



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2017-0024

ALECTRA UTILITIES CORPORATION

**Application for electricity distribution rates and other charges
beginning January 1, 2018**

BEFORE: Lynne Anderson
Presiding Member

Allison Duff
Member

April 5, 2018

TABLE OF CONTENTS

1	INTRODUCTION AND SUMMARY.....	1
2	THE PROCESS	3
3	STRUCTURE OF THE DECISION	4
4	DECISION ON THE ISSUES	5
4.1	Horizon Utilities Rate Zone – Year 4 Custom IR Update	5
a)	Changes in the Cost of Capital	6
b)	Changes in the Working Capital Allowance.....	6
c)	Earnings Sharing Mechanism (ESM)	8
d)	Capital Investment Variance Account (CIVA)	9
e)	Efficiency Adjustment.....	10
f)	Special Studies Deferral Account.....	10
g)	Revenue-To-Cost Ratio Adjustments	11
4.2	IRM Model Filings for the Brampton, Enersource and PowerStream Rate Zones.....	11
a)	Price Cap Adjustment	12
b)	Eligible Investments for Connection of Qualifying Generation Facilities	14
4.3	Enersource Rate Zone Distribution System Plan	15
4.4	Customer Engagement	17
4.5	ICMs for the Brampton, Enersource and PowerStream Rate Zones.....	20
a)	Overall Eligibility for ICM Recovery	20
b)	Eligibility of Individual Projects for ICM Recovery	30
4.6	ICM True-up	60
4.7	Retail Transmission Service Rates	61
4.8	Deferral and Variance Accounts	63

a)	Disposition of Group 1 Deferral and Variance Accounts (“DVA”)	63
b)	Proposal to Change Previously Approved Rate Riders	68
c)	Disposition of Capacity Based Response (“CBR”) Rate Rider for Class B Customers to Five Decimal Places	69
d)	Requests for New Accounts.....	70
e)	Lost Revenue Adjustment Mechanism (LRAMVA).....	73
4.9	Residential Rate Design	76
4.10	Capitalization Policy	77
4.11	Monthly Billing	82
4.12	Effective Date	83
5	IMPLEMENTATION	85
6	ORDER	86

1 INTRODUCTION AND SUMMARY

Alectra Utilities Corporation (Alectra Utilities) filed an application with the Ontario Energy Board (OEB) on July 7, 2017 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), and under the OEB's *Filing Requirements for Incentive Rate-setting Applications* seeking approval for changes to its electricity distribution rates to be effective January 1, 2018. Under section 78 of the OEB Act, a distributor must apply to the OEB to change the rates it charges its customers.

Alectra Utilities provides electricity distribution services to approximately one million customers in the cities of Mississauga, Hamilton, St. Catharines, Brampton, Alliston, Aurora, Barrie, Beeton, Bradford, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham, Vaughan, as well as Collingwood, Stayner, Creemore and Thornbury under OEB Electricity Distributor Licence no. ED-2016-0360.

Alectra Utilities asked the OEB to approve its rates for 2018 using the price-cap incentive rate-setting (Price Cap IR) mechanism for its Brampton, Enersource and PowerStream rate zones (RZ) and an annual adjustment for the Horizon Utilities RZ related to the fourth year of the 2015 to 2019 custom incentive rate-setting (Custom IR) rate plan five-year term.

Under the Price Cap IR option, the approved rates are adjusted mechanistically each year for four years through a price cap adjustment based on inflation, industry productivity and the OEB's assessment of each rate zone's efficiency.

Under the Custom IR option, utilities with significant operating and capital expenditure needs may apply for a multi-year Custom IR plan where rates are set for all years of the plan term, subject to specific adjustments.

Alectra Utilities also applied for incremental capital funding for the Brampton, Enersource and PowerStream RZs under the Incremental Capital Module (ICM) funding option.

The OEB makes the following findings:

- The OEB approves the annual adjustments proposed by Alectra Utilities for the Horizon Utilities RZ for year four of the five-year term of its Custom IR framework.
- The OEB approves a price-cap adjustment of 0.3% for the Brampton, Enersource and PowerStream RZs.

-
- The OEB accepts the distribution system plan, including the applicable customer engagement, for the Enersource RZ for the purposes of considering the proposed ICMs for the Enersource RZ.
 - The OEB assessed the 22 ICM projects against the three tests for eligibility of materiality, need and prudence. The OEB approves \$28.79 million of the requested \$56.18 million in ICM funding. The OEB does not approve new deferral accounts for the Metrolinx Crossing Remediation Project. The OEB requires Alectra Utilities to file a consolidated DSP as a filing requirement with any ICM application requesting rate changes for 2020 rates and beyond.
 - Alectra Utilities is required to continue to accumulate amounts in its deferral accounts for the change in capitalization policy for the Brampton, Enersource and PowerStream RZs, and file a proposal for disposition of balances for 2019 rates. The impact of the change in capitalization policy for the Horizon Utilities RZ will be dealt with through the earnings sharing mechanism until the end of the term for its Custom IR framework.
 - Rates for the annual adjustment to base rates for the Horizon Utilities RZ and for price-cap adjustment for the Brampton, Enersource and PowerStream RZs will be effective January 1, 2018. Other rate changes resulting from this Decision, including the ICM rate riders, will be effective May 1, 2018. Rates will be implemented May 1, 2018.

2 THE PROCESS

The OEB's policy for rate setting is set out in the "*Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*" (RRFE, now referred to as the RRF) and the "*Handbook for Rate Applications*" (Rate Handbook). The RRF provides the distributor with performance-based rate application options that support the cost effective planning and efficient operation of a distribution network. The Rate Handbook outlines the key principles and expectations the OEB will apply when reviewing rate applications.

Alectra Utilities filed an application on July 7, 2017 for 2018 rates under the Price-Cap IR of the RRF for the Brampton, Enersource and PowerStream RZs and an annual update for the Horizon Utilities RZ arising from the five-year Custom IR framework previously approved by the OEB. The OEB issued a Notice of Application on August 18, 2017, inviting parties to apply for intervenor status. The Association of Major Power Consumers in Ontario (AMPCO), the Building Owners and Managers Association of Greater Toronto (BOMA), Capredoni Enterprises Ltd. (CEL), the City of Hamilton, Consumers Council of Canada (CCC), the Power Workers' Union (PWU), the School Energy Coalition (SEC) and the Vulnerable Energy Consumers Coalition (VECC) applied for intervenor status. All except for CEL and PWU were granted intervenor status. OEB staff also participated in this proceeding.

Both CEL and PWU appealed their denial of intervenor status. The OEB denied CEL's appeal, but granted PWU's requested relief on the basis of the new information provided in its appeal.

The OEB issued Procedural Order No.1 on September 8, 2017 (corrected and re-issued September 15, 2017). This order established, among other things, the timetable for a written interrogatory discovery process, the filing of a proposed issues list and a settlement conference.

A settlement conference was held on October 25, 2017 and October 26, 2017, which was attended by Alectra Utilities and the intervenors, with the exception of the City of Hamilton. No settlement was reached.

The OEB issued its Decision on Issues List and Interim Rates and Procedural Order No. 3 on November 17, 2017, which among other matters established that a Technical Conference would take place on November 30, 2017 and December 1, 2017. All parties filed written submissions on the issues.

3 STRUCTURE OF THE DECISION

This Decision and Order (Decision) is organized to substantially follow the Issues List of November 17, 2017. Following the introductory sections, this Decision and Order addresses matters in sections entitled:

- Horizon Utilities Rate Zone – Year 4 Custom IR Update
- IRM Model Filings for the Brampton, Enersource and PowerStream Rate Zones
- Enersource Rate Zone Distribution System Plan
- Customer Engagement
- ICMs for the Brampton, Enersource and PowerStream Rate Zones
- ICM True-up
- Retail Transmission Service Rates
- Deferral and Variance Accounts
- Residential Rate Design
- Capitalization Policy
- Monthly Billing
- Effective Date

4 DECISION ON THE ISSUES

4.1 Horizon Utilities Rate Zone – Year 4 Custom IR Update

Horizon Utilities filed a Custom IR application with the OEB in 2014¹ requesting approval of five years of distribution rates for the five-year period from 2015 to 2019 with rates effective January 1st of each year. A partial settlement proposal was filed on September 22, 2014, which was accepted by the OEB, and a Decision and Order on the outstanding matters was subsequently issued establishing rates to be effective January 1, 2015.

The approved settlement proposal set out annual updates for rates to be filed for years two to five of the Custom IR term, for rates effective January 1st. The current application is the annual update for year four of the term. The approved settlement proposal also included “reopeners” that could result in further adjustments to rates. Alectra Utilities indicated that none of these reopeners applied to 2018 rates. Some intervenors and OEB staff submitted that a capitalization policy change triggered by the Alectra Utilities merger, and the cost implications of the transition to monthly billing, need to be considered.

The OEB-approved settlement proposal indicated that Horizon Utilities’ rates would be adjusted annually for a number of items. A number of the potential adjustments to the rates for the Horizon Utilities RZ are dealt with in subsequent sections of this Decision because they are relevant to other rate zones. These include:

- Deferral and Variance Accounts (DVAs), including the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Residential Rate Design
- Capitalization Policy
- Monthly Billing

The remaining annual adjustments proposed by Alectra Utilities for the Horizon Utilities RZ in 2018 are addressed below.

¹ EB-2014-0002.

a) Changes in the Cost of Capital

Alectra Utilities stated that the annual filing had been updated for the 2017 cost of capital parameters issued by the OEB on October 27, 2016. Alectra Utilities noted that on November 23, 2017, the OEB had issued its cost of capital parameters for 2018 and stated that it would update these parameters, as applicable, for the Horizon Utilities RZ when it prepares the draft rate order. OEB staff submitted that this was appropriate. No other parties expressed any concerns in this area.

Findings

As per the approved settlement proposal, the OEB approves an update to the cost of capital for the Horizon Utilities RZ. Alectra Utilities is directed to apply the OEB-approved 2018 cost of capital parameters² in the draft rate order.

b) Changes in the Working Capital Allowance

Alectra Utilities stated that it had made changes to the working capital allowance included in rate base for the Horizon Utilities RZ as a result of changes to the cost of power, which it stated were consistent with OEB policies and direction.

OEB staff, in its submission,³ noted that Alectra Utilities had updated the cost of power and global adjustment (GA) based on the OEB's RPP Report⁴ up to the period ending April 30, 2018. Alectra Utilities had then increased the RPP rates and global adjustment by inflation for the period May 1, 2018 to October 30, 2018, and again for the period November 1, 2018 to April 30, 2019, while also applying the global adjustment (GA) modifier to all non-RPP customers.

OEB staff noted that the RPP prices and the GA modifier are only applied to "specified customers" as defined in the Ontario *Fair Hydro Plan Act, 2017* (Fair Hydro Plan) and calculated based on a proxy Toronto Hydro customer. OEB staff submitted that the cost of power calculation should not be inflated because of its dependency on the Toronto Hydro 2018 bill impact. OEB staff concluded that since RPP prices and the GA modifier have not yet been calculated for May-December 2018, the cost of power calculation

² "Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-setting Applications, November 23, 2017.

³ OEB Staff Submission, January 16, 2018, p.7.

⁴ "Regulated Price Plan Prices and the Global Adjustment Modifier for the Period July 1, 2017 to April 30, 2018", June 22, 2017.

should use the current approved RPP prices and GA modifier for the entire year. In addition, the GA modifier should only be applied to non-RPP customers that fall within the definition of “specified customer” in the Fair Hydro Plan.

OEB staff further noted that since 2017 uniform transmission rates (UTRs) were not available at the time of the filing, Alectra Utilities used 2016 UTRs as a proxy rate to calculate 2018 retail transmission service rates (RTSRs). Given the OEB approved UTRs for 2017,⁵ the RTSRs should be updated accordingly.

Alectra Utilities disagreed with OEB staff and maintained that an inflation adjustment should be used to determine rates for the May 1, 2018 to October 31, 2018 and November 1, 2018 to December 31, 2018 periods. Alectra Utilities stated that to determine rates for the May to December 2018 period, it had applied a 2% inflation adjustment for the purpose of the cost of power calculation and that this was consistent with the intent of the Fair Hydro Plan.

Alectra Utilities agreed with OEB staff that the GA modifier should only be applied to non-RPP customers that fall within the definition of “specified customer” in the Fair Hydro Plan, but argued that the GA modifier had been applied appropriately to all non-RPP customers. Alectra Utilities clarified that the impact to the GA rates from the implementation of the Fair Hydro Plan was only applied to residential and GS<50 kW non-RPP customers.

Alectra Utilities confirmed that an update would be made for the 2017 UTRs in its draft rate order.

No other parties commented on these matters.

Findings

The OEB approves an inflationary adjustment to the 2017 RRP prices for calculating the 2018 cost of power from May 1, 2018 to December 31, 2018 in the working capital allowance calculation. The Fair Hydro Plan requires rate increases to be held to the rate of inflation for four years, based on the Ontario consumer price index (CPI). The OEB finds it reasonable for Alectra Utilities to increase the 2017 RRP prices by inflation for the purposes of its 2018 cost of power forecast for the working capital allowance calculation. However, Alectra Utilities’ use of 2% for the inflation factor overstates the trend in the CPI over the past several years. Alectra Utilities is directed to update its

⁵ Decision and Rate Order “2017 Uniform Transmission Rates”, EB-2017-0280, November 23, 2017.

cost of power calculation for an inflation increase of 1.6% to the commodity cost for RPP customers (based on the Ontario CPI averaged over the past three years).⁶

Since the time of Alectra Utilities' reply submission, the OEB has approved 2018 UTRs.⁷ The OEB approves the use of these OEB-approved 2018 UTRs in the calculation of the 2018 cost of power.

The OEB accepts Alectra Utilities' approach with respect to the GA modifier.

The OEB directs Alectra Utilities to update the 2018 working capital allowance in the draft rate order reflecting this Decision.

c) Earnings Sharing Mechanism (ESM)

The approved settlement proposal provided for earnings in excess of the approved return on equity (ROE) to be shared on a 50/50 basis between Horizon Utilities and its customers. A deferral account was created to track earnings in excess of the OEB's annual approved ROE.

Alectra Utilities calculated a 2016 ROE of 9.877% for the purpose of the earnings sharing mechanism (ESM), resulting in earnings sharing for 2016 of \$695,975 given that the calculated ROE is greater than the approved ROE of 9.19%.

Alectra Utilities stated that it had reported \$662,467 in deferral account 1508 Sub-account Earnings Sharing Variance Account in the 2016 Reporting and Record Keeping Requirements (RRR) for Horizon Utilities, based on the best estimate at the time of the calculation. However, an update to the earnings for actuals resulted in an additional \$33,508 of earnings to be shared with customers. Alectra Utilities proposed that this \$33,508 be reported in the 2017 deferral account and the full amount be disposed of in 2018.

OEB staff submitted that Alectra Utilities' calculation of the ESM was in accordance with the RRR and the approved settlement proposal. However, OEB staff argued that the full balance of \$695,975 should be recorded in the 2016 ESM deferral account to avoid future confusion as to the origin of the \$33,508 in the 2017 deferral account balance.

⁶ <https://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ09g-eng.htm>

⁷ Decision and Rate Order "2018 Uniform Transmission Rates" EB-2017-0359, February 1, 2018.

OEB staff submitted that in the event Alectra Utilities was unable to do so, its proposed methodology was acceptable.

Alectra Utilities disagreed with OEB staff's proposed approach and stated that it intended to report the \$33,508 difference in the 2017 deferral account, identified as relating to the 2016 ESM calculation, to avoid confusion.

No other parties expressed concerns with this matter.

Findings

The OEB accepts the 2016 ROE calculation of 9.87% for the purpose of the earning sharing mechanism, which is greater than the OEB-approved ROE of 9.19%. The OEB approves earnings sharing in the amount \$695,975 for 2016. The OEB approves Alectra Utilities' proposal to record \$33,508 in the 2017 deferral account balance. The OEB accepts Alectra Utilities' assurance that it can identify that this amount is related to 2016 when the 2017 earnings sharing is determined.

d) Capital Investment Variance Account (CIVA)

The approved settlement proposal provided for a deferral account to refund ratepayers any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Horizon Utilities is required to determine the impact to revenue requirement of the variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

Alectra Utilities sought approval of Horizon Utilities' 2016 capital additions of \$44.3 million as reported in the RRR for the purpose of calculating the 2016 CIVA entry, which compares to the forecast capital additions of \$41.1 million approved as part of the approved settlement proposal. Alectra Utilities stated that as actual capital additions were higher than the forecast of capital additions in the Custom IR application, it had not established or made an entry to the 1508 Sub-account CIVA for the Horizon Utilities RZ.

OEB staff submitted that the calculation for the purpose of entry was consistent with the approved settlement proposal. No other parties expressed any concerns with this calculation.

Findings

The OEB approves the proposed calculation for the CIVA as it is consistent with the approved settlement proposal. The OEB accepts that no CIVA entry should be made for 2016 as actual capital additions were higher than forecast.

e) Efficiency Adjustment

The approved settlement proposal included an efficiency adjustment intended to incent the former Horizon Utilities to maintain or improve its cohort position based on the OEB's stretch factor assignments. The efficiency adjustment was to operate as a proxy stretch factor in the event that Horizon Utilities was to be placed in a less efficient cohort in any year during the Custom IR term. Horizon Utilities was in the Group III cohort in 2015 and remains in Group III for the purpose of calculating 2018 stretch factors.

Alectra Utilities submitted that no efficiency adjustment was appropriate. OEB staff in its submission agreed. No other party expressed any concerns on this matter.

Findings

The OEB finds that no efficiency adjustment is required in 2018 as Horizon Utilities remains in the Group III cohort.

f) Special Studies Deferral Account

The approved settlement proposal included a deferral account to record costs related to the development of a study to determine the appropriateness of the specific service charges for the Horizon Utilities RZ. Alectra Utilities confirmed that no studies had commenced and no costs had been recorded related to this matter.

No parties made submissions on this issue.

Findings

The OEB accepts that no study costs have been incurred related to specific service charges and no entry in the deferral account is required in 2018. While this study was a requirement of the approved settlement proposal, Alectra Utilities noted that the OEB has commenced its own review of specific service charges, and Alectra Utilities has agreed to participate in this review.

g) Revenue-To-Cost Ratio Adjustments

The OEB approved rate changes in 2016⁸ for the street lighting class resulting from OEB policy changes to the street lighting adjustment factor and the revenue-to-cost ratio.⁹ The OEB directed Horizon Utilities to phase in the revenue to cost changes over the 2015 to 2019 Custom IR term.

Alectra Utilities requested approval to reduce the 2018 street lighting class' revenue-to-cost ratio by 6.6% to 106.66%.

OEB staff submitted that the proposed rate design was consistent with the OEB's decision on the 2016 Custom IR Update and the OEB's policies. No other party commented on this proposed change.

Findings

The OEB approves the proposed change to the revenue-to-cost ratio for the street lighting rate class in 2018, as the change is consistent with the OEB's decision.¹⁰

4.2 IRM Model Filings for the Brampton, Enersource and PowerStream Rate Zones

The OEB will first address the following issues, and provide reasons for approving Alectra Utilities' proposals relating to each of them:

- Price Cap Adjustment
- Eligible Investments for Connection of Qualifying Generation Facilities

The OEB will address Alectra Utilities' request for funding through incremental capital modules (ICM) in subsequent sections. A number of the potential adjustments to the rates for the Brampton, Enersource and PowerStream RZs are dealt with in subsequent sections of this Decision because they are relevant to all four rate zones. These include:

- Retail Transmission Service Rates (RTSRs)

⁸ Decision and Order Horizon Utilities Corporation "Application for electricity distribution rates and other charges beginning January 1, 2016", EB-2015-0075, December 10, 2015.

⁹ "Issuance of New Cost Allocation Policy for Street Lighting Rate Class", EB-2012-0383, June 12, 2015.

¹⁰ EB-2015-0075.

- Deferral and Variance Accounts (DVAs), including the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Residential Rate Design
- Capitalization Policy
- Monthly Billing

a) Price Cap Adjustment

Alectra Utilities seeks to increase its rates in the Brampton, Enersource and PowerStream RZs, effective January 1, 2018, based on a mechanistic rate adjustment using the OEB-approved ***inflation minus X-factor*** formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to all three of Alectra Utilities' RZs are set out in Table 1, below.

Inserting these components into the formula results in a 0.90% increase to LDC's rates: **$0.90\% = 1.20\% - (0.00\% + 0.30\%)$** .

Table 1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor ¹¹		1.20%
X-Factor	Productivity ¹²	0.00%
	Stretch (0.00% – 0.60%) ¹³	0.30%

The inflation factor of 1.90% applies to all Price Cap IR applications for the 2018 rate year.

¹¹ Report of the OEB – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors.” EB-2010-0379, December 4, 2013.

¹² Ibid.

¹³ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2016 Benchmarking Update”, prepared by Pacific Economics Group LLC., July 2017.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR applications for the 2018 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to all three of Alectra Utilities' RZs is 0.30%.

Findings

Alectra Utilities acknowledged in its reply submission that the price cap adjustment for the Enersource RZ must be updated to reflect a 0.3% stretch factor. The OEB approves the proposed 1.20% Price Cap IR adjustment for the Brampton, Enersource and PowerStream RZs. The OEB finds the calculation is in accordance with the updated 2018 parameters approved by the OEB. The 1.20% adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.¹⁴

¹⁴ Price Cap IR and Annual IR Index adjustments do not apply to the following rates and charges: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges, microFIT charge, and retail service charges.

b) Eligible Investments for Connection of Qualifying Generation Facilities**i) *Brampton RZ:***

Alectra Utilities noted that in the 2015 Cost of Service Rate Application¹⁵ the OEB had approved Hydro One Brampton Networks' (Hydro One Brampton) request for the funding of Renewable Generation Connection Provincial amounts included in its detailed DSP. This funding is to be recovered through the Independent Electricity System Operator (IESO) relating to renewable enabling improvement investments and renewable expansion investments (investments for connecting renewables) from 2015 to 2019.

Alectra Utilities is requesting funding for investments for connecting renewables of a total of \$117,963 in 2018 or \$9,830 per month from all provincial ratepayers for the Brampton RZ.

ii) *Enersource RZ:*

Alectra Utilities noted that the former Enersource Hydro Mississauga Inc. (Enersource) had filed a basic Green Energy Plan as part of its 2013 cost of service application,¹⁶ which provided a forecast of the number of projects and costs related to the connection of feed-in-tariff (FIT) and microFIT projects until 2016.

As part of this IRM application, Alectra Utilities provided an update to the number of scheduled projects for the Enersource RZ to include 2016 actual amounts and an estimate for 2017 and 2018.

Alectra Utilities is requesting collection of funding of investments for connecting renewables of a total of \$133,384, or \$11,115 per month, in 2018 from all provincial ratepayers for the Enersource RZ.

iii) *PowerStream RZ:*

Alectra Utilities noted that in the 2016 PowerStream Inc. Custom IR Rate Application (PowerStream Custom IR application),¹⁷ the OEB had approved PowerStream's request for the funding of investments for connecting renewables included in its detailed DSP, to be recovered through the IESO from 2016 to 2020.

¹⁵ EB-2014-0083.

¹⁶ EB-2012-0033.

¹⁷ EB-2015-0003.

Alectra Utilities is requesting collection of a total of \$266,079 in 2018 or \$22,173 per month from all provincial ratepayers for the PowerStream RZ.

OEB staff submitted that Alectra Utilities' renewable generation funding requests for the three rate zones had been correctly calculated. No intervenor opposed Alectra Utilities request for these cost recoveries.

Findings

The OEB approves the proposed funding of investments for connecting renewables, which were previously approved by the OEB. The approved amounts are \$117,963 for the Brampton RZ, \$133,384 for the Enersource RZ and \$266,079 for the PowerStream RZ.

4.3 Enersource Rate Zone Distribution System Plan

As part of this application, Alectra Utilities filed a distribution system plan (DSP) for the Enersource RZ for a five-year term from 2018 to 2022 to support the request for approval of an ICM. In a previous application,¹⁸ the OEB did not approve an ICM for 2016 forecast capital expenditures and required Enersource to file a final DSP before the OEB would consider ICM funding.

Alectra Utilities stated that the Enersource RZ DSP:

- Outlines Alectra Utilities' strategy of taking a complete lifecycle approach to the management of its Enersource RZ assets
- Includes sufficient information to support the proposed ICM for the Enersource RZ
- Provides justification for the proposed expenditures in the Enersource RZ relating to the distribution system and general plant for 2017 and the 2018 to 2022 period, including investment and asset-related maintenance expenditures

OEB staff, while noting that the OEB does not "approve" DSPs, agreed that the Enersource RZ DSP allows for an assessment of the ICM expenditures proposed in the application. However, OEB staff did express concerns that the DSP does not

¹⁸ EB-2015-0065, 2016 distribution rate application for Enersource in which a draft DSP was filed.

adequately explain why some planned capital expenditures are treated as base capital expenditures while others are classified as ICM project expenditures. Alectra Utilities submitted that the OEB Filing Requirements do not require this.

SEC, AMPCO, VECC and BOMA all expressed concerns with the DSP. SEC argued that the OEB should accept the Enersource RZ DSP, but neither approve it nor reject it. SEC acknowledged that Alectra Utilities had complied with the requirement from the EB-2015-0065 proceeding to file a DSP but argued that the Enersource RZ DSP is an “outdated pre-merger document”, has no value and is not helpful to the OEB.

SEC also submitted that the Vanry Report, filed by Alectra Utilities related to the DSP, should not be relied upon by the OEB as SEC questioned Vanry’s expertise and independence. AMPCO submitted that due to the timing of the Enersource RZ DSP, Alectra Utilities did not incorporate Vanry’s recommendations.

VECC argued that there is no discussion in the Enersource RZ DSP as to the coordination of information technology or regarding changes to building requirements, rolling stock or any other aspects likely to change as rationalization occurs in the new company.

BOMA argued that the Enersource RZ DSP is not in accordance with the OEB’s RRF policies, particularly because it does not reflect customer needs and preferences.

Alectra Utilities submitted that the assertion that the DSP is a pre-merger document is incorrect as parties making this argument appeared to be equating the draft DSP filed by Enersource in a previous proceeding¹⁹ with the DSP filed as part of the present application.

Alectra Utilities submitted that with respect to Vanry, it provided its professional opinion that the Enersource RZ DSP and the underlying methodologies, analysis, and supporting documentation were in accordance with the OEB’s Chapter 5 Filing Requirements. Vanry found that the Enersource RZ DSP “represents a well-reasoned, fact based assessment of the needs of the system” and that “it reflects the desires of customers and the concerns of relevant stakeholders.”²⁰

¹⁹ Ibid.

²⁰ Vanry Report, p. 32.

Findings

The OEB finds that the DSP filed by Alectra Utilities is sufficient for the OEB to make its decision on the 2018 ICM for the Enersource RZ. Options considered by Alectra Utilities were helpful in assessing the ICM projects. The OEB notes that Alectra Utilities plans to file a consolidated DSP by April 2019, and this would effectively update and replace the Enersource DSP.²¹ This consolidated DSP is discussed further in a subsequent section of the Decision.

The OEB disagrees with Alectra Utilities' claim that it is not necessary to have an adequate explanation of why some capital is regarded as "base" and other as "incremental". Given the distinction between base and incremental capital amounts necessary in an ICM application, including an explanation and rationale for allocating projects to each category is a logical addition. Filing requirements cannot anticipate all needs and circumstances, including an ICM application with 22 projects. While the OEB has accepted the DSP for the purposes of setting 2018 rates, this distinction between base and incremental will become more critical should Alectra Utilities file any further applications for incremental funding of capital and particularly as it optimizes its capital plans under a consolidated DSP.

Alectra Utilities stated that Vanry's feedback informed Alectra Utilities in developing its DSP. This type of external feedback can be helpful to a utility in forming its plans. There is no requirement to have a third party review of a DSP, unless specifically ordered by the OEB.

4.4 Customer Engagement

The OEB's Handbook for Utility Rate Applications (Rate Handbook) advises that "customer engagement is expected to inform the development of utility plans, and utilities are expected to demonstrate in their proposals how customer expectations have been integrated into their plans, including the trade-offs between outcomes and costs".²²

Alectra Utilities stated that it undertook customer engagement related to the DSP for the Enersource RZ and the ICMs for the Brampton RZ, Enersource RZ and PowerStream

²¹ Application Exhibit 1, Tab 1, Schedule 1 page 4, footnote 2. The filing of the DSP was a commitment made at the oral hearing for the EB-2016-0025 proceeding.

²² "Handbook for Utility Rate Applications", October 1, 2016, p.11.

RZ. Alectra Utilities engaged Innovative Research Group (IRG) to prepare a Customer Engagement Report. The customer engagement process included a Customer Feedback Portal on Alectra Utilities' website and a telephone survey. The engagement process was designed to ensure Alectra Utilities received the input needed to make key decisions regarding the application, and customers had the information they needed to provide meaningful responses to Alectra Utilities' questions.

Alectra Utilities indicated that the application was filed only months after the merged utility was established, yet it made a conscious effort to include initial, partial customer engagement results in the application, which were generally consistent with the final results.

BOMA, CCC, SEC, VECC and OEB staff were critical of Alectra Utilities' customer engagement process and its interpretation of the results.

BOMA submitted that Alectra Utilities downplayed customers' strong statements of resistance to further rate hikes. CCC submitted that there was no evidence that customers understood what "incremental" capital spending meant or that customers asked Alectra Utilities to spend more. SEC submitted that Alectra Utilities "claimed its customers think it should spend more money to maintain the current level of reliability. That was not what the customers said". Similar to CCC, SEC argued that no customer suggested that Alectra Utilities should spend more. VECC submitted that the survey did not meet the scientific criteria as it was not random and the sample size was insufficient. In particular, VECC claimed that the online results were biased as survey respondents were allowed to self-select whether or not to participate in a survey. OEB staff submitted that Alectra Utilities did not sufficiently articulate the value proposition for customers, the impact on customer service and rates, postponement options or the cost versus reliability trade-offs associated with the proposed spending.

In its reply submission, Alectra Utilities argued that some intervenors misunderstood the Rate Handbook which states the OEB will consider, among other things, "the quality of the utility's analysis of customer input."²³ In addition to quality, Alectra Utilities claimed it had gathered the largest amount of customer feedback ever collected by an Ontario utility.

Alectra Utilities argued that the intervenors and OEB staff failed to recognize the real, practical choices that have to be made in conducting customer engagement. Alectra

²³ Ibid, p.12.

Utilities submitted that it had followed the OEB's guidance and its approach was consistent with other customer engagement efforts by IRG and common to any study of public spending priorities.

Alectra Utilities noted SEC's concern but argued that the results on customer need and reliability questions all confirmed that there was no need to offer an option to increase reliability. Alectra Utilities noted that CCC and SEC questioned the interpretation of the results, specifically whether or not customers are willing to pay more. Alectra Utilities argued that these assertions were contrary to the actual evidence, as it is misleading to suggest customers want lower rates to the exclusion of all other outcomes. Alectra Utilities concluded that while customers are concerned about their electricity bills, most support some form of investment program that ensures a consistently reliable and modern distribution system that addresses growth and system needs.

Findings

The OEB finds Alectra Utilities' DSP-related customer engagement to be adequate. The OEB relied on the Enersource RZ DSP-related customer engagement to inform its ICM decisions.

While the ICM-related customer engagement was extensive, the OEB found the evidence did not provide clarity on fundamental questions pertinent to the ICM requests. For example, the OEB did not find questions that quantified the proposed rate increases of the options in 2018 or the cumulative cost during the deferred rebasing period. As a result, Alectra Utilities has not provided adequate evidence of "balancing its customers concerns with the costs and reliability" as expected under the RRF.

The OEB found customer responses related to specific ICM projects informative. Project-specific customer engagement should be included if investment options with tradeoffs are available (e.g. replacing leaking transformers) or if customers are directly affected by a project (e.g. rear lot remediation).

The OEB acknowledges that the Rate Handbook does not specifically address customer engagement for an ICM. Yet it is incumbent on a utility to engage continually with its customers and to use the results of that engagement to inform the development of utility plans.

The OEB appreciates the limited time after the merger and before filing the application. Such time constraints should not be a constraint going forward. In addition, the OEB encourages Alectra Utilities to consider the submissions of intervenors and OEB staff in order to revise and refine any future ICM-related customer engagement.

4.5 ICMs for the Brampton, Enersource and PowerStream Rate Zones

The OEB has determined that Alectra Utilities is eligible for incremental funding for certain capital projects in 2018 rates through ICM rate riders.

The OEB's policy for the funding of incremental capital is set out in the Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 (Funding of Capital Report)²⁴ and the subsequent Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report (Supplemental Report) (collectively referred to as ICM policy). The OEB provided further policy direction for the availability of incremental capital modules following a merger in the Report of the Board Rate-Making Associated with Distributor Consolidation (MAADs policy)²⁵ and in the Handbook to Electricity Distributor and Transmitter Consolidations (MAADs Handbook).

The OEB first addresses the overall eligibility for ICM recovery and the criteria that must be met for this incremental funding. The OEB then assesses each project against that criteria.

a) Overall Eligibility for ICM Recovery

General Comments

The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the rate-setting plan that are incremental to a materiality threshold.²⁶ The ICM is a funding mechanism for significant, incremental and discrete capital projects for which a utility is granted rate recovery in advance of its next rebasing application.

Alectra Utilities stated that its proposed ICM projects are in accordance with OEB policies as reflected in the Funding of Capital Report and the Supplemental Report.

PWU supported Alectra Utilities' ICM application and submitted that the OEB should approve the ICM project funding in full.

²⁴ EB-2014-0219.

²⁵ EB-2014-0138.

²⁶ Funding of Capital Report, September 18, 2014, p. 4.

OEB staff submitted that only two of the proposed ICM projects met all established tests, as discussed later in this Decision. OEB staff submitted that the remaining projects fail at least one of the tests and should not be approved. BOMA also submitted that only two of the ICM investments should be approved.

SEC, CCC and AMPCO submitted that none of the proposed incremental capital amounts should be approved. SEC, CCC and AMPCO also all argued the merger savings are a relevant consideration and provide context for ICM applications. SEC argued that this case should cause the OEB to rethink its policies and whether they are appropriately customer-focused.

Alectra Utilities submitted that OEB staff, BOMA, SEC, CCC, AMPCO and VECC all took issue with the application of the OEB's ICM policy, but the OEB has already determined on multiple occasions that the ICM is available to consolidating distributors.

In the ICM policy, the OEB established three tests for eligibility for the ICM: Materiality, Need and Prudence. These three tests are discussed in the sections that follow.

Materiality

There are two materiality tests related to ICM applications. The first test is the ICM materiality threshold formula, which serves to demonstrate the level of capital expenditures that a distributor should be able to manage within current rates. The test states that: "Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount" and "must clearly have a significant influence on the operation of the distributor".²⁷

Alectra Utilities stated that it had appropriately calculated the following materiality thresholds for the three rate zones which results in the following:

- Brampton RZ has a maximum eligible incremental capital amount of \$7,113,613, which means that its proposal to recover \$6,800,377 through the ICM for this rate zone is within the OEB's acceptable range.
- PowerStream RZ has a maximum eligible incremental capital amount of \$25,891,795, which means that its proposal to recover \$25,136,316 through the ICM for this rate zone is within the OEB's acceptable range.

²⁷ Funding of Capital Report, p. 17.

- Enersource RZ has a maximum eligible incremental capital amount of \$39,624,419, which means that its proposal to recover \$24,247,022 through the ICM for this rate zone is within the OEB's acceptable range.

No party took issue with Alectra Utilities' calculation of the ICM materiality threshold for each rate zone.

The OEB adopted a second, project-specific materiality test in the Funding of Capital Report, as identified in a decision for Toronto Hydro Electric System Limited (Toronto Hydro).²⁸ The project-specific materiality test is 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.²⁹

Alectra Utilities submitted that each capital project was eligible for an ICM as each project exceeded the project-specific materiality level established for each rate zone.

OEB staff submitted that a project proposed for ICM treatment must not only meet the OEB-defined materiality thresholds, but must also clearly have a significant influence on the distributor. OEB staff argued that a proposed project does not qualify simply by characterizing it as a separate project that meets the materiality thresholds; the ICM was not intended to be a "capital budget top-up".

BOMA submitted that not every capital investment proposal that exceeds the "project materiality" threshold can be said to have a significant influence on a utility. BOMA argued that Alectra Utilities is the appropriate utility in respect of which the degree of impact should be addressed. BOMA acknowledged that the OEB has authorized the maintenance of separate "rate zones" for ratemaking purposes but Alectra Utilities is the actual corporate entity.

SEC argued that it was important for the OEB to send a clear message that ICM funding is not a back door way to increase rates, but is an exception to the normal rule of living within the IRM envelope and is not an invitation to spend more. SEC submitted that ICM funding is a relief valve where utilities have done everything they can to live within their

²⁸ Toronto Hydro-Electric System Limited, "Partial Decision and Order," EB-2012-0064, April 2, 2013.

²⁹ Funding of Capital Report, p.17.

means, but that Alectra Utilities had made no attempt to do so, and therefore should be expected to live within the IRM envelope.

Alectra Utilities submitted that the project-specific materiality threshold is defined by the OEB as 0.5% of distribution revenue requirement, in accordance with the Chapter 2 Filing Requirements.³⁰ Alectra Utilities calculated the threshold amount for each rate zone on this basis and included projects that exceeded the identified thresholds.

Findings

The OEB accepts Alectra Utilities' calculations for the ICM materiality threshold based on the OEB's ICM formula in the Funding of Capital Report. This includes:

- Brampton RZ - maximum eligible incremental capital amount of \$7,113,613
- PowerStream RZ - maximum eligible incremental capital amount of \$25,891,795
- Enersource RZ - maximum eligible incremental capital amount of \$39,624,419

This does not mean that all capital spending up to the maximum eligible incremental capital amount will be granted incremental funding. The OEB has established its other criteria and tests so that the ICM does not become just a top-up to the ICM materiality threshold.

The OEB does not agree with SEC that a distributor must have done everything it can to live within its means. The ICM is not a mechanism to ensure the financial viability of a distributor. The ICM is a mechanism that removes a barrier to effective planning by providing rate relief to reduce the incentive to cluster capital investments at sub-optimal times around the rebasing year. A distributor is expected to have good distribution system planning, including optimizing, prioritizing and pacing capital expenditures to control costs and promote rate predictability, irrespective of its rebasing schedule.

The OEB disagrees with Alectra Utilities' interpretation of the second materiality test. The distributor in this ICM application is Alectra Utilities. This second test is whether a specific project is significant in comparison to the overall capital budget for Alectra Utilities, not individual rate zones. With Alectra Utilities' interpretation, a large distributor with a capital budget of hundreds of millions of dollars could acquire a small distributor

³⁰ Filing Requirements For Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications - Chapter 2 Cost of Service.

and seek ICM funding for a project of only \$50,000. This would not be a reasonable request.

The OEB notes that the MAADs policy states that: “the materiality thresholds for purposes of the ICM policy shall be calculated based on the individual distributor’s accounts, i.e. depreciation expense, and not the consolidated entity’s”.³¹ The OEB finds that this statement is not relevant to the assessment of project-specific materiality. The reference to depreciation expense in the MAADs policy makes it clear that this policy statement pertains to the ICM materiality threshold formula that is calculated based on depreciation, not the project-specific materiality test that is based on a comparison of an expenditure to the overall capital budget.

Applying the Chapter 2 Filing Requirements materiality threshold test to Alectra Utilities as the distributor would result in a project-specific materiality threshold of \$1 million to be applied across all rate zones. However, the OEB finds that the Chapter 2 Filing Requirements materiality threshold test is not the project-specific test set out in the ICM policy. The materiality thresholds in the Chapter 2 Filing Requirements³² are for the purpose of variance explanations for annual changes to rate base, capital expenditures and operations, maintenance and administration costs as part of a cost of service rate application. Consistent with this purpose, the materiality threshold for the variance analysis is calculated from the revenue requirement. The project-specific materiality, per the ICM policy, is based on the capital budget.

The OEB recognizes that in an Enersource decision,³³ the OEB accepted the project-specific materiality calculated by Enersource based on 0.5% of revenue requirement. This was a project specific calculation of \$0.59 million for an ICM approved of \$40.5 million. There was no question that this project was not a minor expenditure in comparison to the overall capital budget i.e. the project specific calculation was not required to make the determination that this project was significant. The OEB does not find that the Enersource decision established a new condition precedent for future ICMs.

³¹ “Report of the Board Rate-Making Associated with Distributor Consolidation,” EB-2014-0138, March 26, 2015, p. 10.

³² Section 2.0.8.

³³ Decision and Rate Order “Enersource Hydro Mississauga Inc. Application for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2016”, EB-2015-0065, April 7, 2016.

In the Funding of Capital Report, the OEB adopted the approach for the ICM policy established in the Toronto Hydro decision which stated that: “minor expenditures in comparison to the overall budget” should not be considered eligible for ICM treatment.³⁴ The Toronto Hydro decision emphasized that the overall capital budget is the reference point for assessing the significance of ICM requests. The OEB determined that a: “certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget”, and this wording was included in the materiality criteria for an ICM. This decision disallowed ICM funding for several projects with capital spending in excess of \$1 million, including a project with \$2.14 million in capital expenditures and \$1.68 million in capital additions. The decision stated that while the OEB accepted the need for the work: “the amount requested is not significant in the context of THESL’s overall capital budget. THESL should be able to fund this project through its normal capital budget during the IRM period, and will not be permitted additional recovery for this project”.³⁵

The OEB finds that the basis for a project-specific materiality threshold should be the proposed capital budget of Alectra Utilities, the distributor in this ICM application. Adding the 2018 capital budgets for each rate zone results in a combined capital budget of \$267.7 million.³⁶ While one could consider a percentage of the \$267.7 million to be appropriate for the project-specific materiality test, the OEB finds that this is not consistent with the ICM policy. The ICM policy adopted the approach used in the Toronto Hydro decision, which assessed each project individually for its significance against the capital spending. The OEB therefore adopts this same approach for the ICMs for Alectra Utilities. Amending the ICM policy to include a mathematical materiality calculation for this second test should only be done through a policy review. In addition, there were no submissions on this issue during the proceeding. The OEB has applied its judgement consistent with the ICM policy. The OEB will consider whether each capital project proposed for an ICM is significant with respect to Alectra Utilities’ total capital budget, not with respect to the capital budget by rate zone.

While the second materiality test may be further defined in the future, the OEB must make a decision based on the evidence and submissions in this proceeding. The OEB

³⁴ Funding of Capital Report, p.17.

³⁵ EB-2012-0064 Toronto Hydro Decision, several projects were not approved for funding for being not significant in the context of the overall capital budget (pages 31, 32, 39, 41, 42), one example is the Downtown Station Load Transfers, pages 41 and 42 with capital spending of \$2.14 million and capital additions of \$1.68 million.

³⁶ \$267.668 million = \$72,683 (Enersource) + \$109,773 (PowerStream) + \$38,069 (Brampton) + \$47,143 (Horizon Utilities EB-2014-0002 Settlement Table 18 – 2018 Capital Expenditure Plan).

is guided by the words “significant influence on the operation of the distributor” and “minor expenditure in comparison to the overall capital budget” in assessing the project-specific materiality of each project.

The assessment of each specific project is in subsequent sections of this Decision.

Need

The Funding of Capital Report indicated that need must be demonstrated by (a) passing the Means Test, (b) the amounts must be based on discrete projects, and should be directly related to the claimed driver, and (c) the amounts must be clearly outside of the base upon which the rates were derived.³⁷

Under the Means Test, if a distributor’s regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor’s rates, then the funding for any incremental capital project would not be allowed. Alectra Utilities submitted that based on the accounts of its predecessor utilities, it had satisfied the Means Test in each rate zone.

No party took issue with Alectra Utilities passing the Means Test.

Alectra Utilities submitted that each proposed ICM project is discrete and that it had performed detailed, project-specific cost estimates based on a specific scope of work and detailed design carried out for a particular location.

Furthermore, Alectra Utilities stated that the costs of the projects for which it is seeking recovery are incremental to its capital requirements that underpin its existing rates for each rate zone.

The distinction between a discrete project versus a program was raised in many submissions. AMPCO stated that it did not accept Alectra Utilities’ distinction between a project and a program as all of the restructured initiatives have historically been part of typical annual capital programs and should not be approved. In particular, AMPCO noted that in the PowerStream RZ, 30% of the projects were disallowed by the OEB in its Custom IR decision.

CCC argued that with very few exceptions (transit projects), the proposed expenditures are essentially a continuation of normal annual capital programs, not discrete

³⁷ Funding of Capital Report, page 17.

incremental capital projects, and Alectra Utilities should have sufficient funds to undertake all of its required capital investments through its price cap adjustments.

Findings

The OEB finds that Alectra Utilities has passed the Means Test. Alectra Utilities provided evidence with respect to the earnings by rate zone. The OEB finds this is acceptable for assessing the earnings the year prior to merger, i.e. 2016. This test is, however, established to determine if a distributor requires funding in advance of the next rebasing. Earnings are therefore more appropriately assessed for the distributor, not the rate zone.

In addition, the OEB finds that a discrete project is not simply one that is distinguishable or defined at a new location - or all capital would be eligible. ICM projects do need to be different in kind from those that are carried out through typical base capital programs. Otherwise, the OEB would need to scrutinize all capital projects for optimization, not just the ICM projects. Further, the criteria in the ICM policy is clear that capital projects do not need to be non-discretionary³⁸ or unanticipated to be eligible for incremental funding.

The OEB finds that it is not relevant whether the capital project proposed for ICM treatment was included in a previously filed DSP. Requiring a project to have been included in a previous DSP would be re-introducing the requirement for projects to be unanticipated, which the OEB previously eliminated. In addition, there is no criteria excluding capital projects that were denied funding in a previous cost of service or ICM application. Circumstances may change with respect to load, demand, cost estimates or consumer preferences that affect the business case and the needed timing of the project.

Prudence

The Funding of Capital Report specifies that the amounts to be incurred must be prudent, which means that a distributor's decision to incur the amounts must represent the most cost-effective option (but not necessarily the least initial cost) for ratepayers.³⁹

Alectra Utilities submitted that its eligible capital projects are prudent because in the case of the Brampton RZ, the project is non-discretionary in nature, while for the

³⁸ Funding of Capital Report, pp.18-19.

³⁹ Ibid, p. 17.

PowerStream and Enersource RZs, the projects represent the most cost effective options for ratepayers.

Alectra Utilities added that in each case, the projects are based on capital investment needs for the three rate zones for 2018 that are not funded through existing distribution rates.

Alectra Utilities submitted that to demonstrate the prudence of each capital project for which it is seeking approval, it had provided a business case summary that identifies the name, driver, cost and expected in-service date for the project, describes the project and its drivers, and sets out the various options considered for the project. In addition, Alectra Utilities stated that it had provided detailed business cases for each eligible capital project.

OEB staff argued that most of the ICM projects were not distinguishable from other expenditures that were part of normal year-to-year capital programs for the rate zones.

Intervenors argued that it is not possible to determine prudence in the absence of cost information on alternative options. Alectra Utilities identified that it did provide cost estimates for alternative options for the majority of projects. Cost estimates were not provided for alternative options when the alternative options would not provide the required capabilities or meet applicable technical standards. Alectra Utilities also argued that conservation and demand management (CDM) is not an alternative for system renewal investments.

AMPCO, VECC and CCC submitted that the OEB should not approve the 2018 ICMs until Alectra Utilities has prepared a consolidated DSP. These intervenors submitted that one combined DSP would optimize need and spending across all rate zones to provide the greatest value to customers, for a merged entity with four rate zones.

AMPCO also noted that the PowerStream RZ's 2018 proposed capital budget is below the 2017 OEB approved budget, meaning that it should be able to accommodate the 2018 capital spend within the 2018 Price Cap IR adjustment.

VECC argued that for the PowerStream RZ, Alectra Utilities had not met the burden of proof as to the need for these projects, other than a rapid transit project, because it had not explained how these projects were (or were not) contemplated in its DSP.

Alectra Utilities argued that the OEB was well aware that Alectra Utilities would not be in a position to file a consolidated DSP until 2019. Alectra Utilities concluded that it is

simply wrong to say that a consolidated DSP is required before it is eligible for ICM funding.

Findings

The availability of an ICM to Alectra Utilities was neither predicated on filing a consolidated DSP, nor limited to one ICM application for the deferred rebasing period.

While a consolidated DSP is not a prerequisite to filing an ICM, the OEB acknowledges the concerns expressed by intervenors and OEB staff that the value of the current DSPs for Alectra Utilities will diminish long before the 10-year deferral period has ended. The OEB accepts these limitations for 2018, and 2019 rates if required. It would not have been reasonable to expect a new fully integrated and consolidated DSP for this proceeding. The OEB finds that the prior DSPs are sufficient for the OEB to review and decide on capital projects for this proceeding.

The MAADs decision noted that Alectra Utilities would not be in a position to file a consolidated DSP until 2019, applicable to 2020 rates. The OEB finds this proposal reasonable. The OEB requires Alectra Utilities to file a consolidated DSP as a filing requirement with any ICM application requesting rate changes for 2020 rates and beyond.

Providing an assessment of options to meet an identified need is an important element of an application for funding of capital, whether it be in a rebasing application or for an ICM. The OEB accepts that costing and detailed analysis of an option is not required if an option does not meet the required capabilities or applicable technical standards. The OEB does not accept Alectra Utilities' assertion that CDM is not an alternative for system renewal investments options. Like-for-like asset replacements for aging infrastructure should not be the only option considered. Circumstances may have materially changed since an asset was first put into service. As a result, new options, including those that do not involve distribution infrastructure, should be considered when Alectra Utilities prepares its consolidated DSP.

The OEB recognizes that because the ICM materiality threshold formula is based on the ratio between a utility's approved rate base and depreciation, it can lead to circumstances in which there is eligible ICM capital even though the capital spending in the year of the ICM is lower than the last OEB-approved capital spending. While this does not disallow an ICM outright, this is a consideration when determining whether a project is significant to operations, and outside of the base upon which the rates were derived.

b) Eligibility of Individual Projects for ICM Recovery

Alectra Utilities requested total ICM funding of \$56.18 million. Alectra Utilities provided the table reproduced as Table 2 below summarizing the proposed ICM projects by rate zone.⁴⁰

The OEB agrees that it is important for a distributor to have programs to address aging infrastructure to ensure assets are replaced on a paced and prioritized schedule. Nevertheless, this application is about whether incremental funding for capital will be provided during the IRM term. ICM funding is not available for typical annual capital programs. It is also not available for projects that are not significant to the operations of the distributor. Where the OEB has not approved a project for incremental funding, this should not be interpreted as the OEB saying that it is not prudent to complete the project.

The OEB assessed each proposed project on an individual basis against the criteria from Section 4.5 a) of this Decision. The OEB approves total ICM funding of \$28.79 million as discussed in the individual sections that follow.

⁴⁰ Alectra Utilities, “Applicant’s Reply Submission”, January 30, 2018, pp. 22-23.

Table 2: Projects Proposed for ICM Recovery

CATEGORY	PROJECT	2018 BUDGET
BRAMPTON RZ		
System Access	1. Pleasant TS True-Up	\$6.8MM
POWERSTREAM RZ		
System Access	1. York Region Rapid Transit VIVA Bus Rapid Transit Y2 and H2 Projects	\$11.24MM
System Renewal	2. Station Switchgear Replacement - 8th Line MS323	\$1.39MM
	3. Rear Lot Supply Remediation - Royal Orchard - North	\$1.68MM
	4. Cable Replacement – (M49) - Steeles Ave and Fairway Heights Drive	\$1.84MM
	5. Cable Replacement – (V08) - Steeles Ave and New Westminster	\$2.64MM
	6. Circuit Breaker Replacement – Richmond Hill TS#1	\$1.19MM
System Service	7. Rebuild of 27.6kV Pole Line on Warden into 4 Circuits from 16th Ave to Major Mackenzie	\$1.37MM
	8. Mill St. MS835 Transformer Upgrade – Tottenham	\$1.3MM
	9. Double Circuit 27.6kV Pole Line on 19th Ave between Leslie and Bayview	\$1.2MM
	10. Double Circuit Existing 23M21 from Bayfield & Livingstone to Little Lake MS306	\$1.28MM
ENERSOURCE RZ		
System Access	1. QEW – Evans to Cawthra Roads Project	\$1.29MM
System Renewal	2. Glen Erin & Montevideo Subdivision Rebuild	\$1.96MM
	3. Glen Erin & Battleford Subdivision Rebuild	\$2.06MM
	4. Credit Woodlands & Wiltshire Subdivision Rebuild	\$1.55MM
	5. Tenth Line Main Feeder Subdivision Renewal	\$1.14MM
	6. Folkway & Erin Mills Main Feeder Subdivision Rebuild	\$1.03MM
	7. City Centre Drive Rebuild (Walmart Cables)	\$1.55MM
	8. Lake/John Area Overhead Rebuild	\$0.93MM
	9. Church St. Area Overhead Rebuild	\$1.02MM
	10. Transformer Replacement Project	\$8.45MM
System Service	11. York MS	\$3.27MM

Brampton Rate Zone

Alectra Utilities proposed one ICM project in the Brampton RZ for \$6.8 million. The OEB approves ICM funding for this project.

1. *Brampton RZ Pleasant TS True-Up* \$6.8 million

Alectra Utilities stated that this investment was required under the terms of the Connection and Cost Recovery Agreement (CCRA) between itself and Hydro One Networks Inc. (Hydro One) for the construction of the Pleasant TS expansion in the Brampton RZ. Alectra Utilities noted that the CCRA was entered into by the former Hydro One Brampton, in connection with its efforts to increase available transformation capacity for anticipated load growth in the northwest area of Brampton. Alectra Utilities further noted that the ten-year true-up payment under the CCRA is due in June 2018 and it estimated a shortfall of revenue to Hydro One relative to the forecast demand used to calculate the capital contribution initially. Alectra Utilities therefore anticipates being required by Hydro One, under the terms of the CCRA, to provide a further contribution of \$6.8 million in June 2018, with the specific amount and payment terms to be finalized at that time.

OEB staff and the PWU supported Alectra Utilities' proposed recovery related to this project while all other parties were opposed to it.

Intervenors opposed to this proposal made four major arguments against it which were: (1) the inaccuracy of the original load forecast on which the arrangements were determined, (2) the CCRA governing the true-up payment between Hydro One Brampton and Hydro One was not an arms-length transaction, (3) Hydro One Brampton's liability for the true-up was not disclosed in the merger proceeding and should have been addressed at that time, and (4) the cost of the ten-year true-up payment under the CCRA was not included in the DSP and is not incremental to historic spending levels. Alectra Utilities submitted that none of these arguments had any merit.

Findings

The OEB approves the project for \$6.8 million of ICM funding, effective May 1, 2018, related to the Pleasant TS true-up payment to Hydro One.

The expenditures on this project are for a "true-up" contribution to cover the cost differential between the load forecast and actual load serviced from the new transformer station at Pleasant TS. The true-up payment is in accordance with the terms of a CCRA with Hydro One, and the CCRA must be in accordance with the OEB's Transmission System Code (TSC). The TSC establishes pre-set true-up milestones at 5, 10 and 15 years. The OEB accepts the evidence that there was an economic downturn in Ontario and load did not materialize as forecast, and that this impacted housing starts and electricity demand for loads serviced from Pleasant TS. The evidence does not support

a finding that Hydro One Brampton was imprudent in the forecast made for the purpose of the CCRA executed in 2006.

The OEB notes that the five-year true-up payment for the Pleasant TS was discussed in the DSP for Hydro One Brampton's 2015 rate application.⁴¹ A true-up amount of \$3.653 million paid in 2014 was approved by the OEB for inclusion in the 2015 rate base. The OEB accepts that Hydro One Brampton did not know at the time whether another true-up payment would be required five years later.

While the CCRA was between the affiliates of Hydro One Brampton and Hydro One, the terms of the CCRA are prescribed by the TSC. The OEB finds that this affiliate relationship is not grounds for denying the ICM.

The CCRA was entered into on behalf of the customers of Hydro One Brampton at the time. The OEB finds that if there had been no merger, the Pleasant TS true-up payment would have been recoverable from Hydro One Brampton customers. It is therefore appropriate post-merger for the true-up payment to be recoverable from customers of Alectra Utilities' Brampton RZ. Whether there was a liability to disclose at the time of the merger, or not, does not impact which customers should pay for the true-up payment.

This ICM request is similar to the ICM application from Enersource Hydro related to the Churchill Meadows TS, which the OEB approved.⁴² In that earlier application, the OEB found that the true-up payment to Hydro One met the three ICM criteria.

PowerStream Rate Zone

Alectra Utilities proposed ten ICM projects in the PowerStream RZ, including one system access project of approximately \$11.2 million, five system renewal projects totaling approximately \$8.7 million and four system service projects totaling approximately \$5.2 million, for an overall total of approximately \$25.1 million. The OEB approves ICM funding of \$11.24 million, effective May 1, 2018.

⁴¹ EB-2014-0083.

⁴² EB-2015-0065.

2. *PowerStream RZ York Region Rapid Transit VIVA Bus Rapid Transit Y2 and H2 Projects* \$11.24 million

This project involves the relocation of overhead and underground distribution assets as required to accommodate York Region Rapid Transit Corporation's (YRRT) Bus Rapid Transit ("BRT") developments. Alectra Utilities stated that:

- The timing for this work is driven by the YRRT in conjunction with its contractors.
- The project, which includes development of BRT rapidways, is a key component of York Region's Transportation Master Plan.
- Two sections along Yonge Street totaling 6.5 km (Y2) and two sections along Highway 7 and adjacent roadways totaling 8.5 km (H2) are scheduled for completion in 2018 and 2019. Each of Y2 and H2 involves major thoroughfares with significant overhead and underground distribution plant (including 27.6 kV feeders), which must be relocated before the rapidways can be built.
- It is required to relocate its distribution plant to facilitate transportation infrastructure developments by applicable road authorities in accordance with the *Public Service Works on Highways Act*. Therefore, Alectra Utilities states that this project is considered mandatory.

SEC, VECC, CCC, AMPCO and BOMA opposed ICM treatment for this project. OEB staff and PWU supported approval for recovery of the full amount proposed.

The parties opposing approval argued that it should be treated in the same way as the Metrolinx rail electrification projects, namely by establishing a deferral or variance account to record actual costs for future review and recovery. These parties argued that there is inherent uncertainty with government-backed infrastructure projects, and that this is common to the Metrolinx and road authority projects. SEC stated that a variance account should only be used to the extent that capital additions for the PowerStream RZ exceed the 2017 OEB-approved capital additions of \$115 million. Several parties also argued that this is recurring annual capital work and should therefore not be eligible for ICM recovery.

Findings

The OEB approves the YRRT project for ICM funding of \$11.24 million effective May 1, 2018. The work is mandatory under the *Public Service Works on Highways Act*.

As discussed in section 4.8 d) of this Decision, the OEB has adopted the ICM for incremental funding for capital projects. The OEB therefore does not approve a deferral account for this project, as suggested by some intervenors.

Alectra Utilities states that assets will be in service in 2018 and purchase orders have been signed. Any uncertainty risk of the project is mitigated because the magnitude of in-service assets for 2018 will be reviewed at the time of rebasing to determine if a true-up between the approved amount of \$11.24 million and actual in-service assets is warranted.

While a utility the size of Alectra Utilities is expected to undertake a certain amount of relocations each year, this project is clearly very material to its operations. The project was only identified after the PowerStream Custom IR application was filed.

3. *PowerStream RZ Station Switchgear Replacement – 8th Line MS323* \$1.39 million

The Station Switchgear Replacement - 8th Line MS323 project involves replacement of low voltage switchgear at the 8th Line MS 323 station, which has been assessed as being in poor condition, at a high risk of failure and no longer supported by the manufacturer. Alectra Utilities stated that:

- The switchgear needs to be brought to current standards with respect to arc-resistant construction to reduce safety concerns.
- The station serves approximately 2,700 customers and the project is expected to extend the useful life of the station as well as avoid 97,200 customer outage minutes per year, which would have otherwise affected 900 residential and commercial customers.
- The replacement switchgear will not fit in the existing enclosure at the station so a new switchgear building will be required. A prefabricated switchgear building will be used to reduce outage time for construction.

PWU supports approval of the amount proposed, while SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, are opposed.

OEB staff argued that a number of Alectra Utilities' proposed projects are relatively small and that minor expenditures should be excluded from recovery through the ICM mechanism.

AMPCO and CCC argued that the project is not discrete and involves work that is similar in nature to recurring annual capital work and that it is not possible to determine if the recommended approach is prudent because cost information on alternative options was not provided.

Alectra Utilities argued that projects may be eligible for ICM whether discretionary or non-discretionary, whether in or not in a prior DSP, and whether routine or extraordinary.

In response to the contention that it is not possible to determine prudence in the absence of cost information on alternative options, Alectra Utilities identified that retrofit of existing switchgear was considered and determined not to be feasible as this would not address the arc-resistant capability required for safety purposes. As this option did not address the identified need, it was not priced.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

The OEB also notes that in its decision on the PowerStream Custom IR application, funding was approved for a switchgear replacement program.⁴³ This work replacing switchgear at the 8th Line MS 323 station would reasonably be part of such a program. ICM funding is not available for typical annual capital programs.

4. *PowerStream RZ Rear Lot Supply Remediation – Royal Orchard – North* *\$1.68 million*

Alectra Utilities stated that the rear lot distribution system in the area of Royal Orchard – North serves approximately 170 customers, is over 50 years old, has been assessed as being in very poor condition and is beyond the end of its useful life. Alectra Utilities stated that:

⁴³ Decision and Order “PowerStream Inc. Application for electricity distribution rates for the period from January 1, 2016 to December 31, 2020,” EB-2015-0003, August 4, 2016, p.17.

-
- Rear lot systems are more likely to be affected by major events such as storms.
 - Due to accessibility problems, restoration is very difficult and costly.
 - Rear lot systems pose safety risks to workers.
 - Tree trimming is often required before crews can safely access equipment, and proximity to customer facilities inhibits access and introduces safety risks.
 - There are operational inefficiencies when working on rear lot systems as well because most work must be performed without use of bucket trucks and modern hydraulic equipment.
 - Work on rear lot systems requires access to multiple yards, and tree trimming must be performed more frequently.

Alectra Utilities proposed to convert the area of Royal Orchard – North to front lot underground supply over a three-year period from 2018 to 2020, which it states is the most effective option to eliminate the above-noted concerns and improve reliability by reducing outage minutes by approximately 110,000 minutes per year (not considering major event days).

PWU supported approval for recovery of the full amount proposed. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment for this project.

AMPCO and CCC argued that this project is not discrete and involves work that is similar to ongoing annual capital work. In addition, a determination regarding prudence cannot properly be made without cost information on the alternative options to the recommended project.

OEB staff argued that this project does not meet the prudence criteria due to Alectra Utilities' failure to provide sufficient costing information to address the OEB's concerns from the PowerStream Custom IR decision and to demonstrate that the proposed expenditures represent the most cost-effective option for ratepayers.

OEB staff and VECC also argued that there were deficiencies in the customer engagement efforts relating to this project because Alectra Utilities did not speak with the affected customers directly and did not indicate what feedback was received.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding.

In the PowerStream Custom IR application, the OEB approved funding for a rear lot supply remediation program.⁴⁴ This work converting the area of Royal Orchard – North to front lot underground supply is reasonably part of such a program.

Furthermore, the OEB's decision in the PowerStream Custom IR application specifically identified concerns with respect to adequate customer engagement for the rear lot remediation program stating: "It is striking that PowerStream testified it visited every affected rear lot, but did not speak to any of the owners of those lots, who would experience both a reliability impact and disruption to the use of their property".⁴⁵ It appears that Alectra Utilities has still not engaged directly affected customers in the development of its plans for rear lot remediation.

5. *PowerStream RZ Cable Replacement – (M49) – Steeles Ave and Fairway Heights Drive* \$1.84 million

The Cable Replacement – (M49) - Steeles Ave and Fairway Heights Drive project involves replacing 3.7 km of substandard underground primary cables. Alectra Utilities stated that:

- Cable and splice failures are the leading cause of outage minutes, accounting for 19% of SAIDI in 2016.
- In this project area, the underground primary cable is 35 years old, has been assessed as being in poor condition and is at the end of its useful life.
- This project area is also one of the few remaining pockets of 13.8kV load supplied from John MS, via feeders John-F5 and John-F6. The performance of these feeders is many times worse relative to the SAIFI and SAIDI for the service

⁴⁴ EB-2015-0003, op.cit. p. 20.

⁴⁵ EB-2015-0003, op.cit. p. 19.

territory. John-F5 is among the top 10 worst performing feeders out of the 322 feeders in the PowerStream RZ.

- Given the reliability concerns and higher losses associated with the 13.8kV system, the majority of 13.8kV load in this area has been converted to 27.6kV. Once all 13.8kV load is converted to 27.6kV, John MS can be decommissioned, thereby avoiding the costs of operating and maintaining an underutilized station.
- This project is expected to result in 81,480 outage minutes avoided per year and lower transformer and distribution line power losses.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

OEB staff referenced the OEB's decision on the Custom IR application where the OEB expressed concerns with cost increases associated with the underground cable replacement program and asked PowerStream to explain the reasons for the increase in unit costs over time at its next rate setting opportunity.

Alectra Utilities⁴⁶ explained that following the OEB's decision it reviewed its cable replacement program and determined that each cable replacement would thereafter be treated as a distinct project with a defined scope, schedule and cost to address a specific driver because doing so would bring greater rigour, discipline and accountability to project planning and implementation. OEB staff argued that this response did not adequately address the concern expressed by the OEB in the Custom IR decision, and that these projects do not satisfy the prudence criteria due to insufficient costing information to demonstrate that the proposed expenditures represent the most cost-effective option for ratepayers. This latter concern was echoed by AMPCO and CCC.

In addition, OEB staff and VECC raised concerns about the adequacy of customer engagement with respect to the cable replacement projects.

Alectra Utilities explained that based on the restructured approach to these cable replacements it forecast cost reductions of 28% for cable replacements and 11% for its Left Behind Cable Replacement initiative.⁴⁷

In response to the concern that there is insufficient costing information, Alectra Utilities noted that the main alternative to a cable replacement is cable injection. However,

⁴⁶ PRZ-Staff-7.

⁴⁷ 3.0-VECC-16.

injection is not always feasible. In the cable replacement project at Steeles Avenue and Fairway Heights, the existing cables are 8.32 kV and, as a result, injection would not align with plans to convert the area to 27.6 kV. If injected, the cables would soon need replacement and the costs of injection would become stranded. Alectra Utilities added that conversion to 27.6 kV brings numerous benefits, such as lower maintenance costs and reduced losses.

Alectra Utilities further noted that it had only provided costing for alternative feasible options that would meet the identified project needs.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding.

In its decision on the PowerStream Custom IR application⁴⁸ the OEB approved funding for a cable replacement program. This work replacing cables in the Steeles Ave and Fairway Heights Drive area is reasonably be part of such a program.

Alectra Utilities has stated that following the OEB's decision for its Custom IR application it determined that each cable replacement would be treated as a distinct project. The OEB finds that simply developing more details on the specific work planned within a typical annual capital program does not create multiple discrete projects eligible for ICM funding.

6. *PowerStream RZ Cable Replacement –(V08) – Steeles Ave and New Westminster* \$2.64 million

The Cable Replacement – (V08) - Steeles Ave and New Westminster project involves replacing approximately 16.2 km of substandard underground primary cables from 2018 to 2020. Alectra Utilities stated that:

- Cable and splice failures are the leading cause of outage minutes, accounting for 19% of SAIDI in 2016.

⁴⁸ EB-2015-0003, op.cit. p. 17.

- In this project area, the underground primary cable supplies 1,090 customers, is approximately 40 years old, has been assessed as being in very poor condition and is at the end of its useful life. It has failed nine times in the last four years, resulting in over 350,000 customer outage minutes.
- This project is expected to improve system reliability in the area, minimize the need for emergency reactive repairs and result in 109,998 outage minutes avoided per year.

The intervenors and OEB staff made the same submissions for this project as they did for the cable replacement project for Steeles and Fairview. Alectra Utilities responded accordingly. In addition, Alectra Utilities noted that cable testing results indicated that remediation by cable injection would not be feasible.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding.

In its decision on the PowerStream Custom IR application⁴⁹ the OEB approved funding for a cable replacement program. This work replacing cables in the Steeles Ave and New Westminster area is reasonably part of such a program.

Alectra Utilities has stated that following the OEB's decision on the PowerStream Custom IR application it determined that each cable replacement would be treated as a distinct project. The OEB finds that simply developing more details on the specific work planned within a typical annual capital program does not create multiple discrete projects eligible for ICM funding.

7. *PowerStream RZ Circuit Breaker Replacement – Richmond Hill TS#1* \$1.19 million

The Circuit Breaker Replacement – Richmond Hill TS#1 project involves replacing the six existing circuit breakers at Richmond Hill TS#1 due to technological incompatibility, a history of failures and the fact that manufacturer support is no longer being provided for this equipment. The project also includes procurement of one spare circuit breaker.

⁴⁹ Ibid.

Alectra Utilities stated that the most recent failure involving this type of circuit breaker at this station affected 15,500 customers and took over two hours to fully restore service. A forensic analysis, undertaken by Kinectrics, determined that the transient recovery voltage ("TRV") rating of this type of breaker is inadequate for this station. The TRV rating is a critical parameter for fault interruption by a circuit breaker and the forensic analysis points to the fact that the inadequate TRV ratings will result in further and more costly unplanned breaker failures if not resolved in a planned manner. Alectra Utilities expects the project to improve reliability, reduce the likelihood of customer interruptions and enable cost savings through the planned removal of obsolete equipment and standardization.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

8. *PowerStream RZ Rebuild of 27.6 kV Pole Line on Warden into 4 Circuits from 16th Ave to Major Mackenzie \$1.37 million*

The Rebuild of 27.6 kV Pole Line on 1 Warden into 4 Circuits from 16th Ave to Major Mackenzie project involves replacement of the existing two feeder 27.6 kV pole line on Warden Avenue with a four feeder pole line, extending existing feeders 12M10 and 12M11 into Markham North and increasing supply capacity by 40 MVA with two new feeders. Alectra Utilities stated that there are known large commercial facilities coming online in 2018 that will add 9.5 MVA of new load, which will use up all available capacity on the two current feeders. Beyond 2018, projected growth associated with long-term area developments is expected to require 66 MVA of additional capacity, as a result of the North Markham Future Urban Area expansion, and further load growth due to the Highway 404 North Development. Alectra Utilities argued that without this investment, the existing feeders will be fully loaded in 2018 and the ability to restore power during feeder outages will be very limited.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

The OEB also notes that a driver for this work is load growth in the area that will bring in additional revenue to Alectra Utilities. This additional revenue from growth will reduce the financial impact on the operations of the utility.

9. *PowerStream RZ Mill St. MS835 Transformer Upgrade – Tottenham* *\$1.3 million*

The Mill St. MS835 Transformer Upgrade – Tottenham project involves an upgrade of the Mill MS835 6 MVA transformer in order to provide the necessary backup capacity to meet load growth anticipated by 2019. Alectra Utilities stated that:

- Three major residential developments, scheduled to be completed over the next four years in this area, are expected to add 1,300 new customers.
- This growth will result in an additional 2.7 MVA of peak load supplied by two stations by 2019, bringing the total loading of the two stations to 9.6 MVA.
- This will exceed the emergency capacity of Mill MS835 (9.1 MVA) to provide backup in the event of failure at the Nolan MS834 station.
- Load is expected to continue to rise beyond 2019, reaching 12 MVA by 2025/26.
- This project is the most effective way to address the increased capacity requirements, as well as reliability, under single contingency scenarios.

PWU supported the project. BOMA also expressed its support for this project as it is: (1) distinct, (2) not part of pre-existing programs, and (3) alternatives were thoroughly canvassed.

SEC, VECC, CCC and AMPCO, as well as OEB staff, did not support ICM treatment.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

The OEB also notes that a driver for this work is load growth in the area that will bring in additional revenue to Alectra Utilities. This additional revenue from growth will reduce the financial impact on the operations of the utility.

10. PowerStream RZ Double Circuit 27.6 kV Pole Line on 19th Ave between Leslie and Bayview \$1.2 million

The Double Circuit 27.6kV Pole Line on 19th Ave between Leslie and Bayview project involves construction of a double circuit pole line and extension of two 27.6kV circuits onto 19th Ave from Leslie St. to Bayview Ave. to meet significant growth in this area. Alectra Utilities anticipates that approximately 500 new homes will require connection to the distribution system in the area. Alectra Utilities stated that there are no feeders on 19th Ave between Leslie and Bayview to support residential or commercial developments, therefore, new load in the development area cannot be serviced unless feeders are installed to connect the new customers.

Alectra Utilities further stated that a secondary driver stems from the radial configuration of the existing feeder on Leslie St, which means power is supplied from one end of the feeder only. There is no alternate supply from any other source in the event of an outage, thus giving rise to risks of prolonged outages. Alectra Utilities argued that this issue will become more significant as the customer density in the area continues to increase.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

11. *PowerStream RZ Double Circuit Existing 23M21 from Bayfield & Livingstone to Little Lake MS306 \$1.28 million*

The Double Circuit Existing 23M21 from Bayfield & Livingstone to Little Lake MS306 project involves the extension of feeder 23M28 along the existing path of 23M21 from Bayfield St. and Livingstone St. to Cundles Rd. and Duckworth St., and transfers the supply of Little Lake MS306 from 23M21 to 23M28. Alectra Utilities stated that:

- This project will free up capacity on 23M21 to meet projected load growth, supply the new Livingstone MS310 and mitigate the existing thermal overloading issue under contingency conditions for the area.
- Transferring the supply of Little Lake MS306 to the 23M28 and supplying the new Livingstone MS310 from 23M21 will more evenly distribute load across both feeders.
- Contingency transfers from 23M21 will be accommodated by both the existing 23M6 and new feeder 23M28.
- The new circuit will require a rebuild of the existing pole line along Livingstone St (from Bayfield St. to Cundles Rd.) and along Cundles Rd. to Little Lake.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to funding this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

Enersource Rate Zone

Alectra Utilities proposed eleven ICM projects in the Enersource RZ. These include one system access project of approximately \$1.3MM, nine system renewal projects totaling approximately \$19.7MM and one system service project totaling approximately \$3.2MM, for an overall total of approximately \$24.2MM.

The OEB approves ICM funding of \$10.754 million, effective May 1, 2018.

12. *Enersource RZ QEW – Evans to Cawthra Roads Project* \$1.29 million

The Evans to Cawthra Roads project is required by legislation to relocate electrical infrastructure to accommodate road work, as well as the final “cloverleaf” ramp configuration, arising from the Ministry of Transportation of Ontario’s (MTO’s) redesign of the on and off ramps at Dixie Road and QEW. Alectra Utilities stated that:

- Timelines for the execution of the road works are driven by the Region of Peel, City of Mississauga, and the MTO.
- This mandatory project involves removal of 39 poles, relocation of 72 poles, installation of 3 temporary poles, as well as implementation of an underground crossing of the QEW.
- The MTO will contribute all costs related to the relocation of assets on municipal property, and share costs on a 50/50 basis for asset relocations on MTO lands.

OEB staff and the PWU supported approval for recovery of the full amount proposed.

SEC, VECC, CCC, AMPCO and BOMA did not support ICM treatment for this project.

The parties opposing the project argue fundamentally, that it is comparable to other ongoing capital work programs. AMPCO argued that other cable and pole replacement projects should be deferred to accommodate the QEW – Evans to Cawthra Roads Project instead of approving incremental funding. AMPCO also argued that this project is similar to the Creditview road widening project, which is in the base budget.

Alectra Utilities disagreed with AMPCO because the other projects are to replace poles in poor condition and this project is required due to the MTO’s roadwork. Alectra Utilities responded that this is ranked seventh and the Creditview project is ranked eighth.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

Utilities are routinely required to relocate electrical infrastructure to accommodate roadwork by the MTO, a municipality or other road authority. Legislation has been enacted for this requirement and how to apportion costs. This work should be funded

through base capital programs unless a project is significant to the operations of the utility.

13. *Enersource RZ Glen Erin & Montevideo Subdivision Rebuild* \$1.96 million

The Glen Erin & Montevideo Subdivision Rebuild project involves renewal and replacement of early generation underground distribution cables and eight padmount transformers in the project area. Alectra Utilities stated that:

- Increasing failures on early generation underground cables (which are mostly unjacketed, i.e. without a protective sheath, and/or direct buried) are leading to rising numbers of outages and having an adverse impact on reliability.
- Since 2013, SAIDI and SAIFI in the project area have been four times and two times greater than the three year system average, respectively. Customers in this area have experienced two outages every year for the last three years due to these specific assets alone.
- The cables and transformers in the area are approximately 40 years old and are beyond the end of their useful life.
- This project is the preferred solution as it provides an opportunity to remove redundant cables that were originally installed to accommodate the build phases of the subdivision.
- The new cables will be installed in PVC ducts to make future replacement much less costly and will meet current standards for residential underground distribution.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment.

Parties opposing the proposed cable replacement projects argue that they are not unique relative to other underground cable replacement projects, that they involve normal capital expenditures and these projects are comparable to or part of routine ongoing work programs.

OEB staff further argued that the prudence and need criteria have not been met because Alectra Utilities has not shown an urgent driving need for these projects, and

there is evidence that one of the important historical causes for underground cable failures has now been effectively mitigated.

Alectra Utilities submitted that the cable replacement projects are targeted to areas with high levels of cable failures, well above what could be considered acceptable. Moreover, the Applicant took issue with OEB staff's suggestion that the issue of heat shrink splices has been mitigated, and in the worst performing areas of the Enersource RZ the issues are unrelated to heat shrink splices.

AMPCO submitted that these projects should not be approved because, in the Enersource RZ, the health index for underground cable is improving over time and the long-term rate of underground cable failures is stable. Alectra Utilities argued that the perceived trend that AMPCO highlighted was not indicative of improved health of this asset class but rather of a change in the health index methodology by Kinectrics.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding. In the last rebasing application for Enersource for 2013 rates,⁵⁰ the OEB approved a Subdivision Rebuild Program, and this project is reasonably part of that program.

14. *Enersource RZ Glen Erin & Battleford Subdivision Rebuild* \$2.06 million

The Glen Erin & Battleford Subdivision Rebuild project involves renewing and replacing early generation underground distribution cables and five padmount transformers in the project area to bring them in line with present day standards. Alectra Utilities stated that:

- Increasing failures on early generation underground cables (which are mostly unjacketed and/or direct buried) are leading to increasing outages and adversely impacting reliability.
- Since 2005, 17 underground cable failures have occurred in this area, affecting 32,572 customers for a total of 191,139 outage minutes.

⁵⁰ Enersource Hydro Mississauga Inc. "Decision and Order Rates," EB-2012-0033, December 13, 2012.

- The cables and transformers in the area are approximately 40 years old and are beyond the end of their useful life.
- The 2016 asset condition assessment flagged these cables as being in very poor condition and in need of immediate replacement.
- This project is the preferred solution as it provides an opportunity to remove redundant cables that were originally installed to accommodate the build phases of the subdivision.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the six cable replacement projects are included with the Glen Erin & Montevideo Subdivision Rebuild project and not repeated here.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding. In the last rebasing application for Enersource for 2013 rates,⁵¹ the OEB approved a Subdivision Rebuild Program, and this project is reasonably part of that program.

15. *Enersource RZ Credit Woodlands & Wiltshire Subdivision Rebuild* \$1.55 million

The Credit Woodlands & Wiltshire Subdivision Rebuild project involves replacing cables that are beyond the end of their useful life and transformers (11 in total) showing signs of leaks or containing PCBs. Alectra Utilities stated that:

- The replacement of transformers is needed to address safety, environmental, reliability, financial and regulatory risks and the replacement of cables is needed to address reliability issues.
- The cables and transformers in the area are approximately 37 years old.

⁵¹ Ibid.

- The 2016 asset condition assessment flagged these assets as being in very poor condition and requiring immediate replacement.
- This project provides an opportunity to remove redundant cables that were originally installed to accommodate the build phases of the subdivision.
- The new cables will be installed in PVC ducts, making future replacements easier and less costly.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the six cable replacement projects are included with the Glen Erin & Montevideo Subdivision Rebuild project and not repeated here.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding. In the last rebasing application for Enersource for 2013 rates,⁵² the OEB approved a Subdivision Rebuild Program, and this project is reasonably part of that program.

16. *Enersource RZ Tenth Line Main Feeder Subdivision Renewal* \$1.14 million

The Tenth Line Main Feeder Subdivision Renewal project involves renewing and replacing the early generation underground feeder cables in the Tenth Line area. Alectra Utilities stated that:

- The 2016 asset condition assessment (ACA) found the main feeder cables in this area to be in very poor condition and in need of immediate replacement.
- Two particular sections of direct buried cables have each failed four times, impacting a total of 7,074 customers and 3,684 customers, respectively.
- Portions of this cable are located in rear lots, making repairs particularly difficult and resulting in significant disruptions to residents.

⁵² Ibid.

- This project provides an opportunity to remove redundant cables that were originally installed to accommodate the build phases of the subdivision.
- The new cables will be installed in PVC ducts, making future replacements easier and less costly.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the six cable replacement projects are included with the Glen Erin & Montevideo Subdivision Rebuild project and not repeated here.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

The OEB also notes that in the last rebasing application for Enersource for 2013 rates,⁵³ the OEB approved a Subdivision Rebuild Program. This subdivision renewal program for the 10th line would reasonably be part of such a program. ICM funding is not available for typical annual capital programs.

17. *Enersource RZ Folkway & Erin Mills Main Feeder Subdivision Rebuild* *\$1.03 million*

The Folkway & Erin Mills Main Feeder Subdivision Rebuild project involves renewing and replacing early generation underground feeder cables in the Folkway and Erin Mills area. Alectra Utilities stated that:

- The 2016 asset condition assessment found the main feeder cables in this area to be in very poor condition and in need of immediate replacement.
- One particular section of direct buried cable has failed five times, impacting a total of 6,220 customers.

⁵³ Ibid.

- Portions of this cable are located in rear lots, making repairs particularly difficult and resulting in significant disruptions to residents.
- This project provides an opportunity to remove redundant cables that were originally installed to accommodate the build phases of the subdivision.
- The new cables will be installed in PVC ducts, making future replacements easier and less costly.

PWU supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, did not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the six cable replacement projects are included with the Glen Erin & Montevideo Subdivision Rebuild project and not repeated here.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

The OEB also notes that in the last rebasing application for Enersource for 2013 rates⁵⁴, the OEB approved a Subdivision Rebuild Program. This subdivision renewal program at Folkway and Erin Mills would reasonably be part of such a program. ICM funding is not available for typical annual capital programs.

18. *Enersource RZ City Centre Drive Rebuild (Walmart Cables)* \$1.55 million

The City Centre Drive Rebuild – Walmart Cables project involves replacing existing cables and civil infrastructure in this area to mitigate the risk of a significant and prolonged outage, as well as to eliminate the safety hazards to field crews that arise from the current design of civil chambers. Alectra Utilities stated that:

- There are two subgrade utility chambers in this area that were constructed in the 1970s.

⁵⁴ Ibid.

- Chamber configuration and condition present significant constraints in terms of physical access. When responding to cable outages in the area, workers have to operate in substandard and hazardous conditions resulting in prolonged complicated repairs and safety and operational risks.
- Based on the condition of the cables, failure is highly probable in the near future and this would result in a significant and prolonged outage to a large customer that is supplied by these cables.

PWU and BOMA supported approval for recovery of the full amount proposed for this project. SEC, VECC, CCC and AMPCO, as well as OEB staff, did not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the six cable replacement projects are included with the Glen Erin & Montevideo Subdivision Rebuild project and not repeated here.

BOMA expressed its support for this project as it is: (1) driven by safety and efficiency concerns, (2) the condition of the existing asset appears to pose a serious operational risk to utility personnel, and (3) the proposed investment is somewhat discrete and unique with multiple benefits including a safe workplace.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that this project is part of a typical annual capital program and therefore is not approved for ICM funding. The OEB also notes that in the last rebasing application for Enersource for 2013 rates,⁵⁵ the OEB approved both a Subdivision Rebuild Program and a budget for Underground Distribution Sustainment, and this project is reasonably part of that typical work.

19. *Enersource RZ Lake/John Area Overhead Rebuild* \$0.93 million

The Lake/John Area Overhead Rebuild project involves renewing the overhead system in the area south of Lakeshore Road W. between John Rd and Mississauga Rd. The project would mitigate the risks of pole fires due to porcelain insulators, worker and public safety concerns due to missing ground wiring and poles in poor conditions, as well as potential environmental contamination due to transformer oil leaks.

⁵⁵ Ibid.

Alectra Utilities stated that this project involves replacement of 50 poles that are in poor condition (with average age exceeding 40 years), 22 poles with problematic types of porcelain insulators, and 2 transformers showing signs of leaks. The project also includes the installation of copper clad ground wires to deter theft of ground wires and of fibreglass switch brackets to minimize outages caused by animal contacts. New primary and secondary conductors will also be installed.

PWU supports approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, do not support ICM treatment for the project.

Parties opposing the Overhead Rebuild projects argued that they are not unique relative to other overhead rebuild projects, they involve normal capital expenditures and they are part of routine ongoing work programs. Furthermore, OEB staff argued that the prudence and need criteria have not been met because Alectra Utilities has not shown an urgent need driving these expenditures and why this work cannot be deferred or paced by replacing individual worst-condition structures in these areas under the ongoing base capital Overhead Distribution Renewal and Sustainment program. BOMA argued that these projects involve the replacement of more assets than is necessary and that the replacement of defective or poor condition assets can be handled through the corresponding annual base capital programs.

Alectra Utilities submitted that OEB staff's argument in relation to the prudence and need criteria is misplaced. Alectra Utilities argued that the business cases for these projects:

- Include maps and other information, including lists of the system deficiencies such as copper theft, leaking transformers, sub-standard overhead configuration and insufficient mitigation of animal contact, all of which demonstrates that these assets are in poor condition.
- The business cases show that these assets have failed resistograph testing (which indicates internal deterioration of poles from rotting and cavities that may not be visible from outside).
- The risks of deferring these projects includes system reliability risks, environmental risks, as well as public and employee safety risks.
- The business cases explain that the option of only replacing the hazardous, worst-condition assets is not preferred because, although it carried lower near

term costs, over the longer term that option would result in increased maintenance, inspection and longer term replacement costs.

In response to BOMA's contention that these projects involve the replacement of more assets than is necessary, Alectra Utilities referenced⁵⁶ the business case, which indicates that all poles that are assessed to be in good condition will be maintained if possible.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

20. *Enersource RZ Church St. Area Overhead Rebuild* \$1.02 million

The Church St. Area 1 Overhead Rebuild project involves renewing the overhead system in the area east of Queen St. along Church St. to mitigate the risks of pole fires due to porcelain insulators, worker and public safety concerns due to missing ground wiring and poles in poor conditions, as well as potential environmental contamination due to transformer oil leaks. Alectra Utilities stated that this project involves the replacement of 55 poles that are in poor condition (with an average age exceeding 40 years), nine poles with problematic types of porcelain insulators, and six transformers that show signs of leaks. The project will also involve installation of copper clad alternative ground wires to deter theft, and the installation of fibreglass switch brackets to minimize outages caused by animal contacts. New primary and secondary conductors will also be installed.

PWU supports approval for recovery of the full amount proposed for this project. SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, do not support ICM treatment. General submissions by the intervenors, OEB staff and Alectra Utilities on the two overhead rebuild projects are included with the Lake/John Overhead Rebuild project and not repeated here.

⁵⁶ Application Attachment 47, p.46.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2018. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is therefore approved.

21. *Enersource RZ Transformer Replacement Project* \$8.45 million

Alectra Utilities stated that this is a mandatory project that involves replacement of 2,244 transformers that have been identified as showing signs of oils leaks or containing PCB in a planned and paced manner until 2021. Alectra Utilities stated that:

- This project addresses safety, environmental, reliability, financial and regulatory risks (particularly to avoid disruptive and costly environmental clean-up and ensure regulatory compliance).
- The need to minimize safety, environmental, reliability, financial and regulatory risks has led to the replacement of 2,052 transformers identified through rigorous inspections from 2013 to 2016.
- Transformer oil leaks at 103 sites led to \$5.6MM in incurred costs for environmental remediation and \$19.4MM in capital expenditures for transformer replacements from 2013 to 2016, which were not included in rates.
- Enersource, and now Alectra Utilities, relied on the asset condition health index results from the 2016 asset condition assessment report by Kinectrics, based on 2015 data, through which 1629 transformers were identified to be in poor or very poor condition.
- Further inspections in 2016 resulted in a total of 2,244 in-service transformers identified as needing replacement.
- Replacements have been performed during planned underground or overhead system renewal projects in order to minimize the number of site visits and outages required.
- Leaking transformers replaced as part of system rebuild projects are not included in the backlog of leaking transformers to be replaced as part of this multi-year project.

PWU supported approval of the amount proposed, while SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, are opposed.

OEB staff argued that the prudence and need criteria have not been met because Alectra Utilities has not prioritized replacements based on the manner in which it has categorized the leaking transformers (i.e. all amounts of observed leakage have the same high priority).

A related argument from AMPCO and SEC is that all of the major and moderately leaking units appear to have already been replaced, so the replacements in the test year are only of units with minor leaking. SEC further argues that the replacements do not result in reliability or customer service benefits.

Finally, OEB staff commented that Alectra Utilities' new transformer asset condition assessment methodology, and its move away from the run-to-fail operational approach for overhead and pad-mounted distribution transformers, have the effect of driving this \$8.45 million ICM expenditure in 2018, similar spending is expected for this item in each of the forecast years from 2019 to 2022, and that this is in contrast to the preference explicitly expressed by customers for control of rates.

Alectra Utilities submitted that projects do not need to be unique or related to work that is different in kind from that which is carried out through ongoing base capital work programs. Projects may be eligible for ICM whether discretionary or non-discretionary, whether in or not in a prior DSP, and whether routine or extraordinary. Although OEB staff commented that flat expenditure trends are typical of multi-year programs rather than discrete projects, for this project the replacement of transformers is to address a backlog arising over a number of years and will therefore take a number of years to complete. The flat expenditure trend is a consequence of Alectra Utilities having appropriately paced the work on this project towards a decline and end in 2021.

Alectra Utilities submitted that it continues to run its distribution transformers on a run-to-failure basis. However, new information, obtained as a result of continuous improvements in inspection practices led to identifying that a number of its transformers are leaking. To ensure compliance with applicable environmental legislation and regulations, and to minimize the risk of environmental liability, Alectra Utilities stated that it must take action to address leaking transformers, and the only available solution is replacement. Transformers with minor leaks are still leaking, and the risk associated with this could give rise to increased costs in the future.

Alectra Utilities noted that there are approximately 1750 transformers remaining in-service that were identified as having minor leaking at some point between 2012 and 2016. Alectra Utilities submitted that minor oil leaks typically deteriorate into moderate or major leaks over time and when oil leaks, it compromises the transformer insulation and leads to premature failure.

Alectra Utilities noted that a number of the transformers contain PCBs, and that a spill may lead to compliance issues, and real and significant costs. Alectra Utilities submitted that the pacing for the project recognizes and seeks to minimize these risks and is therefore appropriate.

Findings

The OEB approves ICM funding of \$8.45 million, effective May 1, 2018.

As part of Enersource's last rebasing application for 2013 rates⁵⁷ the OEB approved a capital expenditure of \$1.004 million for a transformer replacement program. This was a typical annual capital program that any utility would be expected to have. From 2013 to 2016, Enersource undertook extensive inspections of its transformers. The asset health index using 2015 data identified a significant number of transformers in poor or very poor condition. Numerous oil leaks from transformers have also been found.

The OEB finds that it was prudent for Enersource to materially increase its spending on transformer replacements as a result of the new assessment of asset condition. The OEB is also concerned about potential environmental impacts of leaking transformers and agree that additional funding for transformer replacements is warranted.

The OEB finds that there is such a material change to the program that it is neither "typical" nor "ongoing" in 2018 from the program approved by the OEB for 2013 rates. Therefore for 2018, the OEB has determined that while this is still a transformer replacement program, it is not a typical ongoing capital program. The OEB expects that this project will evolve to be a typical ongoing capital program and may not be eligible for any additional incremental funding in subsequent years.

⁵⁷ EB-2012-0033, op.cit.

22. *Enersource RZ York MS \$3.27 million*

This project involves upgrading York MS to increase station capacity to meet the forecast increase in demand and improve the reliability associated with station equipment and configuration. The project includes installation of low voltage switchgear, high voltage switchgear, and a 20 MVA power transformer. Alectra Utilities stated that:

- This project is driven primarily by growth in demand in the Meadowvale Business Park Area supplied by York MS.
- The area is forecast to experience an increase in load of 20 MVA over the next five years due to planned business and employment growth and approximately 50 % of this (10 MVA) will need to be supplied by York MS.
- York MS has a normal operating capacity of 20 MVA and present demand of 14 MVA.
- A second driver for this project is the need to update equipment and the configuration at the station to bring these in line with current standards and improve reliability. Originally commissioned in 1998 as a temporary station, the existing equipment and configuration is outdated and sub-standard, and experiences reliability issues associated with the cable egress, protection and station configuration.

PWU supports approval of the amount proposed, while SEC, VECC, CCC, AMPCO and BOMA, as well as OEB staff, are opposed.

OEB staff, while accepting that the project is discrete, argued that need and prudence have not been demonstrated. OEB staff submitted that Alectra Utilities has not shown that this project was more critical than other projects in the substation upgrade base capital program or the Webb MS upgrade project, which was deferred for two years.

Alectra Utilities submitted that the business case demonstrates the need and prudence for the project and explains the basis for the growth projections.

Alectra Utilities also noted that the York MS was originally built as a temporary station that has poor reliability and needs to be upgraded to meet current standards.

BOMA argued that this project does not rise to the level of having a significant impact on the operation of the utility because it would only affect reliability for only 100 residential consumers. Alectra Utilities submitted that the York MS serves the Meadowvale Business Park and not residential customers. Alectra Utilities replied that

the business park has a combination of commercial and industrial customers who would be significantly impacted in the event of a failure at the York MS.

Findings

The OEB approves ICM funding of \$2.3 million, effective May 1, 2018.

The OEB has reviewed the options provided by Alectra Utilities in its DSP. Funding was requested for option 1 of \$3.27 million to install a new 20 MVA transformer, an electrical house with low voltage switchgear, high voltage switchgear and civils works. The DSP also provided details of option 2 for \$2.3 million. The work for option 2 includes all of the work for option 1 except the new transformer. Option 2 ensures the required substation transformer protection configuration is in place. It does not provide additional capacity for the projected growth, but would permit the addition of a second transformer in the future.

The OEB accepts that this substation was constructed as a temporary station and needs to be upgraded to meet current standards. The OEB finds however that it is appropriate to see a consolidated plan for Alectra Utilities before any funding for increased in capacity at York MS is re-considered. The evidence on options was based on the Enersource RZ and it is not clear whether supply options taking into consideration all of Alectra Utilities' service area were available. A consolidated plan will also take into account updated load forecasts, which can show whether the forecast load is materializing.

4.6 ICM True-up

Alectra Utilities stated that it intended to carry out the ICM true-ups at its next rebasing in accordance with OEB policy and would report at the project level.⁵⁸

BOMA submitted that actual versus forecast cost for each approved ICM investment should be reviewed at the end of each year of the deferred rebasing period starting in 2019 and any underspending be credited to ratepayers at the next following annual rate review. Calculations should be done on a project basis and any overspending could be examined in the same timeframe.

⁵⁸ Argument-in-Chief, p. 25.

CCC submitted that if ICM relief is granted, Alectra Utilities should be required to report at a project level with respect to the ICM true-up process.

Alectra Utilities did not respond to the intervenor comments on the ICM true-up process in its reply submission.

Findings

The Funding of Capital Report states that at the next cost of service application:⁵⁹

...the actual costs and the recoveries would be reviewed for any material discrepancies. If there are significant variances between the revenue requirement based on actuals and the revenues collected through the ACM rate riders, the Board may decide to true up any differences.⁶⁰

The OEB accepts Alectra Utilities' commitment to include a project-level report in its next rebasing application. At that time, the OEB will determine if a true-up is warranted between the revenues collected from the ICM rate riders and the revenue requirement calculated for the actual capital spending for the ICM projects.

4.7 Retail Transmission Service Rates

Distributors charge retail transmission service rates (RTSRs) to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system.

All four of Alectra Utilities' rates zones are partially embedded within Hydro One Networks Inc.'s distribution system. Alectra Utilities is requesting approval to adjust the RTSRs charged to customers to reflect the rates it pays for transmission services.

Alectra Utilities agreed with the submission of OEB staff that the 2017 RTSRs should be updated as part of the draft rate order process to reflect new UTRs that have been approved. Subsequent to the close of record in this proceeding, the OEB issued a decision for the 2018 UTRs.⁶¹ The UTRs and host-RTSRs currently charged to Alectra

⁵⁹ This would apply to any rebasing application, both cost of service and Custom IR.

⁶⁰ Funding of Capital Report, September 18, 2014, p. 13.

⁶¹ EB-2017-0359, op.cit.

Utilities are included in Tables 3 and 4.

Table 3: UTRs⁶²

Current Applicable UTRs (2018)	per kWh
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

Table 4: Hydro One Networks Inc. Sub-Transmission Host-RTSRs⁶³

Current Applicable Sub-Transmission RTSRs (2017)	per kWh
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

Findings

The RTSRs in the application were based on the host-RTSRs and the UTRs current at the time of the filing. The OEB finds that the proposed RTSRs for each rate zone are to be updated and filed as part of the draft rate order to reflect the new 2018 UTRs that have been approved.

The differences resulting from the approval of new 2018 host-RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

⁶² Ibid.

⁶³ Decision and Rate Order “Hydro One Networks Inc. Application for electricity distribution rates and other charges beginning January 1, 2017,” EB-2016-0081, December 21, 2016.

4.8 Deferral and Variance Accounts

a) Disposition of Group 1 Deferral and Variance Accounts (“DVA”)

In each year of an IRM term, the OEB reviews a distributor’s Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.⁶⁴ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed.⁶⁵ If the balance does not exceed the threshold, a distributor may elect to request disposition. The approved settlement proposal for Horizon Utilities accepted the proposal to adopt the same approach for Group 1 accounts during Horizon Utilities’ Custom IR term.

Alectra Utilities included in its application a request for the disposition of Group 1 deferral and variance accounts (DVAs) over a one-year period including carrying charges projected to December 31, 2017, for the Horizon Utilities, Brampton, PowerStream and Enersource RZs. Alectra Utilities identified that the Group 1 balances, by RZ, exceed the disposition threshold of \$0.001/kWh.

Horizon Utilities RZ

Alectra Utilities asked for disposition of the Group 1 balance as of December 31, 2016 for the Horizon Utilities RZ in the credit amount of \$7,370,171. OEB staff indicated that it has no concerns with the Applicant’s request to dispose of its December 31, 2016 Group 1 DVA balances. Alectra Utilities asked that the OEB approve the proposed disposition of its Group 1 DVA balances as requested.

Enersource RZ

Alectra Utilities asked for disposition of the Group 1 balance as of December 31, 2016 for the Enersource RZ in the credit amount of \$7,421,393. OEB staff indicated that Alectra Utilities identified a credit amount of \$7,401,082 in its argument-in-chief

⁶⁴ Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

⁶⁵ Report of the OEB – “Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR).” EB-2008-0046, July 31, 2009.

compared to the disposition credit amount of \$7,421,393 included in the continuity schedule in the IRM Model. OEB staff asked Alectra Utilities to explain the difference and confirm the correct balance. No other parties made submissions on the Group 1 DVA balances for the Enersource RZ.

Alectra Utilities responded that in its argument-in-chief, it had identified a credit balance of \$7,401,082. This represented the Group 1 balance to be disposed via rate rider. The amount to be disposed of via customer specific bill adjustments is a credit of \$20,311 (credits of \$18,635 GA and \$1,676 CBR). The total amount requested for disposition is a credit of \$7,421,393. Alectra Utilities confirmed that it sought approval to dispose of a total Group 1 credit balance of \$7,421,393.

Brampton RZ

Alectra Utilities asked for disposition of the Group 1 balance as of December 31, 2016 for the Brampton RZ in the credit amount of \$5,732,154. OEB staff indicated that it had no concerns with respect to Alectra Utilities' proposals related to Group 1 DVA balances for the Brampton RZ. No other parties made submissions on the Group 1 DVA balances for the Brampton RZ. Alectra Utilities requested that the OEB approve the proposed disposition of its Group 1 DVA balances for the Brampton RZ.

PowerStream RZ

Alectra Utilities asked for disposition of the Group 1 balance as of December 31, 2016 for the PowerStream RZ in the credit amount of \$20,528,056. In Alectra Utilities' argument-in-chief, Alectra Utilities identified a credit amount of \$20,550,622. This represents the Group 1 balance to be disposed via rate rider. The amount to be disposed of via customer specific bill adjustments is a debit of \$22,566 for CBR. The total amount requested for disposition is a credit of \$20,528,056.

OEB staff submitted that the balance for disposition should be a credit of \$22,168,522. The difference is due to an error in the amounts recorded under the "principal adjustments" and "interest adjustments" in 2016.

OEB staff submitted that the RPP settlement true-up adjustments were recorded as debits on the DVA continuity schedule, and they should have been recorded as credit amounts since the true-up settlement amount was a payment from the IESO.

No other parties made submissions on the Group 1 DVA balances for the PowerStream RZ.

Alectra Utilities agreed with OEB staff's submission and stated it would update the IRM Model to record the RPP settlement true-up adjustment as credit amounts.

Findings

The OEB approves the disposition of the credit balances as of December 31, 2016, with interested project to April 30, 2017, for Group 1 accounts.

The following Tables 5, 6, 7 and 8 identify the principal amounts, with interest projected to December 31, 2017. As part of the rate order process, Alectra Utilities is directed to update the balances to include interest projected to April 30, 2018 at the OEB's current prescribed rate, subject to any adjustment to the Brampton RZ amount discussed in section 4.8 c).

Table 5 – Group 1 Accounts - Horizon RZ

Group 1 Accounts		Principal as at December 31, 2016 (\$)	Interest Projected to December 31, 2017 (\$)	Total (\$)
LV Variance Account	1550	552,752	9,052	561,804
Smart Metering Entity Charge				
Variance Account	1551	(23,673)	(377)	(24,050)
RSVA - Wholesale Market Service				
Charge	1580	(4,482,609)	(74,881)	(4,557,490)
Variance WMS – Sub-account CBR				
Class A	1580	(0)	(0)	(0)
Variance WMS – Sub-account CBR				
Class B	1580	(185,940)	(2,903)	(188,843)
RSVA - Retail Transmission Network				
Charge	1584	(532,829)	(4,765)	(537,595)
RSVA - Retail Transmission				
Connection Charge	1586	941,983	17,806	959,790
RSVA – Power	1588	671,361	22,523	693,884
RSVA - Global Adjustment	1589	(4,813,354)	(52,992)	(4,866,346)
Disposition and Recovery/Refund of				
Regulatory Balances (2016)	1595	194,908	393,767	588,675
Total Group 1 Balance excluding				
LRAMVA		(\$7,677,400)	\$307,229	(\$7,370,171)

Table 6 – Group 1 Accounts - Enersource RZ

Group 1 Accounts		Principal as at December 31, 2016 (\$)	Interest Projected to December 31, 2017 (\$)	Total (\$)
LV Variance Account	1550	2,290,282	41,320	2,331,602
Smart Metering Entity Charge Variance Account	1551	(33,444)	(692)	(34,136)
RSVA - Wholesale Market Service Charge	1580	(6,868,015)	(131,614)	(6,999,629)
Variance WMS – Sub-account CBR Class A	1580			
Variance WMS – Sub-account CBR Class B	1580	(275,214)	(5,472)	(280,686)
RSVA - Retail Transmission Network Charge	1584	(568,201)	3,720	(564,481)
RSVA - Retail Transmission Connection Charge	1586	333,842	12,666	346,508
RSVA – Power	1588	(350,628)	(25,469)	(376,097)
RSVA - Global Adjustment	1589	(1,860,431)	21,884	(1,838,547)
Disposition and Recovery/Refund of Regulatory Balances (2014)	1595	(58,585)	52,658	(5,927)
Total Group 1 Balance excluding LRAMVA		(\$7,390,396)	(\$30,999)	(7,421,393)

Table 7 – Group 1 Accounts - Brampton RZ

Group 1 Accounts		Principal as at December 31, 2016 (\$)	Interest Projected to December 31, 2017 (\$)	Total (\$)
LV Variance Account	1550	247,217	3,964	251,180
Smart Metering Entity Charge Variance Account	1551	(59,949)	(897)	(60,846)
RSVA - Wholesale Market Service Charge	1580	(3,726,242)	(58,136)	(3,784,378)
Variance WMS – Sub-account CBR Class A	1580			
Variance WMS – Sub-account CBR Class B	1580	(97,872)	(2,695)	(100,566)
RSVA - Retail Transmission Network Charge	1584	(479,528)	(8,793)	(488,321)
RSVA - Retail Transmission Connection Charge	1586	555,267	8,328	563,595
RSVA - Power	1588	(217,342)	(13,136)	(230,478)
RSVA - Global Adjustment	1589	(1,611,142)	(6,922)	(1,618,064)
Disposition and Recovery/Refund of Regulatory Balances (2013)	1595	(924)	(15)	(939)
Disposition and Recovery/Refund of Regulatory Balances (2014)	1595	263,919	(103,620)	160,298
Disposition and Recovery/Refund of Regulatory Balances (2015)	1595	(424,904)	1,267	(423,637)
Total Group 1 Balance excluding LRAMVA		(\$5,551,499)	(\$180,655)	(5,732,154)

Table 8 – Group 1 Accounts - PowerStream RZ

Group 1 Accounts		Principal as at December 31, 2016 (\$)	Interest Projected to December 31, 2017 (\$)	Total (\$)
LV Variance Account	1550	4,477,534	88,685	4,566,219
Smart Metering Entity Charge Variance Account	1551	(252,810)	(4,962)	(257,773)
RSVA - Wholesale Market Service Charge	1580	(25,885,605)	(591,222)	(26,476,826)
Variance WMS – Sub-account CBR Class A	1580	0	0	0
Variance WMS – Sub-account CBR Class B	1580	1,947,271	51,253	1,998,524
RSVA - Retail Transmission Network Charge	1584	(6,495,670)	(125,334)	(6,621,004)
RSVA - Retail Transmission Connection Charge	1586	2,623,509	55,678	2,679,187
RSVA – Power	1588	1,047,973	50,164	2,720,755
RSVA - Global Adjustment	1589	890,272	93,168	1,001,287
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	2	(21,764)	(21,762)
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	7,318	233	7,551
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	336	47	382
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	12,466	153,410	165,877
Disposition and Recovery/Refund of Regulatory Balances (2014)	1595	0	(290,474)	(290,474)
Total Group 1 Balance excluding LRAMVA		(\$21,627,405)	(541,117)	(22,168,522)

b) Proposal to Change Previously Approved Rate Riders

Alectra Utilities proposed to update the current 2016 GA rate riders with new 2016 GA rate riders for the period January 1, 2018 to September 30, 2018 in the PowerStream RZ. As part of its approved 2016 rates, Alectra Utilities has GA rate riders for the PowerStream RZ that expire September 30, 2018, and that apply to all Class B non-RPP customers (2016 GA rate riders). Alectra Utilities submitted that the Class B interval customers were billed actual GA and should not have been allocated any of the GA variance. Alectra Utilities projected that these Class B interval customers paid \$3,134,585 to December 31, 2017 and that this over recovery should be refunded to

Class B interval customers and recovered from Class B non-RPP non-interval customers.

Alectra Utilities designed new 2016 GA rate riders to apply to Class B non-RPP non-interval customers to recover the projected balance remaining at December 31, 2017 of \$3,906,837, plus the over recovery from the Class B interval customers from the 2016 GA rate riders of \$3,134,585, for a total of \$7,041,422.

OEB staff submitted that although some intergenerational inequity may exist, it would not have an impact on the total amount that the utility would recover and that this error could be corrected as part of the residual balance disposition given that the purpose of Account 1595 is to true-up approved balances. OEB staff indicated that Alectra Utilities is not making corrections to previously approved balances.

Alectra Utilities submitted that the OEB should approve the proposal to update the 2016 GA rate riders in the PowerStream RZ to ensure that the previously approved GA balance for disposition is allocated to the correct class of customers. Alectra Utilities proposed to recalculate the adjusted balances proposed for recovery and disposition based on the implementation date in the OEB's Decision on this application.

Findings

The OEB approves Alectra Utilities' proposal to correct the 2016 GA rate riders to apply only to Class B non-RPP non-interval customers on a prospective basis. The interval customers were billed on the actual GA and therefore did not contribute to the GA variance. This is not a correction to previously approved balances, it is a correction to the calculation of the rate riders based on the applicability to only certain Class B customers. If the OEB does not approve this proposal, residual amounts from the disposition will flow through to Account 1595 for future disposition from all customers, not just the customers for whom the account balance was accumulated. Alectra Utilities is directed to update the rate riders for the implementation date of May 1, 2018.

c) Disposition of Capacity Based Response ("CBR") Rate Rider for Class B Customers to Five Decimal Places

Alectra Utilities requested disposition of the CBR rate riders for Class B customers to the fifth decimal place for the Horizon Utilities, Brampton, and Enersource RZs. Alectra Utilities proposed that this treatment aligns disposition of the CBR balances with the

CBR bill adjustments for new Class A and new Class B customers and prevents intergenerational inequity.

In response to an OEB staff interrogatory,⁶⁶ Alectra Utilities confirmed that the billing systems in the Horizon Utilities and Enersource RZs have the ability to bill to five decimal places, but the Brampton RZ's billing system is limited to four decimal places.

OEB staff indicated that it does not oppose the approval of rate riders for CBR Class B balances to five decimal places in order to minimize intergenerational inequity.

Alectra Utilities requested that the OEB approve the proposed disposition of its CBR Class B balances to five decimal places for the Horizon Utilities and Enersource RZs. Alectra Utilities stated that it will seek disposition of the CBR Class B balance for the Brampton RZ in a future application.

Findings

The OEB approves the disposition of the CBR Class B balances for Horizon Utilities and Enersource RZs using rate riders to five decimal places.

It is not clear from Alectra Utilities' statement in the reply submission whether it was withdrawing its request for disposition of the CBR Class B balance for the Brampton RZ. This account was included in the \$5,732,154 of Group 1 balances for which Alectra Utilities is seeking disposition. If Alectra Utilities is withdrawing its request, Alectra Utilities may remove the CBR Class B credit balance from Table 7 as part of the draft rate order, for future disposition.

d) Requests for New Accounts

Alectra Utilities has asked for approval of an accounting order to establish two new deferral accounts, one for each of the PowerStream RZ and Enersource RZs, to record the financial impacts resulting from the Metrolinx Crossing Remediation Project.

Alectra Utilities stated that the Metrolinx Regional Express Rail (RER) Electrification will entail the conversion of six of the eight GO rail corridors from diesel to electric propulsion in the Greater Toronto and Hamilton Area. Alectra Utilities has determined that (i) all of the overhead crossings along the Lakeshore and Kitchener GO rail

⁶⁶ G-Staff-4.

corridors for the Enersource RZ and (ii) all of the overhead crossings along the Barrie and Stouffville GO rail corridors for the PowerStream RZ are in conflict with the planned overhead catenary system for the GO electrification. For the Enersource RZ, a total of 28 crossings and seven parallel lines along the Lakeshore and Kitchener corridors have been identified as being in conflict. For the PowerStream RZ, a total of 69 distribution system assets along the Barrie and Stouffville corridors have been identified as being in conflict.

Alectra Utilities further stated that the best option is to convert the crossings from overhead to underground. Alectra Utilities noted that the timeline for the Metrolinx tender is scheduled for 2019 for each of the rate zones and actual construction of the overhead catenary system is expected to start in 2020. Metrolinx has informed Alectra Utilities that several crossings will need to be remediated between 2017-2020 in the Enersource RZ and between 2017-2019 in the PowerStream RZ. Based on the proposed schedule, Alectra Utilities anticipates 10 crossings for the Enersource RZ and 10 to 15 crossings for the PowerStream RZ may need to be remediated in 2018 in order to align with Metrolinx's schedule for construction.

Alectra Utilities stated that as Metrolinx has not finalized the final design and identification of the specific number crossings to be remediated, it has not been possible to develop project costs. Alectra Utilities added that it continues to monitor the progress and timelines of the project schedule, as they are dependent on Metrolinx.

OEB staff opposed the request for two new deferral accounts relating to the Metrolinx Projects stating that the request was not consistent with the OEB's ICM policy. CCC similarly argued that Alectra Utilities could apply for ICM treatment for these projects at a future date. BOMA stated that it opposed the deferral accounts request but indicated that once costs were incurred, Alectra Utilities could apply for a deferral account at that time.

VECC submitted that all of the transit related projects included in the ICM applications should be subject to deferral account treatment. In VECC's view, this included both Metrolinx projects in the PowerStream RZ and Enersource RZ, the YRRT in the PowerStream RZ and the QEW widening in the Enersource RZ.

Alectra Utilities submitted that the Metrolinx projects are appropriate for deferral account treatment as they meet all of the OEB's criteria and were unanticipated. Alectra Utilities submitted that the expenditures will be significantly in excess of the OEB-approved threshold and will be subject to a prudence review at the time of the clearance of the accounts.

Alectra Utilities referred to the OEB's approval of a variance account for Toronto Hydro⁶⁷ to track the difference between the amounts included in base distribution rates for third party initiated relocation and expansion capital spending and the amounts actually spent on such work as it occurs over Toronto Hydro's Custom IR term. Alectra Utilities noted that this Toronto Hydro account relates to non-discretionary requests from third parties to relocate parts of its distribution system and the cost and timing are outside of Toronto Hydro's control. Alectra Utilities stated that a draft accounting order is included in the application.⁶⁸

Alectra Utilities further requested that the OEB consider addressing the GO Transit electrification project on a generic basis as it is an issue that will affect approximately one dozen OEB-regulated utilities across four regional municipalities, one county, five cities and five towns.

SEC and CCC suggested that the Metrolinx projects may be more appropriately dealt with through an ICM when details are more clearly defined. BOMA raised concerns that the deferral account approach would circumvent the ICM policy and that costs are not being appropriately shared. Alectra Utilities replied that if the only potential for relief for a distributor is to fund such work through base rates or through an ICM, then the revitalization/electrification of transportation systems will crowd out virtually all other necessary capital work due to the timing and sheer magnitude of the transportation work to be completed.

Findings

The OEB does not approve the new deferral accounts. The OEB has adopted the ICM for incremental funding for capital projects. When more details of these projects are available, including budgets and in-service date, Alectra Utilities can apply for an ICM if it meets the OEB's criteria. To adopt deferral accounts to address the funding of capital would make the ICM materiality threshold calculation meaningless because there would be two different funding mechanisms for incremental capital.

The OEB disagrees with Alectra Utilities that this is an analogous situation to the variance account approved for Toronto Hydro. Toronto Hydro's application was part of a Custom IR application in which cost forecasts are reviewed, not part of an IRM

⁶⁷ Decision and Order "Toronto Hydro-Electric System Limited Application for electricity distribution rates effective from May 1, 2015 and for each following year effective January 1 through to December 31, 2019," EB-2014-0116, December 29, 2015.

⁶⁸ Application, Attachment 40. Attachment 27 contains the draft PowerStream accounting order.

application. As stated in the Chapter 3 Filing Requirements: “the IRM process is not the appropriate way for a distributor to seek relief on issues which are specific to only one or a few distributors, more complicated relative to issues typical of an IRM application, or potentially contentious.”

The OEB is also concerned about the cost sharing arrangements. Having the electricity distributor pay the majority of costs is not fair to electricity customers and is inconsistent with how cost sharing has been legislated for works on highways.⁶⁹ Alectra Utilities should continue its negotiations on cost sharing arrangements.

As to Alectra Utilities’ submission that the OEB open a generic deferral account for Metrolinx projects, and that these projects would crowd out other necessary capital work, there is no evidence on the magnitude of this work for other distributors and whether this will dominate other capital work. Even for Alectra Utilities there is only an approximate estimate at this point because Metrolinx has not defined the final project design and number of crossings yet.

e) Lost Revenue Adjustment Mechanism (LRAMVA)

As part of the Ministry of Energy’s conservation-first policy, distributors have an OEB licence requirement to ensure CDM programs are available to their customers. These programs result in reduced total energy consumption. To address the impact of the reduced consumption, the OEB established a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture a distributor’s revenue implications resulting from differences between actual load and the last OEB-approved load forecast. These differences are recorded by distributors at the rate class level.

A distributor may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of its IRM application, if the balance is deemed significant by the distributor. A request for the inclusion of lost revenues from demand response programs as part of the LRAMVA, must be addressed through a rebasing application.

Alectra Utilities has requested disposition of the balances in its LRAMVAs resulting from its CDM activities as of December 31, 2015 for each of the Horizon Utilities, PowerStream and Enersource RZs. The former Hydro One Brampton disposed of the

⁶⁹ *Public Service Works on Highways Act*.

balances in its LRAMVA as of December 31, 2015, as part of its 2017 IRM application⁷⁰ so LRAMVA disposition is not sought for the Brampton RZ in this application.

For each of these three rate zones, Alectra Utilities has stated it determined the LRAMVA balance in accordance with the OEB's 2012 CDM Guidelines and 2015 CDM Guidelines. Alectra Utilities completed the OEB's 2018 LRAMVA work form for each of the three rate zones. In accordance with the OEB's 2016 Updated Policy on the calculation of peak demand savings, Alectra Utilities has not included peak demand (kW) savings from Demand Response programs for the Horizon Utilities, PowerStream and Enersource RZs in its lost revenue calculation. The detailed calculations were updated based on Alectra Utilities' response to an undertaking.⁷¹

Horizon Utilities RZ

Horizon Utilities' most recent application for the recovery of lost revenues due to CDM activities was filed in its Custom IR application.⁷² In that proceeding, the OEB approved Horizon Utilities' request to recover lost revenues from CDM activities in 2011 and 2012. Horizon Utilities' actual savings from CDM activities for 2013 through 2015 were above the estimated projections used in the load forecast resulting in an under-collection from customers during this period. The total amount requested for disposition in this application is a debit of \$1,339,931 including interest of \$51,220 projected to December 31, 2017.

PowerStream RZ

PowerStream's most recent application for the recovery of lost revenues due to CDM activities was filed in its Custom IR application.⁷³ In that proceeding, the OEB approved PowerStream's request to recover lost revenues from CDM activities in 2013. Actual savings from CDM activities for 2014 and 2015 in the PowerStream RZ were above the estimated projections used in the load forecast resulting in an under-collection from customers during this period. The total amount requested for disposition in this application is a debit of \$1,977,404 including interest of \$62,106 projected to December 31, 2017.

⁷⁰ EB 2016-0080.

⁷¹ JT.Staff-8.

⁷² EB-2014-0002.

⁷³ EB-2015-0003.

Enersource RZ

Enersource's most recent application for the recovery of lost revenues due to CDM activities was filed in a stand-alone LRAM application.⁷⁴ In that proceeding, the OEB approved Enersource's request to recover lost revenues from persisting historical impacts of pre-2011 CDM programs in 2011 and 2012. Enersource's actual savings from CDM activities for 2011 through 2015 were above the estimated projections used in the load forecast resulting in an under-collection from customers during this period. The total amount requested for disposition in this application is a debit of \$2,077,134 including interest of \$102,149 projected to December 31, 2017.

Findings

The OEB finds that Alectra Utilities' LRAMVA balances for the Horizon Utilities, PowerStream and Enersource RZs have been calculated in accordance with the CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of Alectra Utilities' LRAMVA debit balances, with interest projected to April 30, 2018. Balances with interest projected to December 31, 2017 are set out in Table 9 below.

Table 9 LRAMVA Balance for Disposition

Rate Zone	Account Number	Principal Balance	Interest to December 31, 2017	Total Claim (\$)
Horizon	1568	\$1,288,711	\$51,220	\$1,339,931
PowerStream	1568	\$1,915,298	\$62,106	\$1,977,404
Enersource	1568	\$1,974,985	\$102,149	\$2,077,134

Alectra Utilities is directed to update the interest calculation up to April 30, 2018, and file revised rate riders for recovery of the LRAMVA balances as part of the rate order process.

⁷⁴ EB-2013-0024.

4.9 Residential Rate Design

All residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.⁷⁵ The OEB requires distributors filing applications for 2018 rates to continue with this transition by once again adjusting their distribution rates to increase the fixed monthly service charge and decrease the variable charge consistent with the policy.

The OEB expects an applicant to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Alectra Utilities confirmed in its reply submission that the monthly service charge was not increasing by more than \$4, nor would the customer at the 10th consumption percentile of electricity consumption have a bill impact of 10% or more for the Horizon Utilities, Brampton, Enersource and PowerStream RZs.

OEB staff submitted that the method used to calculate the fixed rate was in accordance with OEB policy and no mitigation is required. Intervenor did not object to Alectra Utilities' proposals on this matter.

Findings

The OEB finds that the proposed 2018 increases to the monthly fixed charges for the Brampton, Enersource and PowerStream RZs were calculated in accordance with the OEB's residential rate design policy. The OEB approves the proposed increases in the fixed distribution rate and corresponding decreases in the variable distribution rate for the residential rate class in each rate zone. The effect on the monthly fixed charge, and

⁷⁵ OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015.

total bill impact for low consumption residential consumers shows that no mitigation is required.

For the Horizon Utilities RZ there will be updates to proposed rates resulting from this Decision. The OEB is satisfied that with these updates the two tests for rate mitigation will still show that rate mitigation is not required. Alectra Utilities is directed to update the Horizon RZ rates resulting from this Decision using its proposed methodology for transitioning to the fully fixed charge for residential customers.

4.10 Capitalization Policy

Alectra Utilities was required by applicable accounting standards⁷⁶ to implement a new capitalization policy in 2017 (following the consolidation) to conform capitalization policies for the Alectra Utilities predecessor rate zones to that of the identified acquirer, the former PowerStream Inc., as part of its merger transaction.

In the Decision on Issues List and Interim Rates and Procedural Order No. 3, the OEB rendered its decision on the final issues list for this proceeding. The OEB determined that it would add a new issue relating to the change in capitalization policy.

The OEB established three new deferral accounts “to track the change in capitalization” for the Horizon Utilities, Enersource and Brampton RZs. The OEB also asked Alectra Utilities for confirmation that the capitalization change had no impact on Horizon Utilities’ 2016 earnings; and invited parties to provide any comments “on the recording details” for the new accounts by December 7, 2017. The OEB concluded by expressly noting that “[t]he nature of any disposition of these accounts is not being determined at this time” and that submissions in this respect would be heard as part of final argument”.

By letter dated December 7, 2017, Alectra Utilities confirmed that the change in capitalization policy had no impact on Horizon Utilities’ 2016 earnings and no impact on the proper calculation of the Horizon Utilities RZ ESM.

Alectra Utilities submitted that the OEB should order the closure of the capitalization related deferral accounts and the reversal of any amounts recorded in those accounts. Alectra Utilities explained that it was taking this position as the capitalization policy change is a non-cash event that had no impact, and will have no impact going forward,

⁷⁶ The Canadian Accounting Standards Board (AcSB) has adopted International Financial Reporting Standards (“IFRS”) for Canada.

on the underlying cost of utility business. Further, Alectra Utilities argued that OEB policy does not support any claim for rate adjustment at this time.

Alectra Utilities claimed that both the OEB's filing requirements and MAADs policy are clear that, where a rebasing deferral period has been approved by the OEB for a consolidation transaction, accounting changes (including changes in capitalization policy) that are required within the consolidated entity pursuant to applicable accounting standards during the rebasing deferral period, are not to be reflected in rates until such time as the consolidated entity rebases.

Alectra Utilities argued that the capitalization policy change is a function of the integration, and that the savings or costs arising from integration are to the account of the shareholder as specified in the MAADs Handbook⁷⁷ and, more recently, in the MAADs Decision.⁷⁸

SEC argued that Alectra Utilities' proposal would collect a total of \$53.2 million⁷⁹ from customers twice, first as part of the OM&A budget and second as part of the expenses now to be capitalized and included in rate base at the end of the 10-year deferred rebasing period. SEC also noted that the impacts of the capitalization policy were not disclosed to the OEB when approval was sought for the merger during the MAADs proceeding.⁸⁰

SEC submitted that the amount recorded for 2017 should be processed as rate riders in 2018, with amounts continuing to be recorded and cleared annually to the end of the deferred rebasing period. SEC stated that another option was to hold amounts in the deferral accounts until the rebasing, but there does not appear to be any principled reason to leave balances accumulating for 10 years.

Alectra Utilities submitted that parties who argued that the impact of the capitalization change would be recovered twice in rates assume that Alectra Utilities would seek, and be permitted by the OEB to recover, amounts once through OM&A and again through rate base.

⁷⁷ Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, pp. 8-9.

⁷⁸ Decision and Order "Enersource Hydro Mississauga Inc. Horizon Utilities Corporation & PowerStream Inc. Application for approval to amalgamate to form LDC Co and for LDC Co to purchase and amalgamate with Hydro One Brampton Networks Inc." EB-2016-0025/EB-2016-0360, December 8, 2016, p.16.

⁷⁹ SEC also provided after-tax impacts to Alectra Utilities and grossed up tax impacts to customers.

⁸⁰ EB-2016-0025/EB-2016-0360.

BOMA submitted that the capitalization policy change qualifies as a Z-factor for each of the Enersource, Horizon Utilities, and Brampton RZs, and adjustments should be made for 2019 rates. Alectra Utilities disagreed on the basis that the capitalization change is not an event that is external to the utility and therefore does not meet the z-factor criteria. Alectra Utilities argued that it was required to adopt a uniform capitalization policy on merger across all of its rate zones, which was an event entirely within the control of the merging parties.

Both OEB staff and AMPCO argued that the balances in the capitalization related deferral accounts should be cleared in favour of ratepayers annually (AMPCO) or every two years (OEB staff). Alectra Utilities submitted that this would be inconsistent with OEB policy that income impacts arising from a merger should accrue to shareholders, and would convert a non-cash accounting impact to the utility into a cash outcome for customers.

Alectra Utilities argued that the three deferral accounts opened to record the impact of the change in capitalization policy accounts should be closed without clearing the balances.

Findings

The OEB finds that the change in capitalization policy is not a "benefit" accruing to shareholders as claimed by Alectra Utilities.

Neither the MAADs policy nor the MAADs Handbook addressed a change in capitalization policy resulting from a merger. In contrast, the OEB did require utilities to provide justification when opting to use different accounting standards for financial reporting (i.e. changing from International Financial Reporting Standards (IFRS) to USGAAP) following the closing of the proposed merger transaction. Alectra Utilities did not pursue this option and did not seek any such approval in its MAADs application.

In its MAADs application, Alectra Utilities did not disclose to the OEB that applicable accounting standards mandated a capitalization change for three of the rate zones. The OEB issued its MAADs decision based on the evidence before it. The MAADs decision was silent as the issue was not raised. This Decision is the OEB's first opportunity to consider and opine on the appropriate regulatory treatment for a mandated accounting change resulting from the merger.

Alectra Utilities stated that the change in the capitalization policy was a "non-cash event that had no impact, and will have no impact going forward, on the underlying cost of

utility business.”⁸¹ The OEB agrees. The change in capitalization policy does, however, change the type of costs (OM&A or capital) and the timing of cost recognition, which is relevant when setting electricity rates.

The OEB’s MAADs policy was established to incent consolidations by permitting utilities to keep efficiency gains to offset the costs of the transaction. The change in capitalization policy has no impact on underlying total costs and therefore on efficiency. It simply moves some costs from OM&A to capital (for Enersource RZ and Horizon Utilities RZ) and vice versa (for Brampton RZ). The OEB finds that it is neither an efficiency gain nor a “benefit” of the merger that should accrue to shareholders, to be used to offset the costs of the merger transaction, as claimed by Alectra Utilities. Having found that mandatory accounting changes are distinct from efficiency gains that accrue to shareholders, the next question is whether there should be an adjustment to 2018 rates as a result of this mandated accounting change. The OEB is not approving an adjustment to 2018 rates for this change. The OEB will consider a change to the 2019 rates.

To consider rate changes during the deferred rebasing period, the OEB created three deferral accounts to track the costs. The OEB did not establish a deferral account for the PowerStream RZ as no capitalization policy change was required.

For the Horizon Utilities RZ there is a Custom IR framework pursuant to the approved settlement proposal that stated:

Horizon Utilities also agrees that it will not make any material changes in accounting practices that have the effect of either reducing or increasing utility earnings unless otherwise directed to do so by the OEB, or by an accounting standards body and/ or provincial or federal government and approved by the OEB. Any such changes shall be noted at the time of any proposed ESM disposition.⁸²

The Custom IR framework described in the Rate Handbook stated that the OEB “expects that a utility that applies under Custom IR will be committed to that method for the duration of the approved term and will not seek early termination or in-term updates except under exceptional circumstances and with compelling rationale”.⁸³ The Horizon Utilities Custom IR framework, as outlined in the approved settlement proposal, pre-

⁸¹ “Applicant’s Reply Submission,” op.cit., p. 81.

⁸² Horizon Utilities Corporation “Settlement Proposal,” EB-2014-0002, September 22, 2014, p. 22.

⁸³ “Handbook for Utility Rate Applications,” op.cit., pp. 26-27.

dated the Rate Handbook and had a number of prescribed annual adjustments and openers, including an ESM. The approved settlement proposal did not specify how a material change in accounting practice would be treated, just that it would be noted. The approved settlement proposal was a “package deal” which the OEB approved. The approved settlement proposal did not include mandated accounting changes as a reopener, and therefore the OEB will not approve one now. For the remainder of the Custom IR term, the effect on earnings resulting from the change in the capitalization policy will be dealt with through the ESM. Once the Custom IR term ends, the Horizon Utilities RZ will move to Price Cap IR per the MAADs policy, and it will be treated consistently with the Brampton and Enersource RZs. Alectra Utilities shall retain the deferral account opened for Horizon Utilities RZ,⁸⁴ however, the first entries to the account shall begin January 1, 2020.

The Brampton and Enersource RZs are on Price Cap IR. For these rates zones, the OEB finds it appropriate to retain the balances recorded in the deferral accounts approved in the Decision and Partial Accounting Order effective February 1, 2017. The OEB acknowledges Alectra Utilities’ reply submission that future rate recovery has yet to be determined as subsequent applications and proposals have yet to be filed. The OEB finds that this future uncertainty creates a regulatory risk, and that this risk is appropriately addressed through deferral accounts to enable ratemaking options.

The OEB disagrees that mandatory accounting changes are only made in rebasing applications. When Canada transitioned to IFRS, most distributors had mandated changes to depreciation expense and capitalization policies. The OEB required that the impact of these mandatory IFRS-related changes be recorded in specific accounts for future disposition.⁸⁵ The OEB subsequently approved disposition of these accounts in both cost of service and IRM decisions.⁸⁶ The OEB finds it appropriate to enable disposition of the Impact of Post-merger Capitalization Policy Changes accounts for the Enersource and Brampton RZs during the Price Cap IR term, consistent with regulatory precedent. The OEB finds that both the transition to IFRS and the capitalization policy change from the merger were due to mandated accounting standards established by

⁸⁴ Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes HRZ.

⁸⁵ Accounts 1575 and 1576 were used depending on when changes were made, either at the time of a rebasing application or during an IRM term.

⁸⁶ Examples of IRM applications in which balances accumulated for the transition to IFRS have been disposed include Newmarket-Tay Power Distribution Ltd. EB-2016-0275, and Whitby Hydro Electric Corporation EB-2016-0114.

the Canadian Accounting Standards Board (AcSB), and the OEB should apply consistent regulatory treatment.

While amounts for Alectra Utilities could be held in the accounts approved by the OEB until the next rebasing, and used as an offset to rate base, the deferred rebasing period is 10 years. This is an unreasonably long time to wait for disposition of the accounts. Given the complexities of determining amounts that should be credited to customers, such as tax treatment, the OEB finds that Alectra Utilities shall file a proposal for disposition of the deferral accounts in its application for 2019 rates for the Brampton and Enersource RZs.

4.11 Monthly Billing

On April 15, 2015, the OEB amended the Distribution System Code and announced that all distribution utilities must migrate their residential and GS<50kW customers to monthly billing, no later than January 1, 2016. Alectra Utilities did not seek any relief related to its transition to monthly billing in the current application.

OEB staff, along with VECC, BOMA and PWU did not make any submissions on monthly billing.

SEC submitted that the OEB should order creation of deferral accounts to track the cumulative impact of monthly billing for each of the affected rate zones. Starting in 2019, whenever the cumulative net impact (savings less costs) is a credit, the accounts should be cleared by way of a refund to customers. CCC and AMPCO supported the submission of SEC.

Alectra Utilities argued that the origin of the benefit is based on the assumption by SEC that the distributor, having migrated its customers to monthly billing, must immediately change its working capital allowance percentage to the OEB default of 7.5%.

Alectra Utilities stated that its predecessor Hydro One Brampton had already implemented monthly billing. Its predecessor, PowerStream, implemented monthly billing as of January 1, 2017; and Alectra Utilities implemented monthly billing in the Horizon Utilities RZ as of June 30, 2017. Alectra Utilities noted that this proceeding is for electricity distribution rates effective January 1, 2018.

Alectra Utilities also submitted that the approved settlement proposal for Horizon Utilities was clear on the areas that would be subject to annual updates and reopeners.

Alectra Utilities noted that there was no reopener, nor an annual update for the working capital allowance percentage.

Findings

The OEB will not establish new deferral accounts to track the impact of monthly billing for each rate zones as proposed by SEC.

The OEB required all distributors to bill customers on a monthly basis. This may have included costs to alter billing systems, additional billing and payment processing costs, and for some, reduced costs for working capital by collecting from customers earlier. The extent to which additional costs were offset by improvement in working capital is unknown, and is not in evidence in this proceeding.

The OEB acknowledges that all rate zones implemented monthly billing prior to 2018. It would be inappropriate to establish deferral accounts effective January 1, 2018, after the implementation dates, to track only prospective impacts of monthly billing. In addition, there was no evidence in this proceeding that the impacts could be material for any rate zone, and materiality is a requirement for establishing a new deferral account.

4.12 Effective Date

Alectra Utilities requested that final rates be made effective January 1, 2018. The OEB declared Alectra Utilities' current rates interim effective January 1, 2018, pending this Decision.

SEC, supported by CCC and AMPCO, opposed Alectra Utilities' request for final rates effective January 1 arguing that rates should be effective on the first day of the month following the OEB's rate order. SEC submitted that this approach is the OEB's normal practice. The other parties made no submission on this matter.

Alectra Utilities indicated that for applications seeking January 1 2018 rates, the OEB's filing deadline was August 28, 2017 for Custom IR annual updates and August 14, 2017 for IRM applications. Alectra Utilities argued that it filed its application on July 7, 2017, in advance of these dates.

Alectra Utilities also argued that there was no oral hearing for this proceeding and that the OEB target processing time for rate applications is 185 days for a standard application when there is no oral hearing.⁸⁷

Finally, Alectra Utilities disagreed that there is a “normal practice” that rates should be effective only from the month following the OEB’s rate order, and noted a recent case in which the effective date was earlier.

Findings

The OEB approves an effective date to base rates of January 1, 2018 for the Horizon Utilities’ RZ related to its Custom IR update. The OEB also approves an effective date of January 1, 2018 for the Brampton, Enersource and PowerStream RZs with respect to the Price Cap IR increases. The OEB will approve the recovery of the foregone revenue from the approved effective date to the implementation date for these rates. Rate riders for all deferral and variance accounts approved for disposition will be in effect for 12 months, effective May 1, 2018. The OEB directs Alectra Utilities to file the rate riders for the foregone revenue and deferral and variance account dispositions, and provide the calculations, in the draft rate order.

The OEB finds that a January 1, 2018 effective date is appropriate for the Custom IR and Price Cap IR base rate changes as Alectra Utilities filed its application in advance of the OEB’s associated recommended filing deadlines.

Regarding the ICMs approved in this Decision, the effective date will be May 1, 2018. The OEB finds that the ICM-related aspects of the application required additional time to review and test the evidence, and resulted in the scheduling of a technical conference that concluded on December 1, 2017. The record of the proceeding closed on January 30, 2018 and the OEB issued its Decision approximately two months after. The OEB finds it reasonable for the effective date of the ICM rate riders to follow the issuance of the OEB’s Decision and final rate order, especially as the half-year rule does not apply to the ICM rate riders and it is unlikely that Alectra Utilities will have completed all of the ICM projects for 2018 when the ICM rate riders are implemented.⁸⁸ ICM rate riders also do not have pre-established end dates and continue until the next rebasing application.

⁸⁷ The OEB notes that this target date is to the decision and, for typical rate applications such as this one, there is a rate order process before a final Tariff of Rates and Charges is approved.

⁸⁸ For determining a return on rate base, the OEB uses an average of opening and closing asset balances, which results in a mid-year rate base.

5 IMPLEMENTATION

The OEB directs Alectra Utilities to revise the proposed rates to reflect the findings in this Decision and to file a draft rate order for rates to be implemented May 1, 2018 based on the effective dates determined in this Decision.

The OEB expects Alectra Utilities to file detailed supporting material showing the impact of this Decision on the rates and rate riders, including bill impacts.

Alectra Utilities' draft rate order should include a revised Tariff of Rates and Charges reflecting this Decision, and including updates to the RRRP charge, DVA rate riders for interest projected to April 30, 2018, ICM rate riders, etc.). In addition, the Smart Metering Entity Charge was set at \$0.57 by the OEB, effective January 1, 2018 to December 31, 2022.⁸⁹ The Tariff of Rates and Charges should be adjusted to incorporate this rate.

AMPCO, BOMA, CCC, SEC, and VECC are eligible for cost awards in this proceeding. The OEB will make provision for these intervenors to file their cost claims in its final rate order.

⁸⁹ Decision and Order, "Independent Electricity System Operator/Smart Metering Entity Application for approval of smart metering charge for the 2018-2022 period," EB-2017-0290, March 1, 2018.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Alectra Utilities shall file with the OEB and forward to intervenors a draft rate order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in this Decision, no later than April 16, 2018. Alectra Utilities shall also include customer rate impacts and detailed information in support of the calculation of final rates in the draft rate order.
2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB, and forward to Alectra Utilities within **7 days** of the date of filing of the draft rate order. The OEB does not intend to allow for an award of costs for the review of the draft rate order or for the filing of any comments on the draft rate order.
3. Alectra Utilities shall file with the OEB and forward to intervenors, responses to any comments on its draft rate order within **5 days** of the date of receipt of the comments.

All filings to the OEB must quote the file number, EB-2017-0024, be made in searchable / unrestricted PDF format electronically through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice/>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.oeb.ca/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, 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, Martin Davies at martin.davies@oeb.ca and OEB Counsel, Ljuba Djurdjevic at ljuba.djurdjevic@oeb.ca.

Ontario Energy Board

EB-2017-0024
Alectra Utilities Corporation

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: Boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto April 5, 2018

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary