

OEB issues decision on Alectra Utilities Corporation's application for additional capital funding for its Enersource and PowerStream rate zones

On February 13, 2024, the Ontario Energy Board (OEB) issued its [Decision and Order](#) on Alectra Utilities Corporation's (Alectra) application for approval of incremental capital funding to repair or replace deteriorated underground cables in its Enersource and PowerStream rate zones. The Enersource rate zone covers electricity customers in Mississauga. The PowerStream rate zone covers electricity customers in the cities of Barrie, Markham, and Vaughan and the towns of Aurora, Richmond Hill, Alliston, Beeton, Bradford West Gwillimbury, Penetanguishene, Thornton, and Tottenham.

In the period between major rate applications, referred to as "rebasings", the OEB's Incremental Capital Module" or "ICM" policy permits electricity distributors to apply for additional criteria if certain criteria are met.

Alectra's next rebasing application is expected to be for distribution rates effective January 1, 2027, at the end of its deferred rebasing period.¹

In this application, Alectra sought approval for \$25.1 million in ICM funding in 2024 to address deteriorated underground cables and improve reliability in 16 neighbourhoods across the Enersource and PowerStream rate zones. \$7.9 million is for the Enersource rate zone and \$17.3 is for the PowerStream rate zone.

Alectra also proposed to deviate from the ICM policy by using different parameters for inflation in the calculation that goes to the materiality threshold for an ICM.

DECISION

In a previous [2023 ICM decision](#) the OEB stated that altering the inflation factor in the ICM formula could best be considered as part of a review of the OEB's ICM policy. The OEB is still of that view.

The inflation factor is but one parameter in a complex formula. The OEB is not prepared to alter a single parameter in isolation. The existing Advanced Capital Module (ACM)/ICM formula was developed after extensive consultation with industry stakeholders. Any change to the formula would be best addressed as part of a review of the OEB's ICM policy.

However, the OEB recognized that the current formula would result in providing no ICM funding to Alectra for necessary and urgent proposed cable renewal projects.

Accordingly, the OEB determined that it would provide for a portion of the ICM funding requested based on the ongoing need for cable refurbishment to ensure the continued reliability of electricity service in the PowerStream rate zone.

¹ Following the merger in 2017 that formed Alectra, Alectra was granted a ten-year deferred rebasing period from 2017 to 2026 for the Horizon, Enersource, PowerStream and Brampton rate zones. The Guelph rate zone was later separately acquired and was granted a ten-year deferred period from 2019 to 2028.

In this case the OEB is granting an exception. This exception is not a precedent for any similar future proceeding, but it does ensure that the interests of consumers with respect to price, adequacy, reliability and quality of electricity service can be maintained for Alectra's customers.

The OEB approved ICM funding of \$17.3 million for the PowerStream rate zone.

Alectra's proposed 2024 plan for the PowerStream rate zone was to spend \$36.4 million on cable refurbishment, comprised of \$19.1 million to be recovered by existing base rates and \$17.3 million through ICM funding.

The OEB found that the 2024 cable projects approved represent prudent investment in capital for cable injection/replacement based upon the current condition of the cable assets in the PowerStream rate zone. The cable programs should help to improve the reliability and quality of service.

The OEB did not approve ICM funding for the Enersource rate zone.

For the Enersource rate zone, Alectra proposed to spend \$19.3 million on cable projects in 2024: \$11.5 million covered through existing distribution rates and \$7.9 million covered through ICM funding.

The OEB rejected Alectra's request for \$7.9 million in ICM funding, which was to cover five cable projects.

Four of the five projects were rejected for funding as those projects had been included in a previous application for ICM funding in 2023. With respect to the fifth project, the OEB found that Alectra should be able to fund that project through existing distribution rates.

REGULATORY TERMS

The following is a list of some of the commonly used regulatory terms that appear in this backgrounder, along with a plain language description for each one.

The **Advanced Capital Module (ACM)** is a mechanism that allows a utility to request funding for a proposed capital project that is expected to come into service beyond the test year and before the utility's next cost-based rate application. This funding can be requested as part of an application under the Price Cap Incentive Rates rate-setting option.

The ACM mechanism applies where funding for the project is more than what is expected to be recovered through rates during the years between the utility's cost-based rate applications.

The ACM policy allows the OEB to test the need, pacing and prioritization of projects as part of the more comprehensive review that occurs in a cost-based proceeding.

Where the OEB approves ACM funding, the rates to recover the cost of the project will only apply once the project has come into service.

Cost-based application – A utility typically files a cost-based application with the OEB to reset its rates every five years based on an in-depth review of the utility's costs to serve its customers, and to invest in and maintain its distribution system. This is also referred to as "rebasing".

A "cost-based" application could be filed under either the Price Cap Incentive Rates or Custom Incentive Rates rate-setting options (see rate-setting options).

The OEB examines the utility's forecast of costs, expected number of customers to be served and the total amount of electricity to be delivered to them. *

The OEB determines the utility's revenue requirement and sets the distribution rates that the utility charges its customers to recover the cost of serving them plus the opportunity to earn a fair return.

*Distribution rates do not cover the cost of the electricity supplied to customers.

Rates that utilities charge their customers for the electricity that they use are set by the OEB separately.

The **Incremental Capital Module (ICM)** is a mechanism that allows a utility that is operating under the Price Cap Incentive Rate-setting option to apply for additional capital funding during the years between its cost-based applications if certain criteria are met.

The OEB will not approve a request for ICM funding unless it is satisfied that the funding amount is more than what the utility can expect to finance through its current rates.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

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Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for the decision; those may be found in the Decision and Order issued February 13, 2024, which is the official OEB document.