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January 22, 2022

VIA E-MAIL

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi:

**Re: EB-2022-0018 Burlington Hydro Inc. 2023 Z-factor
Final Submissions of 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,

John Lawford

Counsel for VECC

Copy to: Adam Pappas, Director, Regulatory Affairs, Supply Chain & Capital Planning

EB-2022-0018

Burlington Hydro Inc. Application for electricity distribution rates and other charges effective May 1, 2023

Final Submissions of VECC

Burlington Hydro Inc. (BHI) filed an incentive rate-setting mechanism application with the Ontario Energy Board (OEB) on October 11, 2022, under section 78 of the Ontario Energy Board Act, seeking approval for changes to its electricity distribution rates, effective May 1, 2023. BHI is also seeking approval to recover from its customers the costs and carrying charges resulting from the damage caused by a windstorm.

VECC's submissions relate to BHI's Z-factor claim for the windstorm.

Z-factor Claim

BHI seeks recovery of \$198,360 in costs resulting from a wind and thunderstorm on May 21, 2022, as follows:

Category	Amount \$
Operating Costs	\$177,695
Capital Expenditures	\$15,101
Total before Carrying Charges	\$192,795
Carrying Charges	\$5,564
Total Z-Factor Claim	\$198,360

This is the third Z-factor claim filed by BHI. The first was for a December ice storm in 2013 and the second for a windstorm on May 4, 2018.¹

Application	Claimed Amount \$	Approved Amount \$
EB-2018-0021	\$368,487	\$323,245*
EB-2014-0252	\$579,365	\$579,365

BHI notified the OEB of the May 21, 2022 Major Event on July 12, 2022, and notified the OEB of its intention to file a Z-factor application on September 1, 2022.²

¹ * HI revised its Z-factor claim as part of its interrogatories response to exclude overhead burdens in operating expenses included in error

² SBUA-1

As per the 2022 Chapter 3 Filing Requirements, distributors under a Price Cap IR or Annual IR Index rate-setting plan may request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage, referred to as a claim for a "Z-factor" event.³ A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence, as follows:

Criteria	Description
Causation	Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
Materiality	The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
Prudence	The amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

BHI confirms the amounts incurred are incremental costs and directly related to the restoration of service as a result of the May 21 windstorm, and if the windstorm had not occurred, BHI would not have incurred any of these costs.⁴

BHI provided its annual budgeted and actual amounts for OM&A and capital expenditures related to emergency response for the period 2017 to present. In its 2021 Cost of Service, BHI budgeted \$14,000 in OM&A costs and \$0 in capital costs for emergency response costs. BHI incurred in excess of these amounts in emergency response costs which are not included as part of its Z-factor claim.⁵

VECC concurs that all of the costs included in the Z-factor claim are incremental and outside of the base upon which BHI's rates were set.

Materiality

BHI's materiality threshold is \$169,585 which represents 0.5% of its distribution revenue requirement of \$33,917,025, as approved in its 2021 Cost of Service application (EB-2020-0007).⁶

VECC submits BHI's Z-factor claim of \$198,360 exceeds the materiality threshold.

³ Filing Requirements For Electricity Distribution Rate Applications- 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 24, 2022

⁴ Staff-7 (c)

⁵ Staff-6 (b)

⁶ Manager's Summary Page 36

Return on Equity

BHI confirms that its achieved Regulatory Return on Equity (ROE) in the most recently completed fiscal year does not exceed 300 basis points above the deemed ROE embedded in its base. The achieved regulatory ROE for 2021 was 5.84%, which is 2.5% less than the 8.34% approved in its 2021 Cost of Service application (EB-2020-0007).

Prudence

The total incremental operating costs and capital expenditures associated with the restoration of electricity service to BHI's customers during the May 21 windstorm were \$177,695 and \$314,975, respectively. A breakdown of the \$492,669 in storm costs is as follows:

Cost Category	Capital Cost \$	O & M Cost (Regular - Time Labour) \$	O & M Cost (Recorded in Account 1572) \$	Total Cost \$
BHI Labour (Regular)	\$12,859	\$3,047	\$8,404	\$21,263
BHI Labour (Overtime)	\$69,705	\$8,686	\$23,953	\$93,658
Materials	\$34,159	\$6,742	\$3,943	\$38,101
LDC Mutual Aid Costs	\$59,199	\$0	\$20,991	\$80,191
Contracted Services - Line Services	\$127,402	\$0	\$20,290	\$147,692
Contracted Services - Excavation and Tree Removal	\$0	\$0	\$88,845	\$88,845
Other	\$11,650	\$65,780	\$11,269	\$22,919
Total	\$314,975	\$84,255	\$177,695	\$492,669

In support of its application, BHI provided the following information:

- Labour costs were incurred according to previously negotiated agreements;
- BHI relied on alliances and mutual aid agreements to restore power quickly and safely;
- Contractor costs were incurred according to previously negotiated agreements;
- Repairs were made where appropriate and the portions of the system that were rebuilt were constructed on a 'like for like' basis;
- BHI used materials available in Stores and minimized the costs to procure materials on an emergency basis; and
- BHI prioritized and coordinated work to ensure restoration was completed efficiently and power was restored to customers as quickly as possible.⁷

In response to interrogatories, BHI provided the following additional information:

- the Z-factor labour costs did not include payments made to union employees at regular rates of pay for work on pre-scheduled vacation days.⁸
- BHI provided a copy of its Emergency Response Plan and indicates it did not deviate from this Plan.⁹

⁷ Manager's Summary Page 37

⁸ Staff-8 (c)

⁹ Staff-8 (a) & (b)

- BHI utilized its membership in the Ontario Mutual Aid Group (OnMAG) and its alliance agreements with K-Line Line Construction and Black & MacDonald;¹⁰
- BHI paid overtime labour rates to its third-party contractors as the event occurred outside of regular hours;¹¹
- The \$314,975 in capital costs were for the replacement of 20 wood poles due to the storm;¹²
- Overhead burdens in operating expenses are not included in the Z-factor claim.¹³

The storm impacted 24,566 or 35.7% of BHI's customers. BHI indicates it did not receive advance warning of this major event.¹⁴ BHI sought assistance from eleven external parties to restore power. BHI provided a detailed breakdown of all third party invoices.¹⁵

BHI restored service to 90% of affected customers by 9:43 pm on May 21, 2022. Service was restored to the remaining 10% of customers affected by windstorm by May 24, 2022 and all restoration work has been completed.¹⁶

In considering the above, VECC submits BHI acted promptly to restore power.

However, VECC has some concerns with respect to BHI's historical Vegetation Management accomplishments that in VECC's view needs to be taken into consideration by the OEB in determining the amount of storm costs to be recovered by customers.

Vegetation Management Accomplishments

BHI underspent on its Vegetation Management (actuals vs. budget) over the period 2013 to 2017.¹⁷ For the years 2018, 2019 and 2021, BHI underspent on its Tree Trimming activities. In 2021, the year prior to the storm, BHI significantly underspent by \$280,474 or 36.5%.¹⁸

¹⁰ Staff-9 (c)

¹¹ Staff-9 (d)

¹² Staff-11 (c)

¹³ VECC-1 (a)

¹⁴ Page 33

¹⁵ Staff 9 (e)

¹⁶ Staff-11 (a)

¹⁷ EB-2018-0021 VECC IR-14 (d)

¹⁸ Staff-12 (d)

Burlington Hydro Tree Trimming			
Year	Approved	Actual	Variance
2017	\$573,110	\$574,272	\$1,162
2018	\$579,128	\$494,106	-\$85,022
2019	\$586,946	\$527,241	-\$59,705
2020	\$597,805	\$667,962	\$70,157
2021	\$768,502	\$488,028	-\$280,474
Total	\$3,105,491	\$2,751,609	-\$353,882
2022 (Oct YTD)	\$660,592	\$536,917	

BHI divides its service area into 3 areas and 17 zones for the purposes of managing vegetation. BHI indicates the practice of dividing its service area into zones commenced in 2017 to manage costing, scheduling and completion assessment on a more granular basis.¹⁹ An area map showing BHI's Tree Trimming Zones is included as Appendix A.

In 2021, BHI planned to trim Zones 1, 2, 3, 4, 5, and 6. BHI completed 100% of the planned work for Zones 1, 3, 4 and 5. However, for Zones 2 and 6, the planned work was only 50% complete.²⁰ This is important because the May 2022 storm significantly impacted the two Zones with incomplete tree trimming accomplishments: Zone 2 Area C (Lakeshore to Fairview, Appleby to Burloak) and Zone 6 Area B (Lakeshore to Fairview, Walkers to Guelph).

A map of the areas in Burlington impacted by the storm is provided as Appendix B. On overlay of the Tree Trimming Area Map (Appendix A) to the areas impacted by the storm (Appendix B) shows that Tree Trimming Zones 6 and 2 coincide with the areas with a significant portion of the storm outages caused by the May 2022 storm. Historically, the tree trimming work in these zones has not been undertaken as planned.

BHI's management cycle is three years.²¹ Prior to the 50% underachievement in Tree Trimming in 2021 for Zones 2 and 6, BHI reported that only 50% of Zone 6 was accomplished in 2018 during the previous cycle.²²

Given that a large portion of the customer outages overlap with Tree Trimming Zones 6 and 2, that were not maintained as planned, VECC submits the OEB should apply a penalty to BHI's 2022 Z-factor claim. VECC submits the OEB should disallow 50% of the Z-factor costs related to tree trimming/removal expenses and pole replacement as the damage caused by the

¹⁹ EB-2018-0021 VECC IR-14 (a)

²⁰ VECC-4 (c)

²¹ EB-2018-0021 VECC IR-14 (b)

²² EB-2018-0021 VECC IR-14 (c)

windstorm would not have been as extensive had Zones 6 and 2 been maintained as planned in recent years.

In the OEB's Decision and Rate Order for BHI's Z-factor claim for the windstorm that occurred in May 2018, the OEB stated the following: "As this is the second z-factor claim by BHI within five years, the OEB needs assurance that the distributor is updating its risk assessment and planning accordingly, given the weather in its service area."²³ In response to Staff-6 (a), BHI outlines the steps it has taken since the May 2018 windstorm to improve its risk assessment and planning in light of increasing extreme weather events.

This is the third Z-factor claim by BHI within nine years. BHI's plan to address the OEB's comments above does not include a commitment to deliver on its Tree Trimming accomplishments as planned. Given the frequency of storms in BHI's service territory and the subsequent damage, VECC submits a review and commitment to its Tree Trimming Plan should be included as part of its risk assessment and planning going forward.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees.

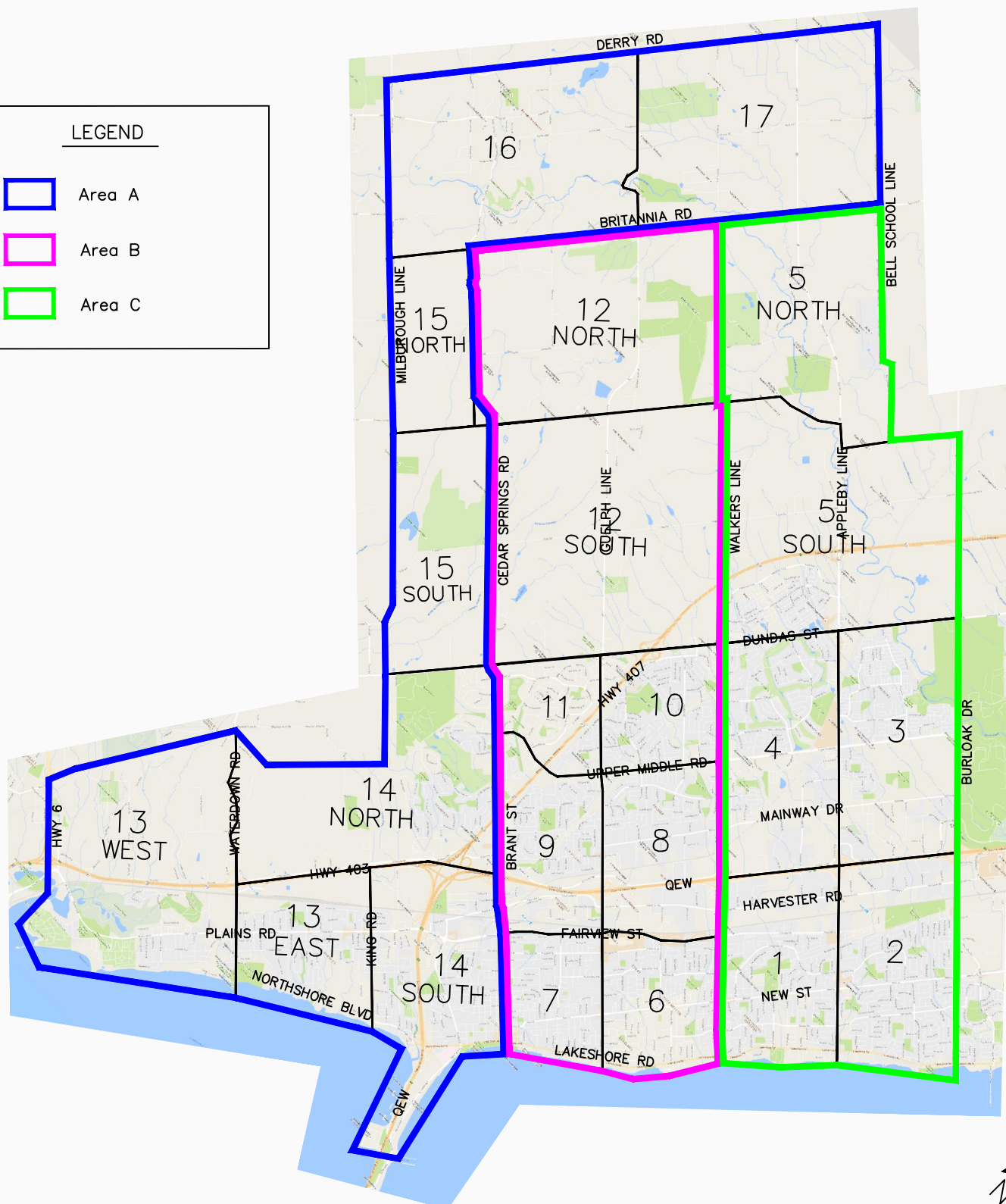
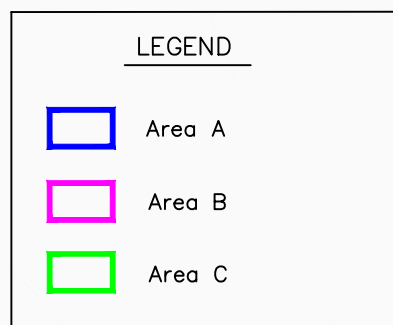
All of which is respectfully submitted this 22nd day of January 2023.

²³ OEB's Decision and Rate Order (EB-2018-0021), p.13

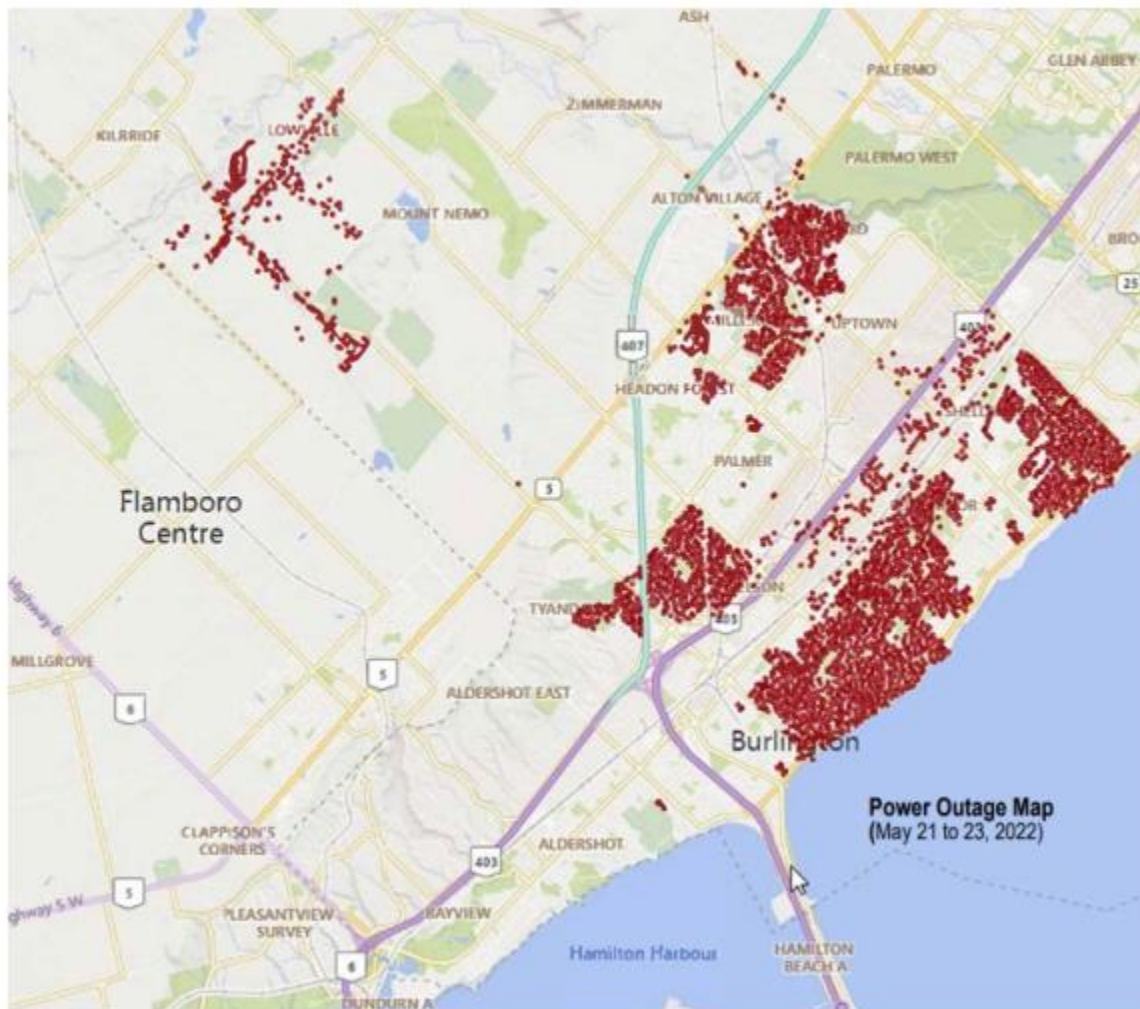
Tree Trimming Area Map



Burlingtonhydro inc.



Appendix B: Areas and Zones Impacted by the Storm¹



¹ VECC-4 (b)