



October 18, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Re: Alectra Utilities Corporation – 2024 ICM Application  
AMPCO Final Submissions  
Board File No. EB-2023-0004

Dear Ms. Marconi:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Best Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson  
President

Copy to: Alectra Utilities Corporation

**EB-2023-0004**

**Alectra Utilities Corporation  
Application for changes to electricity distribution rates  
in the PowerStream and Enersource Rate Zones  
effective January 1, 2024**

**AMPCO Final Submissions October 18, 2023**

Alectra Utilities Corporation (Alectra Utilities) filed an application with the Ontario Energy Board (OEB) on July 21, 2023, under section 78 of the *Ontario Energy Board Act, 1998*, for approval of incremental capital mode (ICM) funding for ongoing investment in urgent underground cable renewal projects and a proposed alternative adjustment to the methodology to calculate the materiality threshold effective January 1, 2024.

**ICM Request**

Alectra Utilities seeks incremental capital funding of \$25.1 million in 2024 for underground cable renewal investments in the PowerStream and Enersource Rate Zones (RZ) as follows:

Table 1: 2024 Proposed ICM Capital Expenditure

<b>2024 ICM</b>	<b>ERZ</b>	<b>PRZ</b>	<b>Total</b>
Cable Injection	2,792,127	8,458,401	11,250,528
Cable Replacement	5,073,076	8,815,107	13,888,183
<b>Total Incremental Capital</b>	<b>7,865,203</b>	<b>17,273,508</b>	<b>25,138,711</b>

If approved, the ICM funding would result in an incremental revenue requirement of \$1,223,635<sup>1</sup> and \$617,161<sup>2</sup> for the Powerstream and Enersource RZs, respectively.

In its 2023 ICM application, Alectra Utilities sought ICM funding for 28 underground cable renewal projects in the Powerstream and Enersource RZs for the years 2023 and 2024. The OEB approved 72% of the requested ICM funding in 2023<sup>3</sup> but not 2024 stating “This is not a cost of service application when an ACM may be sought.” This 2024 ICM application repeats projects from the 2023 ICM application.

---

<sup>1</sup> Ex 2-2-2 p. 15

<sup>2</sup> Ex 2-2-2 p. 22

<sup>3</sup> \$25.3 million request in 2023, the OEB approved \$18.1 million

## ICM Criteria

In order to qualify for ICM funding, a distributor must satisfy the OEB's eligibility criteria of materiality, need and prudence as follows:<sup>4</sup>

<b>Materiality</b>	<p>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) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.</p> <p>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 OEB-defined threshold calculation is expected to be absorbed within the total capital budget.<sup>5</sup></p>
<b>Need</b>	<p>The distributor must pass the Means Test (as defined in the ACM Report).</p> <p>Amounts must be based on discrete projects and should be directly related to the claimed driver.</p> <p>The amounts must be clearly outside of the base upon which the rates were derived.</p>
<b>Prudence</b>	<p>The amounts to be incurred must be prudent.</p> <p>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.</p>

In February 2022, the OEB released an ICM Update titled Incremental Capital Modules During Extended Deferred Rebasing Periods which adds flexibility for distributors to apply for incremental capital funding for an annual capital program during the extended rebasing period (i.e., years six to ten) provided it meets the following additional criteria.<sup>6</sup>

---

<sup>4</sup> OEB Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p.17

<sup>5</sup> EB-2022-0013 Decision p. 10 "The OEB finds that the "project-specific materiality" criterion is not applicable to Alectra Utilities' funding request.

<sup>6</sup> February 2022 ICM Update, p.2.

- 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
- History of good utility practice in capital planning, capital program management and asset maintenance
- How this ICM investment addresses customer needs and preferences and delivers benefits to customers
- Exhaustion of other available options to manage its costs within the envelope provided by the existing price cap or another applicable formula

## Materiality

A distributor applying for recovery of incremental capital calculates the maximum allowable capital amount by taking the difference between the forecast 2024 total capital expenditures and the ACM/ICM materiality threshold.

The OEB-defined materiality threshold is represented by the following formula:

*Threshold Value (%) = 1 + [( ) x (g + PCI X (1 + g))] x ((1 + g) x (1+ PCI)n- + 10%; where PCI = Price Cap Index (IPI-stretch factor).*

Currently, the materiality threshold formula uses the most up-to-date inflation value, i.e., 4.8% in 2024 for electricity distributors.<sup>7 8</sup>

Instead of using the OEB-approved 2024 inflation factor of 4.8% in the above formula, Alectra Utilities proposes an alternative adjustment to the methodology to calculate the materiality threshold. Specifically, Alectra Utilities proposes to use a RZ specific geometric mean to determine the inflation factor value for the materiality threshold calculation.

For the PowerStream RZ, Alectra Utilities calculates a geometric mean of 2.4% using the inflation factor values over the 2018 to 2024 period, and for the Enersource RZ, Alectra Utilities calculates a geometric mean of 2.17% using inflation values over the 2014 to 2024 period.<sup>9</sup>

As shown in Table 2 below, based on this approach, the maximum eligible incremental capital in the Powerstream and Enersource RZs is \$27.1 million and \$16.6 million, respectively. The incremental capital requested fits within these amounts.

---

<sup>7</sup> EB-2014-0219 Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module p.21

<sup>8</sup> OEB 2024 Inflation Parameters June 29, 2023: OEB calculated the 2024 inflation factor for electricity distributors to be 4.8%

<sup>9</sup> Ex 2-1-1 p.5

Table 2: Maximum Eligible Incremental Capital Summary

	PRZ	ERZ
Capital Budget	\$117.6	\$56.2
Less: Materiality Threshold	\$90.5	\$39.6
Maximum Eligible Incremental Capital	\$27.1	\$16.6
Capital Requested	\$17.3	\$7.8

OEB Staff introduced this approach in its submission in Alectra’s 2023 ICM application and suggested instead of using the current year’s IPI for each historical year, a historical average could be used. Specifically, OEB staff calculated a historical geometric mean of OEB-approved IPI values from each rate zone’s respective last cost of service.<sup>10</sup>

In the 2023 ICM Decision, the OEB noted Board Staff’s alternative approach to the materiality threshold calculation, and Alectra Utilities reply that amendments to ICM policy should be considered through a policy review process rather than as part of this proceeding.<sup>11</sup>

In Alectra’s Reply Submission (September 15, 2022) in the 2023 ICM Application, Alectra Utilities responded as follows, “Regarding OEB staff’s comments on the impacts of inflation for the requested 2024 funding, Alectra Utilities takes no position other than to comment that in its view amendments to ICM policy should be considered through a policy review process rather than as part of this proceeding.”<sup>12</sup> Further, “In Alectra Utilities’ view, the current ICM proceeding is not an appropriate forum for the OEB to consider such generic policy matters or potential changes to ICM filing requirements for general application across the sector.”<sup>13</sup>

The OEB’s 2023 ICM Decision states, “The OEB applied the 3.7% inflation factor<sup>14</sup> to calculate the 2023 ICM materiality thresholds. The OEB will not change the inflationary input to the ICM calculations as outlined by OEB staff. OEB staff’s suggestion could be considered as part of a review of the OEB’s ICM policy but should not be considered in this proceeding given that it was only raised by OEB staff in its submission and calculations were not provided to the other parties to allow for a thorough consideration of this issue.”<sup>15</sup>

AMPCO submits the OEB should not change the inflationary input to the ICM calculation in this proceeding and allow a one-off exemption to OEB policy for Alectra Utilities. Rather any amendments to ICM policy, including the intent and methodology of the materiality threshold calculation, should be considered through a generic policy review hearing process, with

<sup>10</sup> EB-2022-0013 OEB staff submission, August 23, 2022, p. 4-6

<sup>11</sup> EB-2022-0013 OEB Decision p. 8

<sup>12</sup> EB-2022-0013 Alectra Utilities’ Reply p.11

<sup>13</sup> EB-2022-0013 Alectra Utilities’ Reply p.30

<sup>14</sup> 2023 Inflation Parameters October 20, 2022

<sup>15</sup> EB-2022-0013 OEB Decision p. 9

consultation and input from other distributors and stakeholders, and not decided as a one-off for Alectra Utilities in this proceeding. The OEB should not accept Alectra Utilities’ proposal to use a RZ specific geometric mean to determine the inflation factor value for the materiality threshold calculation. Instead, the current methodology and policy should be followed and the OEB-approved 2024 inflation factor of 4.8% should be used. Alectra Utilities proposes to use this same 4.8% inflation factor for 2024 filers in its application for 2024 electricity distribution rates effective January 1, 2024.<sup>16</sup>

In response to interrogatories, Alectra Utilities calculated the Materiality Threshold using the 2024 IPI of 4.8% as follows:

Table 3 – Maximum Eligible Incremental Capital Using 2024 IPI

	PRZ	ERZ
Capital Budget	\$117.6	\$56.2
Less: Materiality Threshold	\$130.5	\$67.6
Maximum Eligible Incremental Capital	-\$12.9	-\$11.4
Capital Requested	\$17.3	\$7.8

The capital budgets in the Powerstream and Enersource RZs do not exceed the Materiality Threshold. Alectra Utilities is expected to be able to fund capital expenditures up to \$130.5 million (PRZ)<sup>17</sup> and \$67.6 million (ERZ).<sup>18</sup> The ICM capital requested does not fit within the maximum eligible incremental capital.

Alectra Utilities has not met the OEB’s ICM Materiality criterion. AMPCO submits the OEB should not approve Alectra Utilities’ 2024 ICM request.

**Need**

In the 2023 ICM application, the OEB determined that Alectra Utilities has satisfied the means test and the current cable program exceeds expected levels provided by base rates.<sup>19</sup> There has been no change in meeting this criterion.

**Prudence**

The amounts to be incurred must be prudent.

Alectra Utilities’ 2024 ICM funding request consists of 16 projects (11 in the PRZ; 5 in the ERZ) as follows:

<sup>16</sup> EB-2023-0241 Ex. 2-1-3 p. 1

<sup>17</sup> AMPCO-1

<sup>18</sup> AMPCO-2

<sup>19</sup> EB-2022-0013 OEB Decision p.11, 15

Table 4: 2024 ICM Projects

U/G Cable	PRZ	ERZ	Total
# Replacement Projects	5	3	8
# Injection Projects	6	2	8
Total projects	11	5	16
<b>\$ Millions</b>	<b>\$17.3</b>	<b>\$7.9</b>	<b>\$25.1</b>

The eleven proposed ICM projects in the PowerStream RZ are the same as the 2024 projects identified in the 2023 ICM application that were not considered by the OEB at that time.<sup>20</sup> The five proposed ICM projects in the Enersource RZ<sup>21</sup> consists of four previous 2023 ICM projects and one is a 2024 ICM project. The four 2023 ICM projects are highlighted in yellow in Table 5.<sup>22</sup>

Table 5: ICM Projects Enersource RZ (\$ millions)

Project #	Project Name	2024
151403	Cable Replacement - Montevideo & Battleford Area in Mississauga (Area 46)	\$1.6
151407	Cable Replacement – Glen Erin & Burnhamthorpe of Mississauga (Area 25)	\$2.4
151431	Cable Injection – Glen Erin Dr & Bell Harbour Dr in Mississauga (Area 39)	\$1.3
151435	Cable Injection – Derry Road & Ninth Line (Area 56)	\$1.5
151903	Cable Replacement – South Millway Area in Mississauga (Area 25)	\$1.1
	<b>Total Proposed ICM Investment ERZ</b>	<b>\$7.9</b>

Alectra Utilities proposed to spend \$16.5 million on cable renewal in 2023 (\$7.8 million Base + \$8.7 million ICM) in the Enersource RZ. The OEB approved \$1.9 million of the \$8.7 million 2023 ICM request (a reduction of \$6.8 million) on the basis that it did not believe the ICM request was beyond the normal level of capital expenditure expected in base rates of \$14.6 million.<sup>23</sup> The OEB expected Alectra Utilities to fund the \$6.8 million difference through its base rates. The four projects highlighted in yellow total \$6.8 million. AMPCO submits based on the OEB’s 2023 ICM Decision, these projects should be funded through base rates. It is not appropriate for Alectra Utilities to bring these same projects forward in 2024 for ICM funding.

In the event the OEB approves Alectra Utilities’ ICM approach using the RZ specific geometric mean to determine the inflation factor value and determines that Alectra Utilities has met the ICM criteria, AMPCO submits the four ICM projects in the Enersource RZ from the 2023 ICM application totalling \$6.8 million should not be approved for ICM funding in 2024, i.e., the \$25.1 million ICM funding request should be reduced by \$6.8 million.

<sup>20</sup> EB-2022-0013 Decision p.

<sup>21</sup> AMPCO-14

<sup>22</sup> VECC-5 (d)

<sup>23</sup> EB-2022-0013 OEB Decision p.14-15

## Other Considerations

### Percentage of Deteriorated Underground Cable Improves in 2022

From 2018 to 2022, Alectra Utilities indicates the backlog of deteriorated underground cable has increased from 3,173 km (14% of the population)<sup>24</sup> to 4,766 km (21% of the population).<sup>25</sup> Deteriorated underground cable refers to the cables with a Health Index of Poor or Very Poor condition as identified by the Asset Condition Assessment (ACA) report.<sup>26</sup>

The latest 2022 ACA results show an improvement in deteriorated underground cable compared to the 2021 ACA. The km of deteriorated underground cable (very poor & poor condition) has decreased from 5,024 km in 2021 to 4,766 km in 2022, an improvement of 5% (Table 6).

Table 6: Primary XLPE Cable Health Index Distribution<sup>27</sup>

	Very Poor	Poor	Very Poor & Poor	Fair	Good	Very Good	Unknown	Total
2018 ACA	2,396	760	3,156	955	1,450	16,078		24,795
2020 ACA	2,581	1,194	3,775	1,407	12	16,961		25,930
2021 ACA	3,172	1,852	5,024	4	55	17,379		27,486
2022 ACA	2,936	1,830	4,766	4	55	17,524	518	27,633

### Average Cable Failure Events Improves

Over the period 2018 to 2022, Alectra Utilities reports average cable failure events of 449 each year.<sup>28</sup> This is an 8% improvement over the average cable failure events reported for the 2016 to 2020 period of 488 in Alectra Utilities 2023 ICM.<sup>29</sup> The actual number of XLPE and Accessories Outages per year has decreased from 534 outages in 2018 to 375 in 2022.<sup>30</sup>

Alectra Utilities proposes to renew 96 km of cable in 2023 through 2023 ICM projects. In 2024, Alectra Utilities proposes to replace an additional 140 km of cable through 2024 ICM projects.<sup>31</sup> This is in addition to the 121 km and 207 km of cable renewal planned for 2023 and 2024, respectively, through base rates.<sup>32</sup> The forecast spend for cable renewal in 2024 is \$67.4 million (\$25.1 million ICM + \$42.3 million Base).

<sup>24</sup> Ex. 1-1-4 p. 5

<sup>25</sup> Ex. 3-1-2 p. 5 (2022 ACA)

<sup>26</sup> AMPCO-7(a)

<sup>27</sup> 2018 ACA – Staff-10: Part 3 of 7 DSP Appendix D p. 60; 2020 ACA – EB-2022-0013 SEC IR-11; 2021 & 2022 ACA-AMPCO-10

<sup>28</sup> Ex. 3-1-4 p. 2

<sup>29</sup> EB-2022-0013 Ex 3-1-4 p. 2

<sup>30</sup> AMPCO-11

<sup>31</sup> AMPCO 9-b

<sup>32</sup> AMPCO 9-b



Given that the XLPE cable condition and XLPE cable failure events has improved in 2022, AMPCO submits Alectra Utilities doesn't need to spend as much on XLPE cable. The overall health of XLPE cable is getting better.

#### Inconsistent Health Index Data for Cable in Fair Condition

As shown in Table 6 above, the km of cable in Fair and Good condition has not changed between the 2021 and 2022 ACAs at 4 km and 55 km, respectively. In addition to the planned renewal of cable in Fair condition in 2023, Alectra Utilities proposes to renew 24.6 km of cable in Fair condition through ICM projects and an additional 35.4 km through 2024 base rates.<sup>33</sup> The km of cable in Fair condition (4 km) in the 2022 ACA appears to be inconsistent with Alectra Utilities investment plans with respect to the renewal of cable in Fair condition in 2024 which significantly exceeds 4 km. Alectra Utilities may wish to reply to this issue in its reply.

#### **Conclusion**

Based on the foregoing, AMPCO submits the OEB should not approve Alectra Utilities' ICM request. The OEB's current ICM methodology/policy should be applied and Alectra Utilities' proposal to use a RZ specific geometric mean to determine the inflation factor value for the materiality threshold calculation should be denied pending a generic hearing of the OEB's ICM policy. The current OEB-approved inflation factor of 4.8% for 2024 filers should be applied to the ICM materiality threshold calculation consistent with the inflation factor applied in Alectra Utilities 2024 IRM application. Under this current approach, Alectra Utilities has not met the Materiality criterion.

Four of the five projects in the Enersource RZ in this application are repeats from Alectra Utilities' 2023 ICM request where the OEB determined \$6.8 million of ICM projects could be funded through existing distribution base rates in 2023. In the event the OEB approves Alectra Utilities' ICM approach using the RZ specific geometric mean to determine the inflation factor value and determines Alectra Utilities has met the ICM criteria, AMPCO submits these four ICM projects in the Enersource RZ from the 2023 ICM application totalling \$6.8 million should not be approved for ICM funding in 2024.

Based on 2022 ACA data compared to 2021, the condition of XLPE cable is getting better.

In its reply submission, Alectra Utilities should explain the discrepancy noted by AMPCO with respect to the km of cable in Fair condition in the 2022 ACA compared to Alectra Utilities' investment plans in 2024 regarding the km of cable renewal in Fair condition.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

---

<sup>33</sup> SEC-12