Burlington Hydro Inc.

EB-2014-0252

Reply Submissions

Filed November 28, 2014

Introduction

On July 31, 2014 Burlington Hydro Inc. ("BHI") applied to the OEB for authorization to charge rate riders effective November 1, 2014 that would recover the $573,048 of costs it prudently incurred to restore service subsequent to the December 2013 Ice Storm and the associated Carrying Charges of $6,318. BHI published the OEB's Notice to Customers on August 14, 2014. Energy Probe Research Foundation ("Energy Probe") and the Vulnerable Energy Consumers Coalition ("VECC") were granted intervenor status. BHI filed its responses to interrogatories on October 22, 2014. Board staff and Intervenors (the "Parties") filed their Submissions with the Board on November 14, 2014. This document provides BHI's Reply Submissions.

The Parties concur that BHI's costs were caused by the Ice Storm and are material. Both Board staff and Energy Probe concurred that these costs were prudently incurred and are outside of the basis upon which rates were set. Energy Probe found that BHI had substantiated its claim. VECC argued that portions of some of the incurred costs are not eligible for inclusion in the Z Factor costs; specifically, non-unionized Overtime, non-incremental Fleet costs and certain Tree Trimming costs. Energy Probe invited BHI to further clarify its 2013 Tree Trimming costs. Board staff took issue with the granularity of BHI's Emergencies budget. Board staff submitted that if the Board was not satisfied with the granularity of BHI's budgets that the Board could disallow a portion of the costs quantified using either the materiality threshold or the computed difference between BHI's Average Cost/Affected Customer and that of Milton Hydro. All Parties supported BHI's proposal to charge a fixed rate rider and to dispose of any residual balance to account 1595. Energy Probe and VECC took issue with the appropriate Allocation Factor, appropriate Charge Parameter data and the appropriate disposition period.

Recovery of Non-Union Overtime costs

Both Board staff and Energy Probe accepted BHI's proposal to recover $34,204 (Ex 1, Att D, p1) of non-unionized Overtime costs. VECC submitted that only the Overtime costs payable to Supervisors should be disposed of through rates as BHI's formal written Overtime policy clearly applies to Supervisors.

BHI notes that the Overtime paid to Supervisors is included in the amounts paid to BHI staff. The $34,204 amount relates to 6 BHI managers whose efforts were essential to the safe restoration of

service. BHI compensated these individuals according to its policy and in the same manner as it compensated all others who were essential to the safe, prompt restoration of service.

BHI's written Overtime policy (Ex 2, tab 1, Sch 24, Att A) shows:

- "This policy applies to all salaried employees (management and non-union)." (section 2.0 Policy Scope)
- "Eligible employees are only entitled to overtime wages for work that is requested, acknowledged or authorized by the employer. … when it involves … after-hour emergencies or extenuating circumstances." (Section 4.0 When Overtime is Acceptable)

VECC's submission that only Overtime worked by Trade Supervisors is eligible for inclusion is inappropriate.

The Ice Storm was extraordinary and unprecedented. Service restoration required an unprecedented level of specialized resources and relied on multiple BHI crews, City of Burlington crews, 3 external contractors and 3 neighbouring LDCs. In order to minimize the duration of the outage experienced by customers, these resources had to be co-ordinated (e.g., to avoid idle time, avoid duplicate travel time, avoid duplication of resources, avoid inappropriately sequencing service restoration activities). Co-ordination could be provided by either BHI managers or by field crews. If co-ordination duties were performed by field crew members, then these crew members would have not have been available to perform their specialized service restoration functions, and, they would have been forced to acquire these skills on a 'real time' basis. Both of these outcomes were clearly undesirable under conditions when as many as 7,500 customers were without power simultaneously and when some customers in the rural portion of the Service Area were without power for as long as 7 days.

Under normal circumstances, BHI management and supervisors preplan all work and field activities, and, communicate these plans in advance to all affected. In extraordinary circumstances - like those encountered when restoring service subsequent to the Ice Storm – preplanning cannot occur per normal practice. Because BHI managers made themselves available to co-ordinate resources, BHI was able to minimize the duration of the outage experienced by its customers. BHI's customers benefitted from both resource co-ordination, and, from BHI manager's in-depth knowledge of BHI's distribution system and operating protocols, ability to ensure that sites were made safe for both crews and the public,

knowledge of BHI crews' past experiences and aptitudes, and, oversight and supervision of the time expended by all crews.

Table 1 below responds to VECC's invitation for data on Overtime worked by the 6 managers.

Table 1 Non-Unionized Over Time

		Worked Hours
Employee	1	23
	2	32
	3	81.5
	4	15
	5	20
	6	148.5
	Total	320

BHI confirms that these 6 employees are members of its Management team and notes that Table 1 excludes the 2 members of BHI's Executive team who participated in the restoration of service.

BHI submits that VECC's submission that only non-unionized Overtime costs paid to Supervisors are recoverable is inappropriate as it does not reflect the essential services provided by BHI managers that facilitated the safe restoration of service in a timely manner to the benefit of all affected customers.

BHI's Tree Trimming Practices and Costs

No party made submissions on BHI's $67,189 (Ex 1, Att D, p1) of Emergency Tree Trimming costs. Energy Probe and VECC submitted that the Board may wish to reduce BHI's Z Factor costs by any underspending on Routine Tree Trimming that may have occurred in 2013. Both Energy Probe and VECC invited BHI to provide additional information on its 2013 Routine Tree Trimming costs.

BHI's 2013 budget for Routine Tree Trimming was $345,000, and consists of Routine Tree Trimming costs of $231,000 and Inspection costs of $114,000 (EB-2013-0115, Attachment D.1 to the Proposed Settlement Agreement).

Early in 2013, BHI's Routine Tree Trimming contractor commenced to trim trees according to the contract. The area trimmed included some of the areas affected by the Ice Storm (e.g., Side Road No. 1,

Side Road No.2, Cedar Springs Road). These trimming activities may have contributed to a shorter outage period subsequent to the December 2013 Ice Storm. BHI was invoiced $247,139 (Ex 2, Tab 1, Sch 21, p1) for this work. During this period it was discerned that BHI's tree trimming standards were not being met and, accordingly, the contract fell into dispute. Due to this contractual dispute, no further Routine Tree Trimming was performed in 2013. As of the end of 2013, BHI's Routine Tree Trimming was behind schedule and its Routine Tree Trimming budget was underspent by $97,861.

BHI and the contractor commenced contract negotiations early in 2014 and successfully renegotiated the contract part way through 2014. However, by that time, the contractor had entered into other contracts and had allocated resources to satisfying those obligations. As a result, it was not possible for the contractor to complete the remaining 2013 Routine Tree Trimming, as well as the scheduled 2014 Routine Tree Trimming, by the end of 2014.

BHI formed a plan to 'catch up' on the backlog of Routine Tree Trimming work. BHI's contractor will prioritize Routine Tree Trimming from previous periods and complete them at the earliest possible opportunity. For the remainder of the year, the contractor will complete as much of the scheduled Routine Tree Trimming for that year as time permits. Under this plan, BHI's contractor completed the Routine Tree Trimming deferred from 2013 as of early 2014 and, for the remainder of 2014, is expected to devote its resources to performing the Routine Tree Trimming scheduled for 2014. Any scheduled 2014 Routine Tree Trimming that cannot be completed in 2014 will be deferred to 2015 and will be completed in 2015 on a priority basis. BHI will ensure that budgets are available to complete Routine Tree Trimming activities not completed in prior periods.

BHI notes that the above information satisfies the invitation extended by both Energy Probe and VECC to provide further information on this matter.

The intervenors' analysis of incurred costs versus budgeted amounts requires context. In particular, a line item specific analysis is only appropriate in the rebasing year; BHI's previous rebasing was in 2010. Under the Board's IRM, when rates are cost related, a 'high level' cost analysis (e.g., envelope based analysis, analysis of the Achieved Return on Equity) is appropriate.

BHI underearned the Allowed Return on Equity in 2013; its achieved Return on Equity of 8.15% is 170 basis points lower than the Allowed level of 9.85% (OEB Scorecard). For this reason, BHI submits that

VECC's proposed adjustment is inappropriate. Furthermore, BHI will make budgets available to support 'catching up' in future periods. Energy Probe's and VECC's submissions that any observed underspending in 2013 should be applied to reduce BHI's Z Factor costs are inappropriate.

VECC and Energy Probe invited BHI to expand on the connection between the 2013 Routine Tree Trimming costs and the amount authorized for recovery through BHI's rebased 2014 rates. In its 2014 Cost of Service Application, BHI filed evidence in February 2014 that its 2013 Routine Tree Trimming budget was inappropriately low and that a more appropriate annual value for 2014, and beyond, was $547,000 (EB-2013-0115, Attachment D.1 to the Proposed Settlement Agreement). This evidence was accepted by the intervenors in that proceeding and was incorporated in the Settlement Agreement. The contractual dispute discussed above ultimately resulted in the review of and revisions to BHI's 2014 Routine Tree Trimming budget and of the appropriateness of incurring Inspection costs. BHI's 2013 Vegetation Management expense of $449,513 relates to its combined Routine Tree Trimming and Emergency Tree Trimming.

Granularity of BHI's Emergency Budget

Only Board staff sought explicit and detailed information on BHI's Emergencies budget; neither Energy Probe nor VECC sought such information. Board staff suggested that since BHI lacked sufficiently granular budget data the Board may wish to consider reducing BHI's recoverable Z Factor costs.

BHI records its costs incurred to restore service after 'normal' storms and 'normal' inclement weather, among other costs, in its Distribution Maintenance accounts. BHI budgets for Distribution Maintenance costs and recovers them through authorized rates. BHI does not break out or explicitly quantify storm and inclement weather budgets or costs. Put differently, BHI budgets for and tracks its Distribution Maintenance costs at a granular level and does not budget for or track costs depending on whether service was interrupted for animal interference, storms, or any other reason. BHI's accounting and record keeping is consistent with that of other LDCs.

BHI's Distribution Maintenance budget and actual costs (Addendum to Interrogatory Responses, Att B) is the best available information and is summarized in Table 2 below.

Table 2: BHI Distribution Maintenance Actual Versus Budget

	2009	2010	2011	2012	2013
Distribution Maintenance					
Actuals	3,970,724	3,710,754	4,157,034	4,514,630	5,378,080
Budget	4,268,417	4,454,559	3,971,132	4,468,860	5,054,057
Variance	(297,693)	(743,805)	185,902	45,770	324,023

Table 2 above shows that BHI overspent its Distribution Maintenance budget in 2011, 2012 and 2013. BHI points out that the 2013 Actuals include the OM&A costs incurred subsequent to the July 2013 Wind Storm and exclude all incremental costs of the December 2013 Ice Storm.

As is stated elsewhere in these Reply Submissions, BHI's 2013 rates were set pursuant to the Board's 3G IRM and that a high level analysis of costs (e.g., an envelope analysis, Achieved Return analysis) is appropriate. BHI's Distribution Maintenance data is suitable for an envelope analysis and demonstrates that BHI overspent this envelope. Staff's submission that BHI's Z Factor costs should be reduced due the lack of granular data on Emergencies is inappropriate.

Board staff invited BHI to provide additional information on its Emergency Costs and of how its budget and cost data filed in this proceeding compares to that filed in EB-2013-0115. BHI's Distribution Maintenance expense data was sourced from its internal accounting data, which is consistent and comparable. The Distribution Maintenance data provided in Table 1 of Board staff's Submission was filed in BHI's 2014 Cost of Service (EB-2013-0115) on October 1, 2013 and is presented on a USoA basis. BHI updated its 2013 Maintenance costs to $3,518,836 in February 2014; this value was also presented on a USoA basis, before year-end accounting adjustments. For these reasons, Board staff observed a disparity with respect to the data set out at Table 1 of their Submission.

BHI has prepared Table 3 to demonstrate:

- Its internal accounting of its 'Operations and Maintenance' costs according to system; and
- That its internal accounting data is consistent with its USoA balances reported to the Board.

Table 3: BHI Operations and Maintenance Actual Versus Budget

Actuals

	2009	2010	2011	2012	2013
Control Room	1,053,221	1,126,483	1,249,143	1,250,534	1,317,234
Substations	836,688	1,024,672	1,267,649	1,149,504	1,508,047
Distribution Maintenance	3,970,724	3,710,754	4,157,034	4,514,630	5,378,080
Meters	572,885	461,134	513,783	621,737	699,112
Total	6,433,518	6,323,043	7,187,609	7,536,405	8,902,473
OM&A per OEB Statistical Yearbook	6,433,518	6,323,043	7,187,609	7,536,405	8,902,473

Budget

	2009	2010	2011	2012	2013
Control Room	1,059,018	1,089,828	1,071,482	1,255,875	1,448,924
Substations	1,161,383	1,191,614	1,522,687	1,306,490	1,656,827
Distribution Maintenance	4,268,417	4,454,559	3,971,132	4,468,860	5,054,057
Meters	641,195	489,413	601,348	588,140	801,281
Total	7,130,013	7,225,414	7,166,649	7,619,365	8,961,089

Variance

	2009	2010	2011	2012	2013
Control Room	(5,797)	36,655	177,661	(5,341)	(131,690)
Substations	(324,695)	(166,942)	(255,038)	(156,986)	(148,780)
Distribution Maintenance	(297,693)	(743,805)	185,902	45,770	324,023
Meters	(68,310)	(28,279)	(87,565)	33,597	(102,169)
Total	(696,495)	(902,371)	20,960	(82,960)	(58,616)

Board staff suggested that if the Board was concerned over the lack of granularity of BHI's budget data that it may wish to consider reducing BHI's claimed costs. Staff suggested that the reduction could be quantified using the Materiality Threshold of $144,178 (Addendum to Interrogatory Responses, Att A). BHI notes that it incurred OM&A costs during 2013 (e.g., to restore service subsequent to the July Wind Storm) that were less than the Materiality Threshold and, ultimately to the benefit of our customers, did not seek recovery through rates. Alternatively, staff suggested a $106,865 reduction based on the "Average Cost per Customer Restored" metric that was introduced in their Submission. Board staff computed BHI's "Average Cost per Customer Restored" is approximately $14 higher than the corresponding value for Milton Hydro.

BHI's Application concerns our prudently incurred, material costs that were caused by the December 2013 Ice Storm. There is no evidence on the record in this proceeding concerning the cost drivers, cost

differences or causal links between the level of costs incurred by Milton Hydro versus those incurred by BHI when restoring service subsequent to the same December 2013 Ice Storm.

Staff's suggestion that BHI's costs and Milton Hydro's costs can be linked or expected to resemble each other as quantified by the Average Cost per Customer Restored lacks causality and is arbitrary. To further suggest, as staff does, that the Board can use this metric to quantify any cost disallowance is inappropriate.

Fleet Costs

Board staff and Energy Probe both concurred that BHI's claimed costs are incremental and outside of the basis upon which rates were set. Only VECC raised concern over BHI's Fleet costs, specifically that the claimed costs include allocable costs that are recovered through authorized rates. It is BHI's evidence that the claimed Z Factor costs are incremental costs and do not include any costs recovered through authorized rates (e.g., normally incurred costs, allocable costs). In response to VECC's invitation, BHI re-iterates that its $22,480 of Fleet costs are purely incremental and do not include any allocable costs.

Design of the Proposed Rate Riders

The Parties accepted BHI's proposal to dispose of the Z Factor costs through a Fixed Charge rate rider. All Parties accepted allocating cost responsibility to the customer classes based on Distribution Revenues. Each party proposed using Customer and Connection count charge parameter data based as on different dates. Energy Probe submitted that disposition should commence at the earliest opportunity and that it is desirable to dispose of the balance over as short a time period as possible. All parties accepted BHI's proposal to dispose of any residual balance to account 1595.

Board staff invited BHI to reference evidence on the record concerning the nature of BHI's distribution infrastructure damaged by the Ice Storm, and, to discuss the suitability of using this data to allocate costs. The requested data is provided at E1/p6 Table 3. This data, in and of itself, is not directly related

to either the nature or number of customers affected by an outage and cannot be relied on to allocate costs. Consider, for example, splices:

- The exact same Splice can be used to restore service to a residential customer or to a small General Service < 50 kW customer;
- A replacement splice on a Primary could support the restoration of service to all customers downstream of the splice.

In principle, BHI considers it inappropriate to allocate costs incurred to restore service subsequent to the Ice Storm, a random event, based on either the damaged infrastructure or the directly affected customers. Consistent with past Board Decisions, BHI proposes to recover the costs from all customers in the service area. BHI suggests that this approach is equitable as it achieves geographic neutrality among its customers.

BHI notes that, among all the different rate rider scenarios modelled at the request of the Parties, the Bill Impacts of alternative allocation factors, charge parameters and disposition periods show minimal variability. For this reason, BHI takes no position on Parties' submissions on these matters.

Conclusion

BHI submits that its costs were prudently incurred, caused by the December 2013 Ice Storm, are material, are outside of the basis upon which rates were set and are eligible for disposition through rates. Staff and the Intervenors concur that the costs were caused by the Ice Storm and are material. Both Staff and Energy Probe concur that BHI's costs were prudently incurred and that these prudently incurred costs were outside of the basis upon which rates were set. While Energy Probe concurred that BHI's costs were prudently incurred it sought greater clarity of BHI's 2013 Tree Trimming costs which BHI has provided. VECC's submissions concerning the eligibility for recovery through rates of non-unionized Overtime, Tree Trimming and incremental Fleet costs are inappropriate. Parties support disposition through a fixed rate rider and the disposition of any residual balance to account 1595. BHI will follow the Board's direction when computing the Rate Riders and preparing the draft Rate Order.

All of which is respectfully submitted