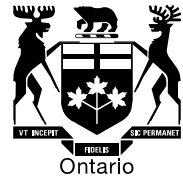


**Ontario Energy  
Board**  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416-481-1967  
Facsimile: 416-440-7656  
Toll free: 1-888-632-6273

**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



**BY EMAIL**

November 14, 2014

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

Dear Ms. Walli:

**Re: Burlington Hydro Inc. ("Burlington Hydro")  
2015 Z-factor Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2014-0252**

In accordance with Procedural Order #2, please find attached Board Staff's submission in the above noted proceeding. Burlington Hydro and the intervenors have been copied on this filing.

Burlington Hydro's reply to the submission is due on November 28, 2014.

Yours truly,

*Original Signed By*

Suresh Advani

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

### **2015 ELECTRICITY DISTRIBUTION RATES (Z-factor)**

**Burlington Hydro Inc.**

**EB-2014-0252**

**November 14, 2014**

**Board Staff Submission  
Burlington Hydro Inc.  
2014 Z-factor Distribution Rate Application  
EB-2014-0252**

## **Introduction**

Burlington Hydro Inc. ("Burlington Hydro") filed an application with the Ontario Energy Board seeking approval for the recovery of certain amounts related to the restoration of electricity service in the City of Burlington due to an ice storm in December 2013.

Board staff has reviewed Burlington Hydro's application and its responses to interrogatories, based on which its submissions are set out below.

On December 21<sup>st</sup> and 22<sup>nd</sup> an ice storm swept across Southern and Central Ontario bringing down trees and power lines resulting in extensive damage to electricity distribution systems across the Province. Burlington Hydro reported<sup>1</sup> that the storm's path crossed the northerly portion of the City of Burlington, which is heavily treed and where Burlington Hydro's system is predominantly overhead. The storm impacted the southerly portion of the City of Burlington to a lesser degree where the distribution system is more extensively undergrounded.

Approximately 7,500<sup>2</sup> Burlington Hydro customers, or about 11%<sup>3</sup> of its customer base, were without power at the height of the ice storm. To aid in restoring power, Burlington Hydro sought additional resources from its GridSmartCity<sup>4</sup> partners and obtained the assistance of three electricity distributors and three external contractors. In addition, Burlington Hydro obtained assistance from the City of Burlington through its provision of tree trimming crews, trucks and tools without charge.

On May 23, 2014 Burlington Hydro sent a letter to the Board notifying the Board of the operational impact caused by the ice storm which resulted in Burlington Hydro incurring a material level of costs.

---

<sup>1</sup> Board staff interrogatory #6

<sup>2</sup> Application Exhibit 1/p. 4

<sup>3</sup> Board staff interrogatory #14

<sup>4</sup> Board staff interrogatory #5b

In this Application, Burlington Hydro requested the recovery of a Z-factor claim in the amount of \$579,365 as incremental OM&A costs. Board staff notes that Burlington Hydro underwent a cost-of-service process for its 2014 rates. In the evidence in this application, Burlington Hydro stated that \$129,055 in capital ice storm related restoration costs were placed in the 2014 rate base and are not included in its claim in this application. Burlington Hydro also stated that its claim is also net of \$126,270 in normally allocable costs related to Benefits and Burdens that have already been recovered through current rates as they do not change based on the incurrence of incremental OM&A.

Burlington Hydro is requesting that the amount be recovered by means of a fixed rate rider across all metered customer classes based on Burlington Hydro's average 2013 customer/connection count, for a period of 18 months beginning November 1, 2014 and ending April 30, 2016, to coincide with the expiration of four other previously authorized rate riders.

A detailed breakdown of the expenses to be recovered is as follows:

<b>Description</b>	
Materials	\$9,679
Burlington Hydro Labour	\$219,753
Distributors and External Contractors	\$304,720
Other	\$38,895
Projected carrying charges	\$6,317
<b>Z-Factor Amount Requested for Recovery</b>	<b>\$579,365</b>

Based on the *Board's Report on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors*<sup>5</sup> dated July 14, 2008, Z-factors are intended to provide for unforeseen events outside of management's control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:

<sup>5</sup> [http://www.ontarioenergyboard.ca/oeb/Documents/EB-2007-0673/Report\\_of\\_the\\_Board\\_3rd\\_Generation\\_20080715.pdf](http://www.ontarioenergyboard.ca/oeb/Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf)

- **Materiality** – The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
- **Causation** – Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
- **Prudence** – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

#### *Materiality*

Board staff notes that the Board's materiality threshold for a Z-factor claim is 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than \$10 million and less than or equal to \$200 million.

In its revised response to BSI #2, Burlington Hydro noted an approved distribution revenue requirement of \$29,253,965 from its 2010 cost-of-service application (EB-2009-0259) and a corresponding materiality threshold of \$146,270. Burlington Hydro also noted an approved distribution revenue requirement of \$28,835,532 from its 2014 cost-of-service application (EB-2013-0115) and a corresponding materiality threshold of \$144,178.

Board staff submits that Burlington Hydro's \$579,365 total cost claim is material.

#### *Causation*

In its Application and in response to Board staff interrogatories ("BSI"), Burlington Hydro provided a breakdown<sup>6</sup> of its costs by department, including incremental labour hours and stated that:

- the cost of restoration is outside the base upon which its rates were set (BSI #3c);

---

<sup>6</sup> Application Exhibit 1/p.6, and BSI #4a

- if the ice storm event had not occurred, Burlington Hydro would not have incurred any of the costs included in the \$579,365 it is seeking to recover (BSI #10);
- there are no other sources for reimbursement such as insurance and further stated that the shareholder made a “contribution in kind” through its provision of tree trimming crews, trucks and tools without charge (BSI #9, #13);
- the vast majority of costs contained within the application have been audited as part of Burlington Hydro’s 2013 financial audit (Application Exhibit 1/p. 5);
- the claim includes overtime hours only for Burlington Hydro staff, invoiced costs from the other electricity distributors and charges per negotiated rates from external contractors. (BSI #4, #5);

Having reviewed the evidence, Board staff is satisfied that Burlington Hydro’s costs were directly related to the Z-factor event. Board staff also notes that the average cost of Burlington Hydro’s restoration is \$77 per customer restored. This amount is greater than the \$63 per customer restored in Milton Hydro’s service territory, which the Board has approved (EB-2014-0162), and somewhat higher than the \$73 per customer restored sought in Halton Hills Hydro’s application (EB-2014-0211). Board Staff acknowledges that a large number of factors can explain discrepancies in average costs but takes the general range to be indicative of some degree of consistency across operating areas.

While Board staff submits that Burlington Hydro’s costs may be outside of the base upon which rates were derived, a number of issues still have not been made clear in the evidence.

The first such issue pertains to the question of Burlington Hydro’s budget. BSI #12 asked Burlington Hydro to provide its budget for emergency distribution problems. In response, Burlington Hydro replied that it maintained no such budget<sup>7</sup>, but it provided budget and actual costs for addressing distribution maintenance from 2009 to 2013<sup>8</sup>, and explained that this total figure contained related storm and inclement weather costs.

---

<sup>7</sup> Board staff interrogatory #12c

<sup>8</sup> Board staff interrogatory Addendum Attachment B

As part of its assessment of the evidence, Board staff compared the reported figure to similar figures provided in Burlington Hydro's 2014 cost of service application<sup>9</sup>. The results are summarized in Table 1:

**Table 1: Comparison of Maintenance Costs – EB-2013-0115 vs. EB-2014-0252**

	2011	2012	2013
Actual Distribution Maintenance Expenses (BSI #12)	\$4,157,034	\$4,514,630	\$5,378,080
Maintenance Expenses (2014 cost of service – EB-2013-0115, Appendix 2-JC)	\$2,544,531 (Actual)	\$3,149,391 (Actual)	\$3,602,291 (Bridge Year Estimate)

Board staff invites Burlington Hydro to explain in its reply submission why the expenditures provided in response to BSI #12 are significantly higher than what was provided in its 2014 cost of service rate application, including with reference to any corporate accounting or overhead burdens which might explain the disparity.

The second and larger issue with its evidence is the lack of details on the amount of storm-related or emergency costs already included in rates in 2013 or even typically incurred by Burlington Hydro each year. Assuming that Burlington Hydro can explain the differences from the table above, this will still be only a comparison of total maintenance expense numbers, not storm or emergency related expenses. Board staff submits that the provision of aggregate maintenance spending amounts does not fulfill the criterion of causation, since this figure does not clearly demonstrate what level of storm-related spending the utility expects and plans for each year, and in particular what was in the rates for 2013. This, in staff's view, is what the criterion requires.

Board staff recognizes that the Board has, with some degree of regularity, approved operations, maintenance and administration budgets on an 'envelope' basis – that is, an amount found to be supported by the evidence "without specifically directing the Company as to how the funds should be allocated among the various categories of

---

<sup>9</sup> Appendix 2-JC (EB-2013-0115)

OM&A spending”<sup>10</sup>. However, Board staff submits that such approvals do not remove the obligation from a distributor’s management to plan and monitor its operations in a more granular manner – if only in order to be able to pinpoint the reasons why an aggregate budget is being exceeded.

Due to the lack of granularity in its reported budget and spending, Burlington Hydro cannot show how much of the costs it incurred as a result of the December 2013 storm were clearly outside of the storm-related amounts its 2013 rates are designed to recover, or if its storm budget was exhausted earlier in 2013. Based on the evidence, Board staff is simply not in a position to know whether storm costs, or other distribution maintenance issues that were within management’s control caused the budget to have been exceeded.

On these grounds, Board staff submits that Burlington Hydro’s evidence does not permit a definitive evaluation of whether its costs were clearly outside of the relevant base upon which its rates were derived, and that a deduction to the amount applied for is warranted.

### *Prudence*

In its Application and in response to Board staff interrogatories, Burlington Hydro has stated that it:

- sought resources from three external contractors, its shareholder, i.e. City of Burlington, and its GridSmartCity partners, i.e. three electricity distributors (Application Exhibit 1/Attachment B/p.1 and BSI #5, #9);
- verified the hours of work performed by all crews and also verified that external contractors charged negotiated rates (BSI #5g, #5h);
- adhered to its tree trimming policy in the period prior to the ice storm (BSI #7);
- has developed and established practices and procedures when restoring service subsequent to storms and extreme weather events and confirmed that its response to the ice storm followed and was in accordance with its Emergency

---

<sup>10</sup> EB-2010-0136, Decision and Order p.30

Plan and that it did not deviate from the Plan (Application Exhibit 1/p. 1, and BSI #11); and

- Confirmed that external contractors were procured pursuant to Burlington Hydro's procurement policy (BSI #5d, #5e).

Board staff notes that Burlington Hydro's purchasing policy provided in response to BSI #5d states that with respect to emergency purchasing "Selection shall be based on the quality and timeliness of service and where possible at the lowest cost". Board staff further notes that this is consistent with the Board's July 14, 2008 report governing Z-factor events, referenced earlier in this submission.

In Board staff's view, Burlington Hydro's response following the onset of the ice storm was consistent with its Emergency Plan provided in response to BSI #11a with respect to risk assessment, communication and coordination.

Overall, Board staff submits that Burlington Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way.

In summary, based on its review of the evidence, Board staff submits that the criteria of materiality and prudence were met.

However, given concerns expressed earlier with the causation test, Board staff submits that some portion of the requested amount should be disallowed. Based on the evidence on the record it was just not possible to discern how much storm or emergency related costs were already funded in their 2013 rates.

The Board could consider reducing the claim by the applicant's materiality threshold -- \$144,178, as cited above -- as a consequence of not meeting the causation test as a result of its budgeting practice. However, Board staff would recommend that the amount to be approved for recovery should be \$63 per customer restored, consistent with the amount approved for Milton Hydro, the only 2013 Z-factor application to have received a decision to date. This would amount to a reduction to the claim of \$106,865, or about 18%. Leaving possible differences between Milton and Burlington Hydro aside, Board staff feels this amount is a reasonable total reduction given the uncertainties in Burlington Hydro's budget. Board staff acknowledges that this was a significant storm

and that Burlington Hydro would have incurred costs in the restoration efforts.

*Allocation of Costs and Rate Riders*

In its application, Burlington Hydro proposed to recover the ice storm Z-Factor costs by way of Fixed Charge Rate Riders levied on all customer classes based on Burlington Hydro's average 2013 customer/connection count, and the allocation of the Z-Factor costs to all rate classes on the basis of "2013 Distribution Rate Revenue"<sup>11</sup>. Burlington Hydro calculated the monthly Residential customer class total bill impact<sup>12</sup> to be 0.26% and the monthly General Service < 50 kW customer class total bill impact to be 0.27%.

In justifying its use of Fixed Charge Rate Riders, Burlington Hydro noted that the costs incurred are driven by the number of customers that it has, not by the amount of energy those customers consume. Burlington Hydro further noted that while it acknowledges that under or over recoveries will be trued up through account 1595, the under or over recoveries associated with the proposed fixed charge rate rider are expected to be less significant than those associated with a volumetric rate rider which will abate concerns of intergenerational inequity. In response to BSI #15, Burlington Hydro stated it intends to dispose of any residual balance in the next available rates application.

Board staff agrees with Burlington Hydro that recovery via a fixed charge is reasonable insofar as the costs of restoration of electricity service are not dependent on a customer's energy consumption or demand on Burlington Hydro's distribution system.

Board staff submits that the Board typically allocates distribution costs between classes on the basis of distribution revenue. Accordingly, simplicity would suggest that Burlington Hydro would allocate the approved recovery amount related to storm costs to all rate classes on the basis of its last approved distribution revenue. Board staff submitted that this approach was appropriate in the Milton Hydro and Halton Hills Hydro Z-factor allocations and submits that it may continue to be appropriate in this instance as well. However, should there be evidence on the record regarding the nature of the distribution plant that sustained damage and the kinds of customers affected by the storm that would suggest a different allocation – for instance, by customer count rather than by revenues-- Board staff invites Burlington Hydro to highlight it in its reply submission.

---

<sup>11</sup> Application Exhibit 1/Attachment D/p. 3

<sup>12</sup> Application Exhibit 1/Attachment E/p. 1

The fixed rate rider should be based on the actual customer/connection count numbers as of December 31, 2013. Using this approach and its applied-for amount of \$579,365, Burlington Hydro has calculated the total monthly bill impact is to be \$0.32 for the Residential customer class and \$0.81 for the General Service < 50 kW customer class<sup>13</sup>. Should the Board approve the 18% reduction staff recommends, staff has estimated the impact on bills to be \$0.26 and \$0.66 respectively.

Board staff also submits that under or over recoveries associated with the proposed fixed charge rate rider should be trued up.

All of which is respectfully submitted

---

<sup>13</sup> Board staff interrogatory #8c