-0249/EB-2018-0219

As discussed in the History of Good Utility Practices and Exhaustion of Other Means section, OEB staff submits that \$9.5 million of additional investment in Customer Experience Applications and Processes be used to partially fund the ICM/ACM. OEB staff acknowledges that this would decrease the proposed 2023 and/or 2024 revenue requirements and could potentially result in the revenue requirements being below the filing requirement materiality thresholds of the respective rate zones. However, as discussed in the sections Outside of Base Rates, Urgent Need Based on New Information and Addresses Customers Needs, OEB staff believes that the ICM amounts are outside of base rates and there is an urgent need to address the increasing number of cable failures. Therefore, OEB staff submits that the significant influence test should be balanced with consideration to the other materiality tests as well as the other ICM criteria, in particular the need for the programs. As such, OEB staff supports the requested incremental capital with a \$9.5 million reduction as will be discussed further below.

## **Need**

The ACM Report describes the “need” criterion as follows:

The distributor must pass the Means Test (as defined in the 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.<sup>17</sup>

## **Means Test**

Under the Means Test, if a distributor’s regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor’s rates, then the funding for any incremental capital project will not be allowed.<sup>18</sup> Alectra Utilities stated that its most recently available ROE was 6.18% as filed in its 2021 annual *Reporting and Record Keeping Requirements* (RRRs), which is 2.77% (277 basis points) lower than its deemed ROE of 8.95%. When considering OM&A merger savings, Alectra Utilities’ ROE raises to 7.95%, which is 1.00% (100 basis points) lower than its deemed ROE.<sup>19</sup>

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<sup>17</sup> ACM Report, September 18, 2014, p. 17

<sup>18</sup> ACM Report, September 18, 2014, p. 15

<sup>19</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, IRR 25c, p.2

OEB staff agrees that Alectra Utilities has not exceeded its deemed rate of return by 300 basis points and, therefore, passes the Means Test for the 2023 ICM. The Means Test shall be recalculated as part of the 2024 IRM for the cable renewal funding requested for 2024.

### **Discrete Project**

The ACM report indicates that incremental capital funding is for discrete projects and not for ongoing capital programs. However, the February 2022 ICM Update indicates that additional flexibility is available to qualifying electricity distributors to apply for incremental capital funding for an annual capital program during an extended rebasing period.<sup>20</sup>

As a result, OEB staff does not oppose Alectra Utilities' requests in this application based on the discrete project criterion.

### **Outside of Base Rates**

During PowerStream's last cost-of-service in 2017, the distributor planned for \$4.26 million in cable injection, \$13.61 million in cable replacement, and \$1.05 million in emerging cable replacement projects. As a result, the total cable renewal investment planned within the last cost-of-service application for 2017 was \$18.91 million. Inflating the planned amount by 2% results in an estimated cable renewal spending of \$21.30 million for 2023 and 21.73 million for 2024.<sup>21</sup>

Within this application, Alectra Utilities has stated that it plans to spend \$32.8 million and \$35.2 million in cable renewal for the PowerStream rate zone in 2023 and 2024 respectively.<sup>22</sup>

During Enersource's last cost-of-service application in 2013, the distributor planned for \$3.00 million in total underground distribution system sustainment. Inflating the planned

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<sup>20</sup> Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022, p.2

<sup>21</sup> EB-2015-0003 PowerStream Inc. 2016-2020 Custom IR Rate Application, May 22, 2015, Exhibit G, Tab 2, 5.4.1 Capital Expenditure Plan Summary, p. 6, Table 3

<sup>22</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-20b, Attachment 2

amount by 2% results in an estimated cable renewal spending of \$3.66 million for 2023 and 3.73 million for 2024.<sup>23</sup>

Within this application, Alectra Utilities has stated that it plans to spend \$15.5 million and \$15.7 million in cable renewal for the Enersource rate zone in 2023 and 2024 respectively.<sup>24</sup>

Accounting for inflation, and based on the evidence provided by Alectra Utilities, the amount of cable renewal investment for 2023 and 2024 is expected to be more than what was anticipated at the time of the last cost-of-service application for each rate zone.

As a result, OEB staff submits that the ICM/ACM amounts for both rate zones are largely outside of base rates.

## Prudence

The ACM Report describes the “prudence” criterion as follows:

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.<sup>25</sup>

Alectra Utilities stated that it utilized a new Asset Analytics Platform to compute asset condition assessments and overlay reliability data sets with maps. The platform has enabled Alectra Utilities to identify emerging hotspots for cable renewal.<sup>26</sup>

Alectra Utilities indicated that it has considered multiple options to address the deteriorating cables. Cable injection will be used where feasible, and cable replacement will be used for projects where the cables have too far deteriorated.<sup>27</sup> Alectra Utilities

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<sup>23</sup> EB-2012-0033 Enersource Hydro Mississauga Inc. Cost of Service Application, April 27, 2012, Exhibit 2, Tab 2, Schedule 2, Appendix 1, p.124, Table 17.2

<sup>24</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-20b, Attachment 2

<sup>25</sup> ACM Report, September 18, 2014, p. 17

<sup>26</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 3, Tab 1, Schedule 2, p.13

<sup>27</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 2, Tab 1, Schedule 1, page 10

has stated that cable injection is one-sixth the cost of cable replacement and will save approximately \$180 million in future capital renewal costs by injecting cables now versus replacing them later when they have too far deteriorated.<sup>28</sup>

Alectra Utilities has also stated that cables have been sized based on the Alectra Utilities standard. At a high level, the cables have been sized such that there is room for additional load growth from electrification and space heating.<sup>29</sup>

Based on Alectra Utilities' representations, OEB staff does not take issue with the prudence of the cable renewal ICM/ACM program subject to review of the final costs at the next rebasing application.

## **Modified Criteria for Ongoing Programs**

As noted in above, historically incremental capital funding has only been available for discreet projects and not ongoing capital programs. That requirement was modified in the February 2022 ICM Update such that incremental funding may be available for ongoing capital programs so long as certain criteria are met. Specifically, Alectra Utilities must demonstrate the following:

- An urgent need for such additional funding that is based on new information that has arisen since the utility's most recent rebasing application related to the management of risk associated with asset condition, reliability and quality of service and public safety
- How this ICM investment addresses customer needs and preferences and delivers benefits to customers
- History of good utility practice in capital planning, capital program management and asset maintenance
- Exhaustion of other available options to manage its costs within the envelope provided by the existing price cap or another applicable formula

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<sup>28</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 3, Tab 1, Schedule 4, Page 1

<sup>29</sup> EB-2022-0013 Responses to Environmental Defence Canada Inc. Interrogatories, August 2, 2022, Interrogatory #3-ED-4a, p.2



## **Urgent Need Based on New Information**

Alectra Utilities has provided a 2020 asset condition assessment (ACA) pertaining to its underground cable population. The cable population classified to be in 'poor' or 'very poor' condition has increased from 14% (3,173 km) in the 2018 ACA to 17% (3,793 km) in the 2020 ACA. Since the last DSP in 2020, Alectra Utilities has implemented an Asset Analytics Platform that moves toward predictive analysis, reliability-driven maintenance, and machine learning. The Asset Analytics Platform uses predictive analysis and machine learning to identify localized cable hotspots and is driven by cable age, cable type, cable construction, cable historical failures, and cable routing.<sup>30</sup> New information on reliability shows that defective equipment outages has increased from 2019 to 2021 and this is mostly driven by cables failures.<sup>31</sup>

OEB staff submits that with the new information on outages combined with the Asset Analytics Platform identifying localized cable hotspots, there appears to be an urgent need to address the increasing number of cable failures.

## **Addresses Customer Needs**

Alectra Utilities had Innovative Research Group Inc. distribute a customer engagement survey in 2022, asking customers their preferences on a variety of cable renewal options. According to the survey results, for both the PowerStream and Enersource rate zones, the majority of customers would like to see at least some investment in both cable injection and cable replacement investments. The survey also asked customers to both rank and rate the importance of seven customer outcomes. The survey results indicate that delivering reasonable electricity distribution prices and reliable service were consistently the top two outcomes.<sup>32</sup>

According to Alectra Utilities the ICM/ACM will directly address reasonable electricity distribution prices by saving \$180 million in future cable replacement costs. The

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<sup>30</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-1b, p.3

<sup>31</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 1, Tab 1, Schedule 4, p.6-7

<sup>32</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Customer Engagement 2022 ICM Application, April 2022, p.3

ICM/ACM will also increase the reliability of the distribution service by avoiding approximately 250,000 customer hours of interruption.<sup>33</sup>

OEB staff submits that the ICM/ACM directly addresses customer needs, as the cable renewal program will improve the two most important customer outcomes of reliability and reasonable distribution rates.

### History of Good Utility Practices and Exhaustion of Other Means

As part of Alectra Utilities' IRM for 2020 rates (EB-2019-0018), Alectra Utilities proposed a bundle of projects for incremental capital funding, known as the M-factor, along with an updated DSP. The M-factor was later denied by the OEB, and as a result, Alectra Utilities developed an adjusted capital plan.<sup>34</sup> The following table outlines the variance between the adjusted capital plan and the DSP from the M-factor case:<sup>35</sup>

**Table 8 – Adjusted Capital Plan – Material Changes (\$ millions) 2020-2024**

Summary of Material Changes	2020	2021	2022	2023	2023	Total
<b>Underground Asset Renewal</b>	\$0.4	(\$18.9)	(\$26.9)	(\$38.0)	(\$41.8)	(\$125.2)
<b>Lines Capacity</b>	(\$9.9)	(\$17.0)	(\$12.7)	(\$14.2)	(\$3.2)	(\$56.9)
<b>Information Technology Systems</b>	(\$1.3)	(\$4.4)	\$9.5	\$17.1	\$13.4	\$34.3
<b>Other</b>	(\$16.1)	\$22.1	\$1.1	\$1.6	(\$11.1)	(\$2.4)
<b>Total Reduction before Proposed ICM</b>	(\$26.9)	(\$18.2)	(\$29.0)	(\$33.5)	(\$42.7)	(\$150.2)
<b>Proposed ICM Investments</b>	\$0	\$0	\$0	\$25.4	\$26.9	\$52.3
<b>Total Net Reduction</b>	(\$26.9)	(\$18.2)	(\$29.0)	(\$8.1)	(\$15.8)	(\$97.9)

As part of the adjusted capital plan, Alectra Utilities has decided to defer \$125.2 million in underground asset renewal and invest an additional \$34.3 million in information technology (IT) systems compared to the original DSP.

<sup>33</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 3, Tab 1, Schedule 4, p.1

<sup>34</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Exhibit 3, Tab 1, Schedule 1, p.2

<sup>35</sup> EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-19a, p.2

Alectra Utilities has broken down its IT spending further in the following table:<sup>36</sup>

**Table 9 – Summary of Material IT Changes (\$ millions) 2020-2024**

<b>Summary of Material Changes - IT</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Total</b>
<b>Implementation of Customer Experience applications and Processes</b>	0.0	0.6	3.2	4.2	1.6	9.5
<b>Business process and application Optimization</b>	(2.3)	(4.9)	2.0	8.8	2.7	6.2
<b>Operational technology</b>	0.1	(0.8)	1.7	0.7	4.2	5.8
<b>Enhancements to Utility investment portfolio planning system (Copperleaf)</b>	(0.1)	1.2	1.6	1.7	0.5	4.8
<b>IT Client Computing, Server and Network</b>	1.3	(0.1)	0.0	0.4	1.6	3.2
<b>Enhancements to security/data platforms and network architecture for Grid Modernization</b>	(0.3)	(0.2)	1.4	0.8	0.6	2.2
<b>Workforce Management System</b>	0.0	0.0	(1.6)	0.5	2.5	1.5
<b>Security cost increases</b>	0.1	(0.2)	1.3	0.1	(0.2)	1.1
<b>Total</b>	(1.3)	(4.4)	9.5	17.1	13.4	34.3

According to Alectra Utilities, the implementation of customer experience applications and processes will be delivered in the following three steps:<sup>37</sup>

- Leverage the existing systems (unified presentation layer, expand self-service, enhance e-Billing services, enhance collections, and deliver power outage notifications) and enhance New Services portal;
- Enhancing Beyond (automate processes, deliver insights and analytics, introduce Welcome Packages, Hyper-Personalize Interactions, Introduce Signature Services); and
- Growth (new products, value offerings).

In the recently conducted customer engagement survey, customer experience/customer service was not as high a priority in comparison to delivering reasonable rates and reliable service.<sup>38</sup>

<sup>36</sup> EB-2022-0013 Responses to School Energy Coalition Interrogatories, August 2, 2022, SEC-14, p.1

<sup>37</sup> EB-2022-0013 Responses to School Energy Coalition Interrogatories, August 2, 2022, SEC-14, p.2

<sup>38</sup> EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, May 16, 2022, Customer Engagement 2022 ICM Application, April 2022, p.3

While OEB staff generally sees value in customer experience initiatives, it appears to OEB staff that investing in customer experience applications and processes was not a project with priority for capital allocation compared to cable renewal (given the description of the three steps above). As such, OEB staff submits that Alectra Utilities has fallen short of demonstrating good utility capital planning practices and has not shown that it exhausted all other means to manage its costs within its envelope. Assuming the OEB agrees with OEB staff's view on these criteria, OEB staff submits that the ICM/ACM funding should be reduced by \$9.5 million to reflect the additional investment in customer experience applications and processes. OEB staff leaves it to Alectra Utilities to decide how the \$9.5 million reduction would be managed across the two rate zones and across the two years of funding requested.

## **Application of ACM Policy for 2024**

According to the ACM Report, the ACM was developed for the following purpose:<sup>39</sup>

Enable review during a cost of service application for the need and prudence of any incremental capital module funding requests for discrete projects that are part of a distributor's Distribution System Plan, and that are planned to come into service during the IRM period.

Despite not being part of a cost-of-service application, OEB staff accepts Alectra Utilities' use of an ACM for the 2024 cable renewal program as it meets the original intent of the ACM policy, in that it promotes regulatory efficiency.<sup>40</sup> Applying for an ACM removes the requirement to review the need and prudence of a second application for a similar cable renewal program to the 2023 ICM. The 2024 ACM is an extension of the 2023 ICM and therefore the need and prudence of the 2024 cable renewal program should be reviewed with the 2023 ICM.

According to the ACM policy, Alectra Utilities is required to recalculate the maximum eligible incremental capital for the capital requested in 2024 as part of its 2024 IRM application. If the cumulative cost of the projects in 2024 are 30% or more than what

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<sup>39</sup> ACM Report, September 18, 2014, p.3-4

<sup>40</sup> ACM Report, September 18, 2014, p.11

was documented as part of this application, Alectra Utilities would be required to re-file the business cases and other relevant material within the 2024 IRM.<sup>41</sup>

All of which is respectfully submitted

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<sup>41</sup> ACM Report, September 18, 2014, p. 12