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 EMAIL

February 7, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Walli:

Re: Burlington Hydro Inc.
2019 IRM Rate Application
Staff Submission
OEB File Number EB-2018-0021

In accordance with Procedural Order No.1, please find attached OEB staff's submission in the above proceeding. This document is being forwarded to Burlington Hydro Inc.

Burlington Hydro Inc. is reminded that its Reply Submission is due on February 21, 2019.

Yours truly,

Original Signed By

Kelli Benincasa
Acting Advisor, Incentive Rate Setting & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

BURLINGTON HYDRO INC.

EB-2018-0021

February 7, 2019

OEB Staff Submission
Burlington Hydro Inc.
2019 IRM Rate Application
EB-2018-0021

Introduction

These are the submissions of Ontario Energy Board (OEB) staff in OEB proceeding EB-2018-0021. Through this proceeding, the OEB has combined the hearing of Burlington Hydro Inc.'s (Burlington Hydro) September 24, 2018 IRM application for rates effective May 1, 2019, and Burlington Hydro's November 2, 2018 application for z-factor recovery relating to a May 2018 windstorm.

Burlington Hydro is in its final year of transition towards a fully fixed monthly distribution charge. OEB staff submits that Burlington Hydro has demonstrated that no rate mitigation is required. Consistent with the Chapter 3 Filing Requirements, Burlington Hydro has also applied the Price Cap IR adjustment factor to adjust the monthly service charge and volumetric distribution rate during the incentive rate-setting years.

Burlington Hydro has requested an update to its Retail Transmission Service Rates to recover the wholesale transmission rates charged by the IESO and its host distributor, Hydro One. The OEB approved an update to the 2019 Uniform Transmission Rates.[1] OEB staff will update Burlington Hydro's rate generator model accordingly.

OEB staff has no concern with Burlington Hydro's proposals except for the matters listed below.

OEB staff makes detailed submissions on the following:

- Z-Factor – May 2018 Windstorm
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Incremental Capital Module (ICM)
- Group 1 Deferral and Variance Accounts

[1] Decision and Interim Rate Order, EB-2018-0326, December 20, 2018.

Z-Factor Claim

Burlington Hydro is requesting cost recovery of amounts that it has recorded in relation to a May 4, 2018 windstorm that struck southern and central Ontario, bringing down trees and power lines (the z-factor claim). A z-factor claim is an option available to an electricity distributor to seek the recovery of costs arising from unforeseen events outside of its control. If a claim is approved, the distributor can establish a new, incremental rate, without having to wait until its next cost of service proceeding.

The utility's evidence is that approximately 46% of Burlington Hydro's customers were impacted by the storm, and that the utility was able to restore power to more than 90% of the affected customers within 26 hours of the first interruption. To aid in restoring power, Burlington Hydro obtained assistance from Grid Smart City partners and other third party contractors.

The amount of Burlington Hydro's z-factor request is $323,245, which consists of incremental OM&A costs, capital expenditures and carrying costs.[2] Burlington Hydro is requesting that the amount be recovered by means of a fixed rider, allocated on the basis of distribution revenue for a period of 12 months beginning May 1, 2019 and ending April 30, 2020.

A detailed breakdown of the various components of z-factor claim is set out in table 1 below:

Table 1: Z-Factor Amount Requested for Recovery

Z-Factor Components	$
Incremental Labour/Material/Vehicle Costs	143,955
Third Party Contractors	89,215
Grid Smart City Partners	61,944
Capital Expenditures	21,841
Carrying Costs	6,289
Total	**323,245**

[2] This is the adjusted amount, following the responses to interrogatories. In its z-factor application, as originally filed, Burlington Hydro had requested recovery in the amount of $368,487.

Based on the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*[3] dated July 14, 2008, z-factors are intended to provide for unforeseen events outside of a distributor's management 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:

- 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.

- 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.

- 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.

Causation

Burlington Hydro submitted the following information with respect to causation:

- This event was outside Burlington Hydro's control (Application p.2).
- The amounts incurred were directly related to the restoration of service as a result of the May 4 wind storm (Application p.5).
- The event could not have been foreseen, planned or budgeted for the storm (Application p.5).
- The costs associated with this extreme weather event were not included in the rates approved in Burlington Hydro's 2014 Cost of Service (Application p.5 & 6).
- A breakdown of operating costs, capital expenditures and carrying costs (OEB Staff Question #11a).
- An Alliance Agreement with Grid Smart City partners (OEB Staff Question #13c).
- A breakdown of other third party costs (OEB Staff Question #13e).
- Total incurred cumulative emergency maintenance costs of $1,262,263 in excess of the amount that is in rates from 2014-2018 (OEB Staff Question #14).

[3] Report of the Board 3rd Generation

Table 2: Burlington Hydro Response to OEB Staff Question #14

Emergency Maintenance In Rates			
Year	**Amount in Rates**	**Actual**	**Difference**
2014	$3,864,317	$2,609,626	($1,254,692)
2015	$3,864,317	$3,701,170	($163,148)
2016	$3,864,317	$4,198,648	$334,330
2017	$3,864,317	$5,098,438	$1,234,121
2018 YTD	$3,864,317	$4,975,969	$1,111,651
Total	$19,321,587	$20,583,850	$1,262,263

- The amounts claimed are directly related to the z-factor event and that if the wind storm had not occurred Burlington Hydro would not have incurred any of the costs (OEB Staff Question #11b).

Based on the budget and actual costs for addressing emergency distribution system problems from 2014 to 2018, OEB staff notes that, since 2014, Burlington Hydro has spent more for emergency maintenance than had been approved in rates. Furthermore, OEB staff notes that Burlington Hydro's residential class has grown less than 1% since 2014.

Overall, OEB staff submits that Burlington Hydro has demonstrated that the amounts sought for recovery are directly related to the windstorm and outside of the base upon which Burlington Hydro's 2014 cost of service rates were set.

Materiality

OEB staff notes that the OEB'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.

Burlington Hydro has an approved revenue requirement of $28,835,532 from its 2014 cost-of-service application and a corresponding materiality threshold of $144,178.[4] OEB staff submits that the claim is material.

[4] Decision and Rate Order EB-2013-0115

Prudence

The OEB's *Filing Requirements for Electricity Distribution Rate Applications* issued on July 12, 2018, states that applicants are to notify the OEB promptly by letter to the Board Secretary of all z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim. OEB staff notes that Burlington Hydro informed the OEB by letter on November 2, 2018, within the six months of the wind storm event occurring.

In its application or in response to interrogatories from OEB staff, Burlington Hydro has provided the following comments with respect to prudence:

- Labour costs were incurred according to previously negotiated agreements (Application p.6).
- Burlington Hydro relied on alliances and mutual aid agreements to restore power quickly and safely (Application p.6).
- Contractor costs were incurred according to previously negotiated agreements (Application p.6).
- Repairs were made where appropriate and the portions of the system that were rebuilt were constructed on a 'like for like' basis (Application p.6).
- Burlington Hydro used materials available in Stores and minimized the costs to procure materials on an emergency basis (Application p.6).
- Burlington Hydro prioritized and coordinated work to ensure restoration was completed efficiently and power was restored to customers as quickly as possible (Application p.6).
- Burlington Hydro has an Emergency Operation Plan that was followed

OEB staff appreciates that in a situation arising from extraordinary events, Burlington Hydro was able to restore power to its customers expeditiously. OEB staff submits that Burlington Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

In summary, based on its review of the evidence, OEB staff submits that the criteria of causation, materiality and prudence are met.

Allocation and Rate Design

Burlington Hydro states that, consistent with the OEB's Decision on Burlington Hydro's prior z-factor claim[5], Burlington Hydro has allocated the costs associated with the wind storm to all rate classes, on the basis of its last approved distribution revenue. Burlington Hydro is requesting that the amount be recovered by means of a fixed rider, over a 12-month period. Burlington Hydro is proposing to use the number of customers

[5] EB-2014-0252

as of December 31, 2017 as submitted in its RRR filing as the billing determinant to calculate rate riders in order to reduce the likelihood of over-recovering the z-factor claim.

OEB staff submits that Burlington Hydro's proposal to allocate the costs associated with the wind storm on the basis of distribution revenue and the most recent filed customer numbers as the billing determinant is reasonable and has been approved by the OEB in z-factor claims by other distributors in the past.

LRAMVA

Background
The Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) captures the difference in a distributor's forecast of conservation and demand management (CDM) savings established at the last cost of service proceeding and actual CDM savings verified by the IESO.

Typically, a utility's load forecast is set in a cost of service proceeding. A distributor's load forecast will typically be reduced by a CDM manual adjustment to account for anticipated load reductions from CDM programs that were not captured in the load forecast. In the ensuing years, the CDM manual adjustment to the load forecast remains at the same level until the next rebasing application. Rates established from the cost of service proceeding would be increased by the amount of the CDM manual adjustment to reflect the level of forecasted CDM savings embedded into the load forecast.

For the purposes of the LRAMVA calculation, it relies on the LRAMVA threshold as the basis of forecast savings to compare against actual. The LRAMVA threshold is an annualized equivalent of the CDM manual adjustment that is determined based on the methodology developed in Appendix 2-I from cost of service models. This is necessary in order to appropriately compare to the final CDM results provided by the IESO which are reported as annualized values.

The Chapter 3 Filing Requirements indicate that the distributor shall compare the OEB-approved LRAMVA threshold to actual CDM results at a rate class level. As a result, the LRAMVA threshold establishes the basis of the forecast savings used to compare against actual savings to determine whether the distributor over- or under-collected lost revenues in rates due to CDM since the last rebasing period.

Burlington Hydro's LRAMVA Request

Burlington Hydro applied for disposition of a debit balance of $368,698 in lost revenues that occurred in 2016. The LRAMVA balance consists of new CDM program savings in 2016, persisting savings from 2013 to 2015 CDM programs into 2016, and carrying charges up to May 1, 2019.

Burlington Hydro compared its proposed LRAMVA threshold of 14,150,278 kWh to actual CDM savings in 2016 from programs delivered in 2013, 2014, 2015 and 2016. Burlington Hydro's proposed LRAMVA threshold of 14,150,278 kWh varies from the LRAMVA threshold approved in Burlington Hydro's last cost of service proceeding in 2014 of 34,216,509 kWh.[6]

The approved 2014 LRAMVA threshold consists of expected CDM savings in 2014 from CDM programs delivered from 2011 to 2014. Burlington Hydro submits that the 2014 approved LRAMVA threshold is not appropriate as it represents the estimated CDM savings for 2011 to 2014.[7] Burlington Hydro confirms that actual 2011 and 2012 CDM savings were included in the 2014 base load forecast and not in the CDM manual adjustment.[8] As a result, Burlington Hydro has excluded persisting savings from 2011 and 2012 CDM programs in 2016 as part of its requested LRAMVA balance.

Burlington Hydro notes that the proposed LRAMVA threshold of 14,150,278 kWh corresponds to the amount of CDM savings that was not captured in the 2014 load forecast.[9]

In Burlington Hydro's proposed LRAMVA threshold, the 2013 forecast CDM savings are half of the full year amount of forecast CDM savings. Burlington Hydro indicates that only half of 2013 CDM savings were included as part of its most recently approved load forecast in 2014 and, therefore, the same should apply to the LRAMVA threshold used for determining 2016 lost revenues.[10]

OEB staff submits that Burlington Hydro's calculation of its 2016 LRAMVA balance is generally consistent with OEB policy. Burlington Hydro has appropriately compared the final verified CDM savings provided by the IESO to its LRAMVA threshold, with exception for the calculation of 2013 lost revenues. OEB staff submits that Burlington Hydro's proposed LRAMVA threshold should be updated to ensure it is an accurate

[6] EB-2013-0115
[7] Staff IR-3 c)
[8] Staff IR-3 b)
[9] Staff IR-3 c)
[10] Staff IR-3 b) Table 1

comparator to the IESO CDM savings, particularly with respect to the forecast savings amount determined by Burlington Hydro for 2013.

Based on Burlington Hydro's responses to OEB staff interrogatories, OEB staff produced Table 3 below, which shows the approved LRAMVA threshold in 2014, actual CDM amounts included in the 2014 load forecast, and proposed LRAMVA threshold values used for the LRAMVA calculation.

Table 3: LRAMVA

Year	Approved LRAMVA Threshold (2014 COS) (kWh)	Actual Load Embedded in 2014 Load Forecast (kWh)	Burlington Hydro Proposed LRAMVA Threshold (%)	Burlington Hydro Proposed LRAMVA Threshold (kWh)	*OEB Staff Proposed LRAMVA Threshold (kWh)*	Energy billed customer (kWh)	Demand billed customer (kW)
	[a]	[b]	[c]	[d] =[a]*[c]		54% * [d]	46% * [d]
2011	7,238,674	7,238,674	-	-	-		
2012	8,142,248	8,142,248	-	-	-		
2013	9,417,793	4,685,308	50%	4,732,485	9,417,793	3,509,453	1,223,031
2014	9,417,793		100%	9,417,793	9,417,793	4,199,172	5,218,622
Total	**34,216,508**	**20,066,230**		**14,150,278**	**18,835,586**	**7,708,625**	**6,441,653**

2011 and 2012 LRAMVA Amount

OEB staff does not object to Burlington Hydro's proposal to exclude forecast 2011 and 2012 CDM savings from its LRAMVA threshold, as actual CDM savings from 2011 and 2012 were embedded into the approved 2014 load forecast.

OEB staff notes that there appears to be a small variance between the forecast CDM savings amount embedded in rates and actual CDM savings from 2011 and 2012 programs due to additional savings adjustments identified by the IESO in subsequent years. However, the difference appears to be immaterial, and inclusion of this difference in the LRAMVA claim would likely be in Burlington Hydro's favour.

OEB staff suggests that as part of Burlington Hydro's reply submission, Burlington Hydro re-calculate the LRAMVA using the approved threshold of 34,216,508 kWh and, in turn, include the actual 2011 and 2012 persistence in its 2016 claim to determine the materiality of the difference between actual and forecast savings in 2011 and 2012. OEB staff requests that, at a minimum, Burlington Hydro quantify this amount in its reply submission. In the event the amount is a credit to ratepayers, OEB staff recommends

that Burlington Hydro include the 2011 and 2012 LRAMVA amounts in its final calculation.

2013 and 2014 LRAMVA Amount

OEB staff submits that the forecast savings amounts included in the LRAMVA threshold approved in its 2014 cost of service proceeding for both 2013 (i.e., 9,417,793 kWh) and 2014 (i.e., 9,417,793 kWh) are appropriate. They reflect the full year value of forecast CDM savings. It is necessary to ensure that the forecast savings in the LRAMVA threshold are consistent with the IESO verified CDM savings, which are based on a full year value in determining the quantum of the over- or under-collection of CDM in rates that is tracked in the LRAMVA.

OEB staff submits that Burlington Hydro's proposed 2014 LRAMVA threshold amount is appropriate.

OEB staff submits that Burlington Hydro's proposed 2013 LRAMVA threshold amount is understated by a half year's impact for 2013 program savings. OEB staff's concern is premised on the fact that Burlington Hydro will be comparing a full year of CDM savings, as verified by the IESO, to a half year of forecast savings amounts.

As Burlington Hydro's approved load forecast in 2014 includes half a year of actual 2013 CDM savings, Burlington Hydro has already collected lost revenues from half of the 2013 delivered CDM programs. In order to appropriately calculate the 2013 LRAMVA, the 2013 LRAMVA threshold amount should be increased to a full year value, consistent with the 2014 approved LRAMVA threshold. With this correction, OEB staff believes that Burlington Hydro will not inappropriately over-collect additional 2013 lost revenue amounts. The inclusion of the full year of forecast 2013 savings in the LRAMVA threshold would facilitate an appropriate comparison with the full year of actual 2013 savings reported by the IESO.

If Burlington Hydro does not choose to revise its LRAMVA calculation using the 34,216,508 kWh threshold amount after it confirms the revised LRAMVA amounts with actual 2011 and 2012 persistence included, OEB staff submits that Burlington Hydro should use 18,835,586 kWh as the LRAMVA threshold. OEB staff believes that this value is notionally consistent with the OEB's decision on Burlington Hydro's 2014 cost of service application, and results in comparing forecast and actual CDM savings on the same basis.

OEB staff requests that Burlington Hydro provide an updated LRAMVA amount and workform as part of its reply submission using the following LRAMVA threshold

amounts (and related actual CDM savings from corresponding years included in the threshold):

- 2011-2014 LRAMVA threshold: 34,216,508 kWh

- 2013-2014 LRAMVA threshold: 18,835,586 kWh

Incremental Capital Module

Burlington Hydro proposed three projects that it believes are eligible for recovery under the OEB's ICM option. Burlington Hydro is proposing to recover $4,850,000 through the ICM with a resulting revenue requirement of $360,859.

Projects Requested
Burlington Hydro provided the following table for the three projects it is seeking incremental capital funding for through this ICM:

Table 3 – ICM Projects

Project Description	Category	2018	2019	Total
Project 1: Tremaine Transformer Station - CCRA True-up	System Access	$0	$2,500,000	$2,500,000
Project 2: Tremaine Transformer Station - Additional Breakers	System Access	$1,000,000	$1,000,000	$2,000,000
Project 3: Bronte Transformer Station - Additional Breakers	System Access	$0	$350,000	$350,000
Total		$1,000,000	$3,850,000	$4,850,000

The Tremaine Transformer Station (TS) Connection Cost Recovery Agreement (CCRA) True-up project is a payment Burlington Hydro expects to make to Hydro One Networks Inc. (Hydro One). A True-up payment is required to be made at the 5th year of operation by the Transmission System Code (TSC) and by the terms of the CCRA if the actual load at the station is lower than the original load forecast in the CCRA. Burlington Hydro stated that it expects to pay Hydro One $2,500,000 due to a shortfall in load arising from slower than expected economic growth and energy conservation initiatives.

The Tremaine TS Additional Breakers project is a $2,000,000 payment Burlington Hydro made to Hydro One for the construction of two additional breakers at Tremaine TS. Burlington Hydro stated that it requires the capacity of the two additional breakers to accommodate future growth and that constructing the breakers at this time is most prudent.

The Bronte TS Additional Breakers CCRA True-up is a payment Burlington Hydro expects to make to Hydro One. Similar to the Tremaine TS CCRA True-up, Burlington Hydro expects to pay Hydro One $350,000 for the 10 year true-up due to a shortfall in load at Bronte TS.

ICM Requirements

The ICM is a mechanism available to electricity distributors whose rates are established under the Price Cap IR regime as described in Section 3.3.2 of the Filing Requirements.[11] The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the rate-setting plan which are incremental to a materiality threshold. The ICM is available for discretionary and non-discretionary projects, as well as for capital projects not included in the distributor's previously filed Distribution System Plan (DSP). It is not limited to extraordinary or unanticipated investments.

Burlington Hydro submitted that its requested ICM claims satisfied the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (the ACM Report):[12]

Materiality

The ACM Report states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold.

The ACM Report explains materiality as follows:[13]

> A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.
>
> Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.

The OEB-defined materiality threshold is defined in Chapter 3 of the Filing

[11] Ontario Energy Board Filing Requirements For Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications- Chapter 3 Incentive Rate-Setting Applications, July 12, 2018 ("IRM Filing Requirements")
[12] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, (EB- 2014-0219), issued September 18, 2014
[13] (EB-2014-0219), issued September 18, 2014, p. 17

Requirements for Distribution Rate Applications. It represents a distributor's financial capacities underpinned by existing rates, including growth and a 10% dead band. The equation used to calculate the materiality threshold is as follows:

$$Threshold\ Value\ (\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times \left(g + PCI \times (1+g)\right)\right]\right) \times \left((1+g) \times (1+PCI)\right)^{n-1} + X\%$$

Where: RB = rate base included in base rates ($)
d = depreciation expense included in base rates ($)
g = distribution revenue change from load growth (%)
PCI = price cap index
n = number of years since the Cost of Service rebasing
X = dead band which is currently set at 10%

Burlington Hydro used a price cap index of 0.9% as a placeholder in its initial filing until the price cap index for 2019 was available. This was based on inflation of 1.20% less a productivity factor of 0.00% and a stretch factor of 0.30%. Using the formula above, Burlington Hydro stated it had calculated its materiality threshold to be $5,404,459. The OEB expects that Burlington Hydro would be able to finance capital expenditures of this amount through its existing rates.

Burlington Hydro stated its forecasted total capital for 2019 is $12,726,287. Therefore, the $7,321,828 difference between Burlington Hydro's total capital budget and its materiality threshold is the maximum eligible incremental capital amount available to Burlington Hydro through this ICM. Burlington Hydro stated its proposal to recover $4,850,000 through this ICM falls within the maximum eligible incremental capital amount of $7,321,828.

Regarding the project-specific materiality threshold, OEB staff notes that the ICM/ACM policy stated: "In addition, the Board has adopted a project-specific materiality threshold as identified in the Toronto Hydro decision." A footnote then stated that this decision had determined that "Specific projects were not approved on the basis that they were minor expenditures in comparison to the overall capital budget." OEB staff further notes that the Toronto Hydro decision being referenced additionally stated that: "A certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget." The basis for the project-specific materiality threshold should therefore be the proposed capital budget of Burlington Hydro for 2019. The criteria to be met is whether each capital project proposed in this ICM is significant with respect to Burlington Hydro's total capital budget for 2019. Burlington Hydro submitted that each of its three projects meet the project-specific materiality threshold.

Need
The OEB describes the need threshold as below:[14]

> The distributor must pass the Means Test (as defined in the ACM Report) Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.

Under the ICM Means Test, if a distributor's regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then the funding for any incremental capital project will not be allowed. Burlington Hydro stated that its 2017 actual ROE was 7.33%, which is 2.03% lower than the deemed ROE of 9.36%, and therefore passes the Means Test.

Burlington Hydro further stated that each project is a discrete and distinct project unrelated to any recurring annual capital projects and is therefore eligible for recovery under ICM guidelines.

Prudence
The OEB describes the prudence threshold in the ACM Report as follows:[15]

> The amounts to be incurred must be prudent. 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.

Burlington Hydro stated that its eligible capital projects are prudent as they represent the most cost-effective option for rate payers. Burlington Hydro provided Project Summaries for each of its three ICM projects which include an analysis of options and assessment of prudency.

OEB Staff Submission
OEB staff submits that two of the three proposed ICM projects meet all established tests. The one remaining project does not meet the prudence test. OEB staff is of the view that the proposed projects that meet all of the OEB's ICM criteria are the Tremaine TS CCRA True-up and the Tremaine TS Additional Breakers – Simplified CCRA.

OEB staff notes that Burlington Hydro's 2019 application is for the fifth year of Price Cap

[14] (EB-2014-0219), issued September 18, 2014, p. 17
[15] (EB-2014-0219), issued September 18, 2014, p. 17

IR adjustments following rebasing of its rates in 2014. After requesting deferment of its rebasing for 2019 through a letter sent to the OEB on February 1, 2018, deferment was granted on August 14, 2018. Per the OEB's letter, Burlington Hydro is scheduled to apply to rebase rates through a Cost of Service or similar approach for 2020.

The OEB's policy per the ACM Report[16] and the January 22, 2016 *Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental* Report (the ACM/ICM Supplemental Report)[17] is that a full-year depreciation, CCA and return on capital is allowed for all years of the price cap plan except the final year prior to rebasing, in which case the standard half-year rule is used for calculation of the depreciation and return on capital and associated taxes/PILs for the first year that an asset enters service. Since 2019 is the last year before Burlington Hydro's scheduled rebasing, the half-year rule applies.

Burlington Hydro revised its application following interrogatories to reflect the half-year rule and submitted a revised ICM model. Upon review, OEB staff notes that Burlington Hydro has properly revised the ICM model to account for half-year depreciation but did not apply the rule appropriately to the CCA and return on capital amounts. OEB staff submits that Burlington Hydro should provide in its reply submission a revised ICM model with the CCA and incremental capital amounts halved.

For purposes of this submission, OEB staff has updated the price cap index applied in Burlington Hydro's ICM Model for 2019 to 1.20%. This is based on an inflation factor of 1.50% as announced by the OEB for 2019 applications, and a stretch factor of 0.30%.

OEB staff's submissions on each individual project proposed for ICM treatment are provided below:

Tremaine TS CCRA True-up

In 2011, Burlington Hydro entered a CCRA with Hydro One to build the Tremaine TS and a capital contribution was made in accordance with the TSC. A discounted cash flow was used to calculate the capital contribution, and that cash flow relied upon the cost of the transformer station as well as revenues to Hydro One resulting from forecasted load over a 25-year horizon. The load forecast used in that initial contribution projected higher growth than the amount of actual growth that materialized in

[16] (EB-2014-0219), issued September 18, 2014, p. 23
[17] Report of the OEB – New Policy Options for the Funding of Capital Investments: Supplemental Report, (EB-2014-0219), issued January 22, 2016, p. 7-11

subsequent years. Burlington Hydro submitted that it had originally anticipated stronger economic growth but that the subsequent economic recovery following the 2009 recession was slower than expected and contributed to the shortfall in demand. In addition, Burlington Hydro indicated that its original load forecast did not account for Time of Use Pricing, distributed generation, residential growth driven primarily by multi-unit residential buildings rather than single family homes and higher than anticipated impact from conservation and demand management. Burlington Hydro noted that multi-unit residential buildings have lower demand and consumption than single family homes.

In accordance with the TSC and the CCRA, Burlington Hydro must pay a true-up to Hydro One for the shortfall in revenue calculated based on an updated discounted cash flow analysis reflecting that the actual load was lower than had been forecasted at the time of the initial capital contribution, and the forecast for future years has been reduced further. Burlington Hydro proposes to recover $2.5 million related to the Tremaine TS CCRA true-up. The forecasted true-up payment reflects the initial capital contribution with an updated discounted cash flow with 5 years of historical actual usage as well as an updated forecast of future load.

The $2.5 million requested in this ICM is an estimate provided by Burlington Hydro. Burlington Hydro stated that it expects Hydro One to provide the actual amount required for this true-up in February 2019 and further expects to update its application to the actual amount prior to the OEB issuing a decision. OEB staff view the current forecast as reasonable based on historic experience and as a result view the amount of the CCRA as prudent.

Materiality

OEB staff submits that the total project cost of $2.5 million falls within the eligible incremental capital envelope and therefore satisfies the ICM Materiality Threshold.

The project-specific materiality threshold as discussed previously is evaluated by comparing individual project costs to the overall annual forecasted capital expenditures with the expectation that “minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment.”[18] The project cost of $2.5 million is significant compared to Burlington Hydro’s forecasted 2019 capital expenditures of $12.7 million. In addition, the project cost is well above Burlington Hydro’s annual materiality threshold of $144,178 and therefore satisfies the project-specific materiality threshold.

[18] (EB- 2014-0219), issued September 18, 2014, p. 17

Need
As previously discussed, Burlington Hydro satisfies the Means Test. OEB staff accepts that the CCRA payment is discrete and pertains to a single transformer station with a true-up forecasted as a lump sum payment in 2019. OEB staff accepts that the CCRA true-up is not currently included in the rate base.

Prudence
OEB staff submits that, based on load data filed with the interrogatory responses, there had been a clear need for the construction of the Tremaine TS to provide additional load capacity. Further, OEB staff submits that the true-up payment is required by the TSC and the CCRA and is of the view that the true-up payment is prudent.

OEB staff accepts that the growth of the economy is outside of Burlington Hydro's control. Furthermore, OEB staff is of the view that Burlington Hydro made acceptable assumptions regarding residential growth and the impact of conservation and demand management programs. OEB staff views the explanation for the variance in the load forecast as acceptable and does not find Burlington Hydro to be imprudent in the forecast made for the purpose of the CCRA executed in 2011.

OEB staff submits that the Tremaine TS CCRA True-up satisfies the ICM criteria and is in accordance with OEB policies. As noted earlier, Burlington Hydro agrees that the half-year rule should apply for this project. OEB staff notes that as of the filing of this submission, Burlington Hydro has not provided the updated true-up and unless the updated amount is lower than the estimated $2.5 million, OEB staff recommends that the OEB approve the $2.5 million estimate.

Tremaine TS Additional Breakers – Simplified CCRA

Burlington Hydro currently has 114.75 MW of contracted capacity and six breakers at Tremaine TS. Milton Hydro is currently allocated the remaining 38.25 MW of capacity as well as two breakers at Tremaine TS. Tremaine TS has remaining capacity for four additional breakers, and in May 2018 Burlington Hydro signed a simplified CCRA to pay Hydro One $2 million to install two additional breakers at Tremaine TS in order to be able to utilize all 114.75 MW of its contracted capacity at Tremaine TS. Milton Hydro also signed a CCRA with Hydro One to use the remaining space capacity for its two additional breakers.

Burlington Hydro submitted in its application that it could not utilize the entirety of its

114.75 MW of capacity on six feeders. In a response to an interrogatory[19], Burlington Hydro stated that the two additional feeders would allow Burlington Hydro to utilize 29 MW of additional capacity and fully utilize its 114.74 MW of contracted capacity.

Materiality
OEB staff submits that the total project cost of $2 million falls within the eligible incremental capital envelope and therefore satisfies the ICM Materiality Threshold.

The project cost of $2 million is significant compared to Burlington Hydro's forecasted 2019 capital expenditures of $12.7 million and is significantly greater than its annual materiality threshold of $144, 178. Therefore, the project satisfies the project-specific threshold.

Need
As previously discussed, Burlington Hydro satisfies the Means Test. OEB staff accepts that the CCRA payment is discrete and pertains to a one-time lump sum payment to Hydro One for the construction of two breakers at Tremaine TS. OEB staff accepts that the CCRA payment is not currently included in the rate base. OEB staff has concerns with respect to the timing of the breaker installation. This is discussed in the next section.

Prudence
Burlington Hydro stated in its project summary that not constructing the two additional breakers would have no impact on customers in the short term.[20] As part of its response to an interrogatory[21], Burlington Hydro noted that the two new breakers would provide 29 MW of additional capacity and that this would allow for full utilization of the 114.75 MW contracted capacity at Tremaine TS. Therefore, the capacity currently available to Burlington Hydro would be the total contracted capacity at Tremaine TS less the amount afforded by the two new breakers: 114.75 MW – 29 MW = 85.75 MW. Had Burlington Hydro not paid Hydro One to construct the two additional breakers and remained at a useful capacity of 85.75 MW, OEB staff notes that based on the revised demand forecast provided by Burlington Hydro in response to interrogatories[22], Burlington Hydro would have sufficient capacity at Tremaine TS until 2027.

[19] VECC-10, part a
[20] Burlington Hydro Inc. 2019 Rate Application Under the Fourth Generation Incentive Rate-Setting Mechanism, EB-2018-0021, ("IRM Application"), Appendix J
[21] VECC-10, part a
[22] VECC-5, Table 3

Burlington Hydro provided the following explanation of prudence for the two additional breakers in the project summary:[23]

> Although it is not the least initial cost, the construction of two new breakers in 2019 results in the most cost-effective, least risk option for ratepayers. The two new breakers are required to meet future demand and allow for full utilization of the contracted capacity at Tremaine TS. If Burlington Hydro had delayed the purchase of the breakers, the remaining capacity could have been assigned to another load customer. Burlington Hydro would be required to implement a more expensive solution to meet future demand. In terms of demonstrating need for additional capacity, the Transmission System Code ("TSC") ensures that requests to access additional capacity are prudent in that "a transmitter shall not assign capacity to a load customer unless the customer has demonstrated its need for available capacity…" as per Section 6.2.10 of the TSC.

In an interrogatory[24], OEB staff noted that Burlington Hydro's capacity at Tremaine TS is contracted based on the load forecasts in its CCRA and therefore could not be assigned to another load customer as per the TSC. Burlington Hydro agreed with OEB staff in its response that, according to the TSC, it is "guaranteed its contracted capacity of 114.75 MW based on load forecasts, for the duration for its economic evaluation of 25 years" and that the "justification for purchasing the two additional breakers at Tremaine TS is…not to secure this load capacity"[25]. Further, Burlington Hydro provided the following response as explanation for the prudency of the project[26]:

> Milton Hydro also requires two breakers and has commenced construction. It was cost efficient for Hydro One to build all four breakers at the same time… In summary Burlington Hydro's purchase of the Tremaine TS breakers was to allow for full utilization of its contracted capacity at the lowest cost option.

OEB staff notes that as per the simplified CCRA[27] signed by Burlington Hydro for this project, Burlington Hydro has already made two separate $1 million dollar payments to Hydro One. The first payment payment was made at the execution of the CCRA on May 4, 2018 and the other payment was made January 1, 2019.

[23] IRM Application, Appendix J
[24] Staff IR-8
[25] Staff IR-8
[26] Staff IR-8
[27] IRM Application, Appendix I – Tremaine TS Additional Breakers – Simplified CCRA

It appears to OEB staff that Burlington Hydro does not require the additional capacity afforded by the two additional breakers until 2027. Furthermore, Burlington Hydro is guaranteed its contracted capacity of 114.75 MW; therefore, the breakers serve no purpose to secure this load capacity since it is already guaranteed by the CCRA. The only cost efficiencies Burlington Hydro has provided, for choosing to construct the additional breakers at this time, is the cost-savings resulting from Hydro One being able to construct both Burlington Hydro and Milton Hydro's new breakers at the same time. OEB staff notes that Burlington Hydro has not provided any cost benefit analysis for customers into whether deferring construction or combining work with Milton Hydro would be more beneficial. OEB staff questions the decision to construct the two new breakers at this time and submits that that Burlington Hydro has not provided the cost savings associated with constructing the breakers at the same time as Milton Hydro.

OEB staff submits that Burlington Hydro has not met the prudence criteria and therefore should not be approved costs for the Tremaine TS Additional Breakers project. That said, given this is a material project for Burlington Hydro and the fact that they have already made the payments to Hydro One, Burlington Hydro may address OEB staffs concerns in its reply submission. To the extent that it can Burlington Hydro should focus its response to information on the record.

Bronte TS Additional Breaker Positions CCRA True-up

In 2006, Burlington Hydro entered a CCRA with Hydro One for the construction of two new breakers at Bronte TS and a capital contribution was made in accordance with the TSC. A discounted cash flow was used to calculate the capital contribution, and that cash flow relied on the cost of the two new breakers as well as revenues to Hydro One resulting from forecasted load over a 25-year horizon.

Hydro One conducted the 5-year true-up in 2013 and determined that Burlington Hydro did not owe any amount in excess of the original capital contribution. A further 10-year true-up will be calculated by Hydro One for 2018 and any amounts owing is expected to be paid by Burlington Hydro in 2019. Burlington Hydro submitted that it expects a shortfall of $350,000 to be paid to Hydro One as a true-up in 2019. The forecasted true-up payment reflects the initial capital contribution with an updated discounted cash flow with 10 years of historical actual usage as well as an updated forecast of future load.

Materiality
OEB staff submits that the total project cost of $350,000 falls within the eligible incremental capital envelope and therefore satisfies the ICM Materiality Threshold.

OEB staff is of the view that the project cost of $350,000 is not significant and material compared to Burlington Hydro's forecasted 2019 capital expenditures of $12.7 million. This is approximately 2.8% of the overall budget. Therefore, OEB staff is of the view that, combined with staff's position below on prudence, this project does not meet all of the criteria for an ICM.

Need

As previously discussed, Burlington Hydro satisfies the Means Test. OEB staff accepts that the CCRA true-up payment is discrete and pertains to a lump sum payment in 2019 relating to the two breakers at Bronte TS. OEB staff accepts that the CCRA true-up is not currently included in the rate base.

Prudence

Burlington Hydro is required by the TSC and the CCRA to pay Hydro One a 10-year true-up if there exists any shortfall between forecasted load and the updated forecasted load.

OEB staff is concerned with the manner the CCRA true-up was calculated. OEB staff notes that in the revised demand forecast provided in the response to an interrogatory[28], Bronte TS has been operating over the original demand forecast and will in the future continue to operate at maximum capacity. As such, there is no shortfall in load at Bronte TS and Burlington Hydro should not owe Hydro One any amounts relating to a 10-year true-up. Burlington Hydro submitted in a response to an interrogatory[29] that the true-up "will be calculated based on the combined demand at Bronte TS and Palermo TS, not the Bronte TS in isolation."

OEB staff notes that as part of the CCRA, "The discounted cash flow calculation for Network Revenue requirements will be based on Incremental network Load which is new Load less the amount of load, if any, that has been by-passed by the Customer at any of Hydro One's connection facilities."[30] OEB staff accepts that the forecasted load for the CCRA true-up should be less any amount of load that has been by-passed. The assumption is that load has been by-passed from Palermo TS and onto Bronte TS. However, OEB staff notes that the load at Palermo TS is already accounted for in the Tremaine TS CCRA True-up because Burlington Hydro has indicated in a response to an interrogatory[31] that the Tremaine TS CCRA True-up will use the combined load of

[28] VECC-12, Table 8
[29] VECC-12, part b
[30] IRM Application, Appendix K

Tremaine TS and Palermo TS. OEB staff is of the view that any shortfall of load at Palermo TS should only be accounted for in one CCRA and that it would be inappropriate to include Palermo TS in multiple CCRA true-up calculations.

Further, OEB staff submits that it is unclear whether the original load forecast in the 2006 Bronte TS Additional Breaker Positions CCRA was performed at the breaker level, for Palermo TS as a whole, or for the combined station loading of Palermo TS and Bronte TS. OEB staff also notes that Burlington Hydro has not provided to date the updated true-up amount provided by Hydro One as indicated in an interrogatory response.[32]

OEB staff submits that Burlington Hydro has not satisfied the prudence test and as noted above, the cost of the project is less than 3% of the total capital budget for 2019. OEB staff does not view this project as a significant cost compared to Burlington Hydro's overall capital budget for 2019.

Group 1 Deferral and Variance Accounts

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.

OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of $0.001 per kWh, unless a distributor justifies why balances should not be disposed.[33] If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2017 actual year-end total balance for Burlington Hydro Hydro's Group 1 accounts including interest projected to April 30, 2019 is a debit balance of $3,021,456. This amount represents a total debit claim of $0.0019 per kWh, which exceeds the disposition threshold. Burlington Hydro is proposing to dispose this debit amount over a one-year period, beginning in the 2019 rate year. The total disposition includes a recovery from ratepayers of $3,192,019 and $1,683,555 in accounts 1588 and 1589 respectively.

In regards to Burlington Hydro's Account 1588 balance, this account accumulates the variance between the utility's RPP revenue and its cost of energy and GA attributable to

[32] VECC-12 part a

[33] Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), EB-2008-0046, July 31, 2009

its RPP customers with the purpose of keeping the utility and the ratepayer whole for any over or under recovery. OEB staff notes that any variance accumulated within this account should get settled directly with the IESO on a monthly basis and therefore it is OEB staff's expectation that any remaining amounts in this account would be relatively small and close to zero (primarily comprised of the difference between amounts billed at the approved total loss factor versus actual system losses for the year). Based on this expectation, OEB staff submits that Burlington Hydro's balance in account 1588 of a debit $3.2 million appears to be unusually large.

Burlington Hydro agrees with OEB staff's expectation and attributed the unusually large balance in the account to its unbilled revenue calculation and in particular, the limitations of its billing system to aggregate the actual consumption for a given calendar month. Instead, Burlington Hydro relies on a manual proration of monthly consumption that it believes can generate a difference between revenue and expense recorded from year to year and that it is likely to be the cause of the unusually high balance in Account 1588.[34] However, Burlington Hydro was unable to provide any further evidence or calculations to support the explanation provided.

Due to the unusually large balance in Account 1588 and the utility's inability to provide adequate backup to support this balance, OEB staff submits that Burlington Hydro would benefit from additional time to review the balances in accounts 1588 and 1589, including the processes and procedures that are in place to accumulate transactions to those accounts. OEB staff is recommending that disposition of all Group 1 accounts be deferred until Burlington Hydro's next rate application and that the utility undertake a full review of accounts 1588 and 1589.

All of which is respectfully submitted

[34] Staff IR-20, part a