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BY EMAIL

October 18, 2023

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

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Alectra Utilities Corporation (Alectra Utilities)
Application for Incremental Capital Module
OEB File Number: EB-2023-0004**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No.1.

Yours truly,

Original Signed By

Oluwole (Wolly) Bibiresanmi
Advisor – Electricity Distribution: Incentive Rate Setting and Regulatory Accounting

Encl.

cc: All parties in EB-2023-0004



ONTARIO ENERGY BOARD

OEB Staff Submission

Alectra Utilities Corporation

Application for Incremental Capital Module

EB-2023-0004

October 18, 2023

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Application Summary: Alectra Utilities' 2024 Standalone ICM

Alectra Utilities Corporation (Alectra Utilities) filed a standalone incremental capital module (ICM) application with the Ontario Energy Board (OEB) on July 21, 2023, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for ICM rate riders to be effective January 1, 2024.¹ In Procedural Order No. 1 issued August 30, 2023, the OEB made provisions for interrogatories and submissions on Alectra Utilities' application. This document provides OEB staff's submissions on the application.

As part of its ICM request, Alectra Utilities requested:

- Approval of ICM funding to address deteriorated underground cables in 16 neighbourhoods across the Enersource and PowerStream rate zones (RZs). Silicone injection would be used where possible, while cable replacement would be used in areas where injection is not a viable option
- ICM funding of \$25.1 million in 2024 (\$7.9 million for the Enersource RZ and \$17.3 million for the PowerStream RZ)
- Incremental revenue requirement of \$1.2 million for the PowerStream RZ and \$0.62 million for the Enersource RZ
- A deviation from the ICM policy by making an alteration to the materiality threshold formula, which is used to determine a RZ's maximum eligible incremental capital amount (see Materiality Threshold section below)

Table 1 – 2024 ICM Request Summary (\$ millions)

2024 ICM	Enersource RZ	PowerStream RZ	Total
Cable Injection	\$2.8	\$8.5	\$11.3
Cable Replacement	\$5.1	\$8.8	\$13.9
Total Incremental Capital	\$7.9	\$17.3	\$25.1

All 16 cable renewal projects were also included as part of either the 2023 ICM request or the 2024 ACM request in Alectra Utilities' 2023 standalone ICM proceeding² as described in the section below.

¹ EB-2023-0004

² EB-2022-0013

Background: Alectra Utilities' 2023 Standalone ICM Application

Summary of the Previous Alectra Utilities 2023 Standalone ICM

Alectra Utilities filed a standalone ICM application with the OEB on May 16, 2022³. Alectra Utilities requested a 2-year ICM program (2023-2024) for the renewal of underground cables in its PowerStream and Enersource RZs via either cable replacement or cable injection. The total incremental capital request amounted to \$25.4 million in 2023 and \$26.9 million in 2024. Alectra Utilities sought Advanced Capital Module (ACM) treatment of the 2024 amounts.

OEB Findings for Alectra Utilities' 2023 Standalone ICM Application

2023 Incremental Capital Request

The OEB approved \$18.1 million of the \$25.4 million 2023 ICM request. The OEB-approved 2023 inflation rate was released during the proceeding, which caused a decrease of \$0.4 million to the maximum eligible incremental amount for the PowerStream RZ. The OEB approved \$1.9 million of the requested \$8.7 million in 2023 incremental funding for Enersource RZ. The OEB found that Alectra Utilities could have included more cable renewal funding in its 2023 Enersource RZ base rate budget based on historical trends.

2024 Advanced Capital Request

The OEB denied the ACM treatment of the 2024 request since the OEB found that ACMs should be sought as part of a cost of service application.

Table 2 – 2023 ICM/2024 ACM Request Summary (\$ millions)

2023 ICM/ 2024 ACM	Enersource RZ	PowerStream RZ	Total
2023 ICM Request	\$8.7	\$16.6	\$25.4
2023 ICM Approved	\$1.9	\$16.2	\$18.1
2024 ACM Request (denied)	\$8.7	\$18.2	\$26.9

³ EB-2022-0013

OEB Staff Submission

In making its submissions on the 2024 standalone ICM request, OEB staff considered both the OEB's established criteria for ICM 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)⁴; 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).⁵

OEB staff supports Alectra Utilities' request for ICM funding, including its proposal to deviate from the established materiality threshold formula. However, OEB staff believes that Alectra Utilities could increase its base rate cable renewal budget in the Enersource RZ based on historical cable spending trends.⁶ As a result, OEB staff submits that the total requested incremental capital of \$25.1 million should be reduced by \$1.5 million in the Enersource RZ.

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 capital budget. Lastly, the incremental funding must have a significant influence on the operation of the distributor.

Materiality Threshold

The OEB uses the materiality threshold formula⁷ which considers both the growth of the utility and the inflationary increase since the last rebasing year⁸, to determine the

⁴ Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014

⁵ Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022

⁶ See details in *Outside of Base Upon Which Rates were Derived* section

⁷ *Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-Setting Applications*, June 15, 2023

⁸ The Enersource RZ last rebased in 2013 (EB-2012-0033) and the PowerStream RZ last rebased in 2017 (EB-2015-0003).

maximum eligible incremental capital amount.⁹ The following equation is used by the OEB to calculate the materiality threshold:

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

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%

The Price Cap Index (PCI) to be used in the above formula is the Input Price Index (IPI) less the stretch factor of 0.3. The inflationary factor or IPI to be used according to the ICM policy is the IPI from the utility's most recent Price Cap IR application. Alectra Utilities applied for the most recent IPI of 4.8% in its 2024 IRM application.¹⁰ Using the most recent IPI of 4.8%, Alectra Utilities would not be eligible for ICM funding in 2024.

Alectra Utilities believes that using the 2024 IPI of 4.8% to calculate the materiality threshold, as per the OEB's policy, does not accurately represent the historical effect of inflation on depreciation given the high variability in the inflation rate in the last few years. As a result, Alectra Utilities used a geometric mean of IPIs from the first IRM year for each RZ since the last rebasing year of the respective RZ (the years 2018-2024 at 2.40% for the PowerStream RZ and the years 2014-2024 at 2.17% for the Enersource RZ).

Table 3 below shows the maximum eligible capital amount using the 2024 OEB-approved IPI of 4.8% and Alectra Utilities' proposed geometric mean IPI for each RZ.

⁹ *Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-Setting Applications*, June 15, 2023

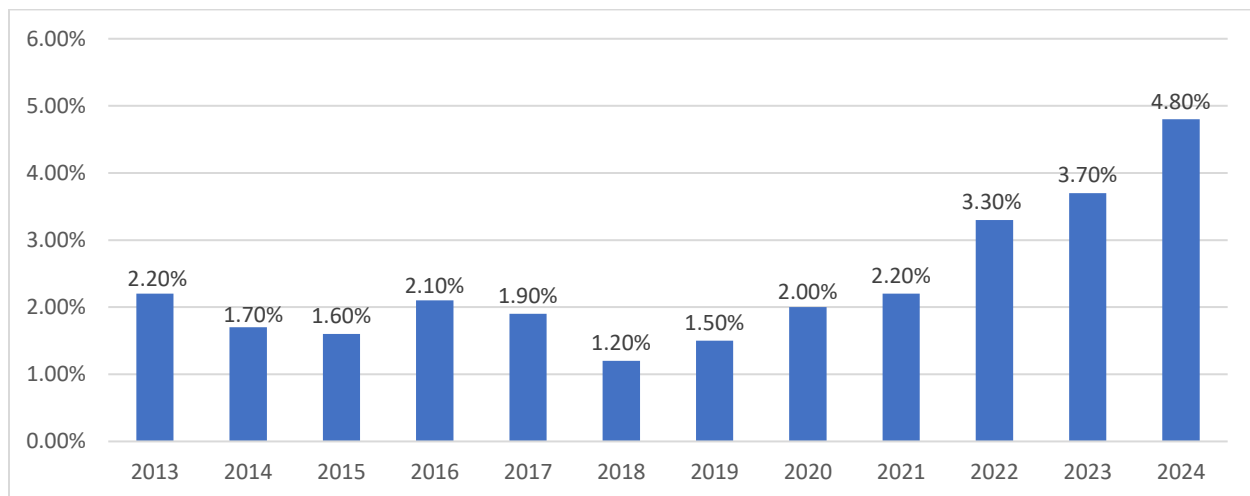
¹⁰ EB-2023-0241 Alectra Utilities Corporation Incentive Regulation Mechanism Application for 2024 Electricity Distribution Rates and Charges, August 17, 2023, Exhibit 2, Tab 1, Schedule 3, p.1

Table 3 - Maximum Eligible Incremental Capital using the OEB-approved IPI versus a Geometric Mean of IPIs (\$ millions)

Description	PowerStream RZ		Enersource RZ	
	ICM Policy	Proposed Geo-mean	ICM Policy	Proposed Geo-mean
DSP Capex	\$117.6	\$117.6	\$56.2	\$56.2
Less: Materiality Threshold	\$130.5	\$90.5	\$67.7	\$39.6
Max Eligible Incremental Capital	\$0	\$27.1	\$0	\$16.6
Maximum Allowed Incremental Capital	\$0	\$17.3	\$0	\$7.9
Input Price Index	4.80%	2.40%	4.80%	2.17%
Price Cap Index (Inflation-Stretch factor)	4.50%	2.10%	4.50%	1.87%

Alectra Utilities explained that by using a geometric mean of IPIs from the first IRM year for each RZ, it had calculated its materiality threshold to be \$90.5 million for the PowerStream RZ and \$39.6 million for the Enersource RZ. Alectra Utilities therefore stated that its proposal to recover the requested \$17.3 million and \$7.9 million through the ICM process falls within the maximum eligible incremental capital threshold as shown above in Table 3.

OEB staff notes there has been an increase in inflationary rates since 2020 which resulted in headwinds for the global economy.¹¹ See below in Figure 1, the OEB's approved inflationary trend since 2013.

**Figure 1 – OEB Approved IPIs since 2013**

In Alectra Utilities' 2023 standalone ICM application, OEB staff expressed its support for

¹¹ OECD Economic Outlook, Volume 2022 Issue 2, data accessed October 2, 2023.

the deviation from the ICM policy regarding the materiality threshold formula.

While the OEB did not make an actual finding on the merits of deviating from the use of the current OEB's approved materiality policy in the Alectra Utilities' 2023 standalone ICM case¹², the OEB acknowledged that there may be a need for future review when it made the following comments:

The board [OEB] intends to continue to review the components and applicability of the formula and will determine a course of action, if any, in the future.¹³

As a result of the steep jump in inflationary rates in recent years, OEB staff is of a similar opinion as was expressed by OEB staff in Alectra Utilities' 2023 standalone ICM; pending a review of the ICM policy, an alternative such as that proposed by Alectra Utilities should be given due consideration.

In proposing the use of the geometric mean of IPIs within the materiality threshold formula, Alectra Utilities stated that:

the retroactive application of the most recent inflation has a material impact on the resultant threshold value which it believes was unlikely to have been an issue when the ICM was introduced in the 3rd Generation IR when the inflation rate variability was minimal.¹⁴

In response to an OEB staff interrogatory, Alectra Utilities explained that it also evaluated an alternative approach using an arithmetic average calculation by calculating average values over the period 2018 to 2024 for the Powerstream RZ and the period of 2014-2024 for the Enersource RZ (see Table 4 below).¹⁵

¹² EB-2022-0013 Decision and Order, November 17, 2022, p.9

¹³ Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, p.20, September 18, 2014

¹⁴ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-1c, part 1 of 7

¹⁵ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-1a, part 1 of 7

Table 4 – Comparison by Alectra Utilities showing OEB Approved IPIs and Arithmetic Average Calculation

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
OEB-Approved Inflation Factors	1.70%	1.60%	2.10%	1.90%	1.20%	1.50%	2.00%	2.20%	3.30%	3.70%	4.80%
Arithmetic Avg-Enersource RZ	2.36%										
Arithmetic Avg-PowerStream RZ	2.67%										

In response to another OEB staff interrogatory, Alectra Utilities also provided the calculation of the ICM materiality threshold for the PowerStream and Enersource RZs by applying the historical years' actual IPI issued by the OEB since the last rebasing year of the RZs. In Table 2 of Alectra Utilities' response to 1-Staff-1b¹⁶, Alectra Utilities compared the materiality thresholds and eligible incremental capitals calculated using the geometric mean and the annual IPI values. The result of the comparison shows that the materiality thresholds calculated using Alectra Utilities' proposed geometric mean approach is approximately 2.5% less than the materiality thresholds calculated using each RZ's actual historical IPI since the last respective rebasing year (see Table 5 below). Furthermore, Alectra Utilities' proposed ICM investments for each RZ are still eligible under the materiality threshold under either scenario.

Table 5 – Materiality Threshold Calculation: Applying a Geometric Mean of IPIs Versus Applying the Historical IPI for Each Year Since the RZ's Last Rebasing

Materiality Threshold	PowerStream RZ	Enersource RZ
Geometric Mean	\$90,514,914	\$39,599,322
Annual IPI Calculation	\$92,903,687	\$40,573,721
Difference \$	(2,388,773)	(974,399)
Difference %	-2.6%	-2.5%

In this case, OEB staff notes that using the annual IPI over the periods covered by Alectra Utilities' ICM application involves compounding of the historical years' actual IPI issued by the OEB since the last rebasing year of the RZs. This method appears to be a more prudent approach because the compounding effect is one of the best-practice financial strategies to hedge against high inflation. As a result, OEB staff submits that the calculation involving the use of the annual IPI method is a better representation of the impact of inflation on rates when compared to the use of a geometric mean.

¹⁶ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-1b, Table 2, part 1 of 7

OEB staff further submits that the result of the comparison of the materiality threshold does not provide a material difference. However, the annual IPIs resulted in a maximum allowable incremental capital that aligns more with the ICM policy.

Table 6 – Summary Comparing Results of All Methods Proposed by Alectra Utilities (\$ millions)

Description	PowerStream RZ			Enersource RZ		
	ICM Policy	Geometric mean	Annual IPIs	ICM Policy	Geometric mean	Annual IPIs
2024 Compounded PCI /PCI	4.50%	2.10%	2.36%	4.50%	1.87%	2.06%
Budget/DSP Capital Expenditures	117.60	117.60	117.60	56.20	56.20	56.20
Materiality Threshold	130.50	90.50	93.00	67.70	39.60	40.60
Maximum Allowed Incremental Capital	-	27.10	24.60	0	16.60	15.60
Alectra Utilities' Request	17.30	17.30	17.30	7.9	7.90	7.90

In response to an OEB staff interrogatory, Alectra Utilities also made comments on how it will propose to evaluate the materiality threshold in future ICMs:

If the OEB approves Alectra Utilities' proposal in this application, Alectra Utilities will use this approach for any future ICM applications until its next rebasing (including in times when inflation decreases) or until a generic hearing on the ICM policy takes place.¹⁷

Although there is merit in a consistent approach to future ICMs, OEB staff submits that subsequent applications should be considered on a case-by-case basis. OEB staff notes that while the criteria underpinning the materiality threshold policy is currently evolving as a result of the significant changes in economic indices, there is a need for further analysis to evaluate the components and applicability of the materiality threshold formula in order to propose changes, if necessary. As shown above, there are various different ways to resolve this issue and they need to be evaluated individually on a case-by-case basis.

¹⁷ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-1a, part 1 of 7

Project Specific Materiality Threshold

The ACM Report addressed the project-specific materiality threshold criteria 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.¹⁸

In the February 2022 ICM Update, the OEB indicated that it was providing additional flexibility for distributors to apply for ICMs for an annual capital program. As such, each RZs cable renewal program expenditure should be compared to Alectra Utilities' overall capital budget.¹⁹

OEB staff submits that the \$17.3 million and \$7.9 million requested for cable renewal investment in the PowerStream and Enersource RZs respectively, are significant in comparison to Alectra Utilities' overall capital budget of \$285.3 million for all RZs in 2024.

OEB staff submits that Alectra Utilities' ICM makes up a significant portion of Alectra Utilities' overall capital budget and therefore, in OEB staff's view, satisfies the project-specific materiality threshold.

Significant Influence on Operations

The ACM Report states that any amounts being requested for ICM funding must clearly have a significant influence on the operation of a distributor. Furthermore, the OEB's Filing Requirements²⁰ indicate that even though the OEB generally requires accelerated capital cost allowance (CCA) to be excluded from 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 ICM funding is warranted.²¹

Alectra Utilities projected that the total proposed investment would avoid approximately

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

¹⁹ Ibid.

²⁰ Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, June 15, 2023, p.31

²¹ Generally accelerated CCA is excluded from the ICM revenue requirement. The OEB will assess the impact of accelerated CCA at the time of rebasing to minimize the complexity of the review.

106 cable failure-related outages, which would have impacted 265 customers in the PowerStream RZ and would avoid 49 cable failure-related outages which would have impacted 441 customers in the Enersource RZ.²²

OEB staff believes that the cable programs proposed by Alectra Utilities would help ensure reliability and quality of service²³ and will have a significant influence on Alectra Utilities' operations.

Alectra Utilities stated that its ICM revenue requirement reflects a full-year of CCA in accordance with the Supplemental Report on 3rd Generation Incentive Regulation so as not to build a deficiency for the subsequent years of the IRM term.²⁴ Alectra Utilities stated that in 2024, accelerated CCA will be calculated by applying the CCA rate at 1.0 times the additions in the year. Therefore, as the half-year rule does not apply in determining ICM revenue requirement, the calculation of CCA reflecting the inclusion of accelerated CCA, results in no change in the ICM revenue requirement. Alectra Utilities also stated that no amounts are expected to be recorded in Account 1592, Sub-account CCA changes.²⁵

OEB staff agrees with Alectra Utilities' proposal relating to CCA in the ICM revenue requirement. OEB staff notes that the ACM Report does not define what constitutes "significant influence". However, OEB staff submits that the CCA treatment in Alectra Utilities' proposal is aligned with the accelerated CCA rule in place for 2024. Therefore, OEB staff is of the view that accelerated CCA rules do not have an impact on the assessment of significant influence in this proceeding.

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.²⁶

²² EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 2, Tab 1, Schedule 1, p.12&20

²³ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-19b, part 7 of 7

²⁴ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 2, Tab 1, Schedule 1, p.15-16

²⁵ Ibid.

²⁶ ACM Report, September 18, 2014, p.17

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.²⁷ Alectra Utilities stated that its most recently available ROE was 6.70% as filed in its 2022 annual *Reporting and Record Keeping Requirements*, which is 2.25% (225 basis points) lower than its deemed ROE of 8.95%.

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 2024 ICM.

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 states 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 provided certain additional criteria are met.²⁸ Those criteria are addressed later in this submission.

OEB staff submits that the discrete project criterion is not applicable to Alectra Utilities' request in light of the February 2022 ICM Update. Such a finding is consistent with the OEB's decision in Alectra Utilities' 2023 standalone ICM application.²⁹

Directly Related to the Claimed Driver

OEB staff submits that the incremental capital request for underground cable renewal directly relates to the claimed drivers identified by Alectra Utilities, which include:

1. Addressing the compounding effect of a growing number of customer hours of interruption driven by cross-linked polyethylene cable failures.
2. Addressing a rapidly growing backlog of in-service deteriorated and unreliable cable.

²⁷ ACM Report, September 18, 2014, p.15

²⁸ Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022, p.2

²⁹ EB-2022-0013, Decision and Order, November 17, 2022, p.12

Outside of Base Upon Which Rates Were Derived

OEB staff submits that the ICM amounts are not fully outside of the base upon which rates were derived. As such, OEB staff submits that the OEB reduce the ICM amount by at least \$1.48 million based on the reasons that follow.

Given the extended periods between ICM requests and when rates were last derived, OEB staff believes it is appropriate to evaluate what constitutes a normal level of capital expenditure for cable renewal included in base rates using historical spending trends.

The following tables show each RZ's historical cable renewal spending patterns separated by what is included in base rates versus ICM amounts.³⁰

Table 7 – PowerStream RZ Cable Renewal Spending (\$ millions)

PowerStream RZ	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Plan	Average
Funded through distribution rates	2017	2018	2019	2020	2021	2022	2023	2024	2017-2023
Sub-Total	12.00	13.46	12.37	21.72	16.73	13.22	16.19	19.13	15.10
Funded through ICM rate riders	2017	2018	2019	2020	2021	2022	2023	2024	2017-2023
Sub-Total	-	-	-	-	-	-	13.85	17.27	1.98
Total	12.00	13.46	12.37	21.72	16.73	13.22	30.04	36.40	17.08

³⁰ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-4, Attachment 1, Part 1 of 7

Table 8 – Enersource RZ Cable Renewal Spending (\$ millions)

Enersource RZ	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Plan	Average
Funded through distribution rates	2017	2018³¹	2019	2020	2021	2022	2023	2024	2019-2023
Sub-Total	18.70	16.13	14.49	16.16	12.56	8.16	13.39	11.47	12.95
Funded through ICM rate riders	2017	2018	2019	2020	2021	2022	2023	2024	2019-2023
Sub-Total	-	-	-	-	-	-	2.16	7.87	0.43
Total	18.70	16.13	14.49	16.16	12.56	8.16	15.55	19.34	13.38

Alectra Utilities spent on average \$15.10 million a year on cable renewal through base rates in the PowerStream RZ between 2017-2023. OEB staff is therefore satisfied with the \$19.13 million of base rate spending proposed for 2024.

Alectra Utilities has forecasted \$11.47 million in its 2024 Enersource RZ base rate cable renewal plan while historically spending \$12.95 million on average between 2019-2023 through distribution rates.³² OEB staff believes Alectra Utilities can increase its 2024 cable renewal budget included in distribution rates by \$1.48 million (\$12.95 million - \$11.47 million). Therefore, OEB staff submits that a reduction of at least \$1.48 million to the eligible incremental amount is reasonable.

Alectra Utilities' Rebuttal to the Testing Methodology

The OEB also analyzed historical cable renewal spending trends to form its findings as part of Alectra Utilities' 2023 standalone ICM Decision and Order. In its 2024 application, Alectra Utilities refuted the OEB's methodology using two arguments:³³

1. Performance Based Regulation (PBR)

Alectra Utilities argues that using historical annual expenditures to establish the normal level of expected capital expenditures may be suitable in a scenario where rates are re-

³¹ According to Alectra Utilities, information regarding capital expenditures for 2018 for the Enersource RZ was based on the capital reporting practices of the legacy utility. Other underground asset renewal was tracked under 'cable replacement'. For 2019 onwards, the reporting of underground asset renewal investments in the Enersource RZ was aligned with Alectra Utilities' practices.

³² OEB staff determined the normal level of cable renewal for the Enersource RZ using the average actual/forecasts from 2019-2023 because the 2017-2018 actuals include other underground asset renewals based on the legacy utility's practices.

³³ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 2, Tab 1, Schedule 1, p.7-8

calibrated annually. Though, Alectra Utilities believes that its rates are instead determined by PBR via cost of service reviews and subsequent Price Cap IR adjustments. Alectra Utilities said the following regarding PBR:

PBR decouples the price (the distribution rate) that a distributor charges for its service from its cost, and therefore, the regulated utility will be responsible for making its investments within the constraints of the price cap, and subject to service quality standards set by the OEB.

2. Materiality Threshold and Normal Level of Capital Expenditure

Alectra Utilities argues that the materiality threshold should be used to determine what is beyond the normal level of capital expenditure expected in base rates. Alectra Utilities said the following regarding what constitutes the normal level of capital expenditure:

The February 2022 ICM Update provided that “...the capital project must satisfy a materiality threshold to demonstrate that the incremental capital amounts are beyond the normal level of capital expenditures expected to be funded by existing rates, including the effect of customer and load growth.” [emphasis added]... The OEB’s ICM materiality threshold is a capital expenditure threshold which serves to demonstrate the level of capital expenditures that a distributor should be able to manage within its current rates; not on a program or project basis...

OEB Staff’s Position on the Testing Methodology

In response to Alectra Utilities’ first argument regarding PBR, Alectra Utilities is correct in that the OEB does not evaluate the materiality, need and prudence of specific programs as part of the Price Cap IR. Utilities are expected to operate responsibly during the price cap years. However, when requesting incremental funding for a specific program or project, OEB staff believes it is appropriate to consider a distributor’s historical spending in the requested program, similar to a review of a capital plan during a cost of service application.

To Alectra Utilities’ second argument regarding what constitutes ‘the normal level of capital expenditure expected in base rates’, OEB staff believes using a program-specific test is appropriate when reviewing ICM requests for ongoing programs. OEB staff believes that this test prevents utilities from deferring/redirecting spending on priority programs in base rates and instead seeking ICM funding for these programs.

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.³⁴

Based on Alectra Utilities’ evidence, OEB staff does not take issue with the prudence of the ICM request subject to review of the final costs at the next rebasing application.

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.³⁵

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.³⁶ Alectra Utilities has stated that cable injection is one-sixth the cost of cable replacement and will save approximately \$108 million in future capital renewal costs by injecting cables now versus replacing them later when they have too far deteriorated.³⁷

OEB staff notes that a finding of prudence in this proceeding would be consistent with the determination of the OEB in Alectra Utilities’ 2023 standalone ICM proceeding. In that proceeding, the OEB found the 2023 cable programs in the PowerStream and Enersource RZs to be prudent.³⁸

³⁴ ACM Report, September 18, 2014, p.17

³⁵ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 3, Tab 1, Schedule 2, p.12

³⁶ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 2, Tab 1, Schedule 1, p.14-15

³⁷ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 3, Tab 1, Schedule 4, p.1

³⁸ EB-2022-0013 Decision and Order, November 17, 2022, p.16

February 2022 ICM Update Criteria

As noted 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

Urgent Need Based on New Information

OEB staff submits that with the new information on outages and cable health since each RZ's last rebasing 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.

Alectra Utilities provided a 2022 asset condition assessment (ACA) pertaining to its underground cable population. Alectra Utilities noted that the cable population classified to be in 'poor' or 'very poor' condition has increased from 14% (3,173 km) in the 2018 ACA to 21% (4,766 km) in the 2022 ACA. Since the last Distribution System Plan 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.³⁹ New information since rebasing shows that defective equipment outages increased from 2019 to 2021, mainly driven by cable failures.⁴⁰

³⁹ EB-2022-0013 Responses to OEB Staff Interrogatories, August 2, 2022, 1-Staff-1b, p.3

⁴⁰ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 1, Tab 1, Schedule 4, p.6-7

OEB staff notes that a finding, in this proceeding, of an urgent need would be consistent with the determination of the OEB in Alectra Utilities' 2023 standalone ICM proceeding. In that previous proceeding, the OEB found that the 2023-2024 cable program was urgent based on new information that had arisen since each RZ last rebased, including the 2020 Distribution System plan and the 2020 asset condition report.⁴¹

Addressing 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 with respect to Alectra Utilities' 2023 standalone ICM application. A new survey was not conducted for this application as Alectra Utilities noted that the projects in the 2024 ICM were also requested in the 2023 standalone ICM application.

OEB staff submits that the ICM directly addresses customer needs based on the 2022 engagement survey. Alectra Utilities has demonstrated that the cable renewal program will improve the two most important customer outcomes of reliability and reasonable distribution rates.

Based on the survey results, for both the PowerStream and Enersource RZs, 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 indicated that delivering reasonable electricity distribution prices and reliable service were consistently the top two outcomes.⁴²

According to Alectra Utilities, the ICM will directly address reasonable electricity distribution prices by saving \$108 million in future cable replacement costs. The ICM will also increase the reliability of the distribution service by avoiding approximately 51,074 customer hours of interruption.⁴³

The OEB also found that customer preferences were met given the 2022 survey feedback for the 2023 standalone ICM application.⁴⁴ Though, it should be noted that although Alectra Utilities informed customers in 2022 about price cap annual rate

⁴¹ EB-2022-0013 Decision and Order, November 17, 2022, p.17

⁴² EB-2022-0013 Alectra Utilities Corporation Incremental Capital Module Application for 2023 Electricity Distribution Rates and Charges, Customer Engagement 2022 ICM Application, April 2022, p.3

⁴³ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 3, Tab 1, Schedule 4, p.1

⁴⁴ EB-2022-0013 Decision and Order, November 17, 2022, p.18

adjustments within the survey, Alectra Utilities cited the latest PCI at the time (approximately 3%).⁴⁵ Therefore, customers were not privy to the actual PCI of 3.4% for 2023 and 4.5% for 2024 when the survey was conducted (to no fault of Alectra Utilities). These rate increases are much greater than Price Cap IR adjustments of the past. As such, OEB staff asks that the OEB consider the overall bill impact of the 2024 IRM along with this ICM request when evaluating the ICM criteria jointly.

Alectra Utilities noted that the PowerStream RZ distribution bill impact would see an increase of 4.9%, while the overall bill impact would see an increase of 1.9% for residential customers compared to 2023. The Enersource RZ distribution bill impact would see an increase of 4.8%, while the overall bill impact would see an increase of 2.5% for residential customers compared to 2023.⁴⁶

History of Good Utility Practices and Exhaustion of Other Available Options

As part of Alectra Utilities' 2023 standalone ICM application, Alectra Utilities prepared an Adjusted Capital Plan spanning the period of 2020-2024. Alectra Utilities noted that the Adjusted Capital Plan was created as a result of the unfavorable outcome regarding the "M-factor"⁴⁷, as well as due to impacts from COVID-19, increases in inflation, and the impacts from supply-chain issues. Alectra Utilities had forecasted a \$97.9 million difference between the Adjusted Capital Plan and the original 2020-2024 plan included in the 2020 Distribution System Plan, for the "M-factor" proceeding.⁴⁸

In the 2023 standalone ICM proceeding, the OEB concluded that overall Alectra Utilities had met the criterion of demonstrating a history of good utility practices in capital planning, capital program management, and asset maintenance but also found that Alectra Utilities' capital planning and execution could be improved. The OEB explained that its finding was based on Alectra Utilities' prioritization of General Plant projects, in particular customer experience projects, ahead of its cable renewal programs, which the OEB deemed to be of higher importance.⁴⁹

Alectra Utilities updated its Adjusted Capital Plan as part of this proceeding. The updated Adjusted Capital Plan reflects a net reduction in investments of \$129.0 million over the 2020 to 2024 period compared to the 2020 Distribution System Plan.⁵⁰

⁴⁵ EB-2023-0013 2022 ICM Application Customer Engagement, March 2022, p.21

⁴⁶ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-1g, part 1 of 7

⁴⁷ EB-2019-0018

⁴⁸ 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.2-3

⁴⁹ EB-2022-0013 Decision and Order, November 17, 2022, p.21-22

⁵⁰ EB-2023-0004 Alectra Utilities Corporation Incremental Capital Module Application for 2024 Electricity Distribution Rates and Charges, July 21, 2023, Exhibit 3, Tab 1, Schedule 1, p.3

Table 9 – EB-2023-0004 Variance by Investment Category (\$ millions)

Investment Category	Actual 2020	Actual 2021	Actual 2022	Forecast 2023	Budget 2024	Total
System Access	(\$3.5)	\$0.5	(\$15.9)	\$5.9	(\$3.6)	(\$16.6)
System Renewal	(\$3.5)	(\$5.5)	(\$19.9)	(\$4.8)	(\$14.4)	(\$48.1)
System Service	(\$11.2)	(\$8.5)	(\$11.6)	(\$22.0)	(\$18.1)	(\$71.4)
General Plant	(\$8.6)	(\$4.8)	\$0.7	\$7.7	\$12.1	\$7.1
Total Variance	(\$26.8)	(\$18.3)	(\$46.7)	(\$13.2)	(\$24.0)	(\$129.0)

Table 10 – EB-2023-0004 Adjusted Capital Plan – Material Changes (\$ millions)

Summary of Variances	2020-2024 Variance
Underground Asset Renewal	(\$91.4)
Lines Capacity	(\$71.7)
Information Technology	\$24.2
Other	\$9.9
Total	(\$129.0)

In light of the OEB's decision, Alectra Utilities stated that it reduced its 2023 General Plant budget by \$6.2 million to shift its focus to distribution automation. Alectra Utilities noted that distribution automation reduces the number of customers impacted by outages and overall restoration times.⁵¹ Although Alectra Utilities did not reprioritize General Plant projects to fund cable renewal, OEB staff can accept that Alectra Utilities did reprioritize some of its budget to focus on improving the underlying issue of worsening reliability through distribution automation. However, OEB staff remains of the view, as discussed in the *Outside of Base Upon Which Rates Were Derived* section above, that a \$1.5 million reduction for the Enersource RZ is appropriate based on historical spending on cable renewal.

OEB staff further notes that in comparing the Adjusted Capital Plan from the 2023 standalone ICM application and the update to the plan found in Table 9 above, there are additional deferrals of \$31.1 million between 2022-2024 across all RZs. Of the \$31.1 million, \$8.3 million pertains to deferrals in cable renewal in the PowerStream RZ between the 2022 Q1 forecast (\$21.5 million)⁵² and 2022 actual spending (\$13.2 million)⁵³. OEB staff accepts Alectra Utilities' explanation for the \$8.3 million in cable renewal deferrals, which involved COVID-19 and supplier-related issues.⁵⁴ OEB staff believes that the underspend in cable renewal for 2022 in the PowerStream RZ is offset by increased cable renewal spending between 2020-2021 (see Table 7). Alectra Utilities

⁵¹ EB-2023-0004, Responses to OEB Staff Interrogatories, 1-Staff-9h, Part 1 of 7

⁵² EB-2022-0013 Alectra Utilities' Panel Information Request Responses, October 18, 2022, Panel Information Request-2a, Table 6

⁵³ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-4, Attachment 1, Part 1 of 7

⁵⁴ EB-2023-0004, Responses to OEB Staff Interrogatories, 1-Staff-4b, Part 1 of 7

explained that it was able to spend more on cable renewal than anticipated between 2020-2021 because of temporary reductions in investments in the System Access category.⁵⁵ Alectra Utilities has also forecasted an increase in cable renewal spending in 2024 in the PowerStream RZ (\$19.1 million)⁵⁶ as compared to what it had forecasted in the 2023 standalone ICM (\$18.1 million)⁵⁷ using distribution rates.

~All of which is respectfully submitted~

⁵⁵ EB-2023-0004, Responses to OEB Staff Interrogatories, 1-Staff-4d, part iv, Part 1 of 7

⁵⁶ EB-2023-0004 Responses to OEB Staff Interrogatories, 1-Staff-4, Attachment 1, Part 1 of 7

⁵⁷ EB-2022-0013 Alectra Utilities' Panel Information Request Responses, October 18, 2022, Panel Information Request-2a, Table 6