



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

DECISION AND ORDER

EB-2018-0016

ALECTRA UTILITIES CORPORATION

Application for electricity distribution rates beginning January 1,
2019

BEFORE: Lynne Anderson
Presiding Member

Allison Duff
Member

Michael Janigan
Member

January 31, 2019

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1 INTRODUCTION AND SUMMARY

Alectra Utilities Corporation (Alectra Utilities) filed a complete application with the Ontario Energy Board (OEB) on June 7, 2018 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), seeking approval for changes to the rates that Alectra Utilities charges for electricity distribution, effective January 1, 2019. Under section 78 of the OEB Act, a distributor must apply to the OEB to change the rates it charges its customers. This application covers each of the former rate zones of Enersource Hydro Mississauga Inc. (Enersource RZ), PowerStream Inc. (PowerStream RZ), Hydro One Brampton Networks Inc. (Brampton RZ), and Horizon Utilities Corporation (Horizon RZ).

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.

Alectra Utilities asked the OEB to approve its rates for 2019 using the price-cap incentive rate-setting (Price Cap IR) mechanism for its Brampton, Enersource and PowerStream RZs. Under the Price Cap IR mechanism, the approved rates of a utility are adjusted mechanistically each year through a price cap adjustment based on inflation, industry productivity and the OEB's assessment of each rate zone's efficiency. Alectra Utilities' application further requested incremental capital funding for the Enersource and PowerStream RZs under the Incremental Capital Module (ICM) funding option. In approving the merger for Alectra Utilities¹, the OEB approved a deferred rebasing period ending in 2026. During the deferred rebasing period, rates continue to be set using the Price Cap IR mechanism when the current Incentive Rate-setting Mechanism (IRM) terms end.

The OEB issued its Partial Decision and Order² addressing the issues in the application that were not eligible for cost awards on December 20, 2018. This Decision considers the remaining issues, namely Alectra Utilities' request for ICM funding for five capital projects. The OEB approves ICM funding for the Leaking Transformer project, the York Region Rapid Transit project (YRRT), and the Bathurst Street Road Widening project. The OEB does not approve funding for the Rometown Area Overhead Rebuild project or the Barrie TS Feeder Relocation project. The OEB approves ICM funding of \$26.27 million, compared to the \$31.57 million proposed.

¹ EB-2016-0025, EB-2016-0360, Decision and Order, December 8, 2016

² EB-2018-0016, Partial Decision and Order, December 20, 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*³ (RRFE, now referred to as the RRF), and the *Handbook for Utility Rate Applications*⁴ (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 its rate application on June 7, 2018.⁵ The OEB issued a Notice of Application on July 18, 2018, 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), the Consumers Council of Canada (CCC), Energy Probe Research Foundation (EP), the School Energy Coalition (SEC) and the Vulnerable Energy Consumers Coalition (VECC) applied for intervenor status. AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC were granted intervenor status. OEB staff also participated in this proceeding.

The OEB issued Procedural Order No. 1 on August 10, 2018. This order established the timetable for a written interrogatory discovery process.

The OEB issued Procedural Order No. 2 on September 24, 2018. This order made provision for a settlement conference.

A settlement conference was held on October 16, 2018 and October 17, 2018 between Alectra Utilities and the intervenors. No settlement was reached at that time.

The OEB issued Procedural Order No. 3 on November 8, 2018, which established dates for an oral hearing regarding the YRRT ICM request and Horizon RZ's Earnings Sharing Mechanism (ESM), and written submissions on all issues eligible for cost awards.⁶

During the oral hearing, Alectra Utilities and the intervenors filed a settlement proposal agreeing that the consideration of the ESM for the Horizon RZ be deferred to the 2020 rate application for regulatory efficiency. This would allow this issue to be heard at the

³ October 18, 2012

⁴ October 13, 2016

⁵ EB-2014-0002

⁶ Issues eligible for cost awards included the ICM requests for the Enersource and PowerStream RZs and the ESM for the Horizon RZ. Procedural Order No. 3 determined that the issue of the change in capitalization policy would be deferred to Alectra Utilities' 2020 rate application.

same time as the OEB considers the change in capitalization policy. The OEB accepted the settlement proposal.

AMPCO, BOMA, CCC, EP, SEC, VECC, and OEB staff filed written submissions on the five ICM requests on December 17, 2018.

The OEB issued a Partial Decision and Order⁷ addressing the issues in the application that were not eligible for cost awards on December 20, 2018.

Alectra Utilities filed its reply submission on the ICM requests on January 9, 2019.

⁷ EB-2018-0016, Partial Decision and Order, December 20, 2018

3 PROPOSED ICM PROJECTS

This Decision considers whether Alectra Utilities should be able to charge customers rate riders to fund specific incremental capital projects during the IRM term or deferred rebasing period.

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 (ACM Report)⁸ and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report* (Supplemental Report) (collectively referred to as the 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)⁹ and in the *Handbook to Electricity Distributor and Transmitter Consolidations* (MAADs Handbook).

Alectra Utilities' application included a request for incremental funding for five ICM projects, three within the PowerStream RZ and two within the Enersource RZ.

The OEB first addresses the overall eligibility for ICM funding and the criteria that must be met for incremental capital project funding. The OEB then assesses each of the five projects.

3.1 Overall Eligibility for ICM Funding

As set out in the OEB's ICM policy, the ICM is a funding mechanism available to electricity distributors whose rates are established under the Price Cap IR regime, as described in Section 3.3.2 of the Filing Requirements.¹⁰ The OEB's ICM policy does not make ICM funding available for typical annual capital programs.¹¹ It is also not available for projects that do not have a significant influence on the operations of the distributor.¹² The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the Price Cap IR rate-setting plan which are incremental to a

⁸ EB-2014-0219

⁹ EB-2014-0138

¹⁰ Ontario Energy Board *Filing Requirements For Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications- Chapter 3 Incentive Rate-Setting Applications*, July 12, 2018 ("IRM Filing Requirements")

¹¹ Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014, page 13

¹² *Ibid*, p. 17

materiality threshold.¹³ The ICM is available for discretionary and non-discretionary projects, as well as for capital projects not included in the distributor's previously filed Distribution Supply Plan. It is not limited to extraordinary or unanticipated investments.

In order to qualify for ICM funding, a request must satisfy the eligibility criteria of materiality, need and prudence, as set out in section 4.1.5 of the ACM Report. Changes to the materiality threshold were made in the Supplemental Report.¹⁴

Materiality

There are two materiality tests related to ICM applications. The first test is the ICM materiality threshold formula, which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. 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".¹⁵

Alectra Utilities calculated the materiality thresholds for the two rate zones as follows:

- Enersource RZ has a maximum eligible incremental capital amount of \$36.8 million, which means that its proposal to recover \$10.7 million through the ICM for this rate zone is within the OEB's acceptable range.
- PowerStream RZ has a maximum eligible incremental capital amount of \$22.1 million, which means that its proposal to recover \$20.9 million 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 ACM Report. 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

¹³ *Ibid*, p. 4

¹⁴ Supplemental Report, p. 19

¹⁵ ACM Report, p. 17

expenditure over and above the Board-defined threshold calculation is expected to be absorbed within the total capital budget.¹⁶

Alectra Utilities' application stated that each capital project was eligible for ICM funding, as each project was discrete and material.

OEB staff submitted that all of the projects met the second project-specific materiality test except for the PowerStream RZ – Barrie TS Feeder Relocation project. OEB staff indicated that this project represents 0.8% of the Alectra Utilities' total capital budget and in the OEB's decision on Alectra Utilities' 2018 ICM requests¹⁷, the OEB did not approve projects of similar size, as they were not significant compared to the overall capital budget.

AMPCO, BOMA, CCC, EP, and SEC submitted that the Enersource RZ - Rometown Area Overhead Rebuild project and the PowerStream RZ – Barrie TS Feeder Relocation project were minor expenditures in comparison to the overall capital budget, and Alectra Utilities should be able to fund these projects through its normal capital budget.

EP also submitted that the PowerStream RZ – Bathurst Road Widening Relocation project was a minor expenditure in comparison to the overall capital budget.

SEC noted that the Enersource – Leaking Transformer project had high levels of spending in 2019 and less in the three subsequent years. SEC submitted that if Alectra Utilities balanced the spending over the four years, Alectra Utilities would be able to manage the program within its existing capital budget.

Alectra Utilities noted that the OEB has not defined the project-specific materiality threshold. Alectra Utilities submitted that there is no justification for the definition of project-specific materiality argued by OEB staff and intervenors. Alectra Utilities further submitted that it is unrealistic to expect Alectra Utilities to absorb a disallowance of \$12.8 million for non-road allowance projects this year, in addition to the \$27.4 million from 2018 ICM projects.

¹⁶ ACM Report, p. 17

¹⁷ EB-2017-0024

Findings

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

- Enersource RZ – maximum eligible incremental capital amount of \$36.8 million
- PowerStream RZ – maximum eligible incremental capital amount of \$22.1 million

This does not mean that all capital spending up to the maximum eligible incremental capital amount is eligible for incremental funding. The OEB has established other criteria so that the ICM does not become just a capital budget top-up to the ICM materiality threshold.

The OEB's findings on the project-specific materiality threshold can be found in the Eligibility of Individual Projects for ICM Funding section of this Decision.

Need

The ACM Report indicated that need must be established by meeting the following criteria:

- passing the Means Test
- the amounts must be based on discrete projects, and should be directly related to the claimed driver
- the amounts must be clearly outside of the base upon which the rates were derived.¹⁸

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.

¹⁸ ACM Report, p. 17

Findings

The OEB finds that Alectra Utilities has passed the Means Test.

The question of need is further addressed in the Eligibility of Individual Projects for ICM Funding section of this Decision.

Prudence

The ACM 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.¹⁹

Findings

The assessment of each proposed ICM project follows in the Eligibility of Individual Projects for ICM Funding section. The OEB has not found any of the planned capital spending imprudent. The question is whether each project is eligible for incremental funding while rates are being set through an IRM mechanism.

3.2 Eligibility of Individual Projects for ICM Funding

Enersource RZ – Rometown Area Overhead Rebuild Project: \$3.2 million

Alectra Utilities proposed ICM funding of \$3.2 million to rebuild the assets in the Rometown area. Alectra Utilities stated that through enhanced overhead system inspections it had identified a number of overhead system areas that have deteriorated and require renewal. In contrast to the 2019 Pole Replacement Program, Alectra Utilities indicated that this Rometown project targets a defined system area with known substandard assets.

AMPCO, BOMA, CCC, EP, SEC and OEB staff submitted that the project should not receive ICM funding. These parties submitted that the project should be funded through Alectra Utilities' Overhead Distribution Sustainment investments, which include ongoing work programs such as the Pole Replacement Program, Overhead Switch Sustainment Program, and Overhead Rebuild Program. Specifically, OEB staff submitted that the

¹⁹ ACM Report, pp. 18-19

project was not discrete and the reliability data did not justify the urgency of this project. OEB staff suggested the project could be deferred or paced over an extended timeline.

In addition, AMPCO indicated that a partial rebuild of Rometown with a project cost of \$1.85 million was included in the Enersource RZ Distribution Supply Plan. The project was subsequently updated to include a full replacement for a cost of \$3.2 million as a result of customer consultation. AMPCO submitted that the information provided to customers for the Rometown Overhead Rebuild project was limited, and insufficient for customers to make an informed determination. For example, customers were not informed of the original plan, the \$1.85 million cost, the remaining life of the poles, or reliability of the area. AMPCO was not opposed to the spending of \$1.85 million and submitted that it should be funded through Alectra Utilities' normal capital budget.

BOMA, CCC, EP and VECC took issue with the extent of customer engagement and submitted it was insufficient to justify the project for ICM funding. VECC also analyzed the outage data provided for the Rometown area and found that the reliability in the Rometown area was better than the surrounding area.

In its reply submission, Alectra Utilities reiterated that the project was needed given the condition of the assets. The Rometown area had experienced several outages because of the deterioration of the overhead system assets. Alectra Utilities also indicated that the Rometown project was not included in an ongoing capital program such as the pole replacement program. Alectra Utilities also disagreed that the customer consultation was not sufficient to justify the project. Alectra Utilities modified the survey design to incorporate the issues raised from the 2017 customer engagement and gave customers the information required and bill impacts to obtain sufficient feedback.

Findings

ICM funding is not available for typical annual capital programs. The OEB finds that the Rometown Area Overhead Rebuild project should be 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,²⁰ the OEB approved both a Subdivision Rebuilds and Overhead Distribution Sustainment program, and this project should reasonably be part of that typical work.

The OEB notes that a partial rebuild at a cost of \$1.85 million was included in the Enersource Distribution Supply Plan filed in Alectra Utilities' 2018 rates proceeding. Alectra Utilities indicated that it increased the project from a partial rebuild of 78 poles to

²⁰ EB-2012-0003

a full rebuild based upon its customer engagement responses. The OEB does not find the customer engagement evidence sufficient to justify the additional capital required for the full rebuild, or to distinguish the Rometown project from other similar projects in order to receive incremental ICM funding from customers.

Enersource RZ – Leaking Transformer Project: \$7.5 million

Alectra Utilities proposed ICM funding of \$7.5 million to complete a multi-year project to replace a backlog of transformers that were leaking or containing PCB oil. Alectra Utilities indicated that the 2019 project was similar to the 2018 project of \$8.45 million, approved by the OEB. The 2019 project would replace the remaining backlog of 571 leaking transformers.

VECC supported ICM funding for the project. VECC submitted that Alectra Utilities had adjusted the timing for the remaining assets in need of replacement as part of its ordinary capital program.

AMPCO, BOMA, CCC, EP, SEC and OEB staff submitted that ICM funding should not be approved in 2019. Many parties referenced the OEB's 2018 decision with the OEB's expectation that this program would evolve into an ongoing capital program for transformer replacement, submitting that this evolution should begin in 2019.

Further, OEB staff noted that the OEB approved a similar ICM project in 2018 for \$8.45 million and submitted that the depreciation expense being recovered could be used to fund the 2019 project.

AMPCO submitted that if the OEB approves ICM funding, the funding level should be based on the historical 5-year average unit costs and be reduced to \$5.8 million.

In its reply submission, Alectra Utilities argued that OEB staff's notion that 2018 ICM funding could fund a different ICM project in a subsequent year is flawed. An ICM granted with respect to a discrete project funds only that project. Alectra Utilities also argued that it has responded to the OEB's expectation that this will evolve to be a typical ongoing capital program. Alectra Utilities stated that it plans to complete all remaining transformers in the backlog in 2019 in order to meet the OEB's expectation that the leaking transformer replacement project evolve into a typical ongoing capital program from 2020 onward.

Findings

The OEB approves ICM funding of \$7.5 million to complete the replacement of 571 transformers in 2019.

The OEB finds that approving ICM funding in 2019 is consistent with its decision for 2018 rates,²¹ which approved \$8.45 million, on the basis that the program is neither “typical” nor “ongoing” from the program approved by the OEB for Enersource’s 2013 rates.

The OEB finds it prudent for Alectra Utilities to complete its program to replace the backlog of leaking transformers identified in the last asset condition assessment. The OEB remains concerned about potential environmental impacts of leaking transformers and finds that ICM funding is warranted to complete the work in 2019. The OEB finds that Alectra Utilities appropriately prioritized its schedule for the program during the 2017-2019 period based on asset condition and potential environmental impacts.

Many intervenors referenced the decision for 2018 rates in which the OEB indicated that it expected this project to evolve into a typical ongoing capital program in subsequent years. The OEB finds that Alectra Utilities addressed this expectation by advancing the completion of this program to 2019 such that the ongoing capital program will commence in 2020.

PowerStream RZ – York Region Rapid Transit Project (YRRT): \$13.27 million

Alectra Utilities proposed ICM funding of \$13.27 million to relocate its distribution plant to facilitate transportation infrastructure developments as part of a multi-year project to accommodate the YRRT. Alectra Utilities stated that it is obliged to relocate plant in accordance with the *Public Service Works on Highways Act* (PSWH Act) and that the OEB approved similar ICM funding in 2018.

AMPCO, CCC, SEC and OEB staff submitted that ICM funding for 2019 should be approved.

Further, OEB staff noted that Alectra Utilities’ five-year road authority budget was approximately \$38.7 million and compared to the latest actual and forecasted projects has a remaining budget of \$6.4 million.

²¹ EB-2017-0024, Decision and Order, April 5, 2018

AMPCO, CCC, EP, and SEC noted that this work was mandatory under the PSWH Act and similar funding was approved in 2018 and should be approved in this proceeding.

OEB staff noted that cost increases appear to be caused solely by the York Region Rapid Transit Corporation (YRRTC) and submitted that Alectra Utilities should be encouraged to negotiate a different apportionment of cost responsibilities based on the YRRTC requests.

Many parties expressed concern that the overall percentage of capital contributions has decreased relative to the new project estimate and questioned if Alectra Utilities negotiated the best outcome to protect customers.

BOMA noted that the ability to negotiate was perhaps compromised by the number of municipal officials on Alectra Utilities' Board of Directors, and that Alectra Utilities did not take advantage of appealing to the Ontario Municipal Board for a higher contribution from the YRRTC. BOMA suggested that Alectra Utilities' shareholder should absorb the \$6.9 million increase in budget attributable to the changes made by the YRRTC over the course of the project.

EP argued that the YRRTC is not a road authority and that the PSWH Act does not apply. EP submitted that due to the close ownership relationships between Alectra Utilities and the YRRTC, the premise that it is a road authority was not challenged by Alectra Utilities. EP suggested that the close ownership and governance relationship of Alectra Utilities and YRRTC could be viewed as an affiliate relationship. EP noted that if the YRRTC were not a road authority but an affiliate, then the YRRTC would be forced to negotiate for sharing of the costs of relocation, and it would be forced to pay more than 50% of the labour costs. EP submitted that Alectra Utilities should not pay more than 25% of the relocation costs and the OEB should only approve \$6.7 million for this ICM project.

SEC submitted that the OEB should review the entire YRRT multi-year spending in Alectra Utilities' next rate application and that the OEB should direct Alectra Utilities to file a detailed forecast of the YRRT projects and a proposal for multi-year funding that balances the needs of the utility and the needs of the customers.

VECC submitted that only when the project is complete will the OEB have the opportunity to determine the prudence of the action taken by Alectra Utilities to protect itself from the cost impacts caused by third parties. VECC suggest that for this particular project the use of a deferral and variance account would be more suitable because the costs are highly variable and outside of the utility's control.

In reply submission, Alectra Utilities agreed that it may be appropriate to consider alternatives to annual ICM funding for transit projects. Alectra Utilities submitted that as permitted under the PSWH Act, it was able to persuade the YRRTC to agree to a different apportionment of the cost responsibility, where YRRTC bore a greater portion of the incremental relocation costs. Alectra Utilities disagreed with EP that Alectra Utilities and YRRTC are behaving like affiliates. Alectra Utilities noted that by EP's own submission it has acknowledged that the YRRTC and Alectra Utilities are not affiliates.

Findings

The OEB approves the YRRT project for ICM funding of \$13.27 million in 2019.

The OEB finds that approving ICM funding in 2019 is consistent with its decision for 2018 rates in which it approved \$11.24 million, on the basis that the program is mandatory, material to the operations of Alectra Utilities and outside of the base upon which rates were derived.

Parties questioned whether the YRRTC is the road authority as referenced in the PSWH Act, and therefore whether the PSWH Act is applicable. The OEB finds that the cost sharing arrangement between Alectra Utilities and the YRRTC is reasonable for this project based on the evidence, but makes no specific finding with respect to the applicability of the PSWH Act.

As determined in the decision for 2018 rates, the OEB will not approve a deferral account for this project, as suggested by some intervenors. Any capital forecast is subject to uncertainty given the risks of project delays and scope changes. In any given year, an ICM rate rider may provide revenue that is over or under what the revenue would have been from the actual capital cost. This risk is mitigated as the in-service assets will be reviewed at the time of rebasing to determine if a true-up is warranted between the revenue at the forecast cost and the revenue at the actual cost.

The OEB notes that Alectra Utilities is requesting an ICM of \$13.27 million in 2019 based on its initial forecast. Alectra Utilities confirmed during the oral hearing that it provided an updated forecast of \$22.7 million for 2019, but did not amend its ICM request.²² The OEB is specifically not making a finding on the appropriateness of any true-up between the forecast and the actual. However, the OEB notes that the maximum eligible incremental capital amount for the PowerStream RZ is \$22.1 million,

²² EB-2018-0016, Oral Hearing Transcript, December 5, 2018, pp. 66-67

and the OEB is approving ICMs of \$18.77 million for this rate zone in 2019²³. This may be a consideration when the OEB assesses whether a true-up is warranted.

PowerStream RZ – Bathurst Street Road Widening Project: \$5.5 million

Alectra Utilities proposed ICM funding of \$5.5 million to relocate overhead and underground distribution assets to accommodate the road widening on Bathurst Street, given growth in Richmond Hill and Vaughan. Alectra Utilities indicated that it is obligated to relocate its distribution plant to facilitate transportation infrastructure developments by applicable road authorities in accordance with the PSWH Act.

AMPCO, BOMA, CCC, SEC, VECC and OEB staff supported the approval of ICM funding for the project. Most parties submitted that this project is a discrete, mandatory project, unrelated to a recurring annual capital project. AMPCO, CCC, and VECC submitted that the use of a deferral account may be more appropriate given the inherent uncertainties related to timelines and costs for road widening projects.

Findings

The OEB approves the Bathurst Road Widening project for ICM funding of \$5.5 million in 2019. The OEB finds that the project is mandatory, has a significant influence on the operations of the distributor and is outside of the base on which rates were set.

PowerStream RZ – Barrie Transmission Station Feeder Relocation Project: \$2.1 million

Alectra Utilities proposed ICM funding of \$2.1 million to relocate feeders to the Barrie Transmission Station (TS). The Barrie TS is owned by Hydro One and the TS rebuild was identified as part of the South Georgian Bay/Muskoka regional planning led by the Independent Electricity System Operator. Alectra Utilities noted that the need for the Barrie TS rebuild and feeder relocation was not known and not included in PowerStream's last Distribution Supply Plan.

VECC submitted that the project should be approved for ICM funding because it meets the OEB's criteria.

AMPCO, BOMA and OEB staff did not support ICM funding for this project.

²³ \$18.77 million = \$13.27 million + \$5.5 million

AMPCO noted that Alectra Utilities did not provide the cost of other options for comparison and there is uncertainty that the 2019 in-service date will be met. There is a risk that the in-service date could be pushed to 2020 based on the most current forecast, and customers should not bear the risk if the project does not go in-service on time. AMPCO submitted that this project should be funded through Alectra Utilities normal capital budget.

BOMA submitted that it was not clear from the evidence that Alectra Utilities should be paying the entire cost of the feeder relocations. It was also unclear why the existing meters cannot be moved from the transformer station to Alectra Utilities' own enclosures to reduce cost.

OEB staff submitted the project represented 0.8% of Alectra Utilities' total capital budget and was not a significant capital cost. OEB staff referred to the OEB's 2018 decision in which the OEB did not approve funding for similar projects based on materiality. For example, the Lake/John Area Overhead Rebuild project at a cost of \$0.93 million and the Station Switchgear Replacement – 8th line MS323 project at a cost of \$1.39 million were both not considered a significant capital cost in comparison to the overall capital budget.

In reply submission, Alectra Utilities clarified that it was responsible for the cost of the project, the suggestion of relocating existing meters to reduce cost was not technically feasible, and the project would be completed in 2019.

Findings

The OEB finds that this project is not a significant capital cost in comparison to the overall capital budget of Alectra Utilities for 2019. The 2019 capital budget is forecast to be \$257.3 million²⁴, and this project is 0.8% of that total. Alectra Utilities should be able to fund this project through its normal capital budget during the IRM term. No additional funding is approved.

This project does not meet the OEB's requirement that it have a significant influence on the operations of Alectra Utilities. The OEB notes that the revenue requirement related to this project is only \$168,198.

²⁴ EB-2018-0016, Exhibit 2, Tab 4, Schedule 11, Page 13

3.3 Effective Date

In the oral hearing on December 6, 2018, the OEB stated that it would be helpful for the parties to provide submissions on the effective date of the ICMs.

OEB staff supported an effective date of January 1, 2019 for the ICMs as the application was filed on-time and there were minimal delays by Alectra Utilities. OEB staff also noted that if the foregone revenue rate riders calculated were immaterial then Alectra Utilities should forgo the foregone revenue, since the ICM rate rider will be collected longer than the typical IRM period and in theory would over collect on its return.

No other parties made submission on this issue.

Alectra Utilities agreed with OEB staff that the ICM riders should be effective January 1, 2019.

Findings

The OEB approves an effective date of March 1, 2019 for the new ICM rate riders.

The OEB acknowledges that its interim rate order decision of December 20, 2018 approved an effective date of January 1, 2019 and foregone revenue rate riders for Alectra Utilities' base rates, given the February 1, 2019 implementation date. The February 1, 2019 implementation date was necessary due to a customer information system upgrade.

The OEB does not approve a January 1, 2019 effective date and foregone revenue rate riders for the ICM based aspects of the application. An effective date of January 1, 2019 would be appropriate if all proposed capital spending was completed on January 1, 2019. That is not the case for the ICM projects approved, as capital costs will be expended throughout the year.

An ICM application is distinct from a rebasing application in which capital projects are proposed for recovery in rates. In a rebasing application, the half-year rule applies to new capital projects to account for the timing of capital expenditures in the test year. Most new capital additions come into service partway through the year and customers only receive the benefit of the capital additions once the assets enter into service.²⁵

²⁵ The OEB confirmed that the half-year rule would continue to apply through an IRM period in the Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report, EB-2014-0219, January 22, 2016, page 10

The OEB previously determined that the half-year rule would not apply to an ICM, given the ICM rate riders would continue until the next rebasing application.

In calculating the rate relief, the Board has determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan.²⁶

The only exception is when the ICM starts in the year before a rebasing, when the half-year rule applies.²⁷

With the ICM rate riders approved in this Decision, Alectra Utilities will collect 10 months of revenue in 2019 and a full year of revenue in 2020, and each year thereafter until rebasing. There will be no “deficiency” in the subsequent years of the plan term to address. Even with the March 1, 2019 effective date, Alectra Utilities will collect more revenue from its ICM rate riders than it would have through a rebasing application in which the half-year rule would have applied.

²⁶ EB-2007-0673 Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors September 17, 2008, p. 31

²⁷ ACM Report, p. 23

4 IMPLEMENTATION

The OEB directs Alectra Utilities to revise the proposed ICM rate riders to reflect the findings in this Decision and Order and to file a draft rate order for rates to be implemented March 1, 2019 based on the effective dates determined in this Decision and Order. In the draft rate order, Alectra Utilities is to include detailed supporting material showing the impact of this Decision and Order on the rates and ICM rate riders, including bill impacts.

5 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 and Order, by **February 7, 2019**. Alectra Utilities shall also include customer rate impacts and detailed information in support of the calculation of ICM rate riders 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 by **February 12, 2019**. 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 by **February 15, 2019**.

DATED at Toronto January 31, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary