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## **DECISION AND ORDER**

**EB-2023-0004**

### **Alectra Utilities Corporation**

**Application for rates and other charges – Incremental Capital Module  
to be effective January 1, 2024**

**BEFORE: Anthony Zlahtic  
Presiding Commissioner**

**Michael Janigan  
Commissioner**

**Fred Cass  
Commissioner**

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**February 13, 2024**

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## 1 OVERVIEW

Alectra Utilities Corporation (Alectra Utilities) filed an 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. This application covers two of Alectra Utilities' rate zones (RZ): the Enersource RZ (which is comprised of customers of the former Enersource Hydro Mississauga Inc.) and PowerStream RZ (which is comprised of customers of the former PowerStream Inc.).

Alectra Utilities was formed in 2017 following a Mergers, Amalgamations, Acquisitions and Divestitures (MAADs) Decision and Order approving the formation of Alectra Utilities.<sup>1</sup>

Alectra Utilities serves approximately one million mostly residential and commercial electricity customers in its five RZs. These five RZs cover 17 communities that include: the Cities of Hamilton and St. Catharines in the Horizon RZ; the City of Brampton in the Brampton RZ; the Cities of Barrie, Markham, Vaughan and the Towns of Aurora, Richmond Hill, Alliston, Beeton, Bradford West Gwillimbury, Penetanguishene, Thornton, and Tottenham in the PowerStream RZ; the City of Mississauga in the Enersource RZ; and the City of Guelph and the Village of Rockwood in the Guelph RZ. Alectra Utilities is seeking the OEB's approval for proposed changes to the rates it charges to distribute electricity to its customers, as is required of licensed and rate-regulated distributors in Ontario.

Following the merger in 2017 that formed Alectra Utilities, Alectra Utilities was granted a ten-year deferred rebasing period from 2017 to 2026 for the Horizon RZ, Enersource RZ, PowerStream RZ and Brampton RZ. The Guelph RZ was later separately acquired by Alectra Utilities and was granted a ten-year deferred period from 2019 to 2028. The Price Cap Incentive Rate-setting option (Price Cap IR) is applicable to each of Alectra Utilities' RZs.

An ICM is a funding mechanism available for significant capital projects for which a utility requires rate recovery in advance of its next rebasing application. Alectra Utilities is expected to rebase and establish distribution rates effective January 1, 2027, at the end of its deferred rebasing period.<sup>2</sup>

Alectra Utilities, in its 2024 ICM application, requested:

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<sup>1</sup> EB-2016-0025, Decision and Order, December 8, 2016.

<sup>2</sup> EB-2018-0014, Decision and Order, October 18, 2018, p.11. Alectra Utilities is expected to rebase its Horizon, Enersource, PowerStream, and Brampton RZs with new distribution rates effective January 1, 2027. Alectra Utilities is expected to rebase its Guelph RZ with rates effective January 1, 2029.

- Approval of ICM funding to address deteriorated underground cables in 16 neighborhoods across the Enersource and PowerStream 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).

Included as part of the 16 projects in the 2024 ICM requests, 5 projects are for the Enersource RZ, while 11 projects are in the PowerStream RZ.

In this Decision and Order, the OEB denies Alectra Utilities and OEB staff's proposed deviation from the 2024 inflation factor input (Input Price Index or IPI) into the ICM formula used to calculate the Materiality Threshold. The OEB approves ICM funding of \$17.3 million for the PowerStream RZ. The OEB does not approve funding for the Enersource RZ ICM request for the reasons set out elsewhere in this Decision.

## 2 CONTEXT AND PROCESS

Alectra Utilities filed its application on July 21, 2023 under section 78 of the OEB Act and in accordance with the Chapter 3 of the OEB's [Filing Requirements for Incentive Rate-Setting Applications](#) (Filing Requirements). Notice of Alectra Utilities' application was issued on August 10, 2023.

The Association of Major Power Consumers in Ontario (AMPCO), Consumers Council of Canada (CCC), Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), Power Workers' Union (PWU), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC) were granted intervenor status. All intervenors were approved for cost award eligibility.

The application was supported by pre-filed written evidence and completed Rate Generator Models. During the proceeding, OEB staff and intervenors submitted interrogatories, to which Alectra Utilities provided written responses. Submissions on the application were filed by OEB staff, AMPCO, CCC, CCMBC, PWU, SEC and VECC. Alectra Utilities filed a reply submission addressing the submissions of the other parties on November 2, 2023.

On December 8, 2023, the OEB ordered Alectra Utilities to file answers to further questions related to the ICM requests. On December 15, 2023, Alectra Utilities filed responses to the OEB's questions.

### 3 INCREMENTAL CAPITAL MODULE

The ICM policy is a funding mechanism intended to address the treatment of significant capital investment needs that arise during the rate-setting plan which are incremental to a materiality threshold. The ICM policy was revised in September 2014 in the Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (ACM Report).<sup>3</sup> Further updates were made to the ACM Report in January 2016.<sup>4</sup> A distributor, as part of the conditions required to qualify for ICM funding for discrete projects under the ICM policy, is required to fulfill the eligibility criteria of materiality, need and prudence.<sup>5</sup>

In February 2022, the OEB issued a letter, titled Incremental Capital Modules During Extended Deferred Rebasing Periods (February 2022 ICM Update). The February 2022 ICM Update provides additional flexibility for electricity distributors to apply for incremental capital funding for an annual capital program during years six to ten of an extended rebasing period where it also meets a set of additional criteria.<sup>6</sup>

The ICM policy addresses the issue of materiality in three steps. The first step involves 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.<sup>7</sup> This step provides that any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount.<sup>8</sup> 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. Lastly, the incremental investment must have a significant influence on the operation of the distributor.

With regard to the Need criterion, as outlined in the ACM Report any incremental capital amount being requested shall be (i) based on one or more discrete project(s), (ii) directly related to the claimed driver, and (iii) clearly outside of the base upon which the distributor's rates were derived.<sup>9</sup> A distributor must also pass the "means test." Under the means test, if a distributor's most recently available regulated return on equity

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<sup>3</sup> EB-2014-0219, ACM Report, September 18, 2014.

<sup>4</sup> EB-2014-0219, Report of the OEB - New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016.

<sup>5</sup> EB-2014-0219, ACM Report, September 18, 2014, p.16.

<sup>6</sup> February 2022 ICM Update, February 10, 2022, p.2.

<sup>7</sup> The ICM materiality threshold formula refers to the updated multi-year materiality threshold formula as defined on p.19 of the Supplemental Report.

<sup>8</sup> EB-2014-0219, ACM Report, September 18, 2014, p.17.

<sup>9</sup> Ibid.

(ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then funding for any incremental capital project would not be allowed.

Additionally, a distributor needs to establish that the incremental capital amount it proposes to incur is prudent. To satisfy the "prudence test", a distributor must demonstrate that its decision to incur the incremental capital represents the most cost-effective option for its customers (though, not necessarily the least initial cost option).

## 4 THE ICM FUNDING REQUEST

Alectra Utilities is requesting \$25.1 million in ICM funding to address the deterioration of its underground distribution cable population in its PowerStream and Enersource RZs. The proposed ICM projects consist of eight silicone cable injection projects and eight projects to replace existing deteriorated and failing underground cable across 16 neighborhoods. Alectra Utilities noted that the cable replacement projects address the worst areas throughout Alectra Utilities' entire service area in terms of failing direct-buried cross-link polyethylene (XLPE) cable. Table 1 below shows the breakdown between cable injection and cable replacement.

The 2024 ICM funding request would establish new rate riders effective January 1, 2024.

The following table outlines the funding request for the 2024 cable renewal programs for the PowerStream and Enersource RZs.<sup>10</sup>

**Table 1 – Incremental Capital Expenditures**

<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>

Alectra Utilities explained that the requested ICM funding is required to improve reliability in the 16 neighborhoods within the two RZs where significant outages are likely to occur if urgently needed repairs are not carried out on deteriorating underground cables.

PWU submitted that the ICM proposal should be approved, arguing that Alectra Utilities has demonstrated that it will provide substantial value for the level of ICM funding requested and that not approving the request will result in the further deterioration of assets. OEB staff supported the approval of the ICM application but recommended a reduction of \$1.5 million for the Enersource RZ. AMPCO, CCC, CCMBC, SEC, and VECC submitted that the ICM funding should not be approved.

<sup>10</sup> 2024 EDR Application, Exhibit 1, Tab 1, Schedule 4, p.7.

The 2024 ICM request is similar in nature to that of Alectra Utilities' 2023 ICM request.<sup>11</sup> As part of that proceeding, Alectra Utilities sought \$25.4 million in 2023 ICM funding across the Enersource and PowerStream RZs for the renewal of underground cables. Alectra Utilities also sought \$26.9 million in ACM treatment to renew cables in 2024. The OEB's 2023 ICM decision approved \$18.1 million for the 2023 ICM request while denying the 2024 ACM request, noting that ACMs should be sought as part of a cost-of-service application.

For the Enersource RZ, four of the five projects proposed in this 2024 ICM request were projects that were included in the 2023 ICM request but were not completed in 2023.

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<sup>11</sup> EB-2022-0013.

## 5 ICM AND ACM CRITERIA AND OTHER ISSUES

### 5.1 Materiality

To satisfy the materiality requirement in the ICM policy, 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. Secondly, the distributor needs to show that the project is not a minor expenditure when compared to the overall capital budget. Lastly, the incremental funding must have a significant influence on the operation of the distributor.

#### 5.1.1 Materiality Threshold

Alectra Utilities in its application, deviated from the ICM policy by not using the OEB-approved IPI found in its most recent Price Cap IR application in determining the Price Capital Index (PCI)<sup>12</sup> used to calculate the materiality threshold, but proposed alternative funding methods. First, it proposed the use of a geometric mean of IPIs from the first incentive rate mechanism (IRM) year for each RZ. In response to an OEB staff interrogatory, it also provided another method by applying the historical years' actual IPI issued by the OEB since the last rebasing year of each RZ.<sup>13</sup>

As shown in Table 3 below, by using the OEB-approved IPI for 2024 in its materiality threshold calculations, the maximum allowed incremental capital is zero in comparison to using the geometric mean of IPIs and Annual IPIs, which would both result in maximum allowed incremental capital amounts greater than Alectra Utilities' ICMs requests in this application.

Based on its proposed deviation from the ICM policy using the geometric mean approach, Alectra Utilities calculated its maximum eligible incremental capital amount to be \$17.3 million for the PowerStream RZ in 2024.<sup>14</sup> Alectra Utilities calculated the maximum eligible incremental capital amount for the Enersource RZ to be \$7.9 million in 2024.<sup>15</sup>

All the intervenors except PWU argued that the method used by Alectra Utilities in its materiality threshold calculations represents a fundamental change to one of the principles guiding the ICM policy and claimed that the alternative methods proposed did not satisfy the materiality criteria and therefore, the application should not be approved. A number of intervenors submitted that any change to the inflation factor to use in the materiality threshold calculation should only be done as part of a consultation process.

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<sup>12</sup> For an ICM the PCI is calculated as the IPI minus a stretch factor of 0.3.

<sup>13</sup> Responses to OEB Staff Interrogatories, 1-Staff-1b, pp.2-3, part 1 of 7.

<sup>14</sup> 2024 EDR Application, Exhibit 2, Tab 1, Schedule 1, p.11.

<sup>15</sup> 2024 EDR Application, Exhibit 2, Tab 1, Schedule 1, p.20.

SEC further submitted that changing one of the parameters could have unintended consequences.

OEB staff took no issue with Alectra Utilities' materiality threshold calculation which proposed using a geometric mean of IPIs from the first IRM year for each RZ and actual IPI issued by the OEB since the last rebasing year of the RZs<sup>16</sup>. Given the swift rise in inflationary rates in recent years and pending the review of the ICM policy, OEB staff reviewed all the alternative approaches to the materiality threshold calculation proposed by Alectra Utilities and recommended a temporary adoption of the methodology used in 1-staff-1b. OEB staff submitted that the calculation as presented in 1-staff-1b, which utilizes the historical years' actual IPIs issued by the OEB since the last rebasing year of the RZs, is a better representation of the impact of inflation on rates when compared to the use of a geometric mean as shown in Tables 2 and 3 below.

Alectra Utilities in its reply submission agreed with OEB staff on the merits of the annual IPI method and submitted that under both the geometric mean and actual IPI approaches (compounded annual PCI), the requested funding satisfies the materiality threshold test.<sup>17</sup>

**Table 2 – Current Policy PCI Vs Compounded Annual PCI**

<b>Cost of Service Rebasing Year</b>	<b>PowerStream RZ Compounded PCI<sup>18</sup></b>	<b>Enersource RZ Compounded PCI</b>	<b>Historical PCI Assumed by Current Policy</b>
2015		1.35%	4.50%
2016		1.50%	4.50%
2017		1.52%	4.50%
2018		1.40%	4.50%
2019	1.05%	1.37%	4.50%
2020	1.27%	1.41%	4.50%
2021	1.42%	1.47%	4.50%
2022	1.74%	1.64%	4.50%
2023	2.01%	1.82%	4.50%
2024	2.36%	2.06%	4.50%

<sup>16</sup> Responses to OEB Staff Interrogatories, 1-Staff-1b, pp.2-3, part 1 of 7.

<sup>17</sup> Alectra Utilities Reply Submission, p.10.

<sup>18</sup> Responses to OEB Staff Interrogatories, 1-Staff-1b, pp.2-3, part 1 of 7.

**Table 3 – Summary of All Methods Proposed by Alectra Utilities and OEB Staff  
(\$ 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/Distribution System Plan (DSP) Capital Expenditures	117.6	117.60	117.60	56.20	56.20	56.20
Materiality Threshold	130.5	90.50	93.00	67.70	39.60	40.60
Maximum Allowed Incremental Capital	-	<b>27.10</b>	<b>24.60</b>	-	<b>16.60</b>	<b>15.60</b>
Alectra Utilities' Request	17.30	17.30	17.30	7.90	7.90	7.90

## Findings

The OEB does not agree with Alectra Utilities' proposed replacement of the current applicable 2024 IPI with a geometric mean inflation factor in the ICM formula to calculate the maximum eligible incremental capital for the following reasons:

- The OEB in the 2023 ICM decision stated that altering the inflation factor in the ICM formula could best be considered as part of a review of the OEB's ICM policy.<sup>19</sup> The OEB is still of that view.
- The inflation factor is but one parameter in a complex formula. The OEB is not prepared to alter a single parameter in isolation. The existing ACM/ICM formula was developed after extensive consultation with industry stakeholders. Any change to the formula would be best addressed as part of a review of the OEB's ICM policy.

Similarly, the OEB does not agree with the OEB staff's proposed replacement of the current IPI with the use of the historic annual IPI for the same reasons set out above.

However, the OEB recognizes that the application of the current formula using an inflation factor derived from the 2024 IPI may be injurious to the interests of both Alectra Utilities and its customers as it will provide no ICM funding to undertake necessary and urgent proposed cable renewal projects. The deviation from the requirement to generate

<sup>19</sup> EB-2022-0013, Decision and Order, November 17, 2022, p.9.

the materiality threshold from its formula directed by OEB policy in this proceeding is an exception based solely on the result of the 2024 IPI input to the formula for calculating the materiality threshold given the significant variance in the result between using the 2024 IPI and the geometric mean or historic annual IPIs since rebasing. Such deviation is not precedential in nature and is furtherance of the statutory objective of the OEB to protect the interests of consumers with respect to prices and the adequacy, reliability, and quality of electricity service.<sup>20</sup> Accordingly, the OEB will provide an exceptional remedy in these specific circumstances.

### 5.1.2 Project-Specific Materiality Threshold

Alectra Utilities compared the forecasted cable renewal programs for each RZ to Alectra Utilities' overall capital budget. In comparison to its overall capital budget of \$285.3 million in 2024, Alectra Utilities submitted that the summation of cable renewal projects in each RZ (herein referred to as cable renewal programs) is significant relative to its overall budget.<sup>21</sup>

While PWU, CCMBC, AMPCO, and CCC did not make any submissions, VECC and SEC submitted that this is similar to Alectra Utilities' 2023 ICM application and agreed with the OEB's Decision in that proceeding, which they expect would be the same in this case.

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

In its reply, Alectra Utilities stated that the \$25.1 million in proposed 2024 ICM investments are significant relative to the overall capital budget of \$285.3 million for all RZs. Alectra Utilities further referenced the 2023 ICM decision where the OEB found that project-specific materiality was not applicable to Alectra Utilities' funding request.<sup>22</sup>

### Findings

In the 2023 ICM decision, the OEB found that the "project-specific materiality" criterion was not applicable to Alectra Utilities' funding request. The February 2022 ICM Update expanded the circumstances when ICM funding can be available to include ongoing capital programs during an extended rebasing period where certain additional requirements are met. The current Alectra Utilities ICM funding application is based on an ongoing cable capital program and not the individual project ICM requirements set

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<sup>20</sup> Ontario Energy Board Act, 1998, S.O. 1998, sec 1(1) 1.

<sup>21</sup> 2024 EDR Application, Exhibit 2, Tab 1, Schedule 1, pp.11, 20.

<sup>22</sup> Alectra Utilities Reply Submission, p.13.

out in the ACM Report issued in 2014.<sup>23</sup> As a result, consistent with the 2023 ICM decision, the OEB finds that the “project-specific materiality” criterion is not applicable to Alectra Utilities’ funding requests in this application.

### 5.1.3 Significant Influence on Operations

Pursuant to the ACM Report, the requested ICM funding must have a “significant influence” on the operation of the distributor.<sup>24</sup>

Alectra Utilities submitted that the proposed investments would have a significant impact on its operations.<sup>25</sup> Alectra Utilities stated that it projected that the total proposed investment would avoid: (i) approximately 106 cable failure-related outages in the PowerStream RZ, which would impact 265 customers; and (ii) 49 cable failure-related outages in the Enersource RZ which would impact 441 customers.<sup>26</sup>

No intervenor took issue with the significant influence of the ICM on operations.

OEB staff agreed with Alectra Utilities’ position that its ICM revenue requirement should reflect a full year of CCA. OEB staff noted that the CCA treatment in Alectra Utilities’ proposal is aligned with the accelerated CCA rule in place for 2024.<sup>27</sup>

## Findings

The OEB finds that the 2024 ICM request has a significant influence on operations and on the reliability of distribution service in the PowerStream and Enersource RZs. The OEB agrees with Alectra Utilities and OEB staff’s position on the treatment of CCA as noted in the findings in Section 5.2.3 below. Alectra Utilities shall record the ICM impact from accelerated CCA in Account 1592.

## 5.2 Need

### 5.2.1 Means Test

The Means Test requires that, 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 of any incremental capital project will not be allowed. Alectra Utilities stated that its most recently available ROE was 6.70%, as filed in its 2022 annual Reporting and Record-Keeping Requirements (RRR), which is 2.25% (225 basis points) lower than its deemed ROE of 8.95%.

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<sup>23</sup> EB-2022-0013, Decision and Order, November 17, 2022, p.10.

<sup>24</sup> EB-2014-0219, ACM Report, September 18, 2014, p.16.

<sup>25</sup> Alectra Utilities Reply Submission, p.12.

<sup>26</sup> 2024 EDR Application, Exhibit 2, Tab 1, Schedule 1, pp.12, 20.

<sup>27</sup> EB-2014-0219, ACM Report, September 18, 2014, p.17.

CCMBC, while acknowledging that Alectra Utilities' 2022 ROE was lower than the OEB approved return, noted that when Enersource and PowerStream merged in 2017, ratepayers were promised efficiencies and savings in both Capital and OM&A. However, CCMBC stated that low earnings are evidence that Alectra Utilities has not managed to find these promised efficiencies and savings in six years and Alectra Utilities should not be rewarded for such poor management.<sup>28</sup> No other party took issue with Alectra Utilities' position that it passed the means test.

In its reply, Alectra Utilities stated that CCMBC wrongly asserted that the equity returns below the OEB approved return reflect poor management.<sup>29</sup> Alectra Utilities claimed that based on its 2022 RRR filing, it has demonstrated that it satisfied the Means Test. SEC, PWU, and OEB staff agreed 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.

## Findings

The OEB finds that Alectra Utilities passes the Means Test as the actual 2022 consolidated ROE of 6.70% is lower than the deemed ROE of 8.95%. With respect to CCMBC's assertion of poor management, the OEB notes that an assessment of management's performance should not be based solely on achieved ROE.

### 5.2.2 Discrete Project

The ACM Report indicates that incremental capital funding is for discrete projects and not for ongoing capital programs. The February 2022 ICM Update provided a further update that ICM funding could be available for ongoing capital programs if a utility is on an extended rebasing period provided certain additional criteria are met.<sup>30</sup> As such, OEB staff submitted that the discrete project criterion is not applicable to Alectra Utilities' request.

SEC commented that, in the 2023 ICM decision, the OEB found that the discrete project criterion was not applicable to Alectra Utilities' request. SEC accepted that this similarly applies to this Application.<sup>31</sup>

No other party made any submission on the discrete project criterion.

## Findings

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<sup>28</sup> CCMBC Submission, p.11.

<sup>29</sup> Alectra Utilities Reply Submission, p.12.

<sup>30</sup> February 2022 ICM Update, February 10, 2022, p.2.

<sup>31</sup> SEC Submission, p.4.

The OEB finds that the discrete project criterion is not applicable to Alectra Utilities' request. The February 2022 ICM Update expands the circumstances when ICM funding can be available to include ongoing capital programs during an extended rebasing period where certain additional requirements are met. Alectra Utilities' ICM funding application is based on an ongoing cable program, comprised of individual discrete projects. The application is not for ICM funding of discrete projects as anticipated when the ACM Report was issued in 2014. Further, the OEB finds that Alectra Utilities has met the February 2022 ICM Update criteria discussed in Section 5.4 below.

### 5.2.3 Beyond Expected Base Rate Funding

Alectra Utilities argued that it implemented an Asset Analytics Platform to progress the existing condition-based asset management practice toward predictive analytics. It claimed that by using enhanced analytics to consider the most recent reliability events together with up-to-date asset condition information, it was able to identify localized emerging issues. Alectra Utilities opined that it could not fund all the necessary renewals to address all the neighborhoods identified through analytics using solely base distribution rates.<sup>32</sup>

OEB staff submitted that Alectra Utilities funded an annual average of \$15.1 million on cable renewal through base rates in the PowerStream RZ between 2017-2023 relative to its 2024 plan funding \$19.1 million from base rates.<sup>33</sup> OEB staff further submitted that Alectra Utilities recovered an annual average of \$13.0 million between 2019 and 2023 for cable renewal through base rates relative to a planned \$11.5 million for 2024 in the Enersource RZ.<sup>34</sup> OEB staff submitted that it is satisfied with the \$19.1 million of base rate spending proposed by Alectra Utilities in 2024 for the PowerStream RZ.

**Table 4 – PowerStream RZ Cable Renewal Expenditure (\$ 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
Total	12.0	13.5	12.4	21.7	16.7	13.2	16.2	19.1	15.1

OEB staff stated that it believes it is appropriate to evaluate what constitutes a normal level of capital expenditure for cable renewal included in the Enersource RZ base rates using historical spending trends. OEB staff believes that Alectra Utilities could increase

<sup>32</sup> Alectra Utilities Reply Submission, p.15.

<sup>33</sup> Responses to OEB Staff Interrogatories, 1-Staff-4a, p.1, part 1 of 7.

<sup>34</sup> Ibid.

its 2024 cable renewal budget included in the RZ's distribution rates by \$1.5 million (\$13 million - \$11.5 million) as shown in Table 5 below.

**Table 5 – Enersource RZ Beyond Expected Base Rate Funding (\$ millions)**

Enersource RZ	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Plan	Average
<b>Funded through distribution rates</b>	<b>2017</b>	<b>2018<sup>35</sup></b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2019-2023</b>
Total	18.7	16.1	14.5	16.2	12.6	8.2	13.4	11.5	13.0

OEB staff noted that the ICM amounts are not fully outside of the base upon which rates were derived and as such, submitted that a reduction of at least \$1.5 million be made to the eligible incremental amount.

VECC referenced the 2023 ICM decision where the OEB found that base rates in the Enersource RZ supported \$14.6 million in cable projects.<sup>36</sup> VECC further submitted that if the OEB were to approve ICM funding in the Enersource RZ, it should continue to impute the average funding amount of \$14.6 million.<sup>37</sup> This would reduce the allowed ICM funded projects by \$3.1 million in the Enersource RZ. VECC also advocated for a reduction of \$2.4 million in 2024 ICM funding for the PowerStream RZ. This is because Alectra Utilities is forecast to spend \$2.4 million less on capital programs in that RZ in 2023 than its approved 2023 ICM amount.<sup>38</sup>

SEC also discussed this topic noting that if the 2017-2024 average cable renewal base funding amount was used as a baseline in 2024 for each RZ, \$6.8 million of the 2024 cable renewal budget would be unfunded by base rates for the Enersource RZ and \$17.9 million would be unfunded by base rates for the PowerStream RZ.<sup>39</sup>

SEC submitted further that the OEB should not approve those cable projects for which the condition of the cable is fair namely, Cable Replacement – Cochrane Drive & Scolberg in Markham (M44), project number 151913 amounting to \$2.1 million, and Cable Replacement – Hammond Drive Area in Aurora (A09), project number 152375 amounting to \$1.4 million in the PowerStream RZ.<sup>40</sup>

<sup>35</sup> According to Alectra Utilities, information regarding capital expenditures for 2017 and 2018 for the Enersource RZ was based on the capital reporting practices of the legacy utility. Another 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.

<sup>36</sup> VECC Submission, p.13.

<sup>37</sup> VECC Submission, p.14.

<sup>38</sup> VECC Submission, p.15.

<sup>39</sup> SEC Submission, p.5.

<sup>40</sup> SEC Submission, p.6.

For the Enersource RZ, CCC stated that four projects brought forward by Alectra Utilities were from Alectra Utilities' 2023 ICM application and should not qualify for ICM funding.<sup>41</sup>

AMPCO similarly submitted that the ICM funding should be reduced by \$6.8 million for the Enersource RZ as they claimed that the projects to be funded were previously identified as 2023 ICM projects. SEC argued that Alectra Utilities had the funding and should have completed the projects in 2023 as per the OEB's approval, and therefore they are not eligible for additional 2024 ICM funding. AMPCO and SEC submitted 2023 projects moved to 2024 projects should be funded through base rates.<sup>42 43</sup>

In its reply, Alectra Utilities stated that: <sup>44</sup>

While establishing that a normal level of capital expenditures expected to be funded by base rates with reference to historical actual expenditures may be applicable where rates are recalibrated annually, Alectra Utilities stated that it is not applicable under Price Cap IR because, regulated utilities are responsible for making their investments within the constraints of the price cap subject to applicable service standards. It further stated that Alectra Utilities prudently manages its capital investments within its approved funding envelope.

Alectra Utilities argued that using a historical average approach to determine normal capital spending will not account for anomalous circumstances which have the effect of skewing the average. Alectra Utilities explained further that the 2020 and 2021 capital investments in System Access were temporarily scaled down and two ten-year Connection and Cost Recovery Agreements (CCRA) true-up payments were deferred due to the impact of the Covid-19 pandemic.

Alectra Utilities agreed that OEB staff performed its calculation in a manner that was similar to the approach used in Alectra Utilities' 2023 ICM decision by calculating a 'normal level' of capital expenditures expected to be funded by base rates using an average of historical actual annual expenditures. However, Alectra Utilities disagreed that the use of the historical average approach to determine normal capital spending as was used in the 2023 ICM decision is appropriate.<sup>45</sup>

Alectra Utilities reiterated the need for the OEB to consider its application on its own merit. Alectra Utilities claimed that the 2023 projects were deferred to 2024 as a result of the OEB only approving \$1.9 million in funding for the Enersource RZ, especially

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<sup>41</sup> CCC Submission, p.4.

<sup>42</sup> AMPCO Submission, p.6

<sup>43</sup> SEC Submission, p.7

<sup>44</sup> Alectra Utilities Reply Submission, pp.11-12.

<sup>45</sup> Alectra Utilities Reply Submission, p.17.

since the OEB did not state that it could not seek funding for the projects in the 2023 ICM decision. Alectra Utilities explained further that the proposed projects in the Enersource RZ are driven by specific reliability concerns as the asset condition and quality of service in these areas created an urgent need for funding.<sup>46</sup>

## Findings

The OEB approves ICM funding in the amount of \$17.3 million for the PowerStream RZ. The OEB does not approve ICM funding for the Enersource RZ.

Base rates for the PowerStream RZ and the Enersource RZ were last rebased in 2017 and 2013 respectively. Alectra Utilities received its first report on the poor condition of its cable assets in September 2018. As a result, the cable program encompassed by this ICM proposal was not part of the capital expenditure plans when rates were last rebased.

The February 2022 ICM Update provided that the OEB will consider requests for ICM provision of additional funding for capital expenditures necessitated by new information that shows an urgent need for such expenditures in the extended rebasing period that had arisen since the last utility rebasing. However, the investment must be "beyond the normal level of capital expenditures expected to be funded by existing rates". Any ICM available under the qualifying requirements must then exclude the "normal level" amount expected to be expended by the utility.

In the 2023 ICM decision, the OEB established the normal level cable spending by reference to the pattern of annual expenditures in each of the PowerStream and Enersource RZs for cable replacement and cable injection work in a six-year period prior to the ICM request.

Alectra Utilities takes issue with the use of historical annual capital expenditures to establish normal levels of capital expenditures that are part of the assessment involved in an ICM project capital request. According to the submission of Alectra Utilities, such historical annual expenditures are inapplicable when an IRM framework is in effect for the utility requesting an ICM. The rationale for the exclusion of the historical record is based on the principles of Performance Based Regulation (PBR) which provide that determinations of capital investments are within the control and discretion of the utility in an IRM period provided there is compliance with the price cap and quality standards.<sup>47</sup> As such, Alectra Utilities contends that the results of the exercise of such discretion and control should not be conclusive as to the need or options to manage costs within the meaning of the February 2022 ICM Update.

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<sup>46</sup> Alectra Utilities Reply Submission, p.20.

<sup>47</sup> 2024 EDR Application, Exhibit 2, Tab 1, Schedule 1, p.7.

The OEB does not find that the mechanics of the operation of PBR dictate the discarding of the use of historical annual capital amounts to establish ICM qualification. The ICM is geared to address significant capital needs during the period of incentive regulation between cost-of-service applications. The historical record of normal spending, particularly where it concerns assets that are integral and of immediate consequence to the operation of the utility, is pertinent to the OEB's assessment of the quantum of need. The OEB remains of the view that the annual historical record of spending on underground renewal projects is useful in establishing normal expenditures for the purpose of the calculation of the ICM required. Further, the OEB finds that the current circumstance is similar to that determined in the 2023 ICM application. In particular, the ICM investments sought in this application must be “beyond the normal level of capital expenditures expected to be funded by existing rates”.<sup>48</sup>

While the OEB is reluctant to deviate from one component of the ICM formula (as noted in Section 5.1.1 above) without a generic proceeding, it is also aware of the need and urgency of Alectra Utilities' ongoing cable replacement/refurbishment program which has arisen since the last rebasing of PowerStream and Enersource. The OEB is cognizant of its objective concerning the protection of consumer interests with respect to prices and adequacy, reliability, and quality of electricity service.<sup>49</sup> Accordingly, the OEB will provide a partial remedy for the need in these specific circumstances.

### **PowerStream RZ**

In the PowerStream RZ, Alectra Utilities' proposed 2024 plan is to spend \$36.4 million on cable refurbishment, comprised of \$19.1 million to be recovered by existing base rates and \$17.3 million through ICM funding. The OEB approves \$17.3 million of ICM funding.

Set out below in Table 6, the OEB has modified the OEB staff's analysis in Table 4 above to reflect the Actual and Budgeted 2022 amount of \$21.5 million to be recovered in base rates identified in the 2023 ICM application.<sup>50</sup> The OEB acknowledges that Alectra Utilities experienced persisting supply chain and labour resources issues stemming from the COVID-19 pandemic. Notwithstanding, absent the COVID-19 Pandemic, the OEB expects that the capital spent in 2022 would have otherwise been closer to the original Actual & Budgeted amount of \$21.5 million rather than the Actual \$13.2 million.<sup>51</sup>

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<sup>48</sup> February 2022 ICM Update, February 10, 2022, p.2.

<sup>49</sup> Ontario Energy Board Act, 1998, S.O. 1998, sec 1(1) 1.

<sup>50</sup> EB-2022-0013, Panel Information Request Responses, October 18, 2022, p.7, Table 6 indicated a 2022 Actual & Budgeted amount of \$21.5 million for the PowerStream RZ.

<sup>51</sup> Responses to OEB Staff Interrogatories, 1-Staff-4a, p.1, part 1 of 7.

**Table 6 – PowerStream RZ Cable Expected Renewal Expenditure (\$ millions)**

PowerStream-RZ	Actual	Actual	Actual	Actual	Actual	EB-2022-0013	EB-2023-0004	EB-2023-0004	Average
Funded through distribution rates	2017	2018	2019	2020	2021	Actual & Budgeted 2022	Forecast 2023	Plan 2024	2017-2023
<b>Total</b>	12.0	13.5	12.4	21.7	16.7	21.5	16.2	19.1	<b>16.3</b>

Based on Table 6 above, 2024 Alectra Utilities' plan to spend \$19.1 million on cable refurbishment for the PowerStream RZ exceeds the expected 2017 to 2023 average of \$16.3 million funded through distribution rates. The OEB notes that the 2024 planned \$19.1 million exceeds Alectra Utilities' 2023 ICM application forecast of \$18.1 million base rate funding for the PowerStream RZ.<sup>52</sup> Further, in respect of the PowerStream RZ, Alectra Utilities' 2024 plan for cable replacement and injection has increased by \$2.2 million relative to the DSP budget.<sup>53</sup> With the increased 2024 planned PowerStream RZ funding relative to the forecast provided in the 2023 ICM proceeding and the increase relative to the DSP noted above, the OEB is reasonably satisfied that Alectra Utilities has initiated some improvement to address the OEB's concern noted in the 2023 ICM decision with respect to Alectra Utilities prioritizing cable refurbishment projects and capital amount to be recovered in base rates.

With respect to Alectra Utilities' request for \$17.3 million of ICM funding, the OEB approves \$17.3 million of ICM funding. As noted by SEC in its submission, Alectra Utilities in response to a SEC interrogatory identified 11 projects proposed to be recovered in base rates of which the condition of the existing cables are as follows: 3 are very poor; 3 are poor, 2 are fair, 2 are fair/poor; and 1 is fair/very poor.<sup>54</sup> <sup>55</sup> The OEB is not persuaded by SEC's submission that ICM projects 151913 (\$2.1 million) and 152375 (\$1.4 million) totaling \$3.5 million intended to replace the cable that is in fair condition can be deferred and therefore funding should be denied. SEC cites Alectra Utilities' 2022 Asset Condition Assessment (ACA) in response to an AMPCO interrogatory that defines a "fair" condition as an asset that "is functional but showing signs of deterioration".<sup>56</sup> The OEB accepts the rationale provided by Alectra Utilities in its reply submission that refutes SEC's submission. In particular, the OEB accepts the rationale that cable in fair condition can be rehabilitated via injection at one-sixth of the

<sup>52</sup> EB-2022-0013, Panel Information Request Responses, October 18, 2022, p.7, Table 6, indicated a 2024 forecast of \$18.1 million for cable replacement/injection for the PowerStream RZ.

<sup>53</sup> EB-2023-0004, Panel Information Request Responses, 1a, Table 1. The 2024 budget for cable replacement is \$2.7 million less than the DSP. The 2024 budget for cable injection is \$4.9 million greater than the DSP. The aggregate 2024 cable refurbishment budget is \$2.2 million greater than the DSP.

<sup>54</sup> Responses to SEC Interrogatories, 3-SEC-12, Table 2.

<sup>55</sup> SEC Submission, p.6.

<sup>56</sup> SEC Submission, p.5. See also, Responses to AMPCO Interrogatories, AMPCO-10, Attachment 2, p.16.

cost avoiding the cost of cable replacement at a later date and, further, that consideration be given to the timing of other proximal cable renewal projects.<sup>57</sup>

The OEB directs Alectra Utilities to calculate the revenue requirement for ICM funding awarded in the PowerStream RZ without the impact of accelerated depreciation which is consistent with the Filing Requirements and generally with other ICMs approved to date.<sup>58</sup> The OEB directs Alectra Utilities to record the ICM impact from accelerated CCA in Account 1592.

The OEB notes and appreciates VECC and SEC's analysis of cable refurbishment to be recovered through base rates and variances in capital recovered in base rates and through OEB-approved ICM funding. With respect to VECC's concern that Alectra Utilities expects to spend less than its approved ICM in the PowerStream RZ in 2023, the OEB's Chapter 2 Filing Requirements contemplates a remedy. Section 2.2.8 of the Chapter 2 Filing Requirements amongst other requirements provides the OEB the discretion to determine that a true-up of variances on rate riders collected based on actual capital spending is warranted.<sup>59</sup>

### **Enersource RZ**

In the Enersource RZ, Alectra Utilities' proposed 2024 plan is to spend \$19.3 million on cable refurbishment, comprised of \$11.5 million to be recovered by existing base rates and \$7.9 million through ICM funding. The OEB approves no ICM funding.

Consistent with and for the same rationale as the modification made to OEB staff's analysis for the PowerStream RZ, the OEB has modified Table 5 for the Enersource RZ to reflect the Actual and Budgeted 2022 amount of \$9.3 million to be recovered in base rates identified in the 2023 ICM application.<sup>60</sup> The result is shown in Table 7 below. Based on Table 7, the OEB finds that Alectra Utilities should be able to fund an average of \$13.2 million per year in the Enersource RZ for cable refurbishment through existing base rates based on a 2019 to 2023 average. Accordingly, Alectra Utilities should be able to fund \$1.7 million of the ICM amount requested through existing base rates. This could cover project number 151903 for \$1.1 million, the only project in the Enersource RZ that was not previously included as a 2023 ICM project in the 2023 ICM application.

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<sup>57</sup> Alectra Utilities Reply Submission, pp.22-25.

<sup>58</sup> See Brantford Power Inc. (EB-2019-0022) and Energy+ Inc. (EB-2019-0031), PUC Distribution Inc. (EB-2020-0249 and EB-2018-0219) and Alectra Utilities (EB-2022-0013).

<sup>59</sup> Filing Requirements for Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, Chapter 2, December 15, 2022, Section 2.2.8, pp.22-23.

<sup>60</sup> EB-2022-0013, Panel Information Request Responses, October 18, 2022, p.7, Table 6 indicated a 2022 Actual & Budgeted amount of \$9.3 million for the Enersource RZ.

**Table 7 – Enersource RZ Cable Expected Renewal Expenditure (\$ millions)**

Enersource-RZ	Actual*	Actual*	Actual	Actual	Actual	EB-2022-0013	EB-2023-0004	EB-2023-0004	Average
Funded through distribution rates	2017	2018	2019	2020	2021	Actual & Budgeted 2022	Forecast 2023	Plan 2024	2019-2023
Sub-Total	18.7	16.1	14.5	16.2	12.6	9.3	13.4	11.5	13.2

The OEB notes that Alectra Utilities has increased its forecast 2023 and 2024 planned spending for cable refurbishment in the Enersource RZ to be recovered from existing rates. The forecast spending to be recovered in base rates for 2023 and 2024 has increased from \$7.8 million to \$13.4 million and from \$8.1 million to \$11.5 million, respectively<sup>61</sup> although \$12.7 million below the projected DSP spending for 2024.<sup>62</sup>

With respect to the ICM projects previously included in the 2023 ICM application and to be completed in 2023, the OEB agrees with SEC, AMPCO, and CCC's submissions that Alectra Utilities should not be approved funding in this application for the four 2023 ICM projects totaling \$6.8 million brought forward in this application. The OEB's 2023 ICM decision approved ICM funding that included the four ICM projects totaling \$6.8 million. Notwithstanding that approval, Alectra Utilities has brought forward the four 2023 projects for ICM funding again in 2024. In the 2023 ICM decision, the OEB approved \$1.9 million of the \$8.7 million ICM request for Enersource RZ on the basis that it did not accept that the full amount of the ICM request was beyond the normal level of capital expenditure expected in base rates. The OEB was clear in its expectation that, including both ICM and base rate funding, "a total of \$16.5 million should be available to fund the total cable program in the Enersource RZ as forecast in 2023."<sup>63</sup> Alectra Utilities failed to provide any evidence to explain why the OEB should approve ICM funding for these four projects in this application in light of the 2023 ICM decision.<sup>64</sup>

Should Alectra Utilities apply for future ICM funding for cable refurbishment, the OEB directs that the application includes the information provided in response to 1-Staff-4 together with an explanation of the variances for capital recovered through base rates and ICM funding.

<sup>61</sup> Comparison of Alectra Utilities, funded through distribution rates forecast/plans 2023 and 2024 spend in response to EB-2022-0013, Panel Information Request – Table 6 vs. EB-2023-0004, 1-Staff 4a.

<sup>62</sup> EB-2023-0004, Responses to OEB Panel Information Request Questions, Table 1 ERZ Cable Remediation-Replacement and Cable Remediation–Injection total relative to the DSP.

<sup>63</sup> EB-2022-0013, Decision and Order, November 17, 2022, p.15.

<sup>64</sup> Alectra Utilities Reply Submission, p.20.

### 5.3 Prudence

Alectra Utilities indicated that it has considered multiple options to address the deteriorating cables. It claimed that cable injection will be used where feasible, and cable replacement will be used for projects where the cables have deteriorated too much. Furthermore, 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 are too far deteriorated.<sup>65</sup>

PWU argued that ICM funding is prudent to minimize the total costs to be recovered from ratepayers with economical cable injections.<sup>66</sup> The cable injections extend the remaining useful lives of existing cables that would otherwise have to be replaced at a higher cost to ratepayers.

CCMBC, VECC, and OEB staff did not take any issue with the prudence criterion.

In its reply submission, Alectra Utilities argued that it demonstrated the prudence of each eligible capital project, by providing a business case summary that identifies: the project-specific reliability along with the types of customers impacted; the cost; and maps highlighting the scope of the work and the condition/reliability of the affected assets.<sup>67</sup>

### Findings

The OEB finds the 2024 cable programs in the PowerStream RZ for which ICM funding is approved in Section 5.2.3 to be prudent. The cable projects approved represent prudent investment in capital for cable injection/replacement based upon the current condition of the cable assets in both RZs. The cable programs should help to improve the reliability and quality of service.

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<sup>65</sup> 2024 EDR Application, Exhibit 3, Tab 1, Schedule 4, p.1.

<sup>66</sup> PWU Submission, p.2.

<sup>67</sup> Alectra Utilities Reply Submission, p.20.

## 5.4 February 2022 ICM Update

The February 2022 ICM Update indicated that the OEB was updating the existing ICM policy for electricity distributors who had consolidated to allow for them to apply for ICM funding for an ongoing capital program during the deferred extended rebasing period where the distributor can demonstrate:<sup>68</sup>

- 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 the ICM investment addresses customer needs and preferences and delivers benefits to customers
- A 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.

### 5.4.1 Urgent Need Based on New Information

Alectra Utilities stated that it provided a 2022 ACA relating to its underground cable population. Alectra Utilities noted that the cable population classified to be in 'poor' or 'very poor' condition has increased significantly from 14% in 2018 to 21% in 2022 ACA. Alectra Utilities stated that since the last DSP in 2020 it has implemented an Asset Analytics Platform that moved toward predictive analysis, reliability-driven maintenance, and machine learning. Alectra Utilities explained further that new information since rebasing showed that defective equipment outages increased from 2019 to 2021, mainly driven by cable failures.<sup>69</sup>

VECC argued that there is less urgency for the proposed ICM investments than being suggested by Alectra Utilities.<sup>70</sup>

SEC submitted that Alectra Utilities' urgent designation applies to some of the direct buried cables, not necessarily all of them, and claimed that the projects in fair condition are not required to be undertaken in 2024.

SEC agreed that the remaining nine projects for the PowerStream RZ meet the requirements for ICM approval, given what the OEB approved in Alectra Utilities' 2023 ICM application. SEC notes that the projects proposed for the PowerStream RZ under

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<sup>68</sup> February 2022 ICM Update, February 10, 2022, p.2.

<sup>69</sup> 2024 EDR Application, Exhibit 1, Tab 1, Schedule 4, pp.6-7.

<sup>70</sup> VECC Submission, p.14.

base funding are all for cables classified by Alectra Utilities as being in very poor and poor condition.<sup>71</sup>

AMPCO claimed that the latest 2022 ACA results showed an improvement in deteriorated underground cable compared to the 2021 ACA. The kilometers of deteriorated underground cable (very poor & poor condition), AMPCO explained, have decreased from 5,024 km in 2021 to 4,766 km in 2022, an improvement of 5%. AMPCO therefore concludes that, given that the XLPE cable condition and XLPE cable failure events have improved in 2022, Alectra Utilities does not need to spend as much on XLPE cable. The overall health of XLPE cable is getting better.<sup>72</sup>

OEB staff submitted that with the new information on outages and cable health in each RZ, 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.

OEB staff noted 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 DSP and the 2020 ACA.<sup>73</sup>

In responding to SEC, Alectra Utilities argued that SEC continued to ignore the important consideration that cable injection projects specifically target failing cable that has sufficient remaining insulation that rehabilitation via injection remains a feasible solution.

Alectra Utilities explained further that by focusing on cable condition only, SEC neglected all the other analysis which resulted in the selection of the ICM projects and the determination as to the urgency of the need.

Alectra Utilities claimed that four outages occurred between 2018 and 2020 in Aurora and Fleury Park. Alectra Utilities noted that each of the outages occurred on a different cable within the same trench. Alectra Utilities explained that the failure of one cable could lead to damage to others as was historically experienced in the York/Hilda area. Alectra Utilities considered replacing the cable to be prudent and in line with good utility practice.

In its reply, Alectra Utilities argued that the OEB should not give weight to AMPCO's and VECC's observations which gave the impression that any of the proposed ICM investments are less urgent and unnecessary. Alectra Utilities claimed further that

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<sup>71</sup> SEC Submission, p.6.

<sup>72</sup> AMPCO Submission, p.7.

<sup>73</sup> EB-2022-0013, Decision and Order, November 17, 2022, pp.17-18.

AMPCO and VECC ignored the methodology used by Alectra Utilities which stated that the projects were selected due to the clustering of failures (hotspots).<sup>74</sup>

Alectra Utilities maintained that based on new information that has arisen, it demonstrated that it has an urgent need for the requested ICM funding and that the need is related to the management of risk associated with asset condition, reliability, quality of service and public safety.<sup>75</sup>

CCC, CCMBC and PWU did not make any submission on this criterion.

## Findings

The OEB finds that the cable program is urgent based on new information that has arisen, specifically the latest ACA and preparation of the DSP after the PowerStream and Enersource RZs were last rebased.

The current asset condition requires urgent cable replacement and cable injection to ensure reliability and quality of service. In addition, the PowerStream RZ and the Enersource RZ were last rebased in 2017 and 2013 respectively, and Alectra Utilities received its first report on the poor condition of cable assets in September 2018.<sup>76</sup> The consolidated DSP preparation was informed by the 2018 ACA. Since September 2018, after the poor asset condition was reported, the cables have further aged.

The OEB finds that Alectra Utilities has met this criterion. While the recent information cited by AMPCO discloses that progress may be being made in reducing the number of cables in poor/very poor condition, that fact may be more relevant to the quantum of need rather than the urgency and newness of the specific projects chosen. The condition of the ICM project cables is best assessed by the 2018 ACA that occurred well after the last rebasing of both PowerStream RZ and Enersource RZ.

### 5.4.2 Addressing Customer Needs

As part of its 2023 ICM application, Alectra Utilities engaged Innovative Research Group Inc. to carry out a customer engagement survey. A new survey was not conducted for this application as Alectra Utilities noted that the results remain relevant to the 2024 ICM application.<sup>77</sup>

Alectra Utilities, in its 2024 application, stated that the results of the survey for both the PowerStream and Enersource RZs, indicated that the majority of customers would like to see at least some investment in both cable injection and cable replacement

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<sup>74</sup> Alectra Utilities Reply Submission, pp.24, 26-27.

<sup>75</sup> Alectra Utilities Reply Submission, p.20.

<sup>76</sup> EB-2019-0018, Exhibit 4, Appendix D.

<sup>77</sup> 2024 EDR Application, Exhibit 3, Tab 1, Schedule 3, p.1.

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 conclusions.<sup>78</sup>

OEB staff submitted that the ICM directly addresses customer needs.

None of the other intervenors took issue with how Alectra Utilities addressed the criterion of addressing customer needs and preferences.

Alectra Utilities submitted that the estimated overall bill impacts for the PowerStream and Enersource RZs of 1.9% and 2.5%, respectively, are reasonable and that no party has raised any concerns regarding whether the proposed ICM investments address customer needs and preferences or deliver benefits to customers.<sup>79</sup>

## Findings

The OEB finds that Alectra Utilities is adequately addressing customer needs and preferences, given the customer engagement survey feedback filed with the application.

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

Alectra Utilities claimed that it demonstrated a history of good utility practice by reducing its General Plant expenditures by \$6.2 million specifically, by re-prioritizing and deferring Information Technology capital investments and diverting those funds to distribution automation.

Alectra Utilities explained that its capital planning process is based on a data-driven Asset Management Framework through which it prioritizes projects based on the value provided to the entire distribution system and not just to a single RZ. Alectra Utilities claimed further that it also employed an investment portfolio optimization process that included the ICM projects in an iterative process that makes use of the capital investment portfolio optimization capability of Copperleaf C55 together with reviews by the Capital Investment Steering Committee and feedback from customer engagement.<sup>80</sup>

SEC stated that, although Alectra Utilities made some movement in response to the OEB's comments in the 2023 Decision, it continues to spend more on Information Technology and less on underground asset renewal than was planned in its 2020 to 2024 DSP to the detriment of its cable replacement program and reliability. SEC

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<sup>78</sup> EB-2022-0013, 2023 EDR Application, Attachment 11: Customer Engagement 2022 ICM Application, April 2022, p.3.

<sup>79</sup> Alectra Utilities Reply Submission, p.32.

<sup>80</sup> Alectra Utilities Reply Submission, p.29.

concluded that this is another reason that indicated that Alectra Utilities does not need the incremental funding that it has requested.<sup>81</sup>

CCMBC submitted that Alectra Utilities did not provide sufficient evidence that it has addressed the issue of prioritizing some general plant projects over its cable replacement program in its 2024 application. CCMBC explained that the OEB in the 2023 ICM decision, emphasized that Alectra Utilities “must give its overall cable renewal program the priority it needs”<sup>82</sup>. CCMBC noted that Alectra Utilities did not address the prioritization issue in this proceeding which is one of the reasons it submitted that its application for ICM funding should not be approved.<sup>83</sup>

OEB staff agreed with Alectra Utilities’ explanations that it reprioritized some of its budgets to focus on improving the underlying issue of worsening reliability through distribution automation.

OEB staff submitted that a \$1.5 million reduction for the Enersource RZ as shown in Table 5 in Section 5.2.3 is appropriate based on historical spending on cable renewal.

Alectra Utilities in its response to intervenors and OEB staff submitted that its capital planning has been satisfactory and that it has improved its capital planning since the 2023 ICM decision by further prioritizing the reliable operation of its system.<sup>84</sup>

Alectra Utilities argued that it demonstrated its prioritization by reducing its General Plant expenditures by \$6.2 million specifically, by re-prioritizing and deferring Information Technology capital investments and diverting those funds to distribution automation.<sup>85</sup>

## Findings

In the 2023 ICM decision, the OEB approved ICM funding of \$1.9 million for Alectra Utilities’ 2023 cable program in the Enersource RZ. The decision made clear that this \$1.9 million of ICM funding, together with the \$14.6 million that Alectra Utilities was expected to fund through existing distribution base rates,<sup>86</sup> should be available to fund the total cable program in the Enersource RZ as forecast in 2023.<sup>87</sup>

The OEB’s approval of ICM funding in the 2023 ICM decision was based on a number of findings, including one with respect to the criterion of demonstrating a history of good

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<sup>81</sup> SEC Submission, p.7.

<sup>82</sup> EB-2022-0013, Decision and Order, November 17, 2022, p.22

<sup>83</sup> CCMBC Submission, p.4.

<sup>84</sup> Alectra Utilities Reply Submission, p.30.

<sup>85</sup> Alectra Utilities Reply Submission, pp.30-31.

<sup>86</sup> EB-2022-0013 Decision, p.2.

<sup>87</sup> EB-2022-0013 Decision, p.15.

utility practice in capital planning, capital program management and asset maintenance. The OEB found overall that Alectra Utilities had met this criterion, but it also found that Alectra Utilities' capital planning and execution could be improved going forward.<sup>88</sup>

Notwithstanding the 2023 ICM decision, Alectra Utilities did not proceed with all of the 2023 Enersource RZ cable projects. Further, Alectra Utilities did not provide evidence in this proceeding to explain how its choice not to proceed with all of the 2023 Enersource RZ projects was consistent with good utility practice. The lack of such evidence from Alectra Utilities is of concern to the OEB, particularly because certain of the Enersource RZ projects that did not proceed in 2023 were intended to deal with cable in very poor condition when Alectra Utilities filed its 2023 ICM application.

There is not sufficient evidence on the record of this proceeding for the OEB to alter its previous finding that Alectra Utilities has met the criterion of demonstrating a history of good utility practice in capital planning, capital program management, and asset maintenance. However, when an ICM applicant makes a choice to defer capital projects that formed the basis for approval of ICM funding, the OEB expects the applicant, in its next OEB proceeding involving those projects or the ICM funding, to explain the choice that it made and how that choice is consistent with good utility practice. Specifically with respect to Alectra Utilities, given the finding already made by the OEB about improvement in capital planning and execution, it is particularly important that Alectra Utilities provide evidence explaining how relevant capital planning and execution choices were consistent with good utility practice. The OEB expects that the ICM projects that Alectra Utilities has proposed in its 2023 and 2024 requests, supported by need and urgency for which a finding of sufficient funding through base rates and ICM amounts has been made, will be carried out regardless of whether Alectra Utilities is satisfied with the OEB decision on how much incremental funding is approved.

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<sup>88</sup> EB-2022-0013 Decision, p.21.

## 6 IMPLEMENTATION AND ORDER

Alectra Utilities requested that its rates become effective January 1, 2024 however, the decision in this proceeding was not issued in time for rates to come into effect on January 1, 2024, as there was a need to file additional evidentiary information in December 2023.

The OEB has determined that rates shall be effective and implemented on March 1, 2024. For the 2024 rate year, Alectra Utilities shall recover the incremental revenue requirement, approved as part of this decision, over a 10-month period from March 1, 2024, to December 31, 2024, and over a 12-month period in the subsequent rate years.

The OEB directs Alectra Utilities to revise the proposed rates to reflect the findings in this Decision and Order and to file a draft rate order for rates to be effective and implemented on March 1 until, December 31, 2024, and thereafter January 1, 2025, to the effective date of the next cost of service based on this Decision and Order.

Alectra Utilities shall file its draft rate order, with detailed supporting material showing the impact of any required adjustments.

AMPCO, CCC, CCMBC, SEC, and VECC are eligible to apply for cost awards in this proceeding. The OEB has made provision in this Decision and Order for cost eligible intervenors to file their cost claims. The OEB will issue its cost awards decision after the steps outlined in the following Order section are completed.

**THE ONTARIO ENERGY BOARD ORDERS THAT:**

1. Alectra Utilities Corporation shall record the ICM impact from accelerated CCA in Account 1592.
2. Alectra Utilities Corporation shall include the information provided in response to 1-Staff-4 in this proceeding, together with an explanation of the variances for capital recovered through base rates and ICM funding, in all future applications for ICM funding for cable refurbishment.
3. Alectra Utilities Corporation shall file with the OEB and forward to the intervenors a draft rate order with updated ICM models for the PowerStream and Enersource RZs, and a proposed 2024 Tariff of Rates and Charges that reflect the OEB's findings in this Decision and Order by **February 20, 2024**. The draft rate order shall include customer rate and bill impacts and necessary detailed information reflecting findings in the Decision and Order.
4. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB and forward them to Alectra Utilities Corporation by **February 27, 2024**.
5. Alectra Utilities Corporation shall file with the OEB and forward to intervenors, responses to any comments on its Draft Rate Order by **March 5, 2024**.

**Cost Awards**

1. Each cost-eligible intervenors shall submit its cost to the OEB and forward it to Alectra Utilities Corporation by March 12, 2024.
2. Alectra Utilities Corporation shall file with the OEB and forward to all intervenors any objections to the claimed costs by March 19, 2024.
3. Intervenors shall file with the OEB and forward to Alectra Utilities Corporation any responses to any objections for cost claims by March 26, 2024.
4. Alectra Utilities Corporation shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories, and responses to interrogatories, or any other type of document, do not include personal information (as that phrase is defined in the Freedom of Information and Protection of Privacy Act) unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2023-0004** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number, and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.

All communications should be directed to the attention of the Registrar and be received no later than 4:45 p.m. on the required date. With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Oluwole (Wolly) Bibiresanmi at 437-880-4352 or [oluwole.bibiresanmi@oeb.ca](mailto:oluwole.bibiresanmi@oeb.ca) and OEB Counsel, Lawren Murray, at [Lawren.Murray@oeb.ca](mailto:Lawren.Murray@oeb.ca).

Email: [registrar@oeb.ca](mailto:registrar@oeb.ca)

Tel: 1-888-632-6273 (Toll free)

Fax: 416-440-7656

**DATED** at Toronto, February 13, 2024

**ONTARIO ENERGY BOARD**

Nancy Marconi  
Registrar