Ontario Energy Board | Commission de l'énergie de l'Ontario

Ontario

BY EMAIL

January 31, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

Re: Burlington Hydro Inc. (Burlington Hydro)
Application for 2020 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2019-0023

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding.

Burlington Hydro is reminded that its reply submission is due on February 14, 2020.

Yours truly,

Original Signed By

Jerry Wang
Analyst
Electricity Distribution – Major Rate Applications & Consolidations

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2020 ELECTRICITY DISTRIBUTION RATES

Burlington Hydro Inc.

EB-2019-0023

January 31, 2020

Introduction

Burlington Hydro Inc. (Burlington Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 10, 2019 under section 78 of the *Ontario Energy Board Act*, *1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective May 1, 2020.

In Procedural Order No. 1 issued December 2, 2019, the OEB made provisions for interrogatories and submissions on Burlington Hydro's application. This document provides OEB staff's submissions on Burlington Hydro's application.

Consistent with the Chapter 3 Filing Requirements, Burlington Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charges and volumetric distribution rates during the incentive rate-setting years. OEB staff has no concerns with Burlington Hydro's proposed price cap adjustments.

Burlington Hydro did not propose any rate mitigation. OEB staff notes that the bill impact to each of Burlington Hydro's rate classes are below 10%, which includes the impact of Burlington Hydro's proposed ICM projects and its proposal to revise the expiry date of its 2019 ICM rate rider.[1] OEB staff submits that no rate mitigation is required.

As a result of the new inflation factor issued by the OEB for 2020[2], OEB staff updated Burlington Hydro's models (the rate generator model and the ICM model) to reflect the 2% inflation factor. OEB staff submits that Burlington Hydro should use the updated models included as part of this submission if any further updates are required.

OEB staff makes detailed submissions on the following:

- Retail Transmission Service Rates (RTSRs)
- Shared Tax Savings
- Group 1 Deferral and Variance Accounts (DVA)
- Lost Revenues Adjustment Mechanism Variance Account (LRAMVA)
- Incremental Capital Module (ICM)
- Revision to the Expiry Date of 2019 ICM Rate Rider

[1] Bill impacts are: Residential – 0.55%, GS < 50 kW – 0.81%, GS 50 to 4,999 kW – 1.87%, Unmetered Scattered Load – 0.31%, Street Lighting – 2.74%.
[2] Issued on October 31, 2019

Retail Transmission Service Rates

Burlington Hydro requested an update to its RTSRs to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO). OEB staff notes that RTSRs are increasing in the range of 6-8% from the rates approved in the 2019 rate-setting process, depending on the rate class. In response, Burlington Hydro indicated that its RTSRs are increasing because of a corresponding increase in Uniform Transmission Rates (UTRs) and increase in the historical demand used to forecast RTSR rates.[3]

OEB staff submits that the increases to UTRs are not in Burlington Hydro's control. OEB staff also agrees that an increase in historical wholesale demand would result in increased RTSRs. OEB staff takes no issue with the proposed increases but notes that the OEB has issued a decision on December 19, 2019 setting interim 2020 UTRs.[4] OEB staff has updated Burlington Hydro's IRM model to account for the new UTRs and submits that Burlington Hydro should use the updated IRM model included as part of this submission if any further updates are required.

Shared Tax Savings

In any adjustment year of a Price Cap IR term, a change in legislation may result in a change to the amount of taxes payable by a distributor. For IRM applications, the OEB has long held that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate in these situations. The shared tax savings amount, whether in the form of a credit or a debit, will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from a distributor's last cost of service proceeding.

Burlington Hydro has identified a total tax change of $59,573, resulting in a shared amount of $29,787 to be collected from customers.[5] Since the allocated tax sharing amount does not produce a rate rider to four decimal places in one or more rate classes, Burlington Hydro has requested that the shared amount be transferred to Account 1595 for disposition at a later date. OEB staff notes that Burlington Hydro's request is aligned with the OEB's Chapter 3 Filing requirements as well as Burlington

[3] Interrogatory Response (IRR) Staff-3
[4] EB-2019-0296, Decision and Interim Rate Order, December 19, 2019
[5] Exhibit 1, p. 42

Hydro's shared tax savings request in its 2019 IRM application.[6] OEB staff takes no issue with Burlington Hydro's request.

Group 1 Deferral and Variance Accounts

Background

Burlington Hydro completed the DVA continuity schedule included in the 2020 IRM Rate Generator in tab 3 for its Group 1 DVAs. Burlington Hydro requested to dispose a credit of $371,076 in its Group 1 DVA balances over a one-year period. A breakdown of this credit balance of $371,076 is shown below.

Table 1: Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
Smart Meter Entity Variance Charge	1551	(66,730)	(1,165)	(67,894)
RSVA - Wholesale Market Service Charge	1580	(1,778,085)	(116,236)	(1,894,321)
Variance WMS - Sub-account CBR Class B	1580	(117,084)	(2,500)	(119,584)
RSVA - Retail Transmission Network Charge	1584	122,764	5,776	128,539
RSVA - Retail Transmission Connection Charge	1586	390,521	16,418	406,939
RSVA - Power	1588	601,170	78,626	679,796
RSVA - Global Adjustment	1589	777,450	93,105	870,555
Disposition and Recovery of Regulatory Balances (2016)	1595	(686,803)	675,323	(11,480)

[6] EB-2018-0021

Disposition and Recovery of Regulatory Balances (2017)	1595	(283,259)	(80,369)	(363,627)
Totals for all Group 1 accounts		(1,040,056)	668,979	(371,076)

Based on the threshold test calculation, Burlington Hydro's Group 1 DVA balances equate to a credit of $0.0002 per kWh. While the $0.0002 per kWh is below the OEB's disposition threshold of $0.001 per kWh, Burlington Hydro has nonetheless requested disposition of its Group 1 DVAs for the following reasons:[7]

- The balances reflect two years of activity (2017 and 2018)
- The balance is a refund to customers
- The disposition of the Group 1 balances would be, on average, 3.5 years after the variance occurred, if Burlington Hydro were to dispose of the balances in its 2021 rate application
- It is administratively difficult to track three years of DVA balances
- Rate riders are generated for all classes

OEB staff supports Burlington Hydro's request to dispose of its Group 1 DVAs but submits that disposition should be on an interim basis. OEB staff provides detailed discussion on specific areas below.

Disposition of Global Adjustment and Capacity-Based Recovery

The balance of Burlington Hydro's Account 1589 – Global Adjustment (GA) is a debit of $870,555. Burlington Hydro has established separate GA rate riders for each of its rate classes that are only applicable to non-Regulated Price Plan (RPP) Class B customers.

The balance of Burlington Hydro's Account 1580 sub-account Capacity-Based Recovery (CBR) Class B amount is a credit of $119,584. Burlington Hydro has established separate CBR rate riders for each of its rate classes that are only applicable to non-RPP Class B customers.

Burlington Hydro's Class A customers are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR variance account balances are attributed to these customers. Burlington Hydro identified 28 customers that had transitioned between

[7] Exhibit 1, p. 16

Class A and Class B during the period when its 2017 and 2018 GA and CBR variance account balances accrued. For some of the time during the 2017/2018 period these customers paid GA and CBR costs as Class B customers, and for the remainder of the period they paid GA and CBR costs as Class A customers. As such, these customers should only be allocated the portion of the GA account balance that accrued during the time they were classified as Class B customers. Burlington Hydro noted that it will settle the GA and CBR amounts attributable to Class A/B transition customers through twelve equal customer-specific adjustments to bills.

OEB staff submits that Burlington Hydro has properly allocated recovery of the GA and CBR balances to the appropriate customers. OEB staff supports this treatment, since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent customers from paying down/receiving a debit/credit balance.

Account 1595

Along with its other Group 1 DVAs, Burlington Hydro requested disposition of its Account 1595 – 2016 and 2017 sub-accounts. The residual balance in sub-account 2016 is a debit of $8,901 and the residual balance in sub-account 2017 is a credit of $355,222. Burlington Hydro noted that the residual balance for 2016 is immaterial.[8]

The following table details the components of Burlington Hydro's 2017 sub-account residual balance based on the explanations provided by Burlington Hydro:[9]

Table 2: Account 1595 sub-account 2017

Description	Amount
Difference between actual rate rider revenues vs. balances approved for disposition	$137,018
Double counted CBR amount	($452,213)
Uncleared prior year 1595 residual balance	($65,550)
Tax sharing amounts recorded in 2019	$29,785
Carrying charges	($4,262)
Total 2017 sub-account residual balance:	($355,222)

[8] The difference between the residual balances discussed here and table 1 above is the projected interest for the accounts from Jan. 1, 2019 to April 30, 2020. Burlington Hydro discussed the variances in its 1595 sub accounts without the projected interest.
[9] Exhibit 1, pp. 33-34; 1595 Analysis Workform, tab "1595 2017"

The $137,018 represents the billing determinant volume variance between Burlington Hydro's actual billing determinants vs. the billing determinants used to calculate the rate riders originally, multiplied by the OEB approved rate riders. For the ($452,213), Burlington Hydro explained that this was due to a mistake in its 2017 IRM application, where the CBR balance was converted into a CBR rate rider, but was also included in the general Group 1 Account balance (in essence recovering the CBR balance twice).[10] For the ($65,550) amount, Burlington Hydro explained that this was a credit amount it identified that should have been recorded in a prior year disposition of Account 1595.[11] As it is a refund to customers, Burlington Hydro requested this amount be included in its 2017 residual balance. The $29,785 represents the tax sharing amount approved in Burlington Hydro's 2017 IRM application, which was ordered by the OEB to be recorded in this sub-account.[12] The last component of the residual balance is ($4,262) which represents carrying charges.

In relation to the billing determinant volume variance of $137,018 amount, OEB staff noted large variances between the billing determinants used to calculate the original rate riders in the 2017 IRM application, and the actual billed consumption that the rate riders were applied against. In an interrogatory response, Burlington Hydro explained that the large variance in the billing determinants can be attributed to a decrease in total kWh consumed, and a shift in Burlington Hydro's customer base from non-RPP to RPP customers.[13]

Given Burlington Hydro's explanations, OEB staff submits that Burlington Hydro's Account 1595 residual balances are reasonable and should be disposed along with Burlington Hydro's other Group 1 DVAs.

Accounts 1588 and 1589 Balances and Final Disposition

On July 20, 2018, the OEB issued a letter to all rate-regulated licensed electricity distributors, advising them that the OEB is undertaking an initiative to standardize the accounting processes used by distributors relating to RPP wholesale settlements and accounting procedures.[14] This letter also stated that, effective immediately, the OEB will not be approving Group 1 rate riders on a final basis pending the development of this further guidance.

[10] Ibid
[11] Ibid
[12] EB-2016-0059
[13] IRR Staff-4
[14] Letter on the OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts, July 20, 2018

On February 21, 2019, the OEB issued its Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, outlining its standardized requirements for regulatory accounting and RPP settlements that all distributors are expected to follow (Accounting Guidance).[15] The Accounting Guidance is effective January 1, 2019, and was to be implemented by August 31, 2019.

In the OEB's *Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rate Applications* (2020 Filing Requirements Addendum), under Section 3.2.5.3, the OEB stated that, for 2020 rate applications, distributors are to provide a status update on the implementation of the new Accounting Guidance, a review of historical balances, results of the review, and any adjustments made to account balances. The 2020 Filing Requirements Addendum also states the following expectations for final disposition requests of commodity pass-through account balances:

- Some utilities may have received approval for interim disposition of historical account balances or did not request disposition of account balances in the 2019 rate application due to the threshold test. If these utilities have reviewed the balances in the context of the new Accounting Guidance and are confident that there are no systemic issues with their RPP settlement and related accounting processes, such utilities may request final disposition of account balances. If these utilities identified errors or discrepancies that materially affect the ending account balances, utilities should adjust their account balances prior to requesting final disposition.

- Utilities that did not receive approval for disposition of historical account balances due to concerns noted should apply the Accounting Guidance to those balances as well as the 2018 balance and adjust the balances as necessary, prior to requesting final disposition.

Due to an unusually large balance in Account 1588 and the distributor's inability to provide adequate evidence to support this balance, Burlington Hydro withdrew its request to dispose of its Group 1 balances in its 2019 proceeding.[16] Burlington Hydro requested additional time to provide evidence to support the balances and agreed to undertake a full review of Accounts 1588 and 1589. The OEB approved Burlington Hydro's request to defer the disposition of its Group 1 balances as of December 31, 2017 until its next rates application.

[15] Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019
[16] EB-2018-0021, Decision and Rate Order, March 28, 2019, p. 7

Subsequent to the OEB's decision in the 2019 proceeding, Burlington Hydro stated that it undertook a full review of Accounts 1588 and 1589 and identified the source of the large balance in Account 1588.[17] Burlington Hydro also confirmed that it did consider the Accounting Guidance in the context of historical balances that have yet to be disposed on a final basis. [18] Burlington Hydro stated that it implemented the Accounting Guidance effective January 1, 2019, by August 31, 2019.[19]

Burlington Hydro noted that it reviewed its historical balances and made corrections as discussed below. [20] In one section of its application, Burlington Hydro also identified the following deviations to the implementation of the Accounting Guidance:

1. Burlington Hydro does not record different rates for RPP and non-RPP cost of power.

2. Burlington Hydro does not re-estimate unbilled revenue at the end of each month, but does so at the end of the fiscal year.[21] OEB staff takes this to mean that Burlington Hydro does not perform a calculation on a monthly basis to determine the portion of actual billings that relate to the previous month's consumption. OEB staff also takes this to mean that Burlington Hydro performs this exercise only at year-end.

OEB staff notes that there are two further deviations to the Accounting Guidance:

3. Burlington Hydro confirmed that some of the data used for RPP settlement true-ups with the IESO (i.e. non-interval metered and retailer customers) are estimates because the data is not currently available, due to system limitations.[22] Burlington Hydro stated that it does not true-up the 2nd estimate for the non-RPP non-interval metered or retailer consumption to actual consumption.

4. Burlington Hydro stated that in booking expense journal entries for Charge Type (CT) 1142 and CT 148 from the IESO invoice, it uses a different approach than

[17] Exhibit 1, p. 13
[18] Exhibit 1, p. 15
[19] Exhibit 1, pp.30-31
[20] Exhibit 1, pp. 30-31
[21] Burlington Hydro noted that this approach has no impact to the RPP vs. Market Price Claim with the IESO (revenue for the purposes of calculating the RPP vs. Market Price Claim is based on the best estimate of actuals at the 2nd true-up); nor does it have an impact to the balances in the DVA accounts since these are disposed at the end of the fiscal year. Burlington Hydro updated unbilled revenue at year end.
[22] IRR Staff-6

that required by the OEB, which is approach "a".[23] In Burlington Hydro's view, the approach it uses is a residual method similar to approach "b", but generates the same result as approach "a".[24]

Burlington Hydro stated that it is in the middle of a Customer Information System (CIS) conversion, with an implementation date scheduled for mid-2020.[25] In Burlington Hydro's view, it is unable to, and inefficient to, develop a program to address the first three items identified above in a legacy system which will be obsolete in 2020. Burlington Hydro stated that it plans to implement the first three changes noted above in its new CIS. Burlington Hydro did not comment on whether it will adopt the fourth above noted change.

As per the above second deviation to the Accounting Guidance, OEB staff notes that there are unresolved questions surrounding Burlington Hydro's unbilled revenue practices. In its reply submission, OEB staff asks Burlington Hydro to confirm that although it does not perform a calculation on a monthly basis to determine the portion of actual billings that relate to the previous month's consumption, it does perform this exercise at year-end. In addition, Burlington Hydro should confirm whether the unbilled amounts accrued in the general ledger at year-end incorporate the actual post year-end billings that reflect the consumption for the previous year.

If these calculations are not performed at year-end, Burlington Hydro should explain why there are no true-ups relating to unbilled revenue to actual revenue in both its 2017 GA Analysis Workform and 2018 GA Analysis Workform, and why they have been omitted as principal adjustments in the DVA Continuity Schedule. Burlington Hydro should quantify these principal adjustments, if the adjustments are required.

As a result of conducting a full review of the 2017 and 2018 balances of Accounts 1588 and 1589, Burlington Hydro states that it identified and explained the sources of the large 2017 balance in Account 1588 which was originally approximately $3.1 million, but has been reduced in this proceeding by a credit adjustment of $2.2 million, as well as normalized to reflect an "over-accrued" unbilled revenue credit adjustment of approximately $0.9 million.[26] Burlington Hydro indicated that after considering these

[23] Appendix E – GA Methodology Description, p. 2
[24] This requirement from the OEB is outlined in the OEB's *Instructions for Completing GA Analysis Workform*, July 15, 2019, page 16, as well as the OEB's *Accounting Procedures Handbook Update, Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589*, February 21, 2019
[25] Exhibit 1, p. 31
[26] Exhibit 1, pp. 13-14, Table 6; IRR Staff-5; IRR Staff-7

adjustments, the adjusted 2017 Account 1588 amount was small (approximately $37k).[27]

OEB staff submits the following:

1. The adjusted 2017 Account 1588 amount of $37k is reasonable. However, it is not clear whether the over-accrual amount of $0.9 million generated by Burlington Hydro points to systemic issues regarding its unbilled revenue procedures, given the size of the over-accrual. Although OEB staff does not oppose the over-accrued amount presented in this proceeding, OEB staff encourages Burlington Hydro to review its unbilled revenue procedures before its next rate proceeding for 2021 rates, to clarify whether there are any such systemic issues.

2. The Account 1588 and Account 1589 balances requested for disposition are reasonable but should be disposed on an interim basis pending clarification by Burlington Hydro of the matters identified by OEB staff in this submission.

3. It is appropriate for Burlington Hydro to address all four of the deviations, noted above, relating to its accounting and settlement processes versus the Accounting Guidance, at the time when the new CIS is implemented. OEB staff notes that at its next rate proceeding for 2021 rates, Burlington Hydro should be prepared to confirm that these changes were made and provide more detail regarding the timing of making these changes.

4. With respect to the fourth deviation noted above Burlington Hydro should move to the approach "a" required by the OEB[28] that is to be used in booking certain expense journal entries from the IESO invoice. In approach "a" CT 1142 is booked into Account 1588 (i.e. Account 4705). CT 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589 respectively (i.e. Account 4705 and Account 4707).

[27] Exhibit 1, pp. 14, Table 6
[28] This requirement from the OEB is outlined in the OEB's *Instructions for Completing GA Analysis Workform*, July 15, 2019, page 16, as well as the OEB's *Accounting Procedures Handbook Update, Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589*, February 21, 2019

Lost Revenues Adjustment Mechanism Variance Account

Burlington Hydro applied to recover a debit LRAMVA balance of $1,180,000 comprised of incremental Conservation and Demand Management (CDM) activity in 2017 and 2018, persisting savings in 2017 from programs delivered between 2013 and 2016, persisting savings in 2018 from programs delivered between 2013 and 2017, and projected carrying charges as of April 30, 2020. Actual savings were compared to a LRAMVA threshold of 18,835,586 kWh consistent with the amount approved in its 2019 IRM decision.[29] The disposition of the LRAMVA balance is requested over a 12-month period.

For the first time, Burlington Hydro's LRAMVA application includes a request to recover lost revenues related to demand savings from street lighting upgrades undertaken by the City of Burlington.

During the course of this proceeding, OEB staff requested clarification on several components of the calculation. Burlington Hydro provided clarification on areas that were primarily related to:

1. Eligibility of street lighting demand savings included for LRAMVA recovery and the related calculations for street light savings
2. Clarification on the projected persistence estimates from unverified savings adjustments from historical years into 2018
3. Differences in the rate class allocations between current year savings and savings adjustments for the 2016 saveOnEnergy Retrofit program

OEB staff supports the LRAMVA balance requested for disposition. OEB staff submits that the balance is calculated in accordance with the OEB's CDM Guidelines and LRAMVA policy, and supports the balances noted in Table 2 below:

Table 3: LRAMVA Balances for Disposition

Account Name	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
LRAMVA	1568	$1,354,813	$227,594	$52,781	$1,180,000

[29] EB-2018-0021, Decision and Rate Order, March 28, 2019, section 8

The areas of clarification identified above are discussed in further detail below.

Street Light Demand Savings

The lost revenue claim for demand savings from the street lighting upgrades undertaken by the City of Burlington represents $35,380 (or 3%) of the total LRAMVA balance of $1,180,000.

The City of Burlington received funding from the IESO to upgrade their municipal street light bulbs in 2017 and 2018 and therefore Burlington Hydro was eligible for LRAMVA recovery for the associated demand savings. Burlington Hydro provided a detailed breakdown of the billed demand data, as required by the workform templates, to support the change in billed demand pre- and post-implementation.

The 2020 Filing Requirements Addendum specifies that the energy savings associated with street lighting upgrades should be removed from the applicable IESO program's reported savings to avoid double counting, since the street lighting lost revenue claim is based on demand savings.[30] In addition, distributors are required to provide a monthly breakdown of billed demand data over the period of the street lighting upgrade and detailed calculations to support the demand savings claim.[31]

Burlington Hydro confirmed that the energy savings related to street lighting upgrades were removed from the retrofit program and reflect a full-year of savings consistent with IESO reporting protocols. They also confirmed that the monthly billed demand data they provided in the workform reflect actual demand reductions in accordance with the 2020 Filing Requirements Addendum.[32]

OEB staff supports the lost revenue calculations for Burlington Hydro's street lighting projects in 2017 and 2018.

Persistence of Unverified Adjustments in 2018

Following the cancellation of the 2015-2020 Conservation First Framework with the March 2019 Directive, the IESO issued Participation and Cost (P&C) Reports to distributors. Unlike previous year's Final CDM Results Report, the P&C Report does not include persistence estimates from historical years in 2018. Burlington Hydro estimated

[30] 2020 Filing Requirements Addendum, section 3.2.6
[31] Ibid
[32] IRR Staff-9 b) and c)

the persistence of savings adjustments from 2016 and 2017 programs for lost revenue calculations in 2018.

In response to OEB staff interrogatories, Burlington Hydro clarified that it used linear interpolation for each program to estimate the persistence of savings adjustments and it generated a conservative estimate to the benefit of its customers.[33]

OEB staff recognizes the challenges that distributors are faced with given the limited availability of CDM program results, thereby requiring utilities to use best efforts to estimate the persistence of unverified savings adjustments from historical program years. OEB staff submits that the persistence estimates of its unverified savings adjustments are reasonable.

Allocation Percentages between Current Year and Adjustments

In typical cases, the allocation percentages across rate classes between current year savings and any savings adjustments are expected to be consistent. Based on OEB staff's review of Burlington Hydro's LRAMVA calculations, there was one instance where the rate class allocations for the 2016 saveOnEnergy Retrofit program were not consistent between current year savings and its adjustments.[34]

In response to OEB staff interrogatories, Burlington Hydro noted that the rate class allocations for savings adjustments are not necessarily the same as the incremental savings by project (i.e., current year savings). Burlington Hydro clarified that the current year savings and the savings adjustments were based on two separate lists of projects provided by the IESO, and would therefore reasonably reflect different rate class allocations.[35]

OEB staff submits that the rate class allocations for both current year savings and savings adjustments proposed by Burlington Hydro are reasonable and are supported by customer data provided by the IESO.

[33] IRR Staff-10
[34] LRAMVA workform, Tab 5, Table 5-b, program 26 (2016 saveOnEnergy Retrofit)
[35] IRR Staff-11 b)

Incremental Capital Module

Introduction

Burlington Hydro requested ICM funding for two projects: a new CIS and a new Graphical Information System (GIS). The cost of the CIS is $2.09 million and the cost of the GIS is $0.59 million, for a total of $2.68 million.[36] As Burlington Hydro is scheduled to rebase next year for 2021 rates, Burlington Hydro has applied the half-year rule and calculated its annual incremental revenue requirement to be $193,463.[37]

Burlington Hydro currently uses the Daffron CIS solution (Daffron) and the SpatialNET Power GIS (SpatialNET). Burlington Hydro stated both systems are functionally obsolete. In particular, Burlington Hydro noted that the Daffron system is 24 years old and unable to support customer service functionalities that its customers have requested. For SpatialNET, Burlington Hydro indicated that the vendor is no longer providing support for the software, and that the SpatialNET system is only compatible with Microsoft Windows 7, for which Microsoft is no longer providing updates. To address the technological limitations of its CIS and GIS systems, Burlington Hydro undertook the proposed two ICM projects to implement new CIS and GIS systems.

Based on OEB staff's analysis in the sections below, OEB staff submits that both of Burlington Hydro's requested ICM projects meet the ICM criteria of materiality, need and prudence and should be approved. OEB staff also submits that Burlington Hydro has correctly applied the half-year rule.

Materiality

The *Report of the OEB: New Policy Options for Funding of Capital Investments: The Advanced Capital Module* (ACM Report) states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold.[38]

The ACM Report explains materiality as follows:

> 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

[36] Exhibit 1, p. 46
[37] Exhibit 1, p. 53
[38] EB-2014-0219, Report of the OEB: New Policy Options for Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, pp. 16-17

> 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.[39]

In the application as originally filed, Burlington Hydro used a price cap index of 1.2% as a placeholder, since the price cap index for 2020 was not yet available. This was based on an inflation factor of 1.50% less a productivity factor of 0.00% and a stretch factor of 0.30%. Burlington Hydro stated it had calculated its materiality threshold to be $6,981,450.[40] OEB staff notes that the inflation factor for 2020 has since been updated to be 2% with the stretch factor remaining at 0.30%.[41] OEB staff calculates Burlington Hydro's price cap index now to be 1.70%. OEB staff has recalculated Burlington Hydro's materiality threshold and submits that it be revised to $7,758,701. OEB staff expects that Burlington Hydro would be able to finance capital expenditures of this amount through its existing rates.

OEB staff notes that Burlington Hydro's last Distribution System Plan was submitted in its 2014 cost of service application and covered the period 2014-2018. As such, Burlington Hydro's previous DSP does not cover the 2020 rate year nor the ICM projects proposed in this application. As revised through this proceeding, Burlington Hydro's forecasted total capital for 2020 is $11,014,608.[42] If the costs of the proposed projects are removed, the remaining portion of the 2020 capital budget is $8,332,333. Given that Burlington Hydro's DSP does not cover the 2020 year, OEB staff has compared the 2020 capital budget against the level of capital expenditures in historical years (2014-2018). OEB staff calculates the average of Burlington Hydro's actual capital expenditures between 2014-2018[43] to be approximately $8.4 million and notes that Burlington Hydro's 2020 capital expenditures (less the ICM projects) is on par with the historical levels of spending.

OEB staff submits that based on the revised materiality threshold above, the maximum

[39] ACM Report, p. 17
[40] Exhibit 1, p. 45
[41] Inflation factor for 2020 updated on October 31, 2019
[42] IRR Staff-14
[43] Ibid

eligible incremental capital amount available to Burlington Hydro through this ICM is $3,255,907. This is based on the total capital spending for 2020 of $11,014,608 less the revised materiality threshold of $7,758,701. OEB staff notes that Burlington Hydro's total ICM project costs of $2,682,275 is within the maximum amount of eligible incremental capital.

With regard to the project-specific materiality threshold, projects that are minor expenditures in comparison to the overall capital budget of the distributor are not eligible for ICM treatment. Burlington Hydro stated that it used a materiality threshold of 1% for its 2020 ICM projects.[44] That is to say, it considered projects exceeding 1% of its 2020 ICM projects to be material. Burlington Hydro based its reasoning on the OEB's Decision in Alectra Utilities Corporation's 2018 IRM Application and noted that the OEB had approved projects just under 1% of Alectra Utilities Corporation's total 2018 capital budget in that decision.[45] Burlington Hydro submitted that both of its proposed ICM projects individually exceed 1% of its total forecasted 2020 budget and therefore meet the project-specific materiality threshold.

OEB staff calculates the GIS project and the CIS project to be approximately 5% and 19%, respectively, of Burlington Hydro's total capital expenditure for 2020. On this basis, OEB staff submits that Burlington Hydro's ICM projects make up a significant portion of its capital budgets and therefore meet the project-specific materiality threshold.

While OEB staff agrees with Burlington Hydro that the proposed ICM projects meet the project-specific materiality threshold, OEB staff notes that the OEB's ICM policies make no mention of a particular percentage for the project-specific materiality threshold. OEB staff submits that the project-specific materiality threshold has generally been evaluated on a case-by-case basis.

[44] IRR SEC-3
[45] EB-2017-0024

Need

The ACM Report describes the "need" criterion as follows:

> 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.[46]

Under the 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 most recently available ROE (for 2018) was 7.03%, which is 2.33% (233 basis points) lower than its deemed ROE of 9.36%.[47] Burlington Hydro has not exceeded its deemed rate of return by 300 basis points. OEB staff submits that Burlington Hydro passes the Means Test.

OEB staff notes that the requested ICM funding relates specifically to the implementation of Burlington Hydro's new GIS and CIS systems; therefore OEB staff submits that the requested ICM amounts are discrete.

In response to interrogatories, Burlington Hydro indicated that it does have an ongoing budget related to GIS and CIS systems in the amount of $125,000 and $15,000 respectively.[48] However, Burlington Hydro noted that the $125,000 is unrelated to the currently proposed GIS project because the $125,000 is budget allocated for its outage management system (OMS) and integration of the new GIS with other software solutions.[49] Further, Burlington Hydro noted that, while it had a capital expense category called "SCADA / GIS / AMI / OMS," the actual costs incurred in historical years in this category are mostly related to its outage management system.[50] For the CIS, Burlington Hydro noted that the $15,000 budget is for changes to its General Ledger software.[51] OEB staff submits that Burlington Hydro's explanations are reasonable and that the proposed ICM projects are outside base rates.

[46] ACM Report, p. 17
[47] Exhibit 1, p. 46
[48] IRR Staff-19
[49] Ibid
[50] IRR Staff-19; IRR EP-1
[51] IRR Staff-19

Prudence

The ACM Report describes the "prudence" criterion as follows:

> 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.[52]

The Customer Information System:

For the CIS, Burlington Hydro considered three options:

1. Upgrade its current Daffron CIS
2. Implement a new Tier 1 CIS
3. Implement a new Tier 2 CIS (the proposed project)

Burlington Hydro stated that maintaining its current Daffron CIS would be the lowest upfront cost, but would likely incur higher ongoing maintenance costs due to it being an old technology.[53] Further, Burlington Hydro stated that its Daffron CIS is unable to implement new customer service functionalities requested by its customers.[54] In particular, Burlington Hydro noted it had received feedback from customers expressing dissatisfaction with the current system. Examples of new requested functionalities include a single login for an integrated customer portal, the ability to add and maintain multiple accounts within the customer portal, etc.[55]

In selecting a new CIS, Burlington Hydro considered both Tier 1 and Tier 2 systems. Burlington Hydro explained that the difference between a Tier 1 system and a Tier 2 system is that a Tier 1 system is typically used by large clients, while a Tier 2 solution is more suited to mid-market sized clients and has a lower implementation and maintenance cost.[56] Together with two other Ontario utilities, Burlington Hydro explored options for a joint Tier 1 CIS solution, but concluded that Tier 1 systems were not cost effective for its needs.[57] For these reasons, Burlington Hydro believed that it would be better served to procure a Tier 2 CIS. To select its Tier 2 CIS vendor, Burlington Hydro indicated that it engaged in a request for proposal (RFP) process.

[52] ACM Report, p. 17
[53] Appendix I, p. 2
[54] Ibid, pp. 1-2
[55] IRR Staff-16
[56] IRR Staff-15
[57] Appendix I, p. 2

As noted above, Burlington Hydro's existing CIS is 24 years old and unable to accommodate functionalities that Burlington Hydro's customers have requested, which necessitated the need for a new CIS. OEB staff submits that Burlington Hydro has chosen a cost effective CIS solution that is appropriate for a utility the size of Burlington Hydro. Rather than choose a more expensive Tier 1 CIS, Burlington Hydro has instead opted for a lower cost Tier 2 CIS that is sized for its needs. As indicated by Burlington Hydro, a Tier 1 CIS would have a higher implementation cost and higher maintenance costs.[58] Additionally, OEB staff notes that Burlington Hydro engaged in a competitive RFP process to select a vendor that best met its requirements. OEB staff submits that Burlington Hydro has performed its due diligence in considering the available options for implementing a new CIS. Therefore, OEB staff submits that Burlington Hydro's proposed CIS ICM project is prudent.

The Geographical Information System:

For the GIS, Burlington Hydro also considered three options:

1. Status quo with the existing SpatialNET GIS
2. Implement a new GIS provided by vendor A (the proposed project)
3. Implement a new GIS provided by vendor B

Burlington Hydro stated that its current SpatialNET GIS is obsolete for three primary reasons. First, SpatialNET is only compatible with Windows 7, which is an issue because Microsoft ended its support for Windows 7 on January 14, 2020.[59] Second, SpatialNET itself is no longer receiving support from its software vendor.[60] Third, Burlington Hydro experiences compatibility issues with SpatialNET due to the software using an out of date format.[61] For these reasons, Burlington Hydro stated that it is necessary to upgrade to a new GIS.

In the search for a new GIS, Burlington Hydro stated that it retained an Operational Technology Specialist Consultant to identify an initial list of potential vendors. Burlington

[58] IRR Staff-15; Burlington Hydro estimates the implementation cost of a Tier 1 CIS to be between $6 million and $14 million. Using the lower estimate, the implementation cost of a Tier 1 CIS compared to the proposed Tier 2 CIS would be $3.9 million higher ($6 million - $2.1 million). Burlington Hydro also estimates that maintenance cost of a Tier 1 CIS to be $500k/year, as opposed to a Tier 2 CIS which it estimates to be between $55k/year to 85k/year (i.e. more than $400k/year cheaper).
[59] Appendix J, p. 2
[60] Ibid
[61] Ibid

Hydro then went through an internal evaluation process to shortlist vendors A and B from the initial list.

Burlington Hydro noted a few key differences between vendor A and vendor B that led it to choose vendor A. According to Burlington Hydro, vendor A's software is more flexible and allows for modification by Burlington Hydro, and has a lower implementation cost of approximately $120,000.[62] Additionally, Burlington Hydro stated that there would likely be a forced upgrade required for vendor B's software in the near future, which would result in additional costs to Burlington Hydro.

OEB staff submits that Burlington Hydro has raised valid concerns with its existing GIS system. The lack of Microsoft support for Windows 7 could lead to cyber-security concerns if Burlington Hydro is required to remain using Windows 7, and the lack of vendor support for SpatialNET could lead to unresolved software issues in the future. In choosing a new GIS solution, OEB staff submits that Burlington Hydro underwent an appropriate process to choose the most cost-effective solution that met its needs. Therefore, OEB staff submits that Burlington Hydro's proposed GIS ICM project is prudent.

Revision to Expiry Date of 2019 ICM Rate Rider

Burlington Hydro requested that the OEB change the expiry date of one of its existing ICM rate riders to April 30, 2020. The rate rider is identified as "Rate Rider for Recovery of Incremental Capital Project 1 (2019)" (Project 1 rate rider) and was approved in Burlington Hydro's 2019 IRM application to recover ICM funding in relation to the Tremaine TS Connection Cost Recovery Agreement (CCRA) True-up project.[63] Per Burlington Hydro's current Tariff of Rates and Charges, this rate rider is "effective until the next cost of service based rate order."[64] As Burlington Hydro is currently scheduled to rebase for May 1, 2021 rates, changing the expiry date to April 30, 2020 would effectively terminate the ICM rate rider one year early.[65]

The Tremaine TS CCRA True-up ICM project was to provide Burlington Hydro with funding for a true-up payment Burlington Hydro needed to make to Hydro One Networks

[62] Appendix J, p. 2; IRR staff-15; OEB staff calculates the difference in implementation costs by subtracting the costs of vendor A ($0.59 million) from the cost of vendor B ($0.71 million) = $0.12 million.
[63] EB-2018-0021, Decision and Rate Order, March 28, 2019
[64] Ibid
[65] Exhibit 1, p. 56; Burlington Hydro indicated its intentions to rebase for May 1, 2021 in this reference.

Inc. (Hydro One) for the construction of Tremaine TS. In its 2019 IRM proceeding, Burlington Hydro requested $3.567 million in ICM funding for the project based on calculations provided by Hydro One and as adjusted for CDM and distributed generation.[66] Burlington Hydro noted that, for the purpose of setting May 1, 2019 rates, these were the best estimates available from Hydro One.

Subsequent to the 2019 IRM proceeding, Burlington Hydro requested Hydro One to revisit the calculation of the true-up payments because it was not in agreement with Hydro One's allocation of load between transformer stations in the true-up calculations. Hydro One revisited the calculation and finalized the true-up amounts payable by Burlington Hydro to be $0.5687 million for Tremaine TS.[67]

The Project 1 rate rider was calculated based on a total capital expenditure of $3.567 million and an associated annual revenue requirement of $267,733.[68] Burlington Hydro estimated that it will recover approximately $535,466 from this rate rider for the two year period between May 1, 2019 and April 30, 2021.[69] The revenue requirement of the actual true-up amount of $0.5687 million, as calculated by Burlington Hydro, is $42,632.[70] Based on the actual true-up amount, Burlington Hydro calculated the associated revenue requirement over the same two year period to be $85,264.[71]

Based on these calculations, Burlington Hydro stated that the actual revenue requirement for Project 1 for the two-year period before rebasing (i.e. May 1, 2019 to April 30, 2021) will have been fully recovered through its current Project 1 rate rider by April 30, 2020.[72] To avoid overcharging customers in the 2020 rate year, and to avoid increasing the amount of ICM true-up that would be necessary upon rebasing, Burlington Hydro has requested the OEB to revise the Project 1 rate rider to end on April 30, 2020.

OEB staff agrees with Burlington Hydro that the Project 1 rate rider should be revised to expire on April 30, 2020 to avoid overcharging customers. OEB staff had previously raised concerns with the accuracy of Burlington Hydro's true-up payment calculations in

[66] EB-2018-0021, Reply Submission, February 21, 2019, p. 13
[67] Exhibit 1, p. 56
[68] Ibid
[69] Ibid; April 30, 2021 is chosen as the end date because Burlington Hydro expects to rebase in 2021, and so the ICM rate rider would end on April 30, 2021.
[70] Ibid
[71] Ibid
[72] Ibid

Burlington Hydro's 2019 IRM application.[73] However, OEB staff recognized that Burlington Hydro provided the best estimates that were available from Hydro One at the time of its 2019 IRM proceeding. OEB staff acknowledges Burlington Hydro's work to ensure that the final amounts payable to Hydro One are correct, and its proposal to end the Project 1 rate rider early to avoid overcharging its customers. OEB staff submits that this would have the additional benefit of mitigating the rate impact of any new ICM rate riders as part of this application, if approved by the OEB.

OEB staff notes that any approved ICM recovery is subject to a final review before the OEB with possible true-up. Given that the amounts associated with the Project 1 rate rider are not final, OEB staff has not identified any issue with changing the rate rider. OEB staff further notes that any changes to the Project 1 rate rider would only affect Burlington Hydro's future revenue from rates, and does not change any revenues already collected.

OEB staff further notes that, even if the Project 1 rate rider is terminated on April 30, 2020, Burlington Hydro will have over-collected an estimate of $182,469 from customers.[74] OEB staff notes that this over collection will be considered in any potential true-up between the ICM revenue requirement and revenues collected at the time of Burlington Hydro's next rebasing.

All of which is respectfully submitted

[73] EB-2018-0021, OEB Staff Submission, February 7, 2019, pp. 20-21; In the 2019 IRM proceeding, Burlington Hydro had requested ICM funding for two separate CCRA true-up payments. One was for the Tremaine TS CCRA True-up (referred to as Project 1) and the other was the Bronte TS CCRA True-up (which was ultimately denied by the OEB). The calculations for the two true-up payments were related because load on Burlington Hydro's distribution system had been transferred to both transformer stations.

[74] As detailed above, Burlington Hydro is expected to recover $267,733 in the one-year period between May 1, 2019 and April 30, 2020 through the Project 1 rate riders. The actual revenue requirement over the two-year period before Burlington Hydro rebases is $85,264. The difference between these two amounts is $182,469.