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January 31, 2020

VIA E-MAIL

Ms. Christine Long
Registrar & Board
Secretary
Ontario Energy Board
P.O. Box 2319, 27th
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: EB-2019-0023 – Burlington Hydro Inc. 2020 Electricity Distribution Rates
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)**

Please find enclosed the final submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

(Original Signed By)

John Lawford
Counsel for VECC

Copy to: Sally Blackwell, Vice President, Regulatory Compliance & Asset Management

EB-2019-0023

Burlington Hydro Inc.

Application for electricity distribution rates effective May 1, 2020

Incremental Capital Module (ICM)

VECC Submissions January 31, 2020

Burlington Hydro Inc. (Burlington Hydro) filed an incentive rate-setting mechanism application with the Ontario Energy Board (OEB) on October 10, 2019 under section 78 of the Ontario Energy Board Act, 1998 seeking approval for changes to its electricity distribution rates to be effective May 1, 2020. As part of the application, Burlington Hydro requests approval for incremental capital and to discontinue the 2019 Incremental Capital Project #1 Rate Rider related to the Tremaine Transformer Station (TS) Connection Cost Recovery Agreement (CCRA) True-up. All rate payers in Burlington Hydro's service area will be affected by this Application.

VECC's submissions relate to these ICM requests.

Background

Burlington Hydro's most recent Cost of Service (CoS) application was for rates effective May 1, 2014 (EB-2013-0115). Burlington Hydro was scheduled to file its next CoS application in 2018 for rates effective May 1, 2019.

In a letter dated February 1, 2018, Burlington Hydro sought a one-year deferral of its 2019 CoS application including a deferral of the filing of a Distribution System Plan (DSP). In its 2019 CoS deferral letter,¹ Burlington Hydro indicates it is confident that it can (i) manage its resources and financial needs within the current revenue envelope under the 4th Generation Price Cap Adjustment Mechanism (IRM) and (ii) ensure its actual Return on Equity (ROE) is well within the 300 basis points threshold of its approved rate of return. Further, Burlington Hydro stated "2019 rates, which would be limited to inflation less its stretch factor under an IRM, would avoid burdening Burlington Hydro's customers with additional costs and provide distribution charge predictability and stability."

Based on a review of Burlington Hydro's 2012 to 2016 financial and non-financial information, the OEB approved Burlington Hydro's request. The OEB advised Burlington Hydro to file a Price Cap Incentive Rate-setting Mechanism (IRM) application in 2019 if it intends to seek a rate adjustment in 2019.²

¹ EB-2018-0021 Burlington Hydro CoS Deferral letter dated February 1, 2018

² EB-2018-0021 OEB Reply Letter dated August 14, 2018

Burlington Hydro filed a Price Cap IRM application on September 24, 2018 seeking approval of three incremental capital module (ICM) funding requests:

- Project #1 (\$3.567 million) – Tremaine Transformer Station (TS) Connection Cost Recovery Agreement (CCRA) True-up
- Project #2 (\$2.000 million) – Tremaine TS Additional Breakers CCRA
- Project #3 (\$0.350 million) – Bronte TS Additional Breaker Positions CCRA True-up

All three projects involved true-up payment to Hydro One Networks Inc. The OEB approved ICM funding of \$3.567 million for Project #1 and \$2.000 million for Project #2.

Then on February 20, 2019, Burlington Hydro sought a second one-year deferral of its CoS Application and a second deferral of the filing of a Distribution System Plan.³ Burlington Hydro stated it intends to file a CoS Application in August 2020 for rates effective May 1, 2021. After reviewing Burlington Hydro's financial and non-financial scorecard performance from 2012 to 2017, the OEB approved the second deferral and advised Burlington Hydro to file a Price Cap IRM application if it sought to adjust rates in 2020.⁴

Burlington Hydro filed a Price Cap IRM application to adjust 2020 rates, which also included an ICM request with rate riders for the following two projects: Customer Information System (CIS) and Geographic Information System (GIS) replacements as shown in Table 1 below,

Table 1: Incremental Capital Requests

Incremental Capital Projects		2020 ICM \$ As Filed	2020 ICM \$ Revised
Customer Information System (CIS) Replacement	General Plant	1,445,000	2,092,862
Geographic Information System (GIS) Replacement	General Plant	500,000	589,413
TOTAL		1,945,000	2,682,275
Variance			737,275

Through the interrogatory process, Burlington Hydro updated its ICM request from \$1,945,000 to \$2,682,275, an increase of \$737,275⁵ or 40%.

The CIS project cost increases are due to:

- Additional funding due to an accelerated cutover of a new integrated Customer Portal;
- Additional funding for backfill of Burlington Hydro staff;

³ EB-2019-0023 Cos Deferral Letter dated February 20, 2019

⁴ EB-2019-0023 OEB Reply Letter dated July 5, 2019

⁵ SEC-4

- Additional funding for hosting fees during the implementation period; and
- Additional funding for a new reporting platform, enhanced partner systems testing and additional contract labour.

The increased cost of the GIS project is due to higher than planned requirements for concurrent licenses.⁶

Burlington Hydro currently seeks recovery of \$193,463 in ICM revenue requirement.⁷ For the reasons discussed below, VECC submits the OEB should not approve Burlington Hydro's ICM requests.

Project Timing

Burlington Hydro did not mention in its 2020 CoS Deferral Letter that it needed \$2 million in incremental capital in 2020 for CIS and GIS upgrades, instead leaving the OEB with the impression it is able to manage its resources and financial needs within the revenue envelope in 2020 under IRM, noting in its letter that for the years 2015 to 2017, actual ROE is within the 300 basis points threshold of its approved rate of return and customer satisfaction and reliability results are excellent.

VECC submits Burlington Hydro's failure to mention the need for an ICM was misleading. Burlington Hydro was aware of both projects prior to filing its 2020 CoS deferral letter in February 2020. The CIS project was well underway (75% complete)⁸ and the GIS project had already been completed.⁹

The ICM is intended to address the treatment of capital investment needs that arise during the 5-year rate-setting in the context of an existing 5-year Distribution System Plan that aligns with the rate-making term. The typical approach to applying for an ICM is for incremental funding to start in the year that an asset is planned to go into service.¹⁰

The CIS project implementation commenced in February 2019 with an original project completion date of June 2020, revised to August 2020.¹¹ However, the initial planning and preparation phase for the project, described in the Project Charter, took place much earlier, in the last half of 2016.¹² The Project Charter does not refer to the need for incremental capital. Rather, the Project Charter formally authorizes the existence of the Customer Information

⁶ SEC-5

⁷ Staff-14

⁸ 12 months of 16 month project completed (Jan 2019 to June 2020)

⁹ SEC-5 (Completed Jan 10, 2020)

¹⁰ EB-2017-0265, Decision and Rate Order, March 22, 2018, p. 4

¹¹ SEC-4

¹² SEC-4(e)

System (CIS) Replacement project, and provides the project manager with the authority to apply organizational resources to the project activities.¹³

It's unclear from the Project Charter when the Project Charter was authorized and signed, when the expected RFP described in phase one of the project was to be released, when the five remaining project phases would take place and why Burlington Hydro waited from 2016 to 2019 to undertake the project.¹⁴ What is known is that Burlington Hydro proceeded to make a planned investment in 2019 to a major business application, at the same timing deferring 2019 rebasing. In its 2014 CoS application, Burlington Hydro states "While many IT expenditures reflect continuous upgrades to hardware and software applications or capitalization of new technologies, planned investments in major business applications such as a new CIS will be subjected to thorough justifications, evaluations and business case documentation."¹⁵ As such, Burlington Hydro would have needed to plan well in advance to replace its CIS with a Tier 2 solution in 2019. Burlington Hydro had ample lead time to coordinate the implementation of the CIS application with its scheduled rebasing application or notify the OEB of its intent to file an ICM.

The GIS project was in-service prior to Burlington Hydro's 2020 CoS deferral letter. The GIS project commenced on September 16, 2019 and went live on January 13, 2020,¹⁶ although the RFP for the GIS project issued August 19, 2019 expected the new GIS to be in production at Burlington Hydro by December 9, 2019.¹⁷

These dates are important because they reflect on the intent of the Applicant. VECC submits that Burlington Hydro's intent was to avoid scrutiny which might otherwise demonstrate that these projects could be accommodated within existing rates. It also sought, in our view, to avoid scrutiny of its 2019 and 2020 capital budget because this might lead the OEB to conclude that its capital budget could be prioritized in such a manner as to complete these ICM projects within the existing rate envelope by delaying other less pressing projects. The Board's authority is set just and rates reasonable rates and not to fund capital budgets. As such rather than consider the ICM projects in isolation, in our submission, the OEB should consider whether in the absence of ICM funding the Utility would suffer egregious financial hardship. There is no evidence it would.

Had the OEB been made aware of Burlington Hydro's intent to seek approval of an ICM as part of its 2020 IRM application, the OEB may not have granted approval of a rebasing deferral. VECC submits that moving forward, the OEB should require that Applicants disclose any ICM plans as part of any CoS deferral requests.

¹³ CIS Replacement Project Charter P14

¹⁴ SEC-4 (e)

¹⁵ EB-2013-0115 Ex 2 P253

¹⁶ SEC-5

¹⁷ SEC-5

No Current DSP

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates.

As part of its 2014 CoS application, Burlington Hydro filed a five-year Distribution System Plan (DSP) for the years 2014 to 2018.¹⁸

As shown in the Table 2 below, the OEB approved a 2014 capital budget of \$11,309,250 or \$7,730,045 net of capital contributions.¹⁹

Table 2: Historical and Proposed Capital Expenditures

	2014 CoS	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Budget
Capital	\$7,730,045	\$7,416,977	\$7,987,480	\$7,372,720	\$8,693,734	\$10,699,002	\$10,741,287	\$11,765,000

For the years 2015 to 2018, Burlington Hydro has been able to manage its capital plan through the rates that were set in its last Cost of Service application and adjusted annually through the Price Cap IR rate-setting method.

For 2019 and 2020 the forecast capital budget is \$10,741,287 and \$11,765,000, respectively, net of capital contributions.²⁰ Had the OEB been made aware of Burlington Hydro's plan to include an ICM in its 2020 IRM application, the OEB may have required that Burlington Hydro file an updated DSP to provide context for the request.

Without the opportunity to test a current DSP and the capital budgets for 2019 and 2020 compared to historical spending, the OEB cannot properly assess the reasonableness of Burlington Hydro's ICM request and whether or not the prioritization, pacing and optimization of other capital projects is appropriate or could be modified/deferred/cancelled to accommodate the ICM projects. In the absence of this analysis, VECC submits it's not definitive that Burlington Hydro needs to increase rates in 2020 to fund the two projects.

In the OEB's recent Alectra Utilities Corporation M-Factor Decision²¹, the OEB stated "DSPs are required by the OEB as a planning tool to demonstrate that the resulting investment plan is based on solid principles of prioritization and optimization. The OEB uses DSPs to inform the rate-setting process of the proposed investment plan. The reason that the OEB initially required Alectra Utilities to file a consolidated DSP was to support any ICM application requesting rate changes. VECC submits a current DSP with an optimized capital plan is needed to inform the

¹⁸ EB-2013-0115 Ex 2

¹⁹ Exhibit 1 P47

²⁰ Exhibit 1 P47

²¹ EB-2019-0018 Alectra Utilities Corporation Decision dated January 30, 2020 P22

2020 rate setting process and determine whether support for Burlington Hydro's ICM request is reasoned and appropriate.

In the event that the OEB does not approve its ICM application, Burlington Hydro indicates it would need to reconsider its 2020 capital distribution expenditures and consider reductions to system service or system renewal, affecting system safety and reliability.²² Given a DSP beyond 2018 does not exist, VECC submits the OEB has no way of evaluating the impact/outcome of this proposal.

Project-Specific Materiality

With respect to materiality, Burlington Hydro indicates its project-specific materiality threshold is 1% of its overall capital budget. Burlington Hydro relied on the OEB's Decision in Alectra's 2018 IRM Application for guidance (EB-2017-0024) to determine its project-specific materiality threshold. Alectra's combined capital budget was \$267.7M and the lowest individual project that was approved for the recovery of incremental capital funding was the York MS project with a total cost of \$2.3M or 1% of the combined capital budget.²³

Burlington Hydro believes this suggests that, in the OEB's opinion, a project that has a cost that is 1% of the total capital budget is a major project that has significant influence on the operation of the distributor. As such, Burlington Hydro has applied that same rationale to determine that, for 2020, its project-specific materiality threshold is \$110k; equal to 1% of its budget of \$11,014,608. Burlington Hydro's position is that on this basis, both the CIS and GIS exceed Burlington Hydro's project-specific materiality threshold at revised cost estimates of \$2,092,862 and \$589,413 respectively.

VECC submits the OEB did not explicitly put forward a 1% of capex project-specific materiality threshold in its Alectra ICM Decision as there were many factors at play in Alectra's application that the OEB relied upon in determining which projects received capital funding. VECC submits the OEB should not accept Burlington Hydro's interpretation of the Alectra Decision as the test that determines that each of the proposed ICM projects satisfies the OEB's materiality test. The project-specific materiality threshold is evaluated on a case-by-case basis.

Discontinuation of ICM Rate Rider Approved in 2019 IRM Application (EB-2018-0021)

Burlington Hydro is currently collecting a rate rider from customers for the Tremaine CCRA true-up based on an estimated capital expenditure of \$3.567M, with an associated annual revenue requirement of \$267,733. Burlington Hydro requests that the rate rider for the Tremaine TS CCRA True-up (identified as "Rate Rider for Recovery of Incremental Capital Project 1 (2019)") be discontinued effective April 30, 2020 to allow recovery of the revised revenue requirement of \$85,264 based on a revised true-up estimate provided by Hydro One.

²² Exhibit 1 P54

²³ SEC-3

VECC supports this request and agrees this approach avoids overcharging customers from May 1, 2020 to April 30, 2021, only to return the over collection in the period from May 1, 2021 to April 30, 2022.