Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

January 11, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Burlington Hydro Inc.
2010 Distribution Rate Application
Board Staff Submission
Board File No. EB-2009-0259

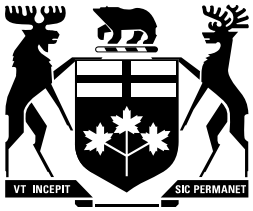
In accordance with Procedural Order No. 2, please find attached Board Staff's Submission in the above proceeding. Please forward the following to Burlington Hydro Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor – Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Burlington Hydro Inc.

EB-2009-0259

January 11, 2010

INTRODUCTION

Burlington Hydro Inc. ("Burlington" or the "Applicant") is a licensed electricity distributor serving approximately 78,000 customers in the City of Burlington, located in southeastern Ontario. Burlington filed its 2010 rebasing application (the "Application") on August 28, 2009. Burlington requested approval of its proposed distribution rates and other charges effective May 1, 2010. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers' Coalition ("VECC"), the School Energy Coalition ("SEC"), and Energy Probe Research Foundation ("Energy Probe") were granted intervenor status. No letters of comment were received.[1]

This submission reflects observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses made by Burlington, and are intended to assist the Board in evaluating Burlington's application and in setting just and reasonable rates. Staff has determined that comments on the issues of the smart meter funding adder, revenue offsets, service quality indicators and depreciation are not necessary.

THE APPLICATION

In its original application[2], Burlington requested a revenue requirement of $31,317,814. In response to an interrogatory, Burlington provided a breakdown of its revenue requirement confirming changes proposed between the time it filed the original application and the closing of the interrogatory stage of this hearing.[3] Its updated revenue requirement is $32,410,162. The proposed rates are set to recover a revenue deficiency of $4,172,323[4]. The following is a breakdown of Burlington's revenue requirement from its updated evidence:

[1] Response to Board staff Supplemental IR # 9

[2] Exhibit 1 / Tab 1/ Schedule 5

[3] Response to Board staff Supplemental IR # 8

[4] Includes update to return on equity from 8.01% to 9.75% as per the Board's Report on Cost of Capital issued December 11, 2009.

2010 Test Year Revenue Requirement	
OM&A	$ 14,789,994
Depreciation/ Amortization	$ 6,694,092
Return on Rate Base	$ 8,596,731
Low Voltage	$ -
PILS	$ 1,970,040
Property Taxes & Capital Taxes	$ 359,305
Transformer Allowance	$ -
Service Revenue Requirement	$32,410,162
Revenue Offset	$ 1,758,319
Base Revenue Requirement	**$30,651,843**

Burlington has calculated the following bill impacts if the application is approved[5]:

	Delivery (%)	Delivery ($)	Total Bill %
Res @ 1,000 kWh	11.5	1.68	3.0
GS<50kW @ 2,000 kWh	10.8	3.49	2.3

LOAD FORECAST

Burlington is seeking Board approval for a test year forecast of 1,615,295,054 kWh. This represents a 2.4% decrease from 2008 actuals. Exhibit 3 of the Application discusses how the customer count and load forecast were developed by Burlington. The kWh and kW forecasts, as applicable, are presented by customer class. Variance analyses are presented in support of the forecasts.

Burlington's weather normalized load forecast is developed using a three-step process:

1. A total system-wide weather normalized energy forecast is developed using a multivariate regression model that incorporates historical load, weather, and economic data.
2. This energy forecast is adjusted by historical loss factors to derive the system-wide billed energy forecast.

[5] Response to Board staff Supplemental IR # 8

3. The system-wide billed energy forecast is allocated by rate class using a forecast of customer numbers and historical usage per customer.

To develop its load forecast, Burlington used a multivariate regression model to determine the relationship between historical system load purchases with weather data, calendar factors, and socio-economic data. Burlington presented the comparison of the results of the model with actual system load purchases for the period from 1996 to 2008.[6] This evidence indicates that the percentage difference between the model estimate and actual load ranged from -2.4% to +2.2% over the regression range.

The following were used as the inputs for the model to generate the weather-normalized system purchases for the bridge year (2009) and test year (2010):

- Average monthly Heating Degree Days ("HDD") and Cooling Degree Days ("CDD") from 1996 to 2008 as measured at the Environment Canada, Hamilton A weather station;
- Ontario Real GDP monthly index, based on the 2003, 2008 and 2009 Ontario Economic Outlooks from the Ontario Ministry of Finance;
- Number of Customers based on historical customer data and the customer forecast; and
- Number of days in the month, number of peak hours and a spring/fall flag (The modeling of purchased energy uses number of days in the month and a "flag" variable to capture the typically lower usage in the spring and fall months.).

Board staff notes that Burlington's regression model estimates a negative coefficient to number of customers. In response to an interrogatory,[7] Burlington stated that it was aware of the result at the time the load forecast was prepared but was unable to explain the reasons for the negative coefficient.

Burlington made a further adjustment to its load forecast in order to convert from system purchases to total billed load forecast by using an average of historical annual loss factors. The average loss factor of 4.07% was calculated over the 2003 through 2008 period. In response to an interrogatory, Burlington stated that the average loss factor did not include data from 1996 to 2002 as there was no billing data available to determine the average.

[6] Exhibit 3 / Tab 2/ Schedule 1/ Page 7

[7] Response to EP IR #11

The predicted system purchase load forecast for 2009 and 2010 are 1,690.2 GWh and 1,681.1 GWh respectively. By applying the average loss factors, the 2009 and 2010 amounts were reduced to 1,624.0 GWh and 1,615.3 GWh respectively.

Burlington noted that in its view, this decline is partially due to the CDM programs initiated in 2005, in conjunction with cooler summer weather experienced in 2007 and 2008.[8]

Class-specific Load Forecasts

In calculating the customer class-specific load forecasts, Burlington initially determined the growth rate related to the annual kWh usage per customer/connection from 2003 to 2008. Subsequently, it determined the historical geometric mean for each class and applied it to calculate the 2009 and 2010 customer class specific forecasts. The table below summarizes the 2010 applied for load forecast by class:

Load Forecast[9]

Rate Class	**(kWh)**
Residential	520,407,965
GS<50 kW	171,414,280
GS>50 kW	910,133,799
Streetlights	9,421,002
Unmetered Load	3,918,008
Total	**1,615,295,054**

Through a supplemental interrogatory Board staff requested that Burlington provide a load forecast for 2009 and 2010 using the normalized average consumption ("NAC") approach, which it did. The NAC approach produced a load forecast for 2009 and 2010 of 1,738.3 GWh and 1,762.5 GWh respectively, which represents an increase of 3% for 2009 and 5% for 2010 in relation to the original forecast. The class specific forecasts based on the NAC approach are summarized in the following table:

Load Forecast[10]

Rate Class	**kWh**

[8] Exhibit 3/ Tab 2/ Schedule 1/ Page 15

[9] Exhibit 3/ Tab 2/ Schedule 1/ Table 3-20

[10] Exhibit 3/ Tab 2/ Schedule 1/ Table 3-20

Residential	575,385,016
GS<50 kW	186,041,105
GS>50 kW	987,379,144
Streetlights	9,450,892
Unmetered Load	4,198,814
Total	**1,762,454,971**

Customer Forecast

Burlington is seeking Board approval for a test year customer forecast of 79,977. The test year forecast is approximately 3.7% higher (or 2,873 customers) than the 2008 actuals. The forecast is derived by applying the historical annual geometric class specific mean from 2003 to 2008 as the growth rate for the bridge and test years. Board staff analysed observed trends and historical customer levels to test the reasonableness of the proposed forecast. The class specific forecasts as proposed by the Applicant are summarized in the following table:

Customer Count Forecast

2010 Test Year Customer Count Forecast (Ex 3/P 15)	
Rate Class	**No. of Customers**
Residential	58,643
GS<50 kW	5,028
GS>50 kW	1,030
Street Lights	14,673
Unmetered Load	602
TOTAL	**79,977**

Discussion and Submission

Burlington's forecast shows a 3.7% annual average growth in customer numbers from the 2008 actual to the 2010 test year. This is slightly higher than the 2.0% average annual customer growth experienced during the 2003 to 2007 period.

Board staff has concerns with the econometric model that Burlington has used to generate its forecast. Burlington, along with other distributors that have filed cost of service applications for 2010 distribution rates, is using econometric multivariate

regression modelling to attempt to improve the load forecast. Board staff submits that the approach is of limited success.

In initial cost of service applications considered by the Board for 2008 distribution rates, simplified approaches that relied heavily on NAC were used. The Board accepted these in the absence of better information, but stated its expectations for improved approaches. In some 2009 cost of service applications, attempts to improve on techniques and to introduce more sophisticated econometric methods were used.

Board staff views these attempts to adopt more sophisticated techniques as generally successful; however, econometric modelling of economic phenomena is as much an art as a science. It is not merely a matter of regressing demand against a list of explanatory variables and accepting the outcome if it has a "good enough" fit, i.e. the R^2 is high enough. The estimated model should pass other tests of reasonableness—are the coefficients of variables plausible in sign and significance? Is the functional form appropriate? Are there signs of model misspecification, such as auto-correlated errors, or implausible coefficients? Do the predicted values forecasted by the model seem reasonable?

For the reasons below, Board staff submits that the econometric model used by Burlington does not pass such reasonableness tests and should not be used.

Burlington has estimated the regression model with monthly data from January 1996 to December 2008. Board staff is concerned that the negative coefficient for the number of customers is conceptually counter-intuitive; it implies that the load decreases as the number of customers increase.

Burlington's load forecast shows an average annual decline of 1.8% in the billed load from the 2008 Actual to the 2010 Test Year Normalized, compared to an average annual incline of 1.4% during the 2003 to 2007 period.[11] Burlington states that its forecast reflects the impacts of CDM programs initiated in 2005 and cooler summer weather experienced in 2007 and 2008. Board staff is concerned with the reliance of Burlington's explanation of load reductions as a result of CDM programmes without sufficient quantitative support.

[11] Exhibit 3/ Tab 2/ Schedule 1/ Page 12

Burlington stated that the process of developing a model of energy usage involves estimating multifactor models using different input variable to predict total system purchased energy. In response to an interrogatory[12], Burlington stated the following:

"The resulting regression model assigns a negative co-efficient to number of customers. Burlington Hydro was aware of this result at the time the load forecast was prepared for the 2010 rate application. An analysis was conducted to address this situation since Burlington Hydro could not quantify the negative co-efficient. When number of customers were eliminated and replace with population the negative co-efficient was assigned to population. When number of customers and population were both eliminated the resulting equation did not have any negative co-efficients that were not explainable but the equation had a R-square that was lower than the result when the number of customers were included. Based on observing the review of the load forecasting methodology in the 2009 rate application, to not include number of customer or population as an explanatory variable would not be reasonable in Burlington Hydro's view. In addition, it is Burlington Hydro's view that the negative co-efficient on number of customer is somewhat associated with the CDM savings that have occurred after 2005."

When Burlington re-estimated the regression analysis by replacing number of customers with population the result for the 2010 weather normalized load forecast was 1,691 GWh (approximately 0.6% greater than the original forecast produced by the regression model).

In response to a supplemental interrogatory from Board staff, Burlington noted that the R-squared value as a result of removing both number of customers and population was 94.4% and resulted in a load forecast of 1,772.6 GWh, an increase of approximately 5.4% to the original load forecast. The original regression analysis provided an R-squared value of 94.9% and a load forecast of 1,681.1 GWh.

Board staff notes that the inclusion of a negative coefficient is not meaningful and counter-intuitive to the regression analysis as no explanation can be provided by the Applicant. As well, the difference in R-squared is immaterial.

Given the lack of validity to the regression analyses provided by Burlington in both its original application and responses to interrogatories, for the reasons detailed above,

[12] Response to interrogatory from Energy Probe

Board staff recommends that the NAC approach be used to determine the test year customer forecast for Burlington. This would result in a load forecast of 1,762.4 GWh.

Weather Normalization

Background

In Exhibit 3/ Tab 2/ Schedule 1, Burlington has documented how its load forecast is normalized for weather. Burlington has normalized both revenues and consumption. Burlington has documented that the following class sensitivities are based on the Hydro One Networks' study for Burlington, done as part of the 2006 Cost Allocation Informational Filing:

- Residential and GS < 50 kW — 100% weather sensitive
- GS > 50 kW — 51% weather sensitive
- Streetlighting and USL — 0% weather sensitive

Discussion and Submission

In its response to an interrogatory posed by VECC[13], Burlington was able to include 13 years of data in the regression analysis and found it appropriate to conduct the weather normalization analysis over the same period. Board staff takes no issues with Burlington's weather normalization strategy.

OPERATIONS, MAINTENANCE AND ADMINISTRATION

Background

For the 2010 Test year, Burlington is requesting approval of $14,796,994 in OM&A expenses[14], excluding depreciation/amortization, PILs and interest. This represents a 5.42% increase over the 2009 Bridge year and a 13.43% increase over 2008 actuals. Total operating expenses (including depreciation/amortization) for the 2010 test year are forecasted at $21,484,086. This represents an increase of 4.94% over the 2009 bridge year and an 11.6% increase over Burlington's 2008 actuals.

[13] Response to VECC interrogatory #15

[14] Response to Board Staff Supplemental IR #8

Burlington's 2010 Test Year OM&A represents a 4.94% increase over the 2009 Bridge year. The following table summarizes Burlington's OM&A and operating expenses by year:

	2006 Actual	2007 Actual	2008 Actual	2009 Bridge Year	2010 Test	Average Annual Variance
						2006 to 2010
Operation	$3,501,950	$3,607,258	$4,383,027	$4,157,707	$4,513,354	6.98%
Maintenance	$2,652,339	$2,664,758	$2,411,913	$2,613,009	$2,894,945	2.53%
Billing and Collection	$1,997,392	$2,091,157	$2,298,488	$2,317,744	$2,348,908	4.20%
Community Relations	$436,651	$538,029	$41,317	$47,101	$80,687	4.05%
Administrative and General Expenses	$3,501,772	$3,791,023	$3,910,354	$4,901,006	$4,959,100	9.48%
Sub-Total OM&A	**$12,090,104**	**$12,692,225**	**$13,045,099**	**$14,036,567**	**$14,796,994**	**5.19%**
Amortization	$5,920,601	$6,128,220	$6,205,927	$6,436,328	$6,687,092	3.10%
Total Operating Expenses	**$18,010,705**	**$18,820,445**	**$19,251,026**	**$20,472,895**	**$21,484,086**	**4.52%**

Over the 2006 to 2008 period, Burlington's OM&A actual expenses increased by approximately 3.88% annually. Burlington has also provided a table indicating the "drivers" of OM&A increases year over year in Exhibit 4/ Tab 2/ Schedule 4/ Page 1. This is replicated below.

OM&A Cost Drivers	2006 Actual	2007 Actual	2008 Actual	2009 Bridge Year	2010 Test Year
Opening Balance	**10,761,508**	**12,090,103**	**12,692,225**	**13,045,099**	**14,036,568**
OEB Reclassification (OMERS)	175,730	122,612	-	-	-
Employee Costs	361,527	162,133	218,383	701,022	580,491
Regulatory Expenses	123,340	36,327	8,062	304,744	(166,883)
Conservation and Demand Management	268,772	100,863	(524,586)	-	-
PCB Cleaning and Disposal	50,287	1,899	257,609	(219,670)	20,924
Locates	92,044	220,238	195,155	(232,175)	-
Tree Trimming	64,580	8,365	36,023	(94,894)	124,843
Contracted Labour	62,260	(60,303)	13,370	41,425	122,191
Bad Debts	(39,563)	79,052	248,667	13,484	-
Software Amortization	19,674	8,062	(926)	55,633	35,007
Administration Expenses from Non Regulated	-	-	-	117,614	-
Accounts Receivable insurance	-	-	-	88,900	19,440
Bank Fees	8,082	(3,661)	546	48,377	24,628
Meter Reading Contractor	2,887	(31,473)	11,823	10,152	19,377
Postage	12,790	(5,584)	4,116	14,849	14,169
Low Income Energy Assistance Program	-	-	-	-	39,000
Employe Training	2,779	(1,998)	62,261	10,625	14,898
Communications	-	-	-	30,868	-
Other	123,406	(34,410)	(177,629)	100,515	(83,659)
Closing Balance	**12,090,103**	**12,692,225**	**13,045,099**	**14,036,568**	**14,800,994**
Total	1,328,595	602,122	352,874	991,469	764,426

Board staff notes that the majority of the increases in 2010 OM&A expenses compared to 2008 actuals is a result of inflation, employee costs, rate rebasing costs, tree trimming, contracted labour, accounts receivable insurance, and the low income energy assistance program ("LEAP").

Inflation

Burlington indicated that it applied a 2% inflation rate to forecast 2010 O&MA costs that did not change from 2008 or 2009. Burlington notes that the 2% was based on the Consumer Price Index as reported by the Bank of Canada in July of 2008.

Burlington has documented the payroll inflationary increases at 3.25% for 2006 and 2007, and 3% for each of 2008, 2009 and 2010; these increases are largely driven by its agreements with its unionized labour.[15] In response to an interrogatory[16], Burlington identified inflationary costs for 2009 and 2010 to be $248,439 and $272,297 respectively.

Board staff has no concerns with the provision in 2010 OM&A for inflation. With respect to the other items in the list, Board staff makes submissions on the following.

Employee Costs – Staff Changes

Board staff submits that Burlington has documented and supported its proposed labour expense increases, related to labour agreements and to new and backfilled positions.

Other payroll increases from 2007 to 2010 reflect the hiring of 10 new staff members for various positions. Based on Burlington's evidence, this is due to the expected retirement of 21 employees between 2007 and 2012.[17] In response to an interrogatory[18], Burlington identified the costs to staff changes, excluding inflation, to be $449,562 and $255,343 for 2009 and 2010 respectively.

Board staff has no concerns with the provision in 2010 OM&A for staffing changes.

[15] Exhibit 4/Tab 1/Page 2
[16] Response to VECC's Interrogatory #19
[17] Exhibit 4/Tab 4/Schedule 1/ Page 6
[18] Response to VECC's Interrogatory #19

Rate Rebasing Costs

The table below summarizes Burlington's regulatory costs as applied for in its original application.

Costs associates with preparation of CoS (amortized over 4 years)	Total Forecasted Cost	2010 Test Year Forecast (2010)
OEB Hearing Assessments (applicant initiated)	$45,000	$11,250
Legal Costs for regulatory matters	$101,000	$25,250
Consultants costs for regulatory matters	$46,947	$11,737
Operating Expenses associated with staff resources	$153,599	$38,400
Intervenor costs	$35,000	$8,750
Total	**$381,546**	**$95,387**

In response to an interrogatory, Burlington stated that, if there was no oral component in this application process, the regulatory costs would be as below:[19]

Costs associates with preparation of CoS	Total Forecasted Cost
OEB Hearing Assessments (applicant initiated)	$25,000
Legal Costs for regulatory matters	$51,000
Consultants costs for regulatory matters	$46,947
Operating Expenses associated with staff resources	$153,599
Intervenor costs	$35,000
Total	**$311,546**

When amortized over 4 years, this results in a decrease to rate rebasing costs of approximately $17,500 per year. Since Procedural Order #2 indicated that this proceeding would follow the written process and have no oral component, Board staff submits that the starting point for analyzing Burlington's regulatory costs should be $311,546.

Burlington has claimed $51,000 for legal costs associated with the preparation of its application. As this proceeding was conducted entirely in writing, it is unclear to staff what legal services were rendered and Burlington has not provided any evidence to support the claim for legal costs. While Board staff acknowledges that legal assistance

[19] Response to Supplemental interrogatory from SEC #25

may be required in the application process, given the lack of evidence to support the amount claimed the Board may consider reducing the legal costs.

Board staff notes that Burlington has included $153,599 related to operating expenses associated with staff resources. In its application[20], Burlington stated that these costs are related to incremental temporary staff costs to assist Accounting and Regulatory areas. In its reply submission, Burlington should provide a clear explanation, supported by evidence that is already on the record of this proceeding, as to whether these costs relate to overtime hours, backfill positions, or contract employees.

Tree Trimming

In response to an interrogatory, Burlington has provided the following cost forecast for its 3 year tree trimming cycle:

ITEM	**2010**	**2011**	**2012**	**2013**
Annual Expenditure	$341,421	$257,200	$350,870	$348,000
Miscellaneous Expenditure	$107,100	$107,100	$107,100	$109,000
Total	**$448,521**	**$364,300**	**$457,970**	**$457,000**
Year-to-year Variance ($)	$124,843	($84,221)	$93,670	($970)
Year-to-year Variance (%)	38.57%	-18.78%	25.71%	-0.21%

Board staff notes that the inclusion of $448,521 in 2010 rates would result in over-compensating Burlington for its tree trimming cycle by $66,293 over 4 years. Board staff recommends that the tree trimming costs be normalized, and reduced by $16,573, over the IRM period to ensure no over-collection. Using evidence provided by Burlington, Board staff created the following table to highlight the over-collection that may arise if tree trimming expenses are approved as filed.

	2010	**2011**	**2012**	**2013**	**Total**
Amount in Rates	$ 448,521	$ 448,521	$ 448,521	$ 448,521	$ 1,794,084
Total Tree Trimming Costs per Year	$ 448,521	$ 364,300	$ 457,970	$ 457,000	$ 1,727,791
Variance	$ -	$ 84,221	$ (9,449)	$ (8,479)	$ 66,293

[20] Exhibit 4/ Tab 2/ Schedule 5

Contracted Labour

Burlington has identified an increase in contracted labour in the amounts of $41,425 and $122,191 for the years 2009 and 2010 respectively. The amounts are associated with regular inspection of all Burlington Hydro facilities and include short term preventative maintenance work.

Board staff has no concerns with the provision in 2010 OM&A for contracted labour.

Account Receivable Insurance

Burlington included incremental costs related to Accounts Receivable insurance in the amounts of $88,000 and $19,000 for the years 2009 and 2010. In its application, Burlington stated that it purchased Accounts Receivable insurance in 2009 in response to the deteriorating economy and 2008 write-off experience, to protect Burlington's commercial receivables portfolio against the risk of credit default. As noted in its response to an interrogatory[21], the insurance is an attempt to mitigate the risk of a catastrophic loss due to non-payment risk from a large customer. The insurance coverage provides no protection from residential default nor does it cover small commercial risk. Board staff notes that Burlington's bad debt expense for 2008 was $405,047 and $400,000 for 2009 and 2010.

Board staff has no concerns with the provision in 2010 OM&A of $19,000 for insurance costs.

Low Income Energy Assistance Program (LEAP)

In response to an interrogatory, Burlington stated that an amount of $39,000 relates to new LEAP programs.[22] Burlington noted that it intends on spending the amount in order to "meet the requirement and guidelines of the Board". Burlington acknowledged that the Board's letter dated September 28, 2009 indicated that the Board was deferring further work on LEAP as a result of a request from the Ministry of Energy, however, it included amounts relating to such programs as it expects it will incur equivalent costs associated with development of the Ministry's integrated program.

[21] Response to interrogatory from VECC #19i

[22] Response to Board Staff IR #14

In its September 28, 2009 letter the Board indicated that the Minister of Energy and Infrastructure had requested that the Board not proceed to implement new support programs for low-income energy consumers in advance of a ministerial direction. Board staff submits that the costs relating to new LEAP programs should be removed as at this time, the Board has not yet received further guidance from the Ministry regarding a program for low-income energy consumers. As a result, any costs to be recovered by Burlington in relation to such a program are not yet known.

Staff notes that Burlington's application includes a separate amount of $25,000 for existing programs such as Winter Warmth.

Payments in Lieu of Taxes ("PILs")

Background

In its original application, Burlington requested a PILs allowance of $1,712,667 composed of $1,645,362 for grossed-up income taxes and $67,305 for capital taxes.[23]

Based on the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities issued December 11, 2009 (The "Board Report"),* Burlington updated its ROE from 8.01% to 9.75%. Consequently, this increased the PILs allowance to $2,037,345. The amount is comprised of $1,970,040 for grossed-up income taxes and $67,305 for capital taxes.

PILs Summary

Tax Rates	**2006 Board Approved**	**2006 Actual**	**2007 Actual**	**2008 Actual**	**2009 Bridge**	**2010 Test**
Federal Tax	22.12%	22.12%	22.12%	19.50%	19.00%	18.00%
Provincial Tax	14.00%	14.00%	14.00%	14.00%	14.00%	13.00%
Total Tax Rate	**36.12%**	**36.12%**	**36.12%**	**33.50%**	**33.00%**	**31.00%**
OCT Rate		0.300%	0.225%	0.225%	0.225%	**0.075%**
Amount						
Grossed-up Income Taxes	$ 2,285,151	$ 3,897,685	$ 4,599,764	$ 2,931,710	$ 1,418,057	$ 1,970,040
Ontario Capital Tax	$ 273,670	$ 302,299	$ 223,150	$ 218,778	$ 198,722	$ 67,305
Total Taxes	**$ 2,558,821**	**$ 4,199,984**	**$ 4,822,914**	**$ 3,150,488**	**$ 1,616,780**	**$ 2,037,345**
Year-over-Year Variance			$ 622,930	-$ 1,672,426	-$ 1,533,708	$ 420,565
% Change			15%	-35%	-49%	26%

[23] Exhibit 4/ Tab 8/ Schedule 1

Discussion and Submission

Based on Burlington's original application and evidence submitted through interrogatories, Board staff notes that the reduction in total taxes is due to: tax rate reductions; increased deemed interest due to deemed capital structure change; and changes to the ROE.

Board staff submits that Burlington's proposed PILs methodology and estimate, as amended through responses to interrogatories, is reasonable and complies with Board practice and policy and with known tax legislation.

Board staff notes that other changes to Burlington's revenue requirement are possible, due to the Board's decision on Burlington's rate base, capital and operating expenditures. These changes also have a flow-through effect on the PILs allowance which should be recoverable in rates. Board staff submits that Burlington should flow through applicable changes in operating and capital costs, and update the PILs allowance to determine the revenue requirement and rates resulting from the Board's Decision in its draft Rate Order filing.

RATE BASE

Background

Burlington is requesting approval of $104.7M for its 2010 rate base. This amount is a 5.5% increase ($5.5M) from Burlington's 2008 actuals and an 8.6% increase ($8.3M) from its 2006 Board Approved Rate Base. Burlington's historical and proposed rate bases are summarized in the following table[24]:

Description	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Bridge Year	2010 Test Year
Gross Fixed Assets	160,313,471	174,649,666	181,777,529	191,554,784	200,001,284	208,837,384
Accumulated Depreciation	(83,114,114)	(97,933,293)	(104,290,507)	(110,492,858)	(117,510,344)	(124,881,690)
Net Book Value	77,199,357	76,716,373	77,487,022	81,061,926	82,490,940	83,955,694
Average Net Book Value	77,199,357	77,255,073	77,101,698	79,274,474	81,776,433	83,223,317
Working Capital	128,066,606	135,411,896	138,476,666	133,114,052	143,630,890	143,444,942
Working Capital Allowance	19,209,991	20,311,784	20,771,500	19,967,108	21,544,633	21,516,741
Rate Base	96,409,348	$ 97,566,857	$ 97,873,198	$ 99,241,582	$ 103,321,067	$ 104,740,059
Year-over-Year Variance			0.31%	1.40%	4.11%	1.37%

Burlington has not included any smart meter spending in rate base.[25]

[24] Exhibit 2 / Tab 1/ Schedule 1/ Page 1

[25] Response to EP Supplement IR #51

In response to an interrogatory, Burlington has acknowledged a reduction in the test year rate base to $104,578,009 from $104,740,059, reflecting the delay in the wholesale metering spending from 2009 to 2010.[26]

CAPITAL ADDITIONS

The following table summarizes capital additions to Burlington's fixed assets from 2006 to the 2010 test year[27]:

Summary of Capital Additions (2006 Actual – 2010 Test Year)

Project Name	2006	2007	2008	2009	2010
Buildings	$60,728	$250,208	$570,198	$455,000	$430,000
Substation Equipment	$144,824	$718,499	$346,640	$277,500	$357,500
Underground Distribution	$1,455,802	$2,353,812	$2,904,573	$5,687,300	$3,540,300
Overhead Distribution	$3,168,781	$3,355,585	$4,776,381	$3,947,700	$3,666,700
Transformers	$2,019,119	$1,704,860	$2,217,733	$2,100,000	$1,800,000
Meters	$601,380	$372,826	$45,418	$719,500	$935,000
Tools - Overhead	$3,654		$3,012	$15,000	$15,000
Tools - Underground	$8,714	$6,588	$3,672	$12,000	$10,500
Tools - Station Maintenance	$15,888	$74,447	$13,141	$25,000	$25,000
Tools - Meter			$16,740	$14,600	$13,000
Sistem Supervisory Equipment			$106,150	$125,000	$160,000
Rolling Stock	$160,397	$273,640	$102,055	$455,000	$185,000
Office Equipment	$68,126	$21,758	$7,663	$77,900	$128,100
Computer Hardware & Software	$207,783	$240,067	$308,859	$735,000	$270,000
Contributions and Grands	($3,034,454)	($2,244,428)	($1,644,982)	($6,200,000)	($2,700,000)
TOTAL	$4,880,741	$7,127,864	$9,777,253	$8,446,500	$8,836,100

Staff notes that the increase in Burlington's rate base is due to various capital additions that Burlington has well documented in Exhibit 2/ Tab 5 and in its asset management plan.

In response to an interrogatory, Burlington stated that there is no work in progress for the years 2006 to 2009 as all capital projects are budgeted for, completed, and in service in each calendar year.[28]

Board staff observes that the major increases in assets occurred in 2008 and 2009. This is mainly due to the SCADAMATE program, the installation of two feeders from the Hydro One Bronte transformer station, and the Burlington Performing Arts Center –

[26] Response to Board Staff Supplemental IR #8
[27] Response to VECC IR #7
[28] Response to VECC IR #5

Burial of Pole Line project. Other increases include general service to underground and overhead distribution projects, subdivision assumed projects, pole replacement programs, and city/regional projects.

Board staff has no concerns with Burlington's proposed capital expenditures and the associated capital additions to rate base.

Working Capital Allowance

Burlington has used 15% of OM&A and cost of power in the calculation of working capital. No lead/lag study was provided. Burlington has requested a working capital allowance of $21.5 million for the 2010 test year. Working capital has increased by approximately 2.4% annually from 2006 actual to 2010. The largest increase occurred in 2009 (7.9%) which correlates to the large increase in OM&A during that time period.

Using information provided in its original application on WCA, Board staff has comprised the following summary table:[29]

Description	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Bridge Year	2010 Test Year
Cost of Power	116,840,330	123,230,754	125,505,112	119,783,988	129,314,322	128,414,948
Operations	2,846,088	3,501,950	3,607,258	4,383,027	4,157,707	4,513,354
Maintenance	2,154,744	2,652,339	2,664,758	2,411,913	2,613,009	2,894,945
Billing and Collecting	1,972,864	1,997,392	2,091,157	2,298,488	2,317,744	2,348,908
Community Relations	411,491	436,651	538,029	41,317	47,101	80,687
Administration and General Expenses	3,841,088	3,501,772	3,791,023	3,910,354	4,901,006	4,963,100
Other Distribution Expenses	0	91,038	279,329	284,965	280,000	229,000
Working Capital	128,066,606	135,411,896	138,476,666	133,114,052	143,630,890	143,444,942
Working Capital Allowance (15%)	19,209,991	20,311,784	20,771,500	19,967,108	21,544,634	21,516,741
Year-over-Year Variance		1,101,794	459,716	(804,392)	1,577,526	(27,892)
% Change		5.74%	2.26%	(3.87%)	7.90%	(0.13%)
Annual Average (2006 - 2010)						**2.38%**

Discussion and Submission

Board staff takes no issue with Burlington's methodology for calculating the WCA. Board staff submits that Burlington should update the WCA to reflect any changes in controllable expenses and load forecasts as determined by the Board in its Decision, as well as the most current estimate of the RPP commodity price of $0.06215/kWh (from the Board RPP Report of October 15, 2009), as well as updates to reflect current retail transmission prices. Further, Board staff submits that Burlington should provide sufficient detail and discussion in its draft Rate Order to aid other parties in understanding the numbers provided and their derivation.

[29] Exhibit 2 / Tab 1/ Schedule 1

Board staff notes that Burlington did not conduct a lead/lag study because it did not believe it would be cost effective for this application, and in response to an interrogatory, Burlington noted that the Board did not require 2009 applicants of similar size to it to complete a lead/lag study because of the significant cost of the study.[30] Board staff submits that there have generally been concerns about the appropriateness of the standard 15% formulaic approach, which dates back to the prior regulation of the municipal utilities by the former Ontario Hydro. The restructuring of the industry, unbundling of rates, introduction of competition in generation and marketing, and the corporatization of distributors as commercial, profit-seeking entities have altered the business environment and the distributors themselves. Current initiatives, such as smart metering and Time-of-Use pricing, and renewable generation contracts, will have further impacts on cash working capital requirements for all distributors.

Board Staff notes that 15% may be appropriate at this time, but that new evidence should be required at Burlington's next rebasing application to support the requested working capital allowance.

Cost of Capital

The Board has revised and documented its guideline Cost of Capital methodology in the Board Report, issued December 11, 2009, under Board File No. EB-2009-0084. The Board Report is a guideline, but departures from the methodology in the Board Report are expected to be adequately supported. While the Board Report was issued subsequent to this Application, the Board Report states that the revised guidelines apply to applications for rates effective in 2010 or later and determined through review of Cost of Service applications. Thus the Board Report supersedes the guidelines documented in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* issued December 20, 2006, and is applicable to Burlington's Application.

In Exhibit 5 of its Application, Burlington has proposed its requested Cost of Capital. This is summarized in the following table.

Cost of Capital Parameter	**Burlington's Proposal**
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	1.33%, but to be updated in accordance with section 2.2.2 of the

[30] Response to VECC IR #6

	Board Report.
Long-Term Debt	7.62%, reflecting the rate of Burlington's only promissory note due to the City of Burlington, its municipal shareholder.
Return on Equity	8.01%, but to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital (WACC)	7.52% as proposed, but subject to change as the short-term and long-term debt rates and ROE are updated per the Board Report at the time of the Board's Decision.

As noted, Burlington has affirmed that the Return on Equity, deemed Short-term Debt Rate and deemed Long-Term Debt Rate, as applicable, would be updated based on Bank of Canada, *Consensus Forecasts*, and TSX data for January 2010 in accordance with the methodologies documented in the Board Report.

In reply to an interrogatory, Burlington provided an update to its cost of capital by increasing the ROE to 9.75% to reflect the December 11, 2009 Board Report.[31] In turn, this increased the WACC to 8.22%.

In its application, Burlington states that it is requesting a debt rate of 7.62% on the $47.878 million debt due to the City of Burlington. As well, it is staff's understanding that the debt rate reflects the Cost of Capital Parameter Updates for 2009 Cost of Service Applications issued by the OEB on February 24, 2009.

Discussion and Submission

Board staff submits that Burlington's proposals for Cost of Capital comply with the guidelines documented in the Board Report. Staff also notes that, despite the fact that Burlington chose to update the ROE and not the debt rate, that the Board will finalize an equivalent debt rate for 2010 rates based on January 2010 market interest rate information and Burlington should use the updated rates in filing its draft Rate Order.

[31] Response to SEC Supplemental IR #23

COST ALLOCATION AND RATE DESIGN

Loss Factors

Background

Burlington has proposed a small decrease to its total loss factor ("TLF") from the current approved 4.29% to 4.05% for secondary metered customers < 5000 kW. A similar decrease of 0.23% is also proposed for other customers.

Burlington provided historical data for its Distribution Loss Factors ("DLF") and Supply Facilities Loss Factor ("SFLF") from 2004 to 2008. The DLF and SFLF are multiplied together to yield the TLF. Following is a table identifying the actual DLF and SFLF for the time period 2004 to 2008:

	2004	2005	2006	2007	2008	5 Year Average
Loss Factor in distributor's system	1.0417	1.0351	1.0365	1.0316	1.0331	1.0356
Supply Facility Loss Factor (SFLF)	1.0034	1.0064	1.0058	1.004	1.004	1.0047
Total Loss Factor (TLF)	**1.0453**	**1.0418**	**1.0425**	**1.0357**	**1.0373**	**1.0405**

Board staff has no concerns with the provision made for the test year TLF.

Customer Classes

Burlington has five rate classes, comprising of Residential, GS < 50 kW, GS > 50 kW, Unmetered Scattered Load, and Street Lighting. It is not proposing any changes to the structure of its existing rate classes.

Revenue-to-Cost Ratios

Background

Burlington is requesting approval of distribution rates that would move its revenue to cost ratios toward the Board's policy range.

Exhibit 7/ Tab 3/ Schedule 1
Cost Allocation Summary

Customer Class	(1) From Cost Allocation Model	(2) Column 1 Revised (Transformer Ownership Allowance)	(3) Updated Cost Allocation Model	(4) Proposed for Test Year	Board Target Range
Residential	100.66%	102.97%	109.19%	107.10%	85 - 115
GS<50 kW	107.64%	110.22%	110.72%	107.03%	80 - 123
GS>50 kW	99.16%	92.95%	80.26%	85.00%	80 - 180
Street Lights	14.97%	15.39%	15.07%	42.54%	70 - 120
USL	84.86%	87.11%	103.60%	103.60%	80 - 120

Exhibit 7/ Tab 3/ Schedule 1
2010 Test Year Revenue Impacts

Customer Class	Current Revenue	Test Year Revenue Assuming Current Revenue to Cost Ratios	Test Year Revenue Assuming Proposed Revenue to Cost Ratios
Residential	17,308,961	19,319,078	18,950,064
GS<50 kW	4,055,488	4,518,798	4,368,113
GS>50 kW	6,514,425	7,275,001	7,704,472
Street Lights	44,578	49,514	139,741
USL	138,969	155,424	155,424
Total	**28,062,422**	**31,317,814**	**31,317,814**

Burlington's application involves a re-balancing of class revenues to better reflect the results of the cost allocation model. The re-alignment will move the street light class to halfway between its current ratio and the target ratio. The current revenue to cost ratio for street lights is 15.07% moving the ratio to 42.54%.

As well, Burlington intends on re-aligning the General Service > 50 kW class as its cost to revenue ratio has shifted further away from the target of one, and is very close to the lower threshold identified by the Board. Burlington proposes to increase the General Service > 50 kW class from 80.30% to 85%, which is approximately half way between current levels and the level at the original cost allocation filing, with the transformer allowance credit removed. Burlington stated that any additional revenue from the under contributing classes will be distributed to the Residential and General Service < 50 kW rate classes as the revenue to cost ratio for these classes both increased from the original cost allocation filing.

Discussion and Submission

Board staff notes that intervenors asked interrogatories about Burlington's decision to shift its revenue-to-cost ratio for the GS > 50 kW class from 80.26% to 85.00%. In its response to such interrogatories, Burlington stated that the 2010 updated cost allocation

model resulted in a cost to revenue ratio significantly lower than the earlier calculation, and moving away from an ultimate target of 100%.

Burlington has requested a cost ratio of 85.00%, approximately half way between the current and past calculations, to attempt to keep this group closer to the 100% target.

Board staff submits that the adjustment to the Informational Filing model to report cost and revenues net of the Transformer Ownership Allowance removes an inconsistency that affected the ratios in the original model. Board staff submits that the proposed ratios are all (with the exception of street lighting) within the range of ratios outlined in the Report of the Board: *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667, issued November 28, 2007.

Monthly Fixed Charges

The monthly fixed charge ("MFC") based on the current Burlington fixed/variable revenue proportions results in MFC charges that are both below and above the MFC ceiling. For consistency purposes, Burlington is proposing to set all MFC rates at the ceiling amount, with the exception of the Street Lighting class, which will be increased to the level resulting in the same fixed/variable split as calculated from the current fixed/variable revenue proportions for this class.

Discussion and Submission

Board staff observes that the bill impacts calculated by Burlington[32] are, in most classes, larger percentages for the smallest customers in the class and lower percentages for the largest customers. It appears that this is a result of the Smart Meter adder increasing the effective fixed charge, in combination with the proposed rebate on deferral and variance accounts decreasing the effective volumetric charge.

Board staff submits that Burlington's proposal is reasonable in terms of the fixed/variable proportions of revenues, and is consistent with Board policy as articulated in the Board's Cost Allocation report and in previous decisions.

[32] Exhibit 9 / Appendix A / page 27 / Schedule 1

Retail Transmission Service Rates ("RTSR")

Background

Burlington is proposing to increase its 2010 Retail Transmission Network Service Rates by 3.5% and to decrease its Retail Line and Transformation Connection Service Rates by 2.2%.

Discussion and Submission

Board staff submits that the proposed changes to RTSRs are consistent with the Board's "Revision to Guideline G-2008-0001 – Electricity Distribution Retail Transmission Service Rates". This guideline outlined required information to adjust retail transmission service rates to reflect changes in the Ontario Uniform Transmission Rates ("UTRs"). Burlington submitted two years of actual data regarding the variance accounts related to RTSRs and did not find that there was an ongoing trend in the growth of the balances.[33]

Deferral and Variance Accounts

Background

Burlington provided the account balances representing principal balances to December 31, 2008 and projected interest to April 30, 2010 in its Application. It also submitted its Audited Financial Statements as of December 31, 2008.[34] Based on interrogatories submitted by Board staff, Burlington updated its claim from -$3,566,271 to -$3,598,390.[35]

The updated 2008 year-end balances plus projected interest to April 30, 2010 are shown in the following table.

Account Number and Description	Total Claim ($)
1508 - Other Regulatory Assets	860,706
1518 - Retail Cost Variance Account - Retail	(50,608)
1525 - Misc. Deferred Debits 1525	13,174
1548 - Retail Cost Variance Account - STR	(7,342)
1550 - LV Variance Account 1550	(199,941)
1565 - Conservation and Demand Management Expenditures and Recoveries	7,971

[33] Exhibit 8/ Tab 3/ Page 1

[34] Exhibit 1/ Tab 3/ Schedule 1

[35] IR #26

1566 - CDM Contra 1566	(7,971)
1580 - RSVA - Wholesale Market Service Charge	(3,999,762)
1582 - RSVA - One time Wholesale Market Service	290,500
1584 - RSVA - Retail Transmission Network Charge	(931,864)
1586 - RSVA - Retail Transmission Connection Charge	(232,984)
1588 - RSVA - Power (excluding Global Adjustment)	196,956
1588 - RSVA - Power (Global Adjustment)	1,076,240
1590 - Recovery of Regulatory Asset Balances	(613,465)
Total Claim	**(3,598,390)**

Burlington has proposed to dispose of the balances over a 4 year period.

Account 1588 – Global Adjustment sub-account

Burlington has appropriately used the kWh for non-RPP customers as the allocator for the Global Adjustment sub-account of account 1588. In response to Board staff supplemental IR # 7, Burlington provided calculations of the rate riders to dispose of the deferral and variance account balances, excluding the Global Adjustment sub-account, and separate rate riders to dispose of the Global Adjustment sub-account balance. Burlington used 2010 non-RPP customer consumption as the billing determinant. Burlington proposes that the Global Adjustment sub-account be applied to all non-RPP customers, including any customers previously designated as MUSH (Municipalities, Universities, Schools and Hospitals). Burlington notes that the majority of its MUSH customers have been with energy retailers over the past few years and have not been impacted by the November 2009 change in eligibility.

Discussion and Submission

Board staff notes that the updated balances proposed are consistent with Burlington's RRR filings. Board Staff also notes that Burlington's methodology for the proposed disposition of its deferral and variance accounts is consistent with similar disposition of such costs as determined by the Board in recent decisions of other distribution rate applications.

With respect to the disposition of the Global Adjustment sub-account of account 1588, Board staff is of the view that the Board should adopt Burlington's evidence provided in response to Board staff supplemental IR #7 and establish a separate rate rider for recovery of this account balance. Board staff agrees with Burlington's responses on the

applicability and practicality of including MUSH sector customers from any specific Global Adjustment sub-account rate rider.

Harmonized Sales Tax

Staff notes that the provincial sales tax ("PST") and goods and services tax ("GST") will be harmonized effective July 1, 2010 pursuant to Bill 218 which received Royal Assent on December 15, 2009. Unlike the GST, the PST is currently included as an OM&A expense and is also included in capital expenditures. When the GST and PST are harmonized, corporations will realize a reduction in OM&A expenses and capital expenditures that has not been reflected in the current application for 2010 rates.

In response to an interrogatory,[36] Burlington stated that it has not made any adjustments to its 2010 OM&A and capital expenditure forecasts to reflect the elimination of the 8% PST costs starting on July 1, 2010. Burlington stated that the estimated costs related to PST that are included in 2010 OM&A and capital expenditures for the period July 1 to December 31, 2010 are $72,728 and $344,929 respectively. Board Staff notes that in response to a Board staff interrogatory, Burlington agreed to the establishment of a variance account to track any savings that may arise.[37]

Staff submits that the amounts associated with PST costs noted above suggest that the potential savings could be significant. Accordingly, the Board may wish to consider establishing a variance account to track any savings that may arise.

LRAM/SSM

Background

Burlington is seeking LRAM and SSM recovery of $889,218 ($724,398 for LRAM and $164,820 for SSM), to be recovered over four years. Third-party review of LRAM and SSM costs are provided in Exhibit 8/ Tab 6/ Schedule 1.

Following the Board's Decision with respect to Horizon Utilities' application for LRAM and SSM recovery (Board file number EB-2009-0192), and in light of interrogatories posed by Board staff and intervenors, Burlington filed updated evidence on November 20, 2009 and December 21, 2009.

[36] Response to EP IR #1

[37] Response to Board Staff Supplemental IR #1

Discussion and Submission

In response to an interrogatory, Burlington stated that distribution system improvements should be removed from its CDM portfolio and in turn, excluded from its SSM calculation.
The effect of removing the distribution system improvements increased the SSM claim. As well, Burlington made adjustments to its LRAM claim to include the most up to date input assumptions. Burlington's updated LRAM/SSM claim is $926,628 ($705,345 for LRAM and $221,283 for SSM), to be recovered over four years.

Board staff notes that Burlington has submitted a third party review conducted by IndEco Strategic Consulting Inc. As well, Board staff submits that Burlington has complied with all filing requirements and takes no issue with Burlington's proposed LRAM/SSM claim.

- All of which is respectfully submitted -