



Burlingtonhydro inc.

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

February 21, 2019

Dear Ms. Walli,

**Re: Electricity Distribution License ED-2003-0004
2019 IRM Application for Electricity Distribution Rates (EB-2018-0021)**

Burlington Hydro Inc. ("Burlington Hydro") is the Applicant in the above-referenced proceeding. In accordance with the Ontario Energy Board's (the "Board") Procedural Order No. 2 dated December 11, 2018, enclosed is Burlington Hydro's reply submission to submissions from Board Staff and Vulnerable Energy Consumers Coalition ("VECC").

The responses and supporting materials are being filed through the OEB's RESS system; two hard copies will follow by courier. Included with the electronic filing are the following models/files:

- Attachment 1 - LRAMVA Workform_2011_2014 Threshold
- Attachment 2 - LRAMVA Workform_2013_2014 Threshold
- Attachment 3 - Hydro One Tremaine TS CCRA True-up Calculation
- Attachment 4 - Hydro One Bronte TS Additional Breakers CCRA True-up Calculation
- Attachment 5 - ICM Module - Full Year Rule
- Attachment 6 - ICM Module - Half Year Rule

Yours truly,

Original Signed by

Sally Blackwell
Director, Regulatory Affairs
Email: sblackwell@burlingtonhydro.com
Tel: 905-336-4373

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, being
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Burlington Hydro
Inc. to the Ontario Energy Board for an Order or Orders
approving or fixing just and reasonable rates and other service
charges for the distribution of electricity as of May 1, 2019.

BURLINGTON HYDRO INC.

REPLY SUBMISSION

FILED: February 21, 2019

Applicant

Burlington Hydro Inc.
1340 Brant Street
Burlington, Ontario
L7R 3Z7
Website: www.burlingtonhydro.com

Sally Blackwell
Director, Regulatory Affairs
Tel: (905) 336-4373
Email: sblackwell@burlingtonhydro.com

Table of Contents

INTRODUCTION	1
REPLY SUBMISSION.....	2
Z-Factor Claim.....	2
LRAMVA	4
Incremental Capital Module	11
Project #1: Tremaine Transformer Station CCRA True-up	16
Project #2 - Tremaine Transformer Station Additional Breakers - Simplified CCRA	19
Project #3 - Bronte Transformer Station – Additional Breakers – CCRA True-up	25
Revision of ICM Model for Standard Half-Year Rule	34
Revised Calculation of Revenue Requirement for Incremental Capital Funding	35
Group 1 Deferral and Variance Accounts	37
CONCLUSION	38

1 INTRODUCTION

2
3 Burlington Hydro Inc. ("Burlington Hydro") filed its fifth Electricity Distribution Rates application
4 on September 24, 2018 under the Fourth Generation Incentive Rate-Setting Mechanism ("Price
5 Cap IR") to the Ontario Energy Board ("OEB") for electricity distribution rates and other charges
6 effective May 1, 2019.

7
8 The Vulnerable Energy Consumers Coalition ("VECC") requested intervenor status in relation to
9 Burlington Hydro's request for incremental capital funding for the construction of certain system
10 access projects on October 23, 2019, which was subsequently granted by the OEB. On
11 November 27, 2019, Burlington Hydro notified the OEB that it would be filing a Z-factor
12 application associated with the occurrence of a major event on May 4, 2018. Burlington Hydro
13 requested that the Z-factor application be combined with its IRM proceeding EB-2018-0021.
14 The OEB issued Procedural Order No. 2 on December 11, 2018. In the Procedural Order, the
15 OEB approved the combining of Burlington Hydro's IRM application and Z-factor application and
16 issued new dates for interrogatories and submissions on the combined proceeding. VECC's
17 intervenor status was extended to include Burlington Hydro's Z-factor application.

18
19 In accordance with Procedural Order No. 2, OEB Staff and VECC filed written interrogatories on
20 January 10, 2019. Burlington Hydro filed written responses to the interrogatories on January
21 24, 2019. OEB Staff and VECC filed written submissions on February 7, 2019. VECC's
22 interrogatories and written submission were limited to the incremental capital funding request
23 and the Z-factor claim. OEB Staff, in its submission, indicated it had no concern with Burlington
24 Hydro's proposals except the Z-factor claim, the Lost Revenue Adjustment Mechanism Variance
25 Account (LRAMVA), the Incremental Capital module (ICM) and the Group 1 Deferral and
26 Variance Accounts.

This is Burlington Hydro's reply submission on these four aforementioned matters.

REPLY SUBMISSION

Z-Factor Claim

On May 4, 2018, parts of Southern Ontario experienced a powerful wind storm. Environment Canada issued warnings that day of strong winds and thunderstorms with the potential to cause power outages across Southern Ontario. The storm was more severe than originally forecast, producing gusts of over 100 km/h, toppling trees and poles, knocking out power for hundreds of thousands of customers and briefly grounding flights at Toronto Pearson International Airport.

The wind storm affected 30,940 or 46% of Burlington Hydro's customers. The wind storm was one of the most severe storms in Burlington Hydro's history - the harm caused by this extraordinary event was incremental to Burlington Hydro's experience and expectations.

Eligibility Criteria

Z-factors are unforeseen events that are not within management's control. The eligibility criteria for applications to recover amounts in the Z-factor are set out in Section 2.6 of the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated July 14, 2008. In order for amounts to be considered for recovery in the Z-factor, the amounts must satisfy all three criteria as follows:

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. Burlington Hydro is seeking recovery of \$323,245 as identified in its

1 response to Staff IR-11 and updated from the amount originally requested in its
2 Application. This amount exceeds Burlington Hydro's materiality threshold of \$144,178,
3 calculated as 0.5% of its revenue requirement of \$28,835,532 approved in its 2014 Cost
4 of Service application EB-2013-0115¹.

5
6 **Causation:** Amounts should be directly related to the Z-factor event. The amount must
7 be clearly outside of the base upon which rates were derived. In its Application and
8 responses to interrogatories, Burlington demonstrated that the incremental costs
9 incurred to restore power to its customers were directly related to the windstorm and
10 clearly outside of the base upon which Burlington Hydro's rates were derived.²

11
12 **Prudence:** The amount must have been prudently incurred. This means that the
13 distributor's decision to incur the amount must represent the most cost-effective option
14 (not necessarily least initial cost) for ratepayers. Burlington Hydro utilized alliances and
15 mutual aid agreements where possible, did not deviate from its Emergency
16 Preparedness Plan, incurred contractor costs according to previously negotiated
17 agreements and minimized the costs of restoration.³

18
19 Both OEB Staff and VECC submitted that Burlington Hydro's claim met the criteria of causation,
20 materiality and prudence. VECC submitted that the OEB should approve Burlington Hydro's Z-
21 factor request and update the application if required once the Z-factor costs have been audited.
22 As of the date of this filing there have been no updates to the claim amount as a result of
23 Burlington Hydro's year-end audit. As such Burlington Hydro respectfully requests that the Z-
24 factor claim of \$323,245 be approved for disposition.

¹ p.5 Appendix N, Burlington Hydro's 2019 IRM Application EB-2018-0021

² Interrogatory response to Staff IR-11

³ Interrogatory response to Staff IR-13

LRAMVA

The Lost Revenue Adjustment Mechanism Variance Account (“LRAMVA”) is a retrospective adjustment designed to account for differences between forecast revenue loss attributable to Conservation and Demand Management (“CDM”) activity embedded in rates and actual revenue loss due to the impacts of CDM programs. The OEB established Account 1568 as the LRAMVA to capture the difference between the OEB-approved CDM forecast and actual results at the customer rate class level.

Burlington Hydro applied for disposition of the balance in its 2016 LRAMVA account resulting from its Conservation and Demand Management (“CDM”) activities in 2013 - 2016. The total amount requested for disposition is a debit of \$368,698 including forecasted carrying charges of \$15,167 through to April 30, 2019.

In order to determine the amount requested for disposition, 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 Cost of Service Application EB-2013-0115 of 34,216,509 kWh. Burlington Hydro submitted in its Application and Interrogatory Response to Staff IR-3 that the LRAMVA threshold of 14,150,278kWh was appropriate because it represented the forecast CDM savings embedded in the load forecast for 2013 and 2014. It excluded 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. It used a half year of actual 2013 CDM savings because this was the amount built into the load forecast, and no manual adjustment was made to the forecast to increase the amount to a full year value. The LRAMVA threshold of 14,150,278kWh was

1 previously approved by the OEB in its Decision and Order for Burlington Hydro's 2017 IRM
2 Application EB-2016-0059.⁴

3 The OEB stated in its submission that "*Burlington Hydro notes that the proposed LRAMVA*
4 *threshold of 14,150,278kWh corresponds to the amount of CDM savings that was not captured*
5 *in the 2014 load forecast*"⁵ in its interrogatory response to Staff IR-3c). This is incorrect. The
6 LRAMVA threshold of 14,150,278 kWh corresponds to the portion of 2013 savings that were
7 captured through the 2014 load forecast, and the estimated savings in 2014, which were used
8 to calculate the manual adjustment for 2014. No manual adjustment was made for 2013. This
9 was identified in Burlington Hydro's response to Staff IR-3c).

10
11 **2011 and 2012 LRAMVA Amount**
12

13 OEB Staff did not object to Burlington Hydro's proposal to exclude forecast 2011 and 2012 CDM
14 savings from its LRAMVA threshold as actual CDM savings from 2011 and 2012 were
15 embedded into the approved 2014 load forecast. OEB staff noted that there appears to be a
16 small variance between the forecast CDM savings amount embedded in rates and actual CDM
17 savings from 2011 and 2012 programs due to additional savings adjustments identified by the
18 IESO in subsequent years. However, OEB Staff submitted that the difference appears to be
19 immaterial, and inclusion of this difference in the LRAMVA claim would likely be in Burlington
20 Hydro's favour.

21
22 Burlington Hydro respectfully submits that OEB Staff's submission is incorrect. Since actual
23 2011 and 2012 load data – including the impact of CDM in those years – were used in the 2014
24 forecast, actual CDM savings from 2011 and 2012 programs were always embedded in the
25 forecast (and therefore rates), regardless of when the IESO reported those actuals. The fact

⁴ p. 12-13 Decision and Rate Order EB-2016-0059

⁵ p. 7 OEB Staff Submission, February 7, 2019

1 that the IESO made adjustments in subsequent years does not affect the CDM persistence
2 embedded in the forecast from 2011 and 2012 programs. To capture IESO results embedded in
3 the forecast, the most recent IESO results should be used in the threshold. If the IESO made
4 adjustments that increased the results, this does not mean that there is more lost revenue,
5 rather that more CDM results are already captured in the load data used in the forecast.

6
7 OEB Staff requested that Burlington Hydro re-calculate the LRAMVA using the approved
8 threshold of 34,216,508 kWh and, in turn, include the actual 2011 and 2012 persistence in its
9 2016 claim to determine the materiality of the difference between actual and forecast savings in
10 2011 and 2012. Although Burlington Hydro respectfully disagrees that this calculation should be
11 performed, for the reasons identified above, this request is addressed below on pages 8-9.

12
13 **2013 LRAMVA Amount**

14
15 OEB staff submitted that Burlington Hydro's proposed 2013 LRAMVA threshold amount is
16 understated by a half year's impact for 2013 program savings; and proposed a revised
17 threshold of 18,835,586kWh in Table 3 of its submission⁶. OEB staff's concern is premised on
18 the fact that Burlington Hydro will be comparing a full year of CDM savings, as verified by the
19 IESO, to a half year of forecast savings amounts.

20
21 Burlington Hydro submits that this is in fact the correct comparison. The reported IESO value
22 for 2013 is 9,417,793 kWh based on a full year of savings. The annualized amount for 2013
23 (i.e. the actual savings realized in 2013) is 50% of this amount – this is based on the
24 assumption that CDM programs are implemented throughout the year, not all at the beginning of
25 the year. The annualized amount or half a year of the IESO reported CDM savings was built
26 into the load forecast, and no manual adjustment was made to increase the amount to a full

⁶ p 8, Table 3, OEB Staff Submission, February 7, 2019

1 year value. Therefore the appropriate comparison is 4.7M kWh. If the LRAMVA amount is
2 increased to a full year value Burlington Hydro will inappropriately under-collect on lost revenue
3 amounts resulting from 2013 persistence.

4
5 OEB Staff submitted that “as Burlington Hydro’s approved load forecast in 2014 includes half a
6 year of actual 2013 CDM savings, Burlington Hydro has already collected lost revenues from
7 half of the 2013 delivered CDM programs”.⁷ Burlington Hydro agrees with this statement and
8 this is in fact the reason that only 50% of the savings from 2013 programs are included in the
9 threshold. To increase the 2013 LRAMVA threshold amount to a full year value as OEB Staff
10 suggests, would be to double-count the half-year of savings embedded in the forecast.

11
12 **2014 LRAMVA Amount**

13 OEB staff submitted that Burlington Hydro’s proposed 2014 LRAMVA threshold amount is
14 appropriate.

15
16 Burlington Hydro disagrees with OEB Staff’s conclusions on the calculation of the threshold with
17 the exception of 2014. However, based on OEB Staff’s submission and in order to satisfy OEB
18 Staff’s requests, Burlington Hydro submits that are two options available to calculate the
19 LRAMVA threshold:

- 20
21 1. Use the approved LRAMVA threshold as identified in Burlington Hydro’s settlement
22 agreement in its Cost of Service application EB-2013-0015 (“Settlement Agreement
23 Threshold”) filed as:

24
25 *Burlington Hydro_PSA_AttN_2014CDMAAdjLoadForecast_20140506*
26

⁷ p 9, OEB Staff Submission, February 7, 2019

1 and identified in Table 1 below. This is the OEB's preferred approach as identified in
2 Table 3 on page 8 of its submission; or
3

- 4 2. Use the forecast CDM savings embedded in the load forecast ("CDM Savings
5 Threshold"). This is the threshold Burlington Hydro used to calculate its LRAMVA
6 amount of \$368,698 and represents 50% of actual 2013 program savings and 100%
7 of forecasted 2014 program savings. This threshold was previously approved by the
8 OEB in its Decision and Order for Burlington Hydro's 2017 IRM Application EB-2016-
9 0059.⁸
10

11 Burlington Hydro chose to calculate its LRAMVA claim based on Option 2 for the reasons
12 identified above.
13

14 OEB Staff requested in its submission that Burlington Hydro provide two updated LRAMVA
15 amounts and Workforms based on the Settlement Agreement Threshold as per the following
16 scenarios⁹. The threshold amounts are identified in Table 1 below.
17

18 **Scenario 1:** 2011-2014 LRAMVA threshold: 34,216,508kWh – Burlington Hydro
19 provides the LRAMVA Workform for this scenario as Attachment 1_LRAMVA
20 Workform_BHI_COS_2011_2014 which results in a final LRAMVA calculation of
21 \$378,630.
22

23 **Scenario 2:** 2013-2014 LRAMVA threshold: 18,835,586kWh - Burlington Hydro provides
24 the LRAMVA Workform for this scenario as Attachment 2_LRAMVA
25 Workform_BHI_COS_2013_2014 which results in a final LRAMVA calculation of
26 \$373,476.

⁸ p. 12-13 Decision and Rate Order EB-2016-0059

⁹ p. 10 OEB Staff Submission, February 7, 2019

1 **Table 1 – LRAMVA Threshold - Burlington Hydro's Settlement Agreement EB-2013-0115**

Rate Class	LRAMVA Threshold per Settlement Agreement		
	Total including 2011 and 2012 ¹ (Scenario 1)	Total excluding 2011 and 2012 (Scenario 2)	2011 and 2012
kWh			
Residential	11,561,620	6,364,469	5,197,152
GS < 50kW	3,628,918	1,997,655	1,631,262
USL	65,793	36,218	29,575
kWh Rate Classes	15,256,331	8,398,342	6,857,989
GS > 50kW	18,731,207	10,311,200	8,420,007
Streetlights	228,970	126,044	102,926
Total All Rate Classes	34,216,508	18,835,586	15,380,922
kW			
GS > 50kW	21,680	11,934	9,746
Streetlights	270	149	121
kW Rate Classes	21,950	12,083	9,867

2 1. Burlington Hydro_PSA_AttN_2014CDMAAdjLoadForecast_20140506

3
 4 The difference of \$5,154 between the two scenarios represents the difference between actual
 5 and forecast savings in 2011 and 2012, and is a credit to ratepayers. OEB Staff requested that
 6 Burlington Hydro quantify this amount in its submission.¹⁰

7
 8 The reasons that Scenario 1 and 2 identified above result in a larger LRAMVA claim than
 9 Burlington Hydro's originally submitted claim of \$368,698, despite incorporating a full year of
 10 2013 program savings, are:

¹⁰ p.8 OEB Staff Submission, February 7, 2019

- 1 • Burlington Hydro's original claim is based on an LRAMVA threshold that captures actual
2 (IESO adjusted) results embedded in the forecast by using actual load data rather than
3 an earlier IESO estimate (i.e. the Settlement Agreement Threshold underestimates
4 persisting results captured in the IESO adjustments);
5
- 6 • Burlington Hydro's original claim uses an LRAMVA threshold with the actual allocation
7 across rate classes of CDM results, rather than allocating those results based on the
8 proportion of total load attributable to each rate class, as was done in the Settlement
9 Agreement Threshold; and
10
- 11 • Burlington Hydro's original claim uses a more appropriate LRAMVA threshold value for
12 the demand reductions attributable to rate classes that bill by kW, comparing actual
13 results to what is in the forecast, rather than to the LRAMVA threshold that is
14 constrained by the CDM kW target.
15

16 Burlington Hydro submits that its original request for LRAMVA disposition of \$368,698 is the
17 correct amount – it more accurately reflects the forecast CDM savings embedded in the load
18 forecast and results in a more accurate allocation of lost revenue by rate class. In the event that
19 the OEB chooses to apply the LRAMVA threshold as approved in Burlington Hydro's settlement
20 agreement in EB-2013-0115¹¹, the LRAMVA amount for which Burlington Hydro is requesting
21 disposition is \$373,476 as filed in Attachment 2_LRAMVA Workform_BHI_COS_2013_2014.

¹¹ Burlington Hydro_PSA_AttN_2014CDMAAdjLoadForecast_20140506 filed in the Settlement Agreement for EB-2013-0115

Incremental Capital Module

Burlington Hydro requested incremental capital funding for three system access projects in its 2019 IRM Application EB-2018-0021:

- Project #1 - Tremaine Transformer Station CCRA True-up;
- Project #2 - Tremaine Transformer Station Additional Breakers - Simplified CCRA; and
- Project #3 - Bronte Transformer Station – Additional Breakers – CCRA True-up

The Incremental Capital Module (“ICM”) is available to electricity distributors filing under the Price Cap IR. Burlington Hydro has capital investment requirements which are incremental to its capital requirements within the context of its financial capacities underpinned by existing rates and has submitted that it satisfies the eligibility criteria of materiality, need and prudence as 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 (EB-2014-0219)* issued on September 18, 2014 (“the ACM report”)¹². In addition, changes to the materiality threshold were made in the *Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report (EB-2014-0219)*, issued January 22, 2016 (the “Supplemental Report”) These criteria are discussed below.

Materiality

The Board states in the ACM report that “a capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the Board-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.” In addition to

¹² p 17 ACM Report

the materiality thresholds used for determining the total eligible incremental capital amounts, the Board requires distributors to meet project-specific materiality thresholds.

Need

The distributor must satisfy the eligibility criteria of need, comprised of: i) passing the means test; (ii) amounts to be incurred must be based on discrete projects; and (iii) amounts to be incurred must be outside of the base upon which rates were derived.

Means Test

The distributor must pass the Means Test as defined in the ACM Report. If a distributor's regulated return on equity ("ROE") exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates, the funding for any incremental capital project will not be allowed.

Discrete Projects

Each project is distinct and unrelated to a recurring annual capital project.

Inclusion in Base Rates

Projects for which incremental capital funding is requested should not be included in the capital expenditures approved in the distributor's last Cost of Service application.

Prudence

The amounts for which the distributor is seeking approval are prudent, meaning that the distributor's decision to incur the amounts represent the most cost-effective option for rate payers.

With respect to satisfying the criteria of need, both OEB Staff and VECC submitted that for all three projects, Burlington Hydro satisfied the eligibility criteria of need, comprised of: i) passing

the means test; (ii) amounts to be incurred must be based on discrete projects; and (iii) amounts to be incurred must be outside of the base upon which rates were derived.

With respect to the materiality threshold used for determining the total eligible incremental capital amounts, Burlington Hydro provides an updated maximum eligible incremental capital in Table 2 below to account for the following:

- OEB Staff's revision to the capital expenditure threshold for 2018 and 2019 to account for:
 - o a price cap index of 1.5%; and
 - o the use of current distribution rates in the Growth Factor calculation
- Burlington Hydro agrees with the revision to the capital expenditure threshold.
- Provision of an initial true-up calculation by HONI to Burlington Hydro on February 19, 2019 resulting in:
 - o Tremaine TS CCRA True-up \$3,567,100
 - o Bronte TS Additional Breakers CCRA True-up \$980,600

Table 2 – Maximum Eligible Incremental Capital

Description	2018	2019
Capital Forecast	\$10,488,184	\$14,423,987
Less: Materiality Threshold	\$6,145,874	\$6,156,248
Maximum Eligible Incremental Capital	\$4,342,309	\$8,267,739

HONI provided Burlington Hydro an initial true-up calculation of \$3,717,100 and \$1,030,600 for the Tremaine TS CCRA True-up and the Bronte TS Additional Breakers CCRA True-up respectively, on February 19, 2019. The back-up for these true-up calculations, as provided by HONI, are provided as Attachment 3_HONI Summary of Contribution Calculations_Tremaine TS and Attachment 4_HONI Summary of Contribution Calculations_Bronte TS; and identified

as "Contribution Required". Burlington Hydro has reduced these estimates by \$150,000 and \$50,000 respectively to account for certain adjustments for conservation and demand management programs and distributed generation, which HONI has not yet included in its true-up calculation. HONI has confirmed at a high level that it expects its true-up calculations of \$3,717,100 and \$1,030,600 to be reduced by approximately \$200,000 in total. As a result of this reduction, Burlington Hydro requests incremental capital funding of \$3,567,100 and \$980,600 for the Tremaine TS CCRA True-up and the Bronte TS Additional Breakers CCRA True-up respectively. Further details regarding HONI's true-up calculations by project are provided on pages 16 and 25.

Table 3 below identifies the eligible capital projects for which Burlington Hydro is seeking approval, based on the true-up calculations provided by HONI on February 19, 2019. These projects total \$6,547,700 and as such are significant in relation to Burlington Hydro's updated capital expenditure and materiality threshold of \$6,156,248. Burlington Hydro has recast Tables 24 and 25 in its Application as Tables 4 and 5 below to reflect its 2019 Capital Budget, updated for the revision to the true-up calculations.

Table 3 – Eligible Capital Projects

Project Description	Category	2018	2019	Total
Project 1: Tremaine Transformer Station - CCRA True-up	System Access	\$0	\$3,567,100	\$3,567,100
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	\$980,600	\$980,600
Total		\$1,000,000	\$5,547,700	\$6,547,700

Burlington Hydro submits that it exceeds the Board-defined materiality threshold. The incremental capital amounts for which it is applying for recovery are within the total eligible incremental capital amount and have a significant influence on its operations.

Table 4 - Historical and Proposed Capital Expenditures by Category (Updated Table 24)

Category	2014 CoS	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Budget
System Access	\$8,244,469	\$7,498,551	\$5,566,544	\$9,127,277	\$10,237,872	\$11,991,475	\$21,407,700
System Renewal	\$1,349,241	\$1,339,313	\$1,831,672	\$1,142,404	\$1,756,104	\$2,028,793	\$1,480,000
System Service	\$908,540	\$1,551,534	\$984,398	\$399,130	\$288,085	\$245,444	\$531,287
General Plant	\$807,000	\$1,416,828	\$1,523,271	\$1,114,361	\$1,093,357	\$1,746,898	\$2,140,000
Total Gross Capital	\$11,309,250	\$11,806,227	\$9,905,885	\$11,783,172	\$13,375,417	\$16,012,610	\$25,558,987
Contributed Capital	(\$3,579,205)	(\$4,389,250)	(\$1,927,405)	(\$4,410,452)	(\$4,681,623)	(\$5,524,426)	(\$11,135,000)
Total Net Capital	\$7,730,045	\$7,416,977	\$7,978,480	\$7,372,720	\$8,693,794	\$10,488,184	\$14,423,987

Table 5 - Historical and Proposed Capital Expenditures – System Access (Updated Table 25)

System Access Projects	2014 CoS	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Budget
Tremaine TS CCRA True-up	\$0	\$0	\$0	\$0	\$0	\$0	\$3,567,100
Tremaine TS Breakers	\$0	\$0	\$0	\$0	\$0	\$1,000,000	\$1,000,000
Bronte TS Breakers	\$0	\$0	\$0	\$0	\$0	\$0	\$980,600
General Service - Underground	\$1,104,892	\$2,141,202	\$2,002,128	\$2,504,181	\$2,452,885	\$1,649,136	\$1,500,000
General Service - Overhead	\$1,259,668	\$1,545,192	\$1,397,859	\$1,754,264	\$1,738,037	\$2,629,364	\$1,420,000
Subdivisions	\$3,200,000	\$1,979,932	\$312,878	\$1,517,358	\$1,295,839	\$2,400,000	\$2,300,000
MTO/City/Region Projects	\$736,626	\$117,068	\$262,431	\$532,810	\$912,953	\$248,352	\$2,760,000
Metrolinx Corridor Electrification	\$0	\$0	\$0	\$0	\$0	\$567,762	\$5,400,000
Burlington Mall 27.6kV Conversion/Relocation	\$0	\$0	\$0	\$0	\$1,890,767	\$0	\$0
Downtown Core Underground Development	\$740,406	\$21,592	\$369,678	\$0	\$0	\$1,500,000	\$900,000
Bridgewater Condominium	\$0	\$0	\$0	\$416,175	\$9,385	\$0	\$0
Washburn Reservoir	\$0	\$0	\$0	\$1,153,586	(\$10,300)	\$0	\$0
Renewable Generation (FIT) SCADA	\$0	\$0	\$0	\$0	\$44,841	\$228,505	\$0
Transformers	\$614,742	\$1,035,329	\$807,700	\$666,397	\$1,314,898	\$1,108,695	\$830,000
Meters	\$588,135	\$658,237	\$413,870	\$582,506	\$588,568	\$659,661	\$750,000
Total Gross System Access	\$8,244,469	\$7,498,551	\$5,566,544	\$9,127,277	\$10,237,872	\$11,991,475	\$21,407,700
Contributed Capital	(\$3,550,000)	(\$4,345,542)	(\$1,849,513)	(\$4,387,988)	(\$4,654,703)	(\$5,514,527)	(\$11,135,000)
Total Net System Access	\$4,694,469	\$3,153,009	\$3,717,031	\$4,739,289	\$5,583,169	\$6,476,948	\$10,272,700

Burlington Hydro addresses the eligibility criteria of project-specific materiality and prudence below by individual project.

Project #1: Tremaine Transformer Station CCRA True-up

Burlington Hydro originally applied for recovery of a connection and cost recovery agreement (“CCRA”) payment of \$2.5M due to Hydro One Networks Inc. (“HONI”) in 2019 related to the Tremaine Transformer Station (“TS”) fifth year true-up. Burlington Hydro submitted in its Application that this payment is non-discretionary and was not included in base rates.

Burlington Hydro submitted in its Application and interrogatory responses that the 5th year true-up revenue shortfall is the result of historical and future demand being lower than originally forecast. Burlington Hydro submitted that the reduction in demand was a result of several factors. The recovery from the 2009 recession was slower than anticipated, contributing to a lack of economic momentum. Residential growth is driven by multi-unit residential buildings (condominiums) with lower demand and consumption than single family homes. Conservation and demand management programs were more successful than anticipated. Time of use pricing was introduced and distributed generation was implemented.

Both OEB Staff and VECC submitted that:

- the total project cost of \$2.5M meets the materiality test;
- the true-up payment is prudent; and
- the OEB should approve the \$2.5M ICM for the Tremaine Transformer Station CCRA True-up.

Burlington Hydro indicated that it expected HONI’s calculation of the true-up amount in mid-February and that it would update its Application to reflect this amount. Burlington Hydro received HONI’s calculation for the Tremaine Transformer Station CCRA True-up on February 19, 2019. The adjusted true-up amount is \$3,567,100 as identified above.

1 The true-up calculation factors in the load at the Palermo TS, which is not included in HONI's
2 calculation of the Bronte TS Additional Breakers CCRA True-up. The Bronte TS Additional
3 Breakers CCRA True-up is discussed in further detail on page 25.

4
5 The difference between Burlington Hydro's estimate and HONI's calculation is due to a
6 difference in the methodology used to calculate annual average peak demand for one or more
7 transformer stations. Annual average peak demand is used to determine initial CCRA
8 payments and true-ups for CCRAs. There are two methodologies for determining annual
9 average peak demand:

- 10
11 • Methodology 1: annual average peak demand = non-coincident annual peak
12 demand multiplied by a Peak Load Index ("PLI") of 0.78 for each year of the
13 CCRA. Non-coincident annual peak demand is equal to the maximum monthly
14 demand in a twelve month period.
- 15 • Methodology 2:
16 *Actual Data (2012-2017 for the Tremaine TS CCRA)*: annual average peak
17 demand = non-coincident average peak demand. Non-coincident average peak
18 demand is calculated as the sum of each monthly peak demand divided by
19 twelve.
20 *Forecast Data (2018-2037 for the Tremaine TS CCRA)*: same as Methodology 1
21

22 The model Burlington Hydro used to estimate the true-up of \$2.5M used Methodology 1. HONI
23 confirmed, prior to Burlington Hydro submitting its Application, that Methodology 1 was
24 appropriate for estimating the true-up. The model used by HONI to estimate the initial true-up
25 calculation of \$3,717,100 used Methodology 2. The calculation of average peak demand for
26 2012-2017 is impacted by the difference in methodologies. Both Burlington Hydro and HONI
27 used the same methodology to determine average peak demand for 2018-2037. Methodology 2

1 results in lower demand values for 2012-2017 than Methodology 1; and therefore a higher true-
2 up calculation.

3
4 Burlington Hydro and HONI determined the source of the difference between the two true-up
5 calculations on February 20, 2019. At that time, HONI notified Burlington Hydro that
6 Methodology 2 was the appropriate methodology to use for a CCRA true-up calculation and that
7 Methodology 1 should only be used in the calculation of original CCRA payments, not CCRA
8 true-up payments. HONI erred in its original communication to Burlington Hydro that
9 Methodology 1 was an appropriate methodology to use for a CCRA true-up calculation.
10 Burlington Hydro was also informed by HONI on February 20, 2019 that Methodology 2 is the
11 standard methodology used for all CCRA true-up calculations. Burlington Hydro is required to
12 use Methodology 2 for the calculation of the true-up. It does not have the option to use
13 Methodology 1.

14
15 Burlington Hydro confirms that the original and updated load forecasts identified in its response
16 to interrogatory VECC-12b) remain unchanged and are the basis for Burlington Hydro's true-up
17 estimate and HONI's true-up calculation. The difference between Burlington Hydro's and
18 HONI's true-up calculation is due to a difference in methodology used to calculate average peak
19 demand in the CCRA model.

20
21 Burlington Hydro requests that the amount of \$3,567,100, adjusted for CDM and distributed
22 generation, be approved for Project #1. The original amount of \$2.5M requested by Burlington
23 Hydro was an estimate which Burlington Hydro indicated it would subsequently update with a
24 true-up amount from HONI.¹³ Irrespective of HONI's true-up calculation being different from
25 Burlington Hydro's estimate, Burlington Hydro submits that it meets the eligibility criteria of

¹³ p. 44 Burlington Hydro 2019 IRM Application EB-2018-0021

1 materiality, need and prudence for Project #1. The CCRA payment to HONI is non-
2 discretionary.

3
4 At the time of the next rebasing, Burlington Hydro will file a calculation to identify any
5 differences, if any, between HONI's calculation and the actual ICM amount as per Section
6 3.3.2.5 - ACM/ICM Accounting Treatment of the Chapter 3 Filing Requirements¹⁴. If the OEB
7 approves the true-up of any variances for Project #1 at the next rebasing application, the
8 recalculated revenue requirement relating to the actual ICM capital expenditures will be
9 compared to the rate rider revenues collected in the same period, plus carrying charges. These
10 variances would then be refunded to, or collected from, customers through rate riders.
11 Burlington Hydro requests that a variance account be established to record the difference
12 between the revenue requirement collected through the initial ICM rate rider approved for
13 Project #1 in this Application and the revenue requirement associated with the final true-up
14 amount from HONI for Project #1.

15
16 Burlington Hydro addresses the application of the half-year rule to all ICM requests on page 34.

18 **Project #2 - Tremaine Transformer Station Additional Breakers - Simplified CCRA**

19
20 The Tremaine TS was built with capacity for twelve breakers i.e. with twelve breaker positions.
21 At the time of construction, eight breakers were built, six of which were allocated to Burlington
22 Hydro, and two of which were allocated to Milton Hydro. Post construction, capacity for a
23 remaining four breakers remained available. In late 2017, Burlington Hydro determined it
24 needed to construct two more breakers to allow for full utilization of its capacity (114.75MW) at
25 the Tremaine TS to:

¹⁴ Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications issued July 12, 2018

1 i. accommodate future growth in the North-East area of Burlington which is served by
2 the Tremaine TS and the Palermo TS.

3
4 ii. take load off the Bronte TS which is operating over capacity; and

5
6 iii. take load off the Cumberland TS for which capacity needs to be freed up to
7 accommodate future growth in the downtown core.

8
9 Burlington Hydro requested that HONI install two new breakers at the Tremaine TS, leaving two
10 available breakers. These were allocated to Milton Hydro who had also requested that HONI
11 install two new breakers at the Tremaine TS to meet future demand. HONI agreed to both
12 requests and each of Burlington Hydro and Milton Hydro signed simplified CCRA's agreeing to
13 the construction of two new breakers. The Burlington Hydro simplified CCRA was executed on
14 May 4, 2018. Upon completion of the construction of the four new breakers, 100% of the
15 available capacity at the Tremaine TS will be assigned. The total cost of \$2M is not included in
16 base rates and Burlington Hydro is seeking recovery of this amount through an ICM with rate
17 riders effective May 1, 2019. The CCRA payment was made in two installments - \$1M in
18 January of 2019 and \$1M in 2018.

19
20 OEB Staff submitted that the ICM request satisfied the eligibility criteria of need and materiality
21 but did not meet the prudence criteria.

22
23 VECC submitted that given the current available capacity at the Tremaine TS and the Palermo
24 TS until 2034, it was not a prudent decision to purchase the two new breakers at this time.
25 VECC submitted that Burlington Hydro should have waited based on the load data that shows
26 historical demand is lower than originally forecast for the years 2012 to 2017 and Burlington
27 Hydro is required to make a 5-year revenue shortfall payment to HONI. VECC also made

submissions with respect to the forecast in-service date and \$1M expenditure incurred in 2018. Burlington Hydro addresses these submissions on pages 23-24.

Prudence

The OEB defines prudence as *"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"*¹⁵.

Burlington Hydro submits that it meets the prudence criteria for Project #2 in that its decision to purchase two new breakers at the Tremaine TS represented the most cost-effective option for ratepayers. Burlington Hydro is guaranteed its contracted capacity of 114.75MW at the Tremaine TS until 2037. However that capacity cannot be utilized without breakers. HONI was under no obligation to reserve four of the remaining twelve breaker positions for either Burlington Hydro or Milton Hydro based on assignment of contracted capacity. In fact, based on contracted capacity, Burlington Hydro should have been allocated nine out of twelve breaker positions (114.75/153MW X 12 breakers). Instead two breakers were assigned to each of Milton Hydro and Burlington Hydro based on forecasted load, independent of guaranteed contracted capacity. Any LDC requiring load at the Tremaine TS could have been allocated the breaker positions. This circumstance created the risk of losing two existing breaker positions and exposing Burlington Hydro ratepayers to higher costs in the future in order to utilize its contracted capacity at the Tremaine TS. In this scenario, Burlington Hydro would not be able to utilize its contracted capacity without installing new breaker positions and breakers, which requires extending the Tremaine TS structure.¹⁶ If the remaining four breaker positions had been allocated to LDCs other than Burlington Hydro, all twelve existing breaker positions would have been allocated. In this regard, the submissions of VECC ignore the fact that surrounding

¹⁵ p. 28. Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications issued July 12, 2018

¹⁶ Interrogatory Response to VECC-11a)

1 LDCs are also experiencing growth. The only way for Burlington Hydro to utilize its contracted
2 capacity within the 25-year CCRA time frame would be to build out the Tremaine TS structure at
3 a 50% or \$1M higher cost than the option chosen (\$1.5M vs. \$1.0M/breaker).¹⁷ This number
4 was validated with HONI at a high level prior to Burlington Hydro submitting its response to
5 VECC-11.

6
7 Burlington Hydro agrees that the current load forecast shows that it does not reach 86MW of
8 capacity until 2027¹⁸ at which point six breakers would be at maximum capacity (in the event
9 that two additional breakers had not been purchased). However, Burlington Hydro did not
10 have the option of waiting until the existing six breakers were at maximum capacity before
11 installing two new breakers. Burlington Hydro would have installed the breakers well ahead of
12 the load being required, in order to avoid compromising the redundancy and reliability of the
13 distribution system.

14
15 The DSC requires distributors to *“plan and build the system for reasonable load forecast growth.*
16 *A distributor may perform enhancements to its distribution system for purposes of improving*
17 *system operating characteristics or for relieving system capacity constraints. In determining*
18 *system enhancements to be performed on its distribution system, a distributor shall consider the*
19 *following:*

20 (a) *good utility practice;*

21 (b) *improvement of the system to either meet or maintain required performance-based*
22 *indices;*

23 (c) *current levels of customer service and reliability and potential improvement from the*
24 *enhancement; and*

¹⁷ Interrogatory Response to VECC-11a)

¹⁸ Interrogatory Response to VECC-5a)

1 (d) costs to customers associated with distribution reliability and potential improvement from
2 the enhancement.¹⁹

3
4 The contracted capacity per breaker is 14.3MW. Burlington Hydro is forecast to reach a
5 contracted capacity per breaker of 12.2MW in 2022²⁰ (73.2MW/6 breakers), three years from
6 now. The minimum lead time to develop the electricity infrastructure to utilize new breakers is
7 two years. Burlington Hydro may need to utilize the additional capacity afforded by the two new
8 breakers sooner than 2027. It submits that purchasing two new breakers now, as opposed to
9 deferring the purchase to a later date at a 50% premium was prudent and ensured Burlington
10 Hydro met its obligations under Section 3.3.1 of the DSC.

11
12 Burlington Hydro submits that Project #2 is eligible for incremental capital funding. However,
13 should the OEB decide that Project #2 is not eligible for incremental capital funding, Burlington
14 Hydro requests that the OEB assess prudence at the time of Burlington Hydro's next rebasing
15 application. VECC submitted that it is in support of this approach stating that "*the capital in-*
16 *service amount should be reviewed and approved in Burlington Hydro's next rebasing*
17 *application...*"²¹

18
19 **Forecast In-Service Date**

20 VECC submitted there is also uncertainty regarding the forecast in-service date.²² The original
21 forecasted in-service date for the second breaker was Q2 2019. The forecasted in-service date
22 for the second breaker has subsequently been updated to Q4 2019.²³ VECC submits there is
23 some uncertainty that the breaker will not be in service in 2019. Burlington Hydro has confirmed
24 with HONI that the expected in-service date is Q4 2019. The \$2M payment for the breakers

¹⁹ p. 70-71, Section Distribution System Code, May 18, 2017

²⁰ Interrogatory Response to VECC-5a)

²¹ p 8 Final VECC Submission February 7, 2019

²² Ibid.

²³ Interrogatory Response to VECC-9

1 was made to HONI in order to ensure an in-service date in the 2019 rate year which does not
2 end until April 30, 2020. Burlington Hydro submits that the breakers will be in service in
3 Burlington Hydro's 2019 rate year and therefore Project #2 should qualify for recovery in 2019
4 rates.

5
6 **\$1M Expenditure in 2018**

7 VECC submits that should the Board approve Project #2 as an ICM, the \$1M expenditure in
8 2018 should not be part of the ICM.²⁴ It submits that Burlington Hydro's 2018 budget was
9 \$14.3M net of capital contributions. The latest forecast for 2018 capital expenditures is \$10.7M,
10 \$3.6M less. VECC submits the \$1M in 2018 should be absorbed within the total capital
11 budget.²⁵ Burlington Hydro respectfully disagrees with VECC's submission that the \$1M
12 expenditure in 2018 should not be part of the ICM. Burlington Hydro's budget was \$14.3M
13 which included a true-up for the Tremaine TS CCRA and 50% of the cost of two breakers²⁶ of
14 \$4.7M, which was subsequently deferred to 2019. Taking this into account the 2018 budgeted
15 capital expenditures were \$9.6M. The appropriate budget amount to compare the latest 2018
16 forecast of \$10.7M to is \$9.6M. This represents an increase of \$1.1M. Therefore Burlington
17 Hydro submits that the \$1M expenditure in 2018 cannot be absorbed within the total capital
18 budget as VECC suggests. Further, Burlington Hydro meets the eligibility criteria of need and
19 materiality. The \$1M was not included in rates and since this breaker was not in service in 2018,
20 Burlington Hydro was not in a position to apply for incremental funding in its 2018 IRM
21 application. It was only eligible to apply for an ICM in its 2019 IRM application – the year the
22 breakers are expected to be in-service. The OEB determines eligibility for incremental capital
23 funding based on an in-service approach.²⁷

²⁴ p 8 Final VECC Submission February 7, 2019

²⁵ Ibid.

²⁶ Interrogatory Response to VECC-1a)

²⁷ p 12 Partial Decision and Order Toronto Hydro-Electric System Limited EB-2012-0064

Project #3 - Bronte Transformer Station – Additional Breakers – CCRA True-up

Burlington Hydro forecast a connection and cost recovery agreement (“CCRA”) payment of \$0.35M, due to HONI in 2019, in its Application. The payment relates to the Bronte Transformer Station (“TS”) tenth year true-up for two additional breaker positions. This payment is non-discretionary and was not included in base rates. In 2006, Burlington Hydro requested that HONI install two 27.6kV feeder breaker positions (“breakers”) at Bronte TS to alleviate overloading on existing facilities and to meet future demand growth in the South-East area of Burlington. HONI agreed to the request and completed the construction April 1, 2008. HONI conducted the 5th-year true-up in 2013 at which time it was determined that Burlington Hydro did not owe any monies.

In its response to Interrogatory VECC-12, Burlington Hydro indicated that HONI’s 10th-year true-up was not available at that time and that it expected HONI’s calculation of the true-up amount in mid-February 2019. HONI could not provide an unlocked CCRA model for the Bronte TS and was unable to provide an estimate for the tenth year true-up. Burlington Hydro used the Tremaine CCRA model as a proxy to estimate the tenth year true-up for the Bronte TS. HONI confirmed that the Bronte CCRA tenth year true-up may be calculated based on the combined demand at Bronte TS and Palermo TS, not the Bronte TS in isolation.²⁸ Burlington Hydro included a place holder in its Application in the event that a true-up payment was required. Burlington Hydro indicated it would make a subsequent update to the Application for the actual payment, if any, when received from HONI.²⁹

As previously mentioned, HONI has identified a true-up calculation of \$1,030,600 which Burlington Hydro has reduced by \$50,000 to account for adjustments for conservation and

²⁸ Interrogatory Response to VECC-12

²⁹ p. 47 Burlington Hydro’s 2019 IRM Application EB-2018-0021

1 demand management programs and distributed generation. This true-up calculation does not
2 factor in any loading at the Palermo TS. Burlington Hydro's forecasted CCRA payment of
3 \$350,000 in its Application factored in load at the Palermo TS and was based on station
4 capacity of 30MW at the Bronte TS.³⁰ HONI instructed Burlington Hydro, after the additional
5 breakers were installed, that it was not permitted to exceed station capacity of 30MW at the
6 Bronte TS due to transmission system limitations outside of Burlington Hydro's control. As
7 such, Burlington Hydro's forecasted CCRA payment of \$350,000 was based on station capacity
8 of 30MW at the Bronte TS. HONI's unadjusted true-up calculation of \$1,030,600, received on
9 February 19, 2019, is based on station capacity at the Bronte TS of 45MW, the potential TS
10 capacity of four breakers, with no regard for the aforementioned HONI load restrictions.
11 Burlington Hydro was made aware of HONI's basis for the Bronte TS true-up (i.e. station
12 capacity of 45MW vs. 30MW) on February 19, 2019. Burlington Hydro indicated to HONI at that
13 time that it disagrees with HONI's true-up calculation. Burlington Hydro should not be held
14 accountable for station capacity limitations imposed by HONI on Burlington Hydro and is of the
15 view that station capacity of 30MW is the relevant comparator for the purposes of determining
16 the true-up payment. HONI has agreed to review its true-up calculation. Nevertheless, it is
17 clear that there is potential for a material true-up payment for Project #3, the calculation of which
18 is not within Burlington Hydro's control. Burlington Hydro could be exposed to significant risk if
19 there is a true-up payment for which it is not permitted recovery. Burlington Hydro addresses
20 the eligibility criteria for incremental capital funding for Project #3 below.

21
22 As previously mentioned, both OEB Staff and VECC submitted that Burlington Hydro has met
23 the needs test for this Project. As identified on pages 13-14 above, Burlington Hydro submits
24 that it also meets the overall materiality threshold. The below addresses the eligibility criteria of
25 prudence and project-specific materiality.

³⁰ Interrogatory Response to VECC-12

Prudence

The OEB defines prudence as “*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*”³¹.

OEB Staff submitted that the Burlington Hydro has not satisfied the prudence test for Project #3 based on the following reasons³²:

1. There is no shortfall at Bronte TS and Burlington Hydro should not owe HONI any amounts related to a 10-year true-up.
2. The Tremaine TS CCRA True-up will use the combined load of Tremaine TS and Palermo TS and that any shortfall in load be accounted for in one CCRA and that it would be inappropriate to include Palermo TS in multiple CCRA true-up calculations.
3. 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.

Burlington Hydro addresses these concerns below:

1. HONI communicated to Burlington Hydro on February 19, 2019 that there is a true-up payment required for the Bronte TS Additional Breakers in the amount of \$1,030,600. Back-up for this calculation as provided by HONI is provided as Attachment 4_HONI Summary of Contribution Calculations_Bronte TS.

³¹ p. 28. Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications issued July 12, 2018

³² p. 20 and 21 of OEB Staff Submission dated February 7, 2019

2. HONI has confirmed that it will not double count the shortfall in load at the Palermo TS. However this does not necessarily mean there will be no true-up for Project #3 or that the Palermo TS would not be included in multiple CCRA true-up calculations, as confirmed with HONI. As identified above, HONI has calculated a true-up payment for the Bronte TS.

3. Burlington Hydro submitted that CCRAs are not performed at the breaker level. They are performed at the CCRA level.³³ Burlington Hydro submitted that the original load forecast in the 2006 Bronte TS Additional Breaker Positions CCRA was at the TS level.³⁴ HONI has calculated the true-up at the TS level.

Further, Burlington Hydro submits that the reasons submitted by OEB Staff do not address prudence. The criteria of prudence is dependent on whether or not Burlington Hydro's decision to install two additional breakers at the Bronte TS in 2006 represented the most cost-effective option for ratepayers. It is not dependent on whether OEB Staff believes that there will not be a true-up. In 2006, Burlington Hydro requested that HONI install two breakers at the Bronte TS to alleviate overloading on existing facilities and to supply new loads in its supply area. This load materialized - Bronte TS operated over its 30MW capacity from 2008 to 2012 by 70MW³⁵ with the two new breakers installed. HONI's true-up calculation uses a station capacity of 45MW - taking into consideration the higher capacity, Bronte TS operated within 5MW of station capacity for the same time period, as identified in Table 6 below. The load at Bronte TS warranted the installation of the additional breakers irrespective of whether the station capacity is 30MW or 45MW.

³³ Interrogatory Response to Staff IR-9b)

³⁴ p. 6, Appendix K, 2019 IRM Application EB-2018-0021

³⁵ Interrogatory Response to VECC-12b)

Table 6 – Bronte TS Actual Load vs. Station Capacity 2008-2012

Year	Bronte TS MW				
	Actual Demand	30MW Capacity	Over/(Under) Capacity	45MW Capacity	Over/(Under) Capacity
2008	43.4	30.0	13.4	45.0	(1.6)
2009	39.9	30.0	9.9	45.0	(5.1)
2010	43.4	30.0	13.4	45.0	(1.6)
2011	52.2	30.0	22.2	45.0	7.2
2012	41.1	30.0	11.1	45.0	(3.9)
Total	220.2	150.0	70.2	225.0	(4.8)

Burlington Hydro submits that the incremental capital funding request for Project #3 is prudent. There was a clear need for the construction of the additional breakers in 2006 and Burlington Hydro has made reasonable assumptions on future load.

VECC submitted that it is not clear to them why a 10th-year true-up to HONI is anticipated.³⁶ This conclusion is based on the incorrect assumption that the 10th year true-up will be based on whether the actual load at the end of the tenth year of operation is 20% higher or lower than the initial load forecast. Burlington Hydro's evidence did not indicate that the 10th-year true-up is required if actual load is 20% higher or lower than the initial load forecast at the end of the tenth year of operation as VECC suggests in its submission. Burlington Hydro's evidence stated that a true-up at the end of the 15th-year is required if actual load is 20 percent higher or lower than the initial load forecast at the end of the tenth year of operation.³⁷ This is consistent with Section 6.5.3 c) of the Transmission System Code.³⁸ *"For new or modified connection facilities, a transmitter shall carry out a true-up calculation, based on actual customer load, at the following true-up points: c) for low risk connections, at the end of each of the fifth and tenth year of operation, and at the end of the fifteenth year of operation if actual load is 20 percent higher or*

³⁶ p. 9 VECC Submission, February 7, 2019

³⁷ p. 64 Appendix L, 2019 IRM Application EB-2018-0021

³⁸ p. 56, Section 6.5.3 c) Transmission System Code, December 18, 2018

1 *lower than the initial load forecast at the end of the tenth year of operation.”* The 10th-year true-
2 up is based a comparison of actual load to initial forecast load over a 25-year time-frame. A
3 comparison of actual load to forecast load at the end of the 10th year of operation does not
4 factor into the 10th-year true-up.
5

6 In summary, Burlington Hydro submits that whether OEB Staff or VECC believes that there will
7 or will not be a true-up is not relevant to the determination of prudence. HONI will determine the
8 true-up in compliance with the OEB’s Transmission System Code and the CCRA for the Bronte
9 TS Additional Breakers³⁹ and its initial calculation indicates that a true-up payment is required.
10 This calculation is outside of Burlington Hydro’s control. Burlington Hydro submits that the
11 amounts incurred are prudent, meaning its decision to incur the amount represents the most
12 cost-effective option for ratepayers.
13

14 Burlington Hydro recognizes that there is uncertainty with respect to whether there will be a
15 true-up for Project #3. Further, in the event that there is a true-up, it is uncertain what the
16 amount will be. Nevertheless, Burlington Hydro has been advised by HONI that there is
17 potential for a true-up payment for Project #3. As stated above, Burlington Hydro could be
18 exposed to significant risk if there is a true-up payment for which it is not permitted recovery.
19 Burlington Hydro submits that the request is prudent for the reasons identified above; the fact
20 that the amount of the true-up is uncertain does not preclude the investment from being prudent.
21 In the event that the OEB decides that the ICM for Project #3 is not approved on the grounds of
22 uncertainty, Burlington Hydro requests that a variance account be created so that it can record
23 the foregone revenue requirement associated with the true-up payment and recover this amount
24 from rate payers in its next application.

³⁹ Appendix K, 2019 IRM Application EB-2018-0021

Materiality

There are two materiality tests related to ICM applications. The first test is the ICM Materiality Threshold, which serves to demonstrate the level of capital expenditures that a distributor should be able to manage within current rates. The test states that: “Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount” and “must clearly have a significant influence on the operation of the distributor”.⁴⁰

Burlington Hydro submits that its 2019 ICM proposed projects are within the maximum eligible incremental capital amount as identified on pages 13-14.

In addition to the ICM Materiality Threshold test, the Board requires distributors to meet project-specific materiality thresholds.⁴¹ 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 Board-defined threshold calculation is expected to be absorbed within the total capital budget.

OEB Staff submitted that the Burlington Hydro’s initial estimate of \$350,000 falls within the eligible incremental capital envelope and therefore satisfies the ICM Materiality Threshold. However 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. The project cost represents approximately 2.8% of the overall budget.⁴²

VECC took no issue with Burlington Hydro’s calculation of the ICM Materiality Threshold but submitted that Project #3 does not meet the OEB’s project specific materiality threshold. VECC

⁴⁰ p.17 ACM Report

⁴¹ Ibid.

⁴² p.15, OEB Staff Submission, February 7, 2019

1 stated that a certain degree of project expenditure over and above the threshold calculation is
2 expected to be absorbed within the total capital budget.⁴³

3
4 Burlington Hydro disagrees with the submissions by OEB Staff and VECC on the project
5 specific materiality threshold. The project is discrete as identified in Burlington Hydro's 2019
6 IRM Application⁴⁴ and agreed by OEB Staff and VECC in their submissions⁴⁵. It is not part of an
7 ongoing capital program that can be adjusted, nor does Burlington Hydro have any capacity to
8 absorb the amount into its capital budget as indicated in its interrogatory response to Staff IR-9.
9 OEB Staff has compared the project cost to Burlington Hydro's forecasted capital expenditures
10 of \$12.726M to assess materiality. The \$12.726M includes the original ICM request of \$3.85M;
11 therefore Burlington Hydro submits that the appropriate denominator is \$8.876M in which case
12 the true-up payment represents a higher percentage of the overall budget. HONI has calculated
13 a true-up amount of \$1,030,600, reduced by Burlington Hydro to \$980,600 to account for CDM
14 and distributed generation adjustments. Burlington Hydro provides a comparison of its
15 estimated project cost of \$350,000 and HONI's true-up of \$980,600 to its capital budget in Table
16 7 below. Burlington Hydro considers both of these amounts (4% and 11% of its overall budget)
17 to be material and significant capital costs. Burlington Hydro notes that the OEB has not
18 defined a project-specific materiality threshold.

⁴³ p. 2 VECC Submission, February 7, 2019

⁴⁴ p. 38 2019 IRM Application EB-2018-0021

⁴⁵ p. 2 VECC Submission, February 7, 2019

1 **Table 7 – Materiality Assessment**

Category	Original Budget	Revised Budget
Total Net Capital	\$12,726,287	\$14,423,987
Less ICM Request	(\$3,850,000)	(\$5,547,700)
Net Capital before ICM Request	\$8,876,287	\$8,876,287
Bronte TS CCRA True-up	\$350,000	\$980,600
% of Net Capital	4%	11%
Approved in Rates	\$7,730,045	\$7,730,045
Net Capital before ICM Request	\$8,876,287	\$8,876,287
Amount Absorbed by Burlington Hydro - All ICMs Approved	\$1,146,242	\$1,146,242
Add back: Bronte TS CCRA ICM Request	\$350,000	\$980,600
Amount Absorbed by Burlington Hydro - Bronte TS CCRA ICM not Approved	\$1,496,242	\$2,126,842
Increase in Amount Absorbed by Burlington Hydro	31%	86%

2
3
4 Further, Burlington Hydro submits that a more appropriate comparison is to the amount that
5 Burlington Hydro is absorbing over and above that which was approved in rates. As identified in
6 its interrogatory response to Staff IR-9 and in Table 7 above, Burlington Hydro will be absorbing
7 \$1.146M over that which was approved in rates in 2019, if its ICM funding request is approved.
8 Based on its initial estimated project cost of \$350,000, Burlington Hydro will be absorbing
9 \$1.496M over that which was approved in rates if Project #3 is not approved; an increase of
10 31%. Based on HONI's true-up calculation of \$980,600, Burlington Hydro will be absorbing
11 \$2.127M over that which was approved in rates if Project #3 is not approved; an increase of
12 86%. These are both material differences.

13
14 In summary, Burlington Hydro requests approval of incremental capital funding for Project #3 on
15 the basis that it meets the eligibility criteria of need, prudence and materiality.

Revision of ICM Model for Standard Half-Year Rule

Burlington Hydro completed the ICM model in its Application assuming a full-year depreciation, CCA and return on capital. The OEB's policy per the ACM Report⁴⁶ and the Supplemental Report⁴⁷ 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.

OEB Staff, based on the expectation that Burlington Hydro is applying to rebase rates through a Cost of Service for 2020, has submitted that the standard half-year rule apply to calculate the depreciation and return on capital and associated taxes/PILs for the first year that an asset enters service.

Burlington Hydro agrees that for the final year prior to rebasing, the standard half-year rule should be used for the calculation of the depreciation and return on capital and associated taxes/PILs for the first year that an asset enters service. The final year before Burlington Hydro's scheduled rebasing was expected to be 2019. However, Burlington Hydro is planning to defer its rebasing application for 2020 rates and file a rebasing application for 2021 rates. Burlington Hydro filed a request for deferral letter to this effect with the OEB on February 20, 2019. As such, 2020 will be the final year before Burlington Hydro's scheduled rebasing and full-year depreciation, CCA and return on capital is allowed for the approved ICM requests. Burlington Hydro submits that the standard half-year rule should not be used in this circumstance and respectfully requests that a full-year depreciation, CCA and return on capital

⁴⁶ (EB-2014-0219), issued September 18, 2014, p. 23

⁴⁷ 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

1 be used to determine the revenue requirement associated with its approved ICM requests,
2 given Burlington Hydro's intent to defer rebasing to 2021.

3
4 In the event that the OEB does not grant this request, Burlington Hydro requests that a variance
5 account be established to record the difference between the revenue requirement calculated
6 using a full-year depreciation, CCA and return on capital; and the revenue requirement
7 calculated using the standard half-year rule. Burlington Hydro requests that it be permitted to
8 recover this difference in its 2020 IRM application.

9
10 As requested by OEB Staff in its submission, Burlington Hydro provides a revised ICM model as
11 Attachment 6_ICM Module_HalfYear_BHI20190221, in which the standard half-year rule is used
12 for calculation of the depreciation, CCA and return on capital. The revenue requirement
13 associated with this scenario is identified in Table 8 below and is based on the adjusted true-up
14 calculations as provided by HONI on February 19, 2019.

16 **Revised Calculation of Revenue Requirement for Incremental Capital Funding**

17
18 Burlington Hydro provides the incremental revenue requirement associated with the revised ICM
19 funding request of \$6,747,700 in Table 8 below. These calculations are provided in Tab "11.
20 Incremental Capital Adj." of Attachment 5_ICM Module_FullYear_BHI20190221 (full-year
21 depreciation, CCA and return on capital) and Attachment 6_ICM Module_HalfYear_
22 BHI20190221 (standard half-year rule).

23
24 Burlington Hydro is seeking recovery of \$506,456 in incremental revenue requirement
25 associated with an incremental capital funding request of \$6,747,700.

1 **Table 8 - Incremental Revenue Requirement**

Description	% Allocation	% Rate	Full-year	Half-year
Opening Net Book Value			\$6,747,700	\$0
Depreciation Expense			\$112,462	\$56,231
Ending Net Book Value			\$6,635,238	\$6,691,469
Average Net Book Value			\$6,691,469	\$3,345,735
Deemed Short-Term Debt	4.00%	2.11%	\$5,648	\$2,824
Deemed Long-Term Debt	56.00%	4.73%	\$177,244	\$88,622
Deemed Equity %	40.00%	9.36%	\$250,529	\$125,264
Return on Rate Base			\$433,420	\$216,710
Regulatory Taxable Income			\$250,529	\$125,264
Add Back Amortization Expense			\$112,462	\$56,231
Deduct CCA			-\$472,339	-\$236,170
Incremental Taxable Income			-\$109,349	-\$54,674
Taxes/PILs Before Gross Up		26.50%	-\$28,977	-\$14,489
Grossed-Up Taxes/PILs			-\$39,425	-\$19,713
Return on Rate Base - Total			\$433,420	\$216,710
Amortization Expense - Total			\$112,462	\$56,231
Grossed-Up Taxes/PILs			-\$39,425	-\$19,713
Incremental Revenue Requirement			\$506,456	\$253,228

2

Group 1 Deferral and Variance Accounts

Burlington Hydro requested disposition of its Group 1 balances of \$3,021,454 in its Application. The balance included a debit balance of \$3,192,018 in Account 1588. Theoretically, the balance in this account should be relatively small and close to zero (comprised of the difference between amounts billed at the approved total loss factor versus actual system losses for the year). However, given limitations with its billing system (i.e. access to consumption data); Burlington Hydro has to make assumptions to determine amounts charged to cost of power and global adjustment accounts. These assumptions can generate year over year differences between revenues and expenses. Burlington Hydro needs additional time to provide evidence/calculations to support the balance in Account 1588. It agrees to undertake a full review of Accounts 1588 and 1589 and endeavor to determine the nature of the balance in Account 1588. As such Burlington Hydro withdraws its request to dispose of its Group 1 balances in this Application. Nevertheless, Burlington Hydro submits that the balances in Accounts 1588 and 1589 represent amounts owing to Burlington Hydro for cost of power variances i.e. a revenue shortfall as compared to the cost paid to the IESO. Distributors are not expected or required to carry or be accountable for variances in cost of power accounts. Once Burlington Hydro has completed its review of Accounts 1588 and 1589 and determines the nature of the balance in Account 1588, it requests the option of applying to the OEB for disposition of its Group 1 DVA balances in a stand-alone application, prior to the submission of its next application for 2020 rates.

CONCLUSION

For the reasons identified above, Burlington Hydro respectfully requests the following:

1. Approval of incremental costs of \$323,345 related to Burlington Hydro's Z-factor claim.
2. Approval for the clearance of the \$368,698 balance in its Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") resulting from its Conservation and Demand Management ("CDM") activities as of December 31, 2016. Should the OEB choose to apply the LRAMVA threshold as approved in Burlington Hydro's settlement agreement in EB-2013-0115⁴⁸, the LRAMVA amount for which Burlington Hydro is requesting disposition is \$373,476 as filed in Attachment 2_LRAMVA Workform_BHI_COS_2013_2014.
3. Approval for incremental capital funding of \$6,747,700 and an associated incremental revenue requirement of \$506,456 using a full year of depreciation, CCA and rate of return, as identified in Table 8 above.

Burlington Hydro requests that a variance account be established to record the difference between (i) the revenue requirement collected through the initial ICM rate rider approved for Projects #1 and #3; and (ii) the revenue requirement associated with the final true-up amount from HONI for Projects #1 and #3. The final true-up amounts from HONI for Projects #1 and #3 were not available at the time of filing the reply submission.

⁴⁸ Burlington Hydro_PSA_AttN_2014CDMAAdjLoadForecast_20140506 filed in the Settlement Agreement for EB-2013-0115

1 In the event that the OEB rules that the standard half-year rule applies pending
2 review of Burlington Hydro's COS deferral request, Burlington Hydro requests
3 that a variance account be established to record the difference between the
4 revenue requirement calculated using a full-year depreciation, CCA and return on
5 capital (\$506,456); and the revenue requirement calculated using the standard
6 half-year rule (\$253,228). Burlington Hydro requests that it be permitted to
7 recover this difference in its 2020 IRM application.
8

- 9 4. Approval for a variance account to record the foregone revenue requirement
10 associated with a Bronte TS true-up payment in the event that the OEB does not
11 approve Burlington Hydro's ICM request and HONI determines that a true-up
12 payment is required. Burlington Hydro requests that it be permitted to recover
13 this amount from rate payers in its next application.
14

- 15 5. Approval for the option to apply to the OEB for disposition of its Group 1 DVA
16 balances in a stand-alone application, prior to the submission of its next
17 application for 2020 rates. Burlington Hydro withdraws its request to dispose of
18 the balances in its Group 1 DVA accounts in this Application.
19

20 All of which is respectfully submitted this 21st day of February, 2019.