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

February 14, 2020

Dear Ms. Walli,

Re: Electricity Distribution License ED-2003-0004
2020 IRM Application for Electricity Distribution Rates (EB-2019-0023)

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 dated December 2, 2019, enclosed is Burlington Hydro's reply submission to submissions from Board Staff, the Vulnerable Energy Consumers Coalition ('VECC"), School Energy Coalition ("SEC") and Energy Probe Research Foundation ("Energy Probe").

The responses and supporting materials are being filed through the OEB's RESS system; two hard copies will follow by courier.

Yours truly,

Original Signed by

Sally Blackwell
Vice President, Regulatory Compliance and Asset Management
Email: sblackwell@burlingtonhydro.com
Tel: 905-336-4373

1340 Brant Street, Burlington, ON · L7R 3Z7 burlingtonhydro.com 905·332·1851

EB-2019-0023

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, 2020.

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BURLINGTON HYDRO INC.

REPLY SUBMISSION

FILED: February 14, 2020

Applicant

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

Sally Blackwell
Vice President Regulatory Compliance and Asset Management
Tel: (905) 336-4373
Email: sblackwell@burlingtonhydro.com

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INTRODUCTION

Burlington Hydro Inc. ("Burlington Hydro") filed its sixth Electricity Distribution Rates application ("Application") on October 10, 2019 under the Fourth Generation Incentive Rate-Setting Mechanism ("Price Cap IR") to the Ontario Energy Board ("OEB") for electricity distribution rates and other charges effective May 1, 2020.

The Vulnerable Energy Consumers Coalition ('VECC"), School Energy Coalition ("SEC") and Energy Probe Research Foundation ("Energy Probe") requested intervenor status in relation to the Application, which was subsequently granted by the OEB. The OEB issued Procedural Order No. 1 on December 2, 2019. In accordance with the Procedural Order, OEB Staff, VECC, SEC and Energy Probe filed written interrogatories on December 20, 2019. Burlington Hydro filed written responses to the interrogatories on January 16, 2020. OEB Staff, VECC, SEC and Energy Probe filed written submissions on January 31, 2020.

SEC's and Energy Probe's interrogatories and written submission were limited to Burlington Hydro's incremental capital funding request; VECC's interrogatories and written submission were limited to the incremental capital funding request and the discontinuation of an ICM Rate Rider approved in Burlington Hydro's 2019 IRM Application (EB-2018-0021).

OEB Staff, in its submission, addressed all requests in the Application as follows:

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

OEB Staff supported Burlington Hydro's request for Shared Tax Savings[1], LRAMVA[2], and the incremental capital funding request[3].

OEB Staff and VECC supported Burlington Hydro's request to revise the expiry date of the 2019 ICM Rate Rider related to the CCRA true-up for the Tremaine Transformer Station, agreeing that 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.[4] OEB Staff also submitted that:

(i) 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[5]; and

(ii) even if the 2019 ICM rate rider is terminated on April 30, 2020, Burlington Hydro will still have over-collected; and that at the time of Burlington Hydro's next rebasing, this over collection will be considered in any potential true-up between the ICM revenue requirement and revenues collected.

[1] OEB Staff Submissions, p. 3
[2] Ibid. p. 11
[3] Ibid. p. 14
[4] VECC Submissions, p. 7; OEB Staff Submissions, p. 21
[5] Ibid. p. 22

Burlington Hydro agrees with both of OEB Staff's submissions related to the revision of the expiry date of the 2019 ICM Rate Rider.

Burlington Hydro addresses the remaining items in its reply submission as follows:

- Retail Transmission Service Rates ("RTSRs")
- Group 1 Deferral and Variance Accounts ("DVAs")
- Incremental Capital Module ("ICM")

REPLY SUBMISSION

Retail Service Transmission Rates

OEB Staff agreed with Burlington Hydro's explanation of the increases to the RTSRs as filed in the Application. However, since Burlington Hydro filed its Application, the OEB issued a decision on December 19, 2019 setting interim Uniform Transmission Rates ("UTRs").[6] OEB Staff has updated Burlington Hydro's IRM Model to account for the new UTRs. Burlington Hydro is in agreement with this update.

Group 1 Deferral and Variance Accounts

Burlington Hydro is requesting to dispose of a credit balance of $371,075 in its Group 1 DVA balances over a one-year period, as identified in its Application.[7] The only submission on this request was by OEB Staff, who supported Burlington Hydro's request to dispose of its Group 1 DVA balances but submitted that disposition should be on an interim basis.[8] OEB Staff submitted:

- Burlington Hydro properly allocated recovery of the GA and CBR to the appropriate customers; [9]
- Burlington Hydro's account 1595 residual balances are reasonable and should be disposed of along with Burlington Hydro's other Group 1 DVAs; [10]
- The Account 1588 and Account 1589 balances requested for disposition are reasonable but should be disposed of on an interim basis pending clarification of the matters

[6] EB-2019-0296, Decision and Interim Rate Order, December 19, 2019
[7] Exhibit 1, Table 7, p. 16
[8] OEB Staff Submissions, p. 4
[9] Ibid. p. 5
[10] Ibid. p. 6

identified by Burlington Hydro in this submission. Burlington Hydro addresses these matters below.

Accounts 1588 and 1589 Balances and Disposition

Burlington Hydro is requesting disposition of its 2017 and 2018 Group 1 DVA balances in its Application. Burlington Hydro withdrew its request to dispose of its 2017 Group 1 DVA balances in its 2019 IRM application due to, at the time, an unexplained large balance in Account 1588. Burlington Hydro requested additional time to provide evidence to support the Group 1 DVA 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 DVA balances as of December 31, 2017 until its next rates application.

Subsequent to the OEB's decision in its 2019 IRM application, Burlington Hydro undertook a full review of Accounts 1588 and 1589 and identified the source of the large balance in Account 1588.[11] Burlington Hydro also confirmed that (i) it implemented the Board's *Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* [12] ("Accounting Guidance") effective January 1, 2019, by August 31, 2019; and (ii) it considered the Accounting Guidance in the context of historical balances that have yet to be disposed on a final basis.[13]

Burlington Hydro identified the following deviations to the implementation of the Accounting Guidance in its Application[14]:

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

[11] Exhibit 1, Table 6, p. 14
[12] Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019
[13] Exhibit 1, p. 15
[14] Ibid. pp. 30-31

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.

OEB Staff submitted the following comments related to deviations from the Accounting Guidance for which Burlington Hydro provides clarification.

1. Different Rates for RPP and non-RPP cost of power

OEB Staff provided no comment.

2. Estimating Unbilled Revenue

OEB staff interpreted Burlington Hydro's statement that it "*does not re-estimate unbilled revenue at the end of each month, but does so at the end of the fiscal year*" 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*".[15]

This interpretation is incorrect. Burlington Hydro did not state that it does not **estimate** unbilled revenue at the end of each month; it stated that it does not **re-estimate** unbilled revenue at the end of each month. Burlington Hydro does perform a monthly unbilled revenue calculation at the time of the 1st true-up calculation. The OEB's "Illustrative Example" which was distributed on February 21, 2019 with the Accounting Guidance required utilities to true-up unbilled revenue on a monthly basis in the 2nd true-up calculation, in effect a re-estimate or revision to the initial estimate. The 2nd true-up calculation is performed by Burlington Hydro two months post month end for January to

[15] OEB Staff Submissions, p. 8

November and therefore there is no benefit to re-estimating unbilled revenue when the unbilled revenue for that month has already been reversed. Burlington Hydro confirms that it *"performs a calculation on a monthly basis to determine the portion of actual billings that relate to the previous month's consumption*"[16] in the 1st true-up calculation. Burlington Hydro does not re-estimate unbilled revenue for the 2nd true-up calculation on a monthly basis. It only performs an estimate of unbilled revenue during the 2nd true-up calculation at year end.

Burlington Hydro submits that there is no impact to the revenue reported at year end as a result of not re-estimating unbilled revenue in the 2nd true-up calculation from January to November. Burlington Hydro performs an unbilled calculation every month – the only deviation from the Accounting Guidance is the timing of that calculation (1st true-up vs. 2nd true-up) in January – November. Burlington Hydro confirms that the unbilled amounts accrued in Burlington Hydro's general ledger at year-end incorporate the actual post year-end billings that reflect the consumption for the previous year.

OEB Staff noted in its submission that it believed there to be two further deviations from the Accounting Guidance.

3. Non-RPP consumption

Burlington Hydro does not agree with OEB Staff's third deviation and would like to clarify its response to Interrogatory Staff-6. Burlington Hydro provided a description of the data used for the RPP vs. Market Price claim in Table 16 on page 27 of its Application. It stated that all consumption data is based on actual consumption, with the exception of kWh consumption for non-RPP non-Interval Metered and Retailer Customers. This

[16] OEB Staff Submissions, p. 8

statement was true for Burlington Hydro's RPP vs. Market Price Settlement process in 2017 and 2018 only, as these were the years for which Burlington Hydro was requesting DVA disposition in the Application. In 2019, as part of the implementation of the OEB's Accounting Guidance, Burlington Hydro developed and implemented a program to estimate consumption for non-RPP non-interval metered and retailer customers. It uses this program to true-up the 2nd estimate to actual consumption. That is, effective January 1, 2019, Burlington Hydro does true-up the 2nd estimate for the non-RPP, non-interval metered and retailer consumption to actual consumption using this program; and incorporates into that estimate the actual purchases from the IESO. Burlington Hydro wants to be clear that it does not use individual customer smart meter data to true-up consumption; rather it uses a program to determine actual consumption. Using individual customer smart meter data to determine consumption is something that Burlington Hydro may pursue in the future but not necessarily for Day 1 of its Customer Information System ("CIS") conversion.

4. Expense Journal Entries

Burlington Hydro disagrees with OEB Staff's fourth deviation from the Accounting Guidance that "in booking expense journal entries for Charge Type (CT) 1142 and CT 148 from the IESO invoice, it uses a different approach than that required by the OEB…."[17]. This statement is correct but relates to the methodology in place for 2017 and 2018 since these are the years for which Burlington Hydro is requesting disposition of Group 1 DVA balances. Burlington Hydro completed Appendix E – GA Methodology Description based on the methodology in place in 2017 and 2018 as identified on page 23 of its Application "*Burlington Hydro notes that this Appendix has been completed based on its accounting procedures in place prior to January 1, 2019. Since the*

[17] Appendix E – GA Methodology Description, p. 2

implementation of the OEB's Accounting Guidance related to Accounts 1588 Power, and 1589 RSVA Global Adjustment, effective January 1, 2019 Burlington Hydro's accounting procedures have changed." Utilities were not required to implement the Accounting Guidance until January 1, 2019. Effective January 1, 2019 and for the 2019 Group 1 DVA balances, Burlington Hydro is adhering to the OEB's methodology and Accounting Guidance "*CT 1142 is booked into Account 1588. CT 148 is pro-rated based on RPP/non-RPP consumption and then booked into Account 1588 and 1589 respectively.*" Therefore Burlington Hydro submits that it has not deviated from the Accounting Guidance in this instance.

As reiterated by OEB Staff in its submission, Burlington Hydro stated in its Application that it is in the middle of a CIS conversion, with an implementation date scheduled for mid-2020. Burlington Hydro stated that it is unable to, and inefficient to, develop a program to address the first two items identified above in a legacy system which will be obsolete in 2020. Burlington Hydro stated that it plans to implement the first two changes noted above in its new CIS. Burlington Hydro submits that it has a robust process in place to address item three above, effective January 1, 2019. OEB Staff submitted that Burlington Hydro did not comment on whether it will adopt the fourth change identified by OEB Staff[18]; as stated above, Burlington Hydro adopted this change effective January 1, 2019 and therefore this is not required.

With respect to OEB Staff's second deviation to the Accounting Guidance, OEB Staff identified in its submission that it still had unresolved questions surrounding Burlington Hydro's unbilled revenue practices.[19] As stated above and to be clear, Burlington Hydro performs a calculation on a monthly basis to determine the portion of actual billings that relate to the previous month's consumption. The only deviation from the Accounting Guidance is that it performs this calculation at the time of the 1st true-up for each month from January to November, not the 2nd

[18] OEB Staff Submissions, p. 9
[19] Ibid.

true-up as recommended by the OEB. At year end, Burlington Hydro performs this calculation at the time of the 2nd true-up. Burlington Hydro confirms that 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. Therefore there are no entries required to true-up unbilled revenue to actual revenue in the GA Analysis Workforms or the DVA Continuity Schedule.

OEB Staff also submitted the following to which Burlington Hydro provides a response:

1. **OEB Submission:** It is not clear whether the over-accrual amount of $0.9 million points to systemic issues regarding its unbilled revenue procedures.[20]

   Burlington Hydro response: The $0.9 million was a one-time error specifically related to the 2016 unbilled calculation for cost of power revenue for retailers (2016 unbilled revenue was over-accrued); the retailer contract price was used, in error, to accrue unbilled revenue instead of the wholesale market price. Burlington Hydro has implemented additional controls, since this error was made, in order to prevent reoccurrence, as identified on page 28 of the Application.

2. **OEB Submission:** 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.[21]

   Burlington Hydro response: Burlington Hydro submits that it has provided adequate clarification to all matters identified by OEB Staff. However, since Burlington Hydro is implementing a new CIS in 2019 with a different methodology for calculating unbilled

[20] OEB Staff Submissions, p. 10
[21] Ibid.

revenue as compared to its current CIS, it would prefer to dispose of its 2017 and 2018 Group 1 DVA balances on an interim basis in the event that it uncovers any issues with its unbilled revenue process.

3. **OEB Submission:** 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.[22]

Burlington Hydro response: Burlington Hydro agrees it is appropriate to address the first and second deviation relating to its accounting and settlement processes versus the Accounting Guidance, at the time when the new CIS is implemented: (i) Differentiating rates for RPP and non-RPP cost of power and (ii) changing the timing of its unbilled revenue **re-estimate** if necessary. As identified above Burlington Hydro submits that there is no third and fourth deviation.

Burlington Hydro will confirm if these changes were made and provide more detail regarding the timing of making these changes at its next rate application, *if possible*. Burlington Hydro's new CIS is scheduled to go live in August of 2020. It also plans to file its next rate application in August of 2020. If the requested information is available, Burlington Hydro will confirm if these changes were made in its 2021 Application. If the information is not available at the time of filing, Burlington Hydro should be able to provide a status update and subsequently confirm these changes during interrogatories.

[22] OEB Staff Submissions, p. 10

4. **OEB Submission:** With respect to the fourth deviation noted above, Burlington Hydro should move to the approach "a" required by the OEB 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).[23]

   Burlington Hydro response: As identified above, there is no fourth deviation. Burlington Hydro implemented approach "a" required by the OEB effective January 1, 2019.

Burlington Hydro respectfully requests that the OEB approve disposition of its Group 1 DVA balances on an interim basis:

- Burlington Hydro has implemented the Accounting Guidance effective January 1, 2019;
- Burlington Hydro performs an unbilled calculation every month – the only deviation from the Accounting Guidance is the timing of that calculation (1st true-up vs. 2nd true-up) in January – November. 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;
- The $0.9 million unbilled revenue error from 2016 was a one-time error specifically related to the 2016 unbilled calculation for cost of power revenue for retailers. Since that time Burlington Hydro has implemented controls to identify unexpected, material variances in its Group 1 DVA accounts as identified on page 28 of its Application;

[23] OEB Staff Submissions, p. 10

- Effective January 1, 2019 Burlington Hydro has a robust process in place to true-up the 2nd estimate for the non-RPP non-interval metered and retailer consumption to actual consumption; and
- Burlington Hydro expects to address the two remaining deviations from the Accounting Guidance when it implements its new CIS:
    - Differentiating rates for RPP and non-RPP cost of power; and
    - Changing the timing of the unbilled estimate, if necessary
- Disposition of Burlington Hydro's Group 1 DVA balances on an interim basis is consistent with the OEB's decision in Waterloo North Hydro's 2019 IRM application to generally not dispose of Group 1 accounts on a final basis [24] and will allow Burlington Hydro the opportunity to adjust the balance of these accounts in the future, should it uncover any material discrepancies during its CIS conversion.

[24] EB-2018-0074, Decision and Rate Order, p. 8

Incremental Capital Module

a) Overview

According to the OEB's Renewed Regulatory Framework for Electricity, an incremental capital module ("ICM") is available to distributors under the Price Cap IR rate-setting methodology to address any incremental capital investment needs that may arise during the IR term.[25] The ICM must meet a number of criteria set out in the OEB's Funding of Incremental Capital policies.[26] Specifically, incremental capital projects must meet a project-specific materiality threshold, be discrete and prudent, and not be part of typical annual capital programs.[27] In addition, the ICM request must be for an amount that exceeds an OEB-defined materiality threshold and clearly have a significant influence on the operation of the distributor.[28]

Burlington Hydro has capital investment requirements which are incremental to its capital requirements within the context of its financial capacities underpinned by existing rates. In accordance with the Funding of Incremental Capital policies and *Chapter 3 Filing Requirements*[29], Burlington Hydro included in its 2020 IRM application, an ICM request for two major capital projects, namely, a new Customer Information System ("CIS") and a new Geographic Information System ("GIS"), collectively referred to as the "ICM Projects".

As further described in the Application and herein, the ICM Projects exceed the OEB-defined materiality threshold and satisfy project-specific materiality thresholds.[30] The ICM Projects make

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[25] Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (RRFE), October 18, 2012
[26] *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (the "ACM Report") and the subsequent Report of the OEB, *New Policy Options for the Funding of Capital Investments: Supplemental Report*, January 22, 2016 (the "Supplemental Report", collectively referred to as the "Funding of Incremental Capital policies).
[27] The ACM Report, pp. 16-17
[28] Ibid.
[29] Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, July 12, 2018
[30] Exhibit 1, p. 45; SEC-3

up a significant portion of Burlington Hydro's 2020 capital budget and have a significant influence on its operation. Burlington Hydro's most recently available ROE for 2018 was 7.03%, which is 2.33% (or 233 basis points) lower than its deemed ROE of 9.36%.[31] It has not exceeded the deemed rate of return by 300 basis points, hence, the ICM Projects pass the Means Test. Furthermore, the ICM Projects do not form part of Burlington Hydro's annual capital programs; the requested ICM funding relates specifically to the implementation of new GIS and CIS systems, and as such is discrete.[32] The ICM Projects were not included in Burlington Hydro's latest Distribution System Plan ("DSP") and, accordingly, are outside of the base upon which the rates were derived.[33] Lastly, Burlington Hydro performed its due diligence to identify the preferred alternative and select a vendor that best met the utility's requirements. As a result, the utility identified the most cost-effective option for its customers that, at the same time, meets the utility's needs.[34] Burlington Hydro submits that the ICM Projects are consistent with the Funding of Incremental Capital policies and meet the ICM eligibility criteria. Accordingly, the ICM Projects should be approved.

In accordance with Procedural Order No. 1, OEB Staff and intervenors made their written submissions on the issue. While OEB Staff completely supports Burlington Hydro's request for ICM funding, intervenors made submissions relating to (i) the ICM Projects being ineligible for ICM funding; (ii) failure of Burlington Hydro to disclose its intent to request ICM funding at the time it submitted a request to defer its rebasing beyond the 2020 rate year; and (iii) failure to file a current DSP in support of the ICM request. Burlington Hydro addresses these points in the sections below and replies to the specific concerns raised by intervenors.

[31] Exhibit 1, p. 46
[32] Ibid.
[33] Exhibit 1, pp. 46-51
[34] Appendices I & G

b) The ICM Projects Meet ICM Eligibility Criteria

While OEB Staff agrees that the ICM Projects meet the ICM criteria of materiality, need and prudence, intervenors argue that the ICM Projects do not meet certain ICM criteria and, as such, are not ICM eligible.[35] To support their arguments, intervenors assert that the requested incremental funding is not material, the ICM Projects do not meet materiality thresholds, and the ICM Projects are not discrete or prudent. These arguments are contrary to the evidence on the record.[36]

While SEC accepts that the ICM Projects meet the OEB-defined materiality threshold and the project-specific materiality test, it submits that the revenue requirement for the ICM Projects should be revised to incorporate the new CCA rules implemented by the federal government in Bill C-97.[37] Once revised, the incremental funding falls below the materiality threshold and becomes ineligible for ICM funding. This proposal is contrary to the OEB direction on the issue and should be rejected.[38] In its guidance to utilities relating to changes to tax rules for capital cost allowance ("CCA Rule Changes"), the OEB established a separate sub-account of Account 1592 – PILs and Tax Variances to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates. Given that it is not clear at this time what the appropriate disposition methodology should be, the OEB further directed utilities to record the full revenue requirement impact of any changes in the CCA rules that are not reflected in base rates; and submit this amount for review and disposition at the next cost-based application. Burlington Hydro has adhered to the OEB direction and did not incorporate accelerated CCA into its PILs calculation used to determine the 2020 ICM revenue requirement. Burlington Hydro records any impact resulting from the CCA Rule Changes in its sub-account of Account 1592 - PILS and Tax Variances. Furthermore, the

[35] SEC Submissions, pp. 1-4; VECC Submissions, pp. 3-4, 6; Energy Probe Submissions, pp. 3-7
[36] Ibid.
[37] SEC Submissions, pp. 2-3
[38] Letter from the OEB re Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019.

current IRM application is not a cost-based application and may not fully capture all tax implications. The OEB requires utilities to complete the ICM Module using the cost of capital parameters, capital structure and tax/CCA rates approved in their last rebasing application.[39] It does not require or permit a utility to update these rates to reflect any updates or legislative changes. To be consistent with the OEB's treatment of all rate changes, Burlington Hydro submits that it should not be required to include the impact of the CCA Rule Changes in the calculation of the revenue requirement for its ICM request.

Burlington Hydro agrees with some intervenors' submissions that the OEB has not established a particular percentage for the project-specific materiality threshold; the OEB has generally evaluated the project-specific materiality threshold on a case-by-case basis. The OEB's practice has been to assess each ICM project individually for its significance against the overall capital spending.[40] Burlington Hydro's incremental capital funding requests for the CIS and GIS projects are $2,092,862 and $589,413, respectively.[41] These funding requests represent 19% and 5% of Burlington Hydro's total 2020 capital budget.[42] These are not minor expenditures in comparison to the overall capital budget. For comparison purposes, Burlington Hydro's entire 2020 capital budget for (i) System Renewal and System Service projects is $1.6 million, (ii) Pole Replacement program is $510,000, and (iii) meters to connect new customers is $1 million.[43] The ICM Projects are significant in relation to the overall capital budget and when compared to other projects within that budget, and accordingly, have a significant influence on Burlington Hydro's operation. As such, Burlington Hydro submits that the CIS and GIS satisfy the project-specific materiality threshold.

[39] 2019_Capital_Module_ACM_Model Version 4_20, Tab 6 Rev_Requ_Check
[40] EB-2017-0024, Decision and Order, April 6, 2018, p. 25
[41] SEC-3
[42] Ibid.
[43] Staff-14b, Tables 4 and 5

Most of the parties either do not make any submissions or accept that the ICM Projects are needed. OEB Staff and SEC submit that the ICM Projects are needed and Burlington Hydro has performed its due diligence to select the most cost-effective solution for its customers.[44] However, Energy Probe does not agree with this fact and suggests that Burlington Hydro should have explored other alternatives with respect to the CIS replacement project.[45] Energy Probe ignores the evidence on the issue. As explained in EP-4(c), rather than choosing a more expensive Tier 1 CIS, Burlington Hydro has instead opted for a lower cost Tier 2 CIS that meets all its business requirements and provides the best value to Burlington Hydro's customers. A Tier 1 CIS would have a higher implementation cost and higher maintenance costs which would have been 2.5 to 6 times more expensive than a Tier 2 solution.[46] With respect to suggestions to outsource customer care functions, including the CIS, Burlington Hydro explained that this option is not in the best interest of the utility and its customers. Burlington Hydro wishes to maintain direct contact with its electricity customers as this is essential to effectively manage its customer relationship and maintain service quality and customer satisfaction.[47] As such, this alternative was not considered by Burlington Hydro.

While SEC accepts the GIS-related costs are prudent, it does not accept the CIS-related costs because of changes in project costs since the Application was filed.[48] At the time of the filing, Burlington Hydro provided the best information available. The original estimates did not include all components of the CIS project due to Billing and IT department staff turnover. Throughout the proceeding, Burlington Hydro updated its original cost estimates and provided an explanation that the CIS project costs have increased due to additional funding required for a new reporting platform, application development costs that included coding, hardware

[44] OEB Staff Submissions, pp. 17-20; SEC Submissions, p. 1
[45] Energy Probe Submissions, pp. 6-7
[46] Staff-15
[47] Energy Probe-4 (d)
[48] SEC Submissions pp. 1-2

installation and testing, and hosting fees during the implementation period.[49] The original cost estimates also did not contemplate the requirement for an accelerated cutover of a new integrated Customer Portal. The new portal replaces an outdated portal which is more efficient, customer friendly and reduces ongoing annual maintenance costs.

While OEB Staff supports Burlington Hydro's position that the ICM Projects are discrete and unrelated to recurring annual projects, Energy Probe disagrees and argues that the replacement of IT software is a recurring need for distributors with IT systems and Burlington Hydro does not need ICM funding for that purpose.[50] This argument should be rejected. The CIS and GIS are significant undertakings that cost millions of dollars. These major software systems are not replaced annually, or even every five years. Burlington Hydro's current CIS has been in service for 24 years.[51] The ICM Projects do not form part of any annual capital program nor does Burlington Hydro replace these systems on an annual basis.[52] The requested ICM funding relates specifically to the implementation of Burlington Hydro's new GIS and CIS systems, and, in accordance with the Funding of Incremental Capital policies, the ICM amounts are discrete.

Contrary to Energy Probe's assertion[53], the evidence on the record demonstrates that the CIS and GIS replacements costs were not included in Burlington Hydro's base rates.[54] Burlington Hydro explained that while it has a 2020 budget in relation to the GIS and CIS systems in the amount of $125,000 and $15,000 respectively; these amounts are unrelated to the ICM Projects as they are ongoing capital expenditures required to support the business. These types of ongoing expenditures are not and will not be eliminated as a result of the implementation of a new CIS or GIS. The 2020 GIS budget is related to the integration of the new GIS with the

[49] SEC-4(a)
[50] Energy Probe Submission, p.4
[51] Exhibit 1, pp. 46-51
[52] Ibid.
[53] Energy Probe Submissions, pp. 5-6
[54] Staff-14, Table 7; Energy Probe-1, Table 1

Outage Management System ("OMS") and other software solutions.[55] The 2020 CIS budget is related to systems changes to Burlington Hydro's General Ledger software which operates on the same platform as its customer information system (Daffron).

c) Disclosure of Intent to File an ICM was not Required

Intervenors take issue with the fact that Burlington Hydro did not advise the OEB, at the time it made a request to defer its rebasing beyond the 2020 rate year (the "Deferral Request"), about a future ICM request.[56] Intervenors argue if the OEB was aware of the utility's intent to request ICM funding, it might have denied the Deferral Request and directed Burlington Hydro to file a rebasing application.[57] These arguments and conclusion are unfounded, unjustified and contrary to the evidence on the record.

In support of their assertion, some intervenors rely on the OEB's decision in Oakville Hydro's recent proceeding where the OEB denied very similar, if not identical, arguments brought by the same intervenors.[58] Although, the OEB concluded in that proceeding that a distributor should disclose its intent to apply for an ICM funding as part of the request to defer rebasing, Burlington Hydro submits that it had already filed its Deferral Request and 2020 IRM application by the time the OEB released the direction in question.[59] The OEB issued its decision in EB-2019-0059 on November 14, 2019 while Burlington Hydro filed its Deferral Request on February 20, 2019 and its 2020 IRM application on October 10, 2019; and the OEB issued its Notice of Hearing on November 4, 2019. As such, the arguments implying that Burlington Hydro did not follow the OEB's direction should be rejected.

VECC goes on to say that Burlington Hydro's failure to mention the need for an ICM was misleading because the ICM Projects were either complete or substantially complete prior to the

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[55] Staff-19, Energy Probe-1
[56] SEC Submissions, pp. 4-5; VECC Submissions, pp. 3-4, 6; Energy Probe Submissions, pp. 2-3.
[57] Ibid.
[58] SEC Submissions, p. 4
[59] EB-2019-0059, Decision and Order on Preliminary Question of ICM Funding, November 14, 2019, p. 6.

filing of the Deferral Request.[60] These statements are incorrect. At the time the Deferral Request was made, the CIS project had just commenced and the GIS project had not yet commenced; the CIS project commenced in February 2019[61] and the GIS project commenced in October 2019.[62] While Burlington Hydro had been aware of the need for the ICM Projects at the time the Deferral Request was filed, it did not have sufficient information in relation to the ICM projects to conclude whether the ICM request was warranted.

Furthermore, following the Deferral Request, the OEB initiated the review that included several information requests to determine whether it will require Burlington Hydro's 2020 rates to be set on a cost of service basis. The OEB reviewed Burlington Hydro's financial and non-financial scorecard performance from 2012 to 2017 and concluded that it will not require Burlington Hydro's 2020 rates to be set on a cost of service basis. The OEB further directed the utility to adhere to the process for the Price Cap IR applications for the 2020 rate year.[63] Burlington Hydro has complied with the OEB's direction and filed the current IRM application for 2020 rates.

As discussed above, the OEB's ICM policy was established to address the treatment of a distributor's capital investment needs that arise during a Price Cap IR rate-setting plan and which are incremental to a calculated materiality threshold. Burlington Hydro has capital investment requirements which are incremental to its capital requirements within the context of financial capacities underpinned by existing rates. In light of the foregoing and in accordance with the Funding of Incremental Capital policies, Burlington Hydro included an ICM request as part of its 2020 IRM application. The ICM request complied with the Funding of Incremental Capital policies and *Chapter 3 Filing Requirements* which at that time did not require a utility to

[60] VECC Submissions, p. 3
[61] SEC 4b) BHI_CIS Project Schedule_20200116
[62] SEC 5b) BHI_GIS Project Schedule_20200116
[63] Letter from the OEB to Burlington Hydro re Application for 2020 Electricity Rates, July 5, 2019

advise of a potential ICM request at any time before applying for it. As such, any suggestions that Burlington Hydro intended to "avoid scrutiny" or "mislead" the OEB should be rejected.

SEC expresses its concern with the fact that Burlington Hydro's rates are based on the then default value for working capital of 13% and appears to suggest that Burlington Hydro is over-earning as compared to using the current default value of 7.5%, thereby avoiding the need for incremental capital.[64] This suggestion is unfounded and contrary to the OEB's policies and practices. SEC has calculated an impact to revenue requirement and rate base solely based on changing one assumption – the working capital allowance. One cannot unilaterally change one parameter without changing any others. When Burlington Hydro makes adjustments for increases in all other costs categories, including capital expenditures, its rate base and revenue requirement are expected to be higher, not lower as SEC suggests. Given that the current application is a mechanistic price cap adjustment and not a full rebasing application, a decrease to the working capital allowance cannot and should not be looked at in isolation to draw a conclusion about whether Burlington Hydro is over-recovering revenue and/or does not require the incremental revenue to fund the proposed the ICM projects. Furthermore, Burlington Hydro has demonstrated that it does require the incremental revenue to fund these projects through meeting the ICM eligibility criteria of need and materiality.

d) Burlington Hydro was Not Directed nor was it Required to File a Distribution System Plan

Some intervenors suggest that Burlington Hydro should have filed a DSP in support of its ICM request.[65] Burlington Hydro submits that it was not directed in the past nor required pursuant to the Funding of Incremental Capital policies or the *Filing Requirements* to file a DSP to support its ICM request.

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[64] SEC Submissions, pp. 4-5
[65] VECC Submissions, pp. 5-6

Chapter 5 of the Filing Requirements requires all distributors to file a DSP when filing a cost of service application under a Price Cap IR.[66] Burlington Hydro's 2020 IRM application is not a cost of service application. Section 5.1.3 of the *Chapter 5 Filing Requirements* states "… a distributor that has requested deferral of its rebasing application and received OEB approval may be notified in the approval letter as to the requirement for and timing of a DSP filing. The OEB may also require a DSP to be filed in relation to … an ICM."[67] Burlington Hydro was not notified nor directed to file a DSP as part of its ICM application. In approving the Deferral Request, the OEB stated that "if Burlington Hydro subsequently seeks a further deferral … the OEB will also consider whether the filing of a distribution system plan would be required at that time."[68]

The Applicant also notes that a new DSP was not required and did not preclude the OEB from adjudicating and approving Burlington Hydro's ICM request that was submitted as part of its 2019 IRM application.[69]

[66] Filing Requirements for Electricity Distribution Rate Applications, Chapter 5 – Consolidated Distribution System Plan.
[67] Ibid., Section 5.1.3
[68] Letter from the OEB to Burlington Hydro re Application for 2020 Electricity Rates, July 5, 2019 (emphasis added)
[69] EB-2017-0029, Decision and Order, March 22, 2018

CONCLUSION

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

1. Approval for an Order or Orders approving the Tariff of Rates and Charges set out in the IRM Model filed by OEB Staff as "BHI_2020_IRM-Rate_Generator_Model_01312020" on January 31, 2020.

2. Approval of updated Retail Transmission Service Rates ("RTSRs") set out in the IRM Model filed by OEB Staff as "BHI_2020_IRM-Rate_Generator_Model_01312020" on January 31, 2020.

3. Approval of the Shared Tax Savings amount of $29,787 as originally filed and identified on page 42 of the Application.

4. Approval for the clearance of the balances recorded in certain deferral and variance accounts on an interim basis by means of class-specific rate riders effective May 1, 2020 to April 30, 2021, as originally filed and identified on page 21 of the Application.

5. Approval for the clearance of the balance in its Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") resulting from its Conservation and Demand Management ("CDM") activities as of December 31, 2018 as originally filed and identified on page 35 of the Application.

6. Approval for incremental capital funding of $2,682,275 and associated rate riders effective May 1, 2020 until the next rebasing application as filed in Burlington Hydro's response to OEB Staff Interrogatory Staff-14.[70]

7. Approval to revise the effective end date of its current Rate Rider for Recovery of Incremental Capital Project 1 (2019) to April 30, 2020 as identified on page 56 of the Application.

All of which is respectfully submitted this 14th day of February, 2020.

[70] Staff-14, p. 20