PUBLIC INTEREST ADVOCACY CENTRE
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Alectra Utilities Corporation (Alectra)
2023 IRM and ICM
EB-2022-0013

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

August 24, 2021

Vulnerable Energy Consumers Coalition

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The Request

1. Alectra Utilities is seeking approval for the need for, and prudence of incremental ICM investment in 2023 and 2024. The resultant ICM rate riders are sought to be effective January 1, 2023. This request would result in an additional $3.8 million in costs to be borne by ratepayers as shown in the table below.

Table 8 – Incremental Revenue Requirement – PowerStream RZ

Incremental Revenue Requirement	2023	2024
Return on Rate base - Total	$946,902	$1,038,546
Amortization	$369,640	$405,415
Incremental Grossed Up PILs	($138,224)	($151,602)
Total Incremental Revenue	**$1,178,318**	**$1,292,359**

Table 15 – Incremental Revenue Requirement – Enersource RZ

Incremental Revenue Requirement	2023	2024
Return on Rate base - Total	$561,642	$559,050
Amortization	$193,981	$193,086
Incremental Grossed Up PILs	($70,670)	($70,344)
Total Incremental Revenue	**$684,953**	**$681,792**

2. All the projects relate to the replacement of underground plant. Alectra explains that in certain service areas, specifically Mississauga, Vaughan, Richmond Hill, Aurora and Markham, experienced exponential growth between the 1960s and 1990s during which time were installed a larger portion of cross-linked polyethylene (XLPE) underground cables. These cables were directly buried and are subject to soil conditions degradation (as might be reduced were the cable installed in conduit). Alectra Utilities has 3,793 km of direct-buried XLPE cable in service.

3. There are two methods to address failing XLPE cables, replacement and cable silicone injection. Alectra has identified incremental capital investments in the PowerStream and Enersource RZs to either replace or to rehabilitate using silicone injection to extend the life of existing cables. Approximately 46% of the proposed ICM projects will address deteriorated cables in the affected neighbourhoods with cable injection technology addressing the remainder being replacements.

4. Alectra identified 20 high priority projects in the Enersource RZ and 32 high priority projects in the PowerStream RZ based on an assessment of the likelihood of failures. Of these 52 projects the Utility indicated that “base funding” was sufficient to address 24 cable renewal projects. Alectra Utilities is requesting ICM funding for the remaining 28 high

priority cable renewal projects (17 projects in the PowerStream RZ and 11 projects in the Enersource RZ). These projects are listed below:

Project #	Project Name	2023	2024
151329	Cable Replacement – Raymerville Drive Area in Markham (M21)	$1.5	$1.6
151361	Cable Injection – Cairns Drive of Markham (M21)	$1.7	$1.9
151367	Cable Injection – McNaughton Road Area of Vaughan (V26)		$1.9
151403	Cable Replacement - Montevideo & Battleford Area in Mississauga (Area 46)	$1.4	
151407	Cable Replacement – Glen Erin & Burnhamthorpe of Mississauga (Area 25)	$2.2	$2.3
151431	Cable Injection – Glen Erin Dr & Bell Harbour Dr in Mississauga (Area 39)	$0.9	
151432	Cable Injection – Edwards Boulevard Area in Mississauga (Area 43 & 51)		$1.3
151435	Cable Injection – Derry Road & Ninth Line (Area 56)	$1.0	$1.1
151436	Cable Injection – Winston Churchill & The Collegeway (Area 58 & 59)	$1.0	$1.1
151456	Cable Injection – Sovereign Court Area in Vaughan (V50)		$1.6
151459	Cable Injection – Creditstone Road Area in Vaughan (V24)		$2.1
151461	Cable Injection - Jacob Keffer Parkway Area in Vaughan (V17)	$1.6	
151517	Cable Injection - 8th Line & Highway 11 Area in Bradford (BR5)		$1.3
151520	Cable Injection – Willow Farm Lane of Aurora (A09)	$1.1	
151889	Cable Replacement – Tomken Trail in Mississauga (Area 36)		$2.0
151895	Cable Replacement – Main Feeder Cable on Cantay Road (Area 44)	$0.9	
151901	Cable Replacement – Hemus Square in Mississauga (Area 16)	$0.7	
151902	Cable Replacement – Dixie Road & Winding Trail (Area 19)	$0.6	
151903	Cable Replacement – South Millway Area in Mississauga (Area 25)		$1.0
151912	Cable Replacement - Ashbridge Traffic Circle Area in Vaughan (V51)	$2.6	
151913	Cable Replacement – Cochrane Drive & Scolberg in Markham (M44)	$2.5	$2.5
151914	Cable Replacement – Aviva Park Area of Vaughan (V36)	$2.4	
151935	Cable Replacement - Larkin Ave Area of Markham (M15)		$1.8
152373	Cable Replacement - St. Joan of Arc Area of Vaughan (V26)		$1.6
152375	Cable Replacement – Hammond Drive Area in Aurora (A09)		$1.3
152379	Cable Replacement – Batson Drive in Aurora (A10)	$1.7	
152386	Cable Injection - Kersey Crescent Area in Richmond Hill (R23)	$1.5	
152387	Cable Injection – Rainbridge Ave (V51)		$0.6
	Total Proposed ICM Investment	**$25.3**	**$27.0**

5. Alectra undertook an update to its existing Distribution System Plan and retained an independent consultant to retained Guidehouse Canada Ltd. (“Guidehouse”) to review the Utility’s process and analytical methods used to develop an “Adjusted Capital Plan” (ACP). The Utility also provided in this application its most recent Asset Condition Assessment based on a 2020 review.[1]

[1] SECC-11, Attachment 1 – 2020 ACA

Prior Policies and Decisions of the Board

6. The Applicant has filed under the OEB's long-standing ICM policy. The ICM is available for discretionary or non-discretionary projects and is not limited to extraordinary or unanticipated investments. In order to qualify for ICM funding, a distributor must satisfy the eligibility criteria of materiality, need and prudence.

7. However, ICM funding is not available for typical annual capital programs, nor is it available for projects that do not have a significant influence on the operations of the distributor.[2] Specifically the Board has stated:

   "*The ICM addresses the question of materiality in two steps. The first is by applying the ICM "materiality threshold formula", which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. This test provides that any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the distributor. A second, project-specific, materiality test provides that minor expenditures, in comparison to the overall capital budget, should be considered ineligible for ICM treatment. Moreover, a certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget*."

8. The Board also make specific comments with respect to Alectra's last request for ICM treatment[3]:

   The OEB has applied its judgement in considering the projects for 2021 and agrees with Alectra Utilities' reply submission that there is no "bright line" in the OEB's project-specific materiality criterion. The OEB confirms that project-specific funding amounts were considered relative to the Alectra Utilities' 2021 total capital budget of $250.3 million across all RZs. In addition to the size of the project funding requested, where the amount itself is not determinative in borderline cases, the nature and justification for the project may also be considered.

Need

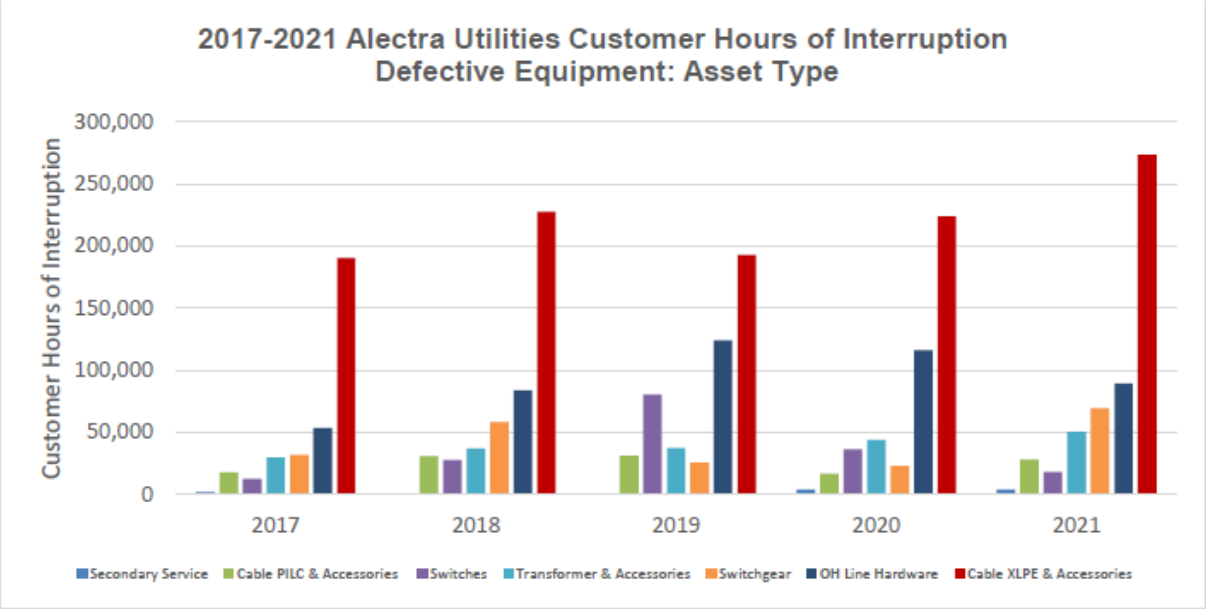
9. Alectra stated that there has been a 10% increase in defective equipment customer-hours of interruption over the 2019 to 2021 period. The graph below shows an increase in the reliability of underground assets in 2021. However, any long-term trend showing

[2] We rely in this section on the summary and findings of the Board in Decision and Rate Order, EB-2020-0002 Alectra Utilities Corporation, pages 53-

[3] Ibid, page 63

progressive declining reliability of underground assets is difficult to ascertain or conclude from the data provided in this application.[4]

Figure 2 – Customer Hours of Interruption by Asset Type



10. It is also not clear that there is any particular pattern to the XLPE failure within the Powerstream and Enersource rate zones that would distinguish these areas from failure rates/trends in this category of equipment in the other two large zones (Horizon and Brampton).[5]

11. In sum, while it is clear that there are significant issues to be addressed with respect to underground plant in all the Alectra rate zones, there does not appear to be anything extraordinary that has occurred over the past two years and since Alectra's last ICM request with respect to this category of asset (or any other for that matter). In fact, not withstanding claims to the contrary, a detailed comparison of the evidence in this proceeding and that filed that filed in EB-2019-0018 we submit would not demonstrate any obvious pattern change in outages due to this type of plant failure.[6] For example below we have extracted from this proceeding the following charts from this application and a similar one from the EB-2019-0018:

[4] Exhibit 1, Tab 1, Schedule 4, page 7
[5] Data is provided for customer interruptions by asset type in response to 1-Staff-2.
[6] See EB-2019-0018, Exhibit 4, Tab 1, Schedule 1, Appendix A10 and 1-Staff-9

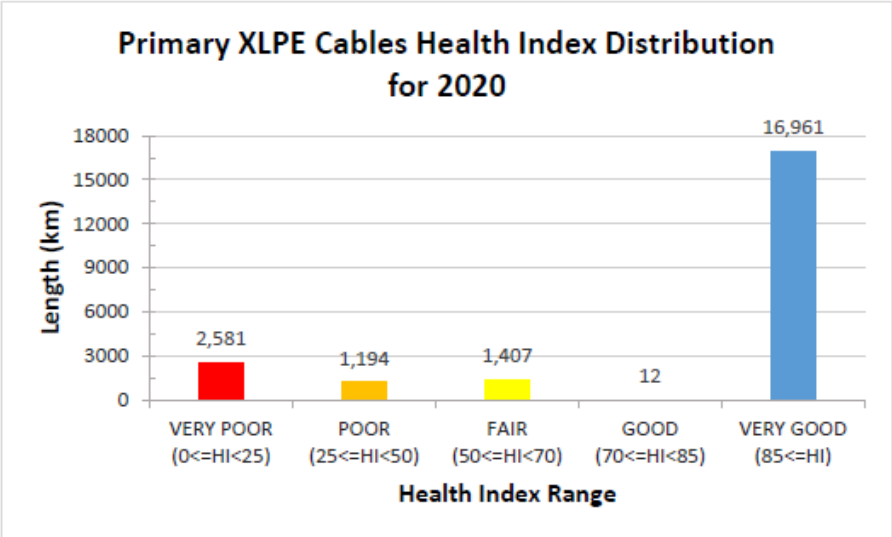
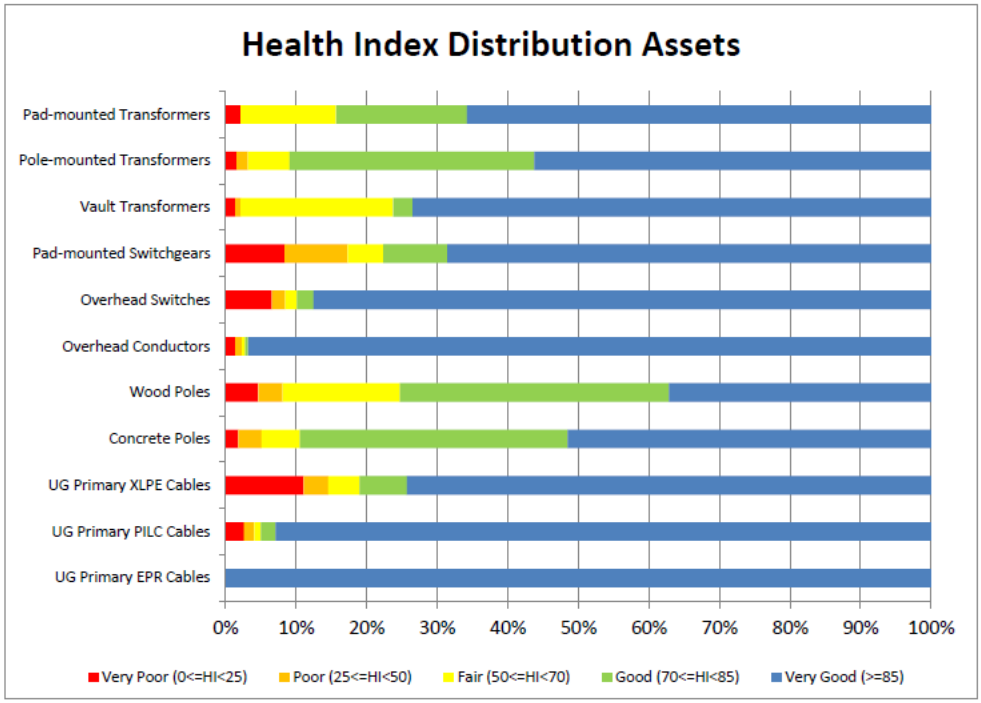


Figure 26 Primary XLPE Cables Health Index Distribution for 2020

Source Asset Condition Assessment – 2020 , June 2021[7]

12. This chart can be compared with that filed as part of EB-2019-0018[8]:

Figure 5.2.3 - 1: Distribution Asset Health Index Summary (2018)



[7] SEC-11, Attachment 1

[8] EB-2019-0018, Exhibit 04/Tab 01/Schedule 01

13. Our assessment is that while it is certainly true that Alectra requires an active and ongoing program to remediate underground plant (XLPE and other types) there is no evidence that this need has significantly changed from that presented in prior application or indeed from the time of the amalgamation of the former utilities.

14. Even if it were true that there is an increasing reliability risk with respect to the assets in questions the genesis of that would lie in Alectra's self imposed deferral of its Underground Asset Renewal program outlined in its prior DSP. In the words of the Applicant[9]:

> "*As Alectra Utilities did not receive OEB approval for the incremental funding proposed 7 in the 2020 EDR application, the utility deferred most of the proposed increases in 8 underground system renewal. Because the renewal investments address deteriorated assets, 9 the deferred investment in underground renewal will proceed through reactive replacement 10 upon asset failure, or if funding availability permits, as planned work*"

15. In other words – because Alectra did not get its way it chose not to do some work. It made this choice even though it could have reprioritized its capital budgets, for example delaying general plant purchases like vehicles or building upgrades. Or the Utility might have chosen to keep longer existing computer hardware and software. Or perhaps Alectra might have found amalgamation efficiencies to make room for the needed investments. Or if none of these strategies provided the means to make room for the investments necessary for reliability and safety Alectra could have simply have lived with the lower returns resulting from its need to make critical investments but unable to make sufficient productivity savings to pay for them – like happens with non regulated business.[10]

16. We note that Alectra rejects the proposal that its reduction to the budget for Underground System Renewal is a driver for the increasing pace of underground cable failures. However, this is simply an incoherent and inconsistent stance and belies the fact that assets degrade and depreciate over time and if less assets are replaced now more will need to be replaced in the future . This is a position commonly articulated by utilities including Alectra who state in this proceeding that "[W]*ithout increases to cable renewal investments as proposed in this Application, Alectra Utilities will experience a further increase in the volume of deteriorated and failing cables*" [11].

[9] 1-Staff-17

[10] Alectra's 2021 ROE excluding the net OM&A merger savings adjustment was 7.95% - 100 basis points below the target rate of 8.95% 1-Staff-25. During the 2017 to 2021 period distribution revenues increased almost 17% from $500 million to $584.1 million

[11] 1-Staff-17, page 9

Materiality

17. As noted by the Board in past decisions materiality is a two part test. The first is the calculation of the materiality threshold. VECC takes no issue with Alectra's calculation of the threshold value.

18. The second test of materiality is relative to the proportion of overall capital spending. There are a number factors to consider in this calculation. First is the amount in absolute value in each year. The projects represent somewhere in the neighbourhood of 10% of the annual capital budgets of the Utility.

19. Actually, however the amount is much less. In the Adjusted Capital Plan Alectra reduced the planned capital work in System Renewal and System Service with a net reduction in investments of $150.2MM over the 2020 to 2024 period net of the ICM investments of $52.3MM proposed in this application. This is shown in the table below:[12]

Table 18 – Comparison of DSP to Actuals/Adjusted Capital Plan ($MM)

Capital Expenditures	Actual 2020	Actual 2021	Forecast 2022	Budget 2023	Budget 2024	Total
DSP	$282.9	$280.2	$288.3	$295.8	$309.3	$1,456.5
Actual/Forecast, before ICM	$256.1	$261.9	$259.3	$262.4	$266.6	$1,306.3
Total Reduction, before ICM	**($26.8)**	**($18.3)**	**($29.0)**	**($33.4)**	**($42.7)**	**($150.2)**
Proposed ICM Investment	$0.0	$0.0	$0.0	$25.4	$26.9	$52.3
Total Net Reduction	**($26.8)**	**($18.3)**	**($29.0)**	**($8.0)**	**($15.8)**	**($97.9)**

20. What this shows is that the "adjusted plan" , which are the self imposed reduction of planned capital spending after denial of ICM projects by the Board. The ICM projects simply add back a portion of the disallowance in order for the Utility to, once again, try to use ICMs to attain its previous DSP planned spending.

21. Alectra also applied an inflation factor of 3.2% to 2023 projects and an inflation factor of 3.8% to 2024 projects[13]. However, we submit that a Utility who chooses to defer rate rebasing has undertaken the risk of inflation.

22. We conclude that there is no relative materiality to the projects when viewed in light of the Utilities original capital budgets.

[12] Exhibit 3, Tab 1, Schedule 1, page 3
[13] 1-Staff-23

Prior Decisions of the Board

23. Since the approval of its rate deferral period associated with utility amalgamations Alectra has made a number of ICM requests. In those proceedings[14] as with other ICM application VECC has expressed its discomfort with the use of ICMs by utilities who on their own volition have chosen to defer rebasing. In its decision on a proposed "M-Factor" to fund capital projects the Board made clear that the Utility could fire a cost-based application if its proposed updated capital requirements were insufficiently funded under the current rate plan.[15]

24. Since the approval of its rate deferral period associated with utility amalgamations Alectra has made a number of ICM requests. In those proceedings[16] as with other ICM application VECC has expressed its discomfort with the use of ICMs to "top off" capital budgets during a rate deferral period[17].

25. As we noted in these proceeding the original purpose of the ICM policy was to allow utilities who might have lumpy or otherwise uncontemplated large capital projects to receive capital funding rate relief during an incentive rate or "IRM" period. These non rebasing periods have expanded over the years from 3 to 5 years or more as more and more utilities look to defer their rebasing year.

26. The Board fundamentally changed the inherent concept of the ICM policy when it allowed utilities who had amalgamated to defer rate rebasing for periods of 10 years and at the same time access capital funding during the rate deferral period. The result has been to turn the rate deferral period into a one-way scheme where consumers pay for incremental capital investments while being deprived benefits from reduced operating and maintenance costs during the rate deferral period.

27. In the case of Alectra, we observe that the Board has previously taken an approach aware, no doubt, of the potential misuse of ICMs for rate deferred utilities. The OEB did not ultimately approve incremental capital funding in the 2020 rate application and Alectra reduced its planned capital expenditures over the 2020-2024 period following the OEB's decision.

28. In the subsequent ICM applications the Board has approved only a limited number of Alectra's proposals and all but two of these have dealt system access types of projects

[14] Among these are: EB-2016-0016, EB-2017-0024 and EB-2020-0002
[15] Partial Decision and Order EB-2019-0018, January 30, 2020 page 28.
[16] Among these are: EB-2016-0016, EB-2017-0024 and EB-2020-0002
[17] VECC made detailed submissions on this the Enbridge Gas Inc. proceeding EB-2021-0148

which were beyond the Utility's control or with true up payments related to transformer station agreements with Hydro One[18].

Table 1 – Alectra Utilities' OEB-Approved ICM Projects ($MM)

				Project Costs			*Funding*	
Approved ICM Projects	**Application Date**	**Expected Energ. Date**	**Energized Date**	**Applied Project Costs**	**Approved Project Costs**	**Actual Project Costs**	**Applied ICM Funding**	**Approved ICM Funding**
Leaking Transformer - 2018	July 7, 2017	Q4 2018	Dec 2018	8.4	8.4	7.0	0.7	0.7
York MS - Civil Construction	July 7, 2017	Q4 2018	Dec 2018	3.3	2.2	2.5	0.3	0.2
Road Authority YRRT - 2018	July 7, 2017	Q4 2018	Dec 2018	11.2	11.2	15.9	0.8	0.8
Pleasant TS CCRA True Up	July 7, 2017	Q4 2018	Dec 2018	6.8	6.8	6.8	0.7	0.7
Leaking Transformer - 2019	June 7, 2018	Q4 2019	Dec 2019	7.5	7.5	4.5	0.6	0.6
Road Authority YRRT - 2019	June 7, 2018	Q4 2019	Dec 2019	13.3	13.3	25.4	0.9	0.9
Bathurst Road Widening	June 7, 2018	Q4 2019	Dec 2019	5.5	5.5	2.8	0.4	0.4
Goreway TS CCRA True Up	Aug 17, 2020	Q2/Q3 2021	Dec 2021	5.7	5.7	5.6	0.5	0.5
Goreway Road Widening	Aug 17, 2020	Q4 2021	Dec 2021	2.1	2.1	2.4	0.2	0.2
Rutherford Road Widening	Aug 17, 2020	Q3 2021	Dec 2021	2.9	2.9	3.1	0.2	0.2

29. In our submission the Board should continue it approach of disallowing normal, non material projects to "seep" into the rates during the rate deferral period. As the Board has noted Alectra may, it is so choses, seek to rectify any systemic deficiencies by seeking to rebase earlier than allowed.

30. In VECC's submission therefore the Board should not grant the relief sought for the ICM funding in this Application.

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[18] 1-VECC-1