



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

**BY EMAIL**

January 23, 2023

Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Burlington Hydro Inc.  
2023 Distribution Rates Application  
OEB File Number: EB-2022-0018**

---

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1. Burlington Hydro Inc. and all intervenors have been copied on this filing.

Burlington Hydro Inc. is reminded that its reply submission is due on February 6, 2023.

Yours truly,

Narisa Jotiban  
Case Manager

Encl.

cc: All parties in EB-2022-0018



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Burlington Hydro Inc.**

**2023 Distribution Rates Application**

**EB-2022-0018**

**January 23, 2023**

## Introduction

Burlington Hydro Inc. (Burlington Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 11, 2022, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2023.

Consistent with the Chapter 3 Filing Requirements,<sup>1</sup> Burlington Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. OEB staff has updated the 2023 inflation parameters in Burlington Hydro's 2023 Rate Generator Model attached to OEB staff interrogatories and has identified no concerns with the price cap adjustment.

Burlington has also sought OEB approval for its proposed Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) that were computed using 2022 Uniform Transmission Rates (UTRs) in the 2023 Rate Generator Model. OEB staff has no concerns with Burlington Hydro's requested adjustments to its RTSRs, although OEB staff has updated the 2023 Rate Generator Model to reflect the approved 2023 UTRs<sup>2</sup> as part of this submission.<sup>3</sup> Burlington Hydro should confirm the accuracy of the updates as part of its reply submission.

In its application, Burlington Hydro indicated other rates and charges that may require updating subsequent to the submission of its 2023 rate application, as directed by the OEB. OEB staff notes that the Wholesale Market Service Charge (WMSC), and Rural and Remote Rate Protection (RRRP) Charge in the 2023 Rate Generator Model have not been updated to reflect the latest charges effective January 1, 2023.<sup>4</sup> OEB staff has updated the 2023 Rate Generator Model to reflect the 2023 WMSC and RRRP charges as part of this submission.<sup>5</sup> Burlington Hydro should confirm the accuracy of the updates as part of its reply submission.

In this document, OEB staff makes detailed submissions on the following issues:

- Group 1 Deferral and Variance Accounts (DVAs)

---

<sup>1</sup> Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

<sup>2</sup> EB-2022-0250, Decision and Rate Order, December 8, 2022

<sup>3</sup> The UTRs effective January 1, 2023 in tab 11 of the 2023 Rate Generator Model have been updated to \$5.60/kW for Network Service Rate, \$0.92/kW for Line Connection Service Rate, and \$3.10/kW for Transformation Connection Service Rate. In addition, OEB staff has updated the Hydro One Sub-Transmission Rates effective January 1, 2023 in tab 11 of the 2023 Rate Generator Model to \$4.6545/kW for Network Service Rate, \$0.6056/kW for Line Connection Service Rate, \$2.8924/kW for Transformation Connection Service Rate, and \$3.4980/kW for Both Line and Transformation Connection Service Rate.

<sup>4</sup> EB-2022-0269, Decision and Order, December 8, 2022

<sup>5</sup> The regulatory charges effective January 1, 2023 in tab 17 of the 2023 Rate Generator Model have been updated to \$0.0041/kWh for Wholesale Market Service Rate (WMS) – not including CBR and \$0.0007/kWh for Rural or Remote Electricity Rate Protection Charge (RRRP).

- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)
- Z-factor claim – May 2022 wind and thunderstorm

## Group 1 Deferral and Variance Accounts

In its application, Burlington Hydro originally requested to dispose of the balances of Group 1 deferral and variance accounts in the debit amount of \$1,409,641 on an interim basis as at December 31, 2021, including interest to April 30, 2023.<sup>6</sup> In an interrogatory response, Burlington Hydro revised its request to seek approval to dispose these balances on a final basis over 12 months.<sup>7</sup> The components of this balance are shown in Table 1. The Group 1 account balances do not exceed the pre-set threshold of \$0.001/kWh for disposition.<sup>8</sup> In accordance with the letter from the OEB dated July 25, 2014,<sup>9</sup> Burlington Hydro noted that it would like to dispose of the balances in the current proceeding because the disposition amount of \$1,409,641 is material and rate riders are generated for all classes for both the DVA and Global Adjustment (GA) rate riders except the GA rate rider for the Unmetered Scattered Load class, for which there are no non-Regulated Price Plan (RPP) customers.

The OEB most recently approved the disposition of Burlington Hydro's Group 1 account balances on an interim basis, as of December 31, 2020, as part of its 2022 rates proceeding.<sup>10</sup> In that proceeding, the OEB accepted Burlington Hydro's proposal to dispose of balances on an interim basis, given Burlington Hydro's implementation of new processes with its new Customer Information System (CIS) was underway, which might subsequently affect the balances being disposed.<sup>11</sup> The OEB also noted and accepted Burlington Hydro's commitment to making further improvements in 2022 to align its processes with the OEB's Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 (Accounting Guidance).<sup>12</sup>

In an interrogatory response filed in this proceeding, Burlington Hydro confirmed that it had now completed the implementation of the CIS and related alignment with the Accounting Guidance. In that same response, Burlington Hydro confirmed that the implementation and alignment did not result in adjustments to past account balances.<sup>13</sup> Burlington Hydro also confirmed its compliance with the Accounting Guidance.<sup>14</sup>

---

<sup>6</sup> Manager's Summary, pp. 12-13

<sup>7</sup> OEB Staff IR-2a

<sup>8</sup> [The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative \(EDDVAR\)](#), p. 10

<sup>9</sup> [OEB letter](#), July 25, 2014.

<sup>10</sup> EB-2021-0010, Decision and Rate Order, p. 9

<sup>11</sup> *Ibid*

<sup>12</sup> *Ibid* and see also [Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589](#), February 21, 2019.

<sup>13</sup> OEB Staff IR-2b

<sup>14</sup> OEB Staff IR-2c

Table 1: Group 1 DVA Balances

| Account Name  | Account Number | Principal Balance (\$)<br>A | Interest Balance (\$)<br>B | Total Claim (\$)<br>C = A + B |
|---|----------------|-----------------------------|----------------------------|-------------------------------|
| Smart Metering Entity Charge                                  | 1551           | (36,021)                    | (949)                      | (36,970)                      |
| RSVA - Wholesale Market Service Charge                        | 1580           | 1,367,283                   | 48,314                     | 1,415,597                     |
| Variance WMS – Sub-account CBR Class B                        | 1580           | (153,354)                   | (4,851)                    | (158,204)                     |
| RSVA - Retail Transmission Network Charge                     | 1584           | 1,683,963                   | 58,178                     | 1,742,141                     |
| RSVA - Retail Transmission Connection Charge                  | 1586           | 523,060                     | 16,597                     | 539,657                       |
| RSVA - Power  | 1588           | (987,356)                   | (27,947)                   | (1,015,302)                   |
| RSVA - Global Adjustment                                      | 1589           | (1,109,235)                 | (39,226)                   | (1,148,461)                   |
| Disposition and Recovery/Refund of Regulatory Balances (2018) | 1595           | (83,414)                    | 154,598                    | 71,184                        |
| <b>Totals for all Group 1 accounts</b>                        |                | <b>1,204,926</b>            | <b>204,715</b>             | <b>1,409,641</b>              |

### OEB Staff Submission

OEB staff supports Burlington Hydro's request to dispose of its December 31, 2021 Group 1 DVAs on a final basis. OEB staff notes that Burlington Hydro has followed the OEB's direction in its 2022 IRM Decision and Order regarding the implementation of the CIS and compliance with the Accounting Guidance. Although the pre-set disposition threshold of \$0.001/kWh is not met, OEB staff has no concerns with the disposition of Group 1 DVA balances because the disposition debit amount of \$1,409,641 is material and rate riders can be generated for all rate classes except for one rate class with no non-RPP customers. In addition, OEB staff supports the final disposition of the 2020 balances that were interim disposed in the 2022 IRM Decision and Rate Order.

### Lost Revenue Adjustment Mechanism Variance Account

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding LRAMVA balances related to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on eligible program savings.<sup>15</sup>

<sup>15</sup> Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

Burlington Hydro confirmed that it is only requesting approval of its LRAMVA debit balance of \$169,106 related to lost revenues in 2021 at this time. Burlington Hydro indicated that it cannot seek disposition of persisting LRAMVA amounts in 2022 and all future years on a prospective basis until its next rebasing application as there are conservation and demand management (CDM) projects related to the Conservation First Framework extension that have not yet come into service.

### **OEB Staff Submission**

OEB staff supports Burlington Hydro's request to dispose of its 2021 LRAMVA balance of \$169,106 over a one-year period. OEB staff submits that the 2021 LRAMVA balance has been calculated in accordance with the OEB's CDM Guidelines.<sup>16</sup>

OEB staff further submits that Burlington Hydro's request to delay the final disposition of all remaining LRAM-eligible amounts is consistent with the OEB's CDM Guidelines since Burlington Hydro does not have complete information on eligible program savings (its remaining Conservation First Framework projects are not in service). OEB staff is of the view that once all remaining CDM projects have come into service, Burlington Hydro should seek disposition of the remaining LRAM-eligible amounts on a final basis.

Given that all outstanding CDM projects are expected to be in service by the time of filing its next rates application,<sup>17</sup> OEB staff submits that as part of that application Burlington Hydro should be directed to request the disposition of all outstanding LRAM-eligible amounts in 2022, and 2023 and all prospective years until its next rebasing application.

### **Z-Factor Claim**

On May 21, 2022, a powerful wind and thunderstorm occurred over a wide area in southern Ontario, including Burlington Hydro's service area, resulting in damage to parts of its distribution network. Burlington Hydro indicated that 24,566 or 35.7% of its customers were impacted by the storm, and that the utility was able to restore power to 90% of the affected customers within 9.5 hours of the interruption. To aid in restoring power to its customers, Burlington Hydro relied on support through its agreement with the Ontario Mutual Aid Group (OnMAG), its alliance agreements with K-Line Construction and Black & MacDonald, and also engaged several other third-party contractors.<sup>18</sup>

In this application, Burlington Hydro seeks recovery of \$198,360 under the OEB's policy for Z-factor treatment of qualifying costs material related to events or causes that are

---

<sup>16</sup> EB-2021-0106, [Conservation and Demand Management Guidelines for Electricity Distributors](#), December 20, 2021

<sup>17</sup> Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022, p. 16

<sup>18</sup> Manager's Summary, pp. 35-37 and OEB Staff IR-9c

outside of the utility's ability to predict or control. This claimed amount consists of incremental operating, maintenance and administration (OM&A) costs, the revenue requirement associated with capital expenditures, and carrying charges.<sup>19</sup> Burlington Hydro is requesting that the claimed amount be allocated across all rate classes, in proportion to its last OEB-approved revenue requirement by rate classes, and recovered through fixed rate riders based on the most recently reported actual customer counts. Burlington proposed a disposition period of 12 months effective May 1, 2023.<sup>20</sup>

A detailed breakdown of the capital and OM&A costs from the storm is shown in Table 2:<sup>21</sup>

**Table 2: Total Storm Cost Breakdown**

| <b>Cost Category</b>                              | <b>Capital (\$)</b> | <b>OM &amp; A (Regular-Time Labour) (\$)</b> | <b>OM &amp; A (Recorded in Account 1572) (\$)</b> | <b>Total Z-Factor Cost (\$)</b> |
|---|---------------------|--|---|---------------------------------|
|   | (A)                 | (B)  | (C)   | (D) = (A+C)                     |
| Burlington Hydro Labour (Regular)                 | 12,859              | 3,047  | \$8,404   | 21,263                          |
| Burlington Hydro 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              | -  | \$20,991  | 80,191                          |
| Contracted Services - Line Services               | 127,402             | -  | 20,290  | 147,692                         |
| Contracted Services - Excavation and Tree Removal | -                   | -  | \$88,845  | 88,845                          |
| Other   | 11,650              | \$65,780                                     | 11,269  | 22,919                          |
| <b>Total</b>                                      | <b>314,975</b>      | <b>84,255</b>                                | <b>177,695</b>                                    | <b>492,669</b>                  |
| <b>Amount Associated with Z-Factor Claim</b>      | <b>314,975</b>      | <b>-</b>                                     | <b>177,695</b>                                    | <b>-</b>                        |

<sup>19</sup> Manager's Summary, pp. 33-35

<sup>20</sup> Manager's Summary, pp. 37-38

<sup>21</sup> OEB Staff IR-7a

A detailed breakdown of the various components of Z-factor claim is set out in Table 3:<sup>22</sup>

**Table 3: Z-Factor Amount Requested for Recovery**

| Z-Factor Components  | \$             |
|--|----------------|
| OM&A (Recorded in Account 1572)  |                |
| Burlington Hydro Labour (Regular)                                      | 8,404          |
| Burlington Hydro Labour (Overtime)                                     | 23,953         |
| Materials  | 3,943          |
| LDC Mutual Aid Costs   | 20,991         |
| Contracted Services - Line Services                                    | 20,290         |
| Contracted Services - Excavation and Tree Removal                      | 88,845         |
| Other  | 11,269         |
| Revenue Requirement Associated with Capital Expenditures <sup>23</sup> | 15,101         |
| Carrying Charges   | 5,564          |
| <b>Total</b>   | <b>198,360</b> |

### OEB Staff Submission

Based on Burlington Hydro's evidence, OEB staff believes that Burlington Hydro incurred costs that were necessary and prudent to effect service restoration due to storm damage through its agreements with OnMAG and other third-party contractors.<sup>24</sup>

However, OEB staff has concerns with the contracted services – excavation and tree removal costs for the Z-factor claim for 2022. OEB staff notes that budgeted costs for similar vegetation management activities have been approved in Burlington Hydro's revenue requirement from its 2021 cost of service application to rebase rates;<sup>25</sup> these are recovered through approved distribution rates paid by Burlington Hydro's customers. OEB staff notes that Burlington Hydro's actual vegetation management costs in many recent years, including 2021 and 2022 (from January to October) show a material level of underspending from what is funded through approved rates;<sup>26</sup> OEB staff questions whether the ratepayers should be paying for the contracted vegetation management services – excavation and tree removal costs as part of the storm recovery, when Burlington Hydro could fund these costs through the underspend of its regular vegetation management budget; this is further explained in the next section.

<sup>22</sup> OEB Staff IR-7a and Manager's Summary, pp. 35-36

<sup>23</sup> This is the revenue requirement associated with the incremental capital cost of \$314,975 from the May 21, 2022 storm.

<sup>24</sup> [Handbook of Utility Rate Applications](#), October 13, 2016, p. 27 and EB-2007-0673, [Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors](#), September 17, 2008, Appendix B: Amended Filing Guidelines, pp. VII-X

<sup>25</sup> OEB Staff IR-12a

<sup>26</sup> *Ibid*



OEB staff submits that the OEB should not permit the recovery of costs for contracted services for excavation and tree removal costs that Burlington Hydro is seeking for incremental recovery as part of the Z-factor claim.

Z-factors provide for funding to cover costs of unforeseen events outside of a distributor's management control.<sup>27</sup> The OEB has previously indicated that for Z-factor treatment to apply, generally, the cost to the distributor must be material and its causation clear.<sup>28</sup>

In order for amounts to be recoverable by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:

- 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 amounts must have been prudently incurred. 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.<sup>29</sup>

### *Causation*

In its application, Burlington Hydro has submitted the following information with respect to causation:

- This event was outside Burlington Hydro's control. Burlington Hydro did not receive advance warning of this major event since Environment Canada did not issue warnings until that day of the potential for strong winds and thunderstorms. The storm was severe, producing gusts of over 140 km/h, toppling trees and poles, and knocking out power for hundreds of thousands of customers across Ontario. The storm was one of the most severe storms in Burlington Hydro's history.<sup>30</sup>
- In an interrogatory response, Burlington Hydro provided explanations of the activities carried out on May 21, 2022 and the days after in order to restore and mitigate the damages caused by the wind and thunderstorm.<sup>31</sup>

---

<sup>27</sup> EB-2007-0673, [Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#), July 14, 2008, p. 34

<sup>28</sup> *Ibid*, p. 34

<sup>29</sup> *Ibid*, p. 25

<sup>30</sup> Manager's Summary, pp. 34

<sup>31</sup> SBUA IR-4a

- The amounts incurred were directly related to the restoration of service as a result of the May 21, 2022 storm – specifically, if the storm had not occurred, Burlington Hydro would not have incurred any of these costs. The amounts incurred are outside of the base upon which Burlington Hydro’s rates were derived.<sup>32</sup>
- Burlington Hydro has several strategies for mitigating the impact of extreme weather events, however, it could not have foreseen, planned, or budgeted for the storm experienced on May 21, 2022. Therefore, the costs associated with this extreme weather event were not included in the rates approved in Burlington Hydro’s 2021 Cost of Service.<sup>33</sup>
- Burlington Hydro has provided a breakdown of incremental capital and labour costs.<sup>34</sup>
- In its application, Burlington Hydro is requesting a revenue requirement associated with the incremental capital costs incurred directly from the storm damage only for the 2023 rate year.<sup>35</sup>
- Burlington Hydro indicated the pole replacement cost to replace 20 poles during restoration efforts and confirmed that the pole replacement cost due to the storm is excluded from its regular pole replacement program.<sup>36</sup>
- The storm costs are supported by third-party contractor invoices.<sup>37</sup>
- Since the last severe windstorm in May 2018, Burlington Hydro advised that it has taken a number of steps to improve its risk assessment and planning in light of increasing extreme weather events.<sup>38</sup> However, Burlington Hydro has not planned or budgeted for such events beyond emergency response OM&A.<sup>39</sup>
- Table 4 summarizes Burlington Hydro’s OM&A budgeted in rates vs actual related to emergency response. Column A in Table 4 represents OM&A budget amounts related to emergency response that underpin rates from 2017 to the 2022 year to date. Column B shows Burlington Hydro’s reported OM&A spending for Z-factor and column C shows the actual OM&A spending unrelated to the Z-factor claim from 2017 to the 2022 year to date.

---

<sup>32</sup> OEB Staff IR-7b and c

<sup>33</sup> Manager’s Summary, pp. 36-37

<sup>34</sup> OEB Staff IR-7a and 8a

<sup>35</sup> Manager’s Summary, pp. 33-36

<sup>36</sup> OEB Staff IR-11

<sup>37</sup> OEB Staff IR-9e

<sup>38</sup> OEB Staff IR-6a

<sup>39</sup> OEB Staff IR-6b

**Table 4: OM&A Budget vs Actual Related to Emergency Response  
Excluding Carrying Charges (\$) <sup>40</sup>**

| Year                           | Budgeted in Rates | Actual Z-factor | Actual Non Z-factor | Variance       |
|--------------------------------|-------------------|-----------------|---------------------|----------------|
|                                | (A)               | (B)             | (C)                 | (D = B+C-A)    |
| 2017                           | -                 | -               | -                   | -              |
| 2018                           | -                 | 295,115         | 51,531              | 346,646        |
| 2019                           | -                 | -               | 29,301              | 29,301         |
| 2020                           | -                 | -               | -                   | -              |
| 2021 Cost of Service           | 14,000            | -               | -                   | (14,000)       |
| 2022 Oct YTD                   | 12,034            | 177,695         | 84,255              | 249,916        |
| <b>Total 2021-2022 Oct YTD</b> | <b>26,034</b>     | <b>177,695</b>  | <b>84,255</b>       | <b>235,916</b> |

- In an interrogatory response, Burlington Hydro provided a table comparing its annual budgeted and actual vegetation management program from 2017 to 2022 year to date shown in Table 5.

**Table 5: Vegetation Management Budget vs. Actual Expenses (\$) <sup>41</sup>**

| Year                       | Budget           | Actual           | Variance \$      | Variance %  |
|----------------------------|------------------|------------------|------------------|-------------|
|                            | (A)              | (B)              | (C = B-A)        | (D = C/A)   |
| 2017                       | 573,110          | 574,272          | 1,162            | 0%          |
| 2018                       | 579,128          | 494,106          | (85,022)         | -15%        |
| 2019                       | 586,946          | 527,241          | (59,705)         | -10%        |
| 2020                       | 597,805          | 667,962          | 70,157           | 12%         |
| 2021 Cost of Service       | 768,502          | 488,028          | (280,474)        | -36%        |
| 2022 Oct YTD               | 660,592          | 536,917          | (123,675)        | -19%        |
| <b>2021-2022 YTD Total</b> | <b>1,429,094</b> | <b>1,024,945</b> | <b>(404,149)</b> | <b>-28%</b> |

In an interrogatory response, Burlington Hydro advised that only its labour costs, material costs, LDC mutual aid costs, contracted services, and other costs incurred directly from the storm, totaling \$314,975 (Table 2), are included as an incremental capital cost.<sup>42</sup> The revenue requirement of \$15,101<sup>43</sup> associated with \$314,975 is one of the components of the Z-factor claim (Table 3).

<sup>40</sup> OEB Staff-6b

<sup>41</sup> OEB Staff IR-12a

<sup>42</sup> OEB Staff IR-7

<sup>43</sup> Manager's Summary, pp. 35-36

The incremental capital and OM&A costs from the May 21, 2022 storm are shown by the breakdown of all Burlington Hydro's internal labour costs by category and the breakdown of the invoices by category from mutual aid agreements and other third-party contractors that assisted in the restoration effort.<sup>44</sup> OEB staff notes that the breakdown of incremental capital and OM&A costs provided reconcile with the capital and labour cost components of the Z-factor claim.

With regards to Burlington Hydro's OM&A budgeted in rates vs actual costs related to emergency response shown in Table 4, OEB staff notes that the budgeted OM&A in rates for 2022 in Column A has been adjusted with the 2022 price cap parameters (inflation and stretch factor) following its 2021 rebasing year and prorated to October 2022. For the 2022 year to date, the amount of \$12,034 in column A is the OM&A budget for emergency response budgeted for and recovered in base distribution 2022 rates; this amount is lower than Burlington Hydro's actual OM&A spending of \$84,255 for emergency response unrelated to the Z-factor claim (column C). In addition to the OM&A actual spending for non-Z-factor in the 2022 year to date in column C, Table 5 shows that Burlington Hydro incurred the OM&A cost of \$177,695 for Z-factor in the 2022 year to date (column B). OEB staff notes that, since Burlington Hydro has experienced less than 0.5% residential customer growth per annum since 2019, customer and demand growth does not have a material impact on the revenue requirement, and the budgeted expenses that make up the revenue requirement, recovered through rates that have been adjusted for inflation and productivity. Overall, the information in Table 4 demonstrates that the actual OM&A cost from the Z-factor claim of \$177,695 in 2022 is outside of the budget underpinning rates for emergency response.

From Table 5, the approved vegetation management budget in the 2021 rebasing year has shown a substantial increase of 29% compared to 2020 (\$768,502 in 2021 vs. \$597,805 in 2020). Similar to OM&A budget for emergency response, OEB staff notes that Burlington Hydro has applied the 2022 price cap parameters (inflation and stretch factor) to its vegetation management budget in 2022 in column A following its 2021 rebasing year and prorated it to October 2022. From 2021 to October 2022, the actual vegetation management expense is \$404,149 (or 28%) lower than the budget underpinning rates. For 2022, OEB staff calculated the full year of vegetation management budget to be \$792,710<sup>45</sup>; this then translates as \$660,592 for the budget from January to October.<sup>46</sup> Given the underspend of (\$123,675) shown in Table 5 from January to October 2022, OEB staff considers it unlikely that this underspend would have materially changed in the remaining two months (November-December) of last year. This view is supported by the fact that in 2021 there was an underspend on

---

<sup>44</sup> OEB Staff IR-7a, 8a and 9e

<sup>45</sup> \$792,710 is calculated as the 2021 approved vegetation management budget escalated by the price cap adjustment approved for Burlington Hydro's 2022 rates in its EB-2021-0010 application.

<sup>46</sup> \$660,592 is 10/12 (January-October) of the \$792,710 from the 2022 vegetation management budget,

vegetation management by 36%.

Burlington Hydro was approved for a significant increase in its vegetation management budget for the 2021 cost of service year, however, it has shown years of underspending in vegetation management since 2018 (Table 5), and, in particular, materially underspent on vegetation management in 2021 despite seeking and being approved a material increase in its 2021 rebasing application. Further, Table 5 also documents that Burlington Hydro's vegetation management costs for the first ten months of 2022 also underspend the budgeted amounts. OEB staff believes that Burlington Hydro incurred necessary prudent costs from the mutual aid assistance from other utilities and third-party contractors due to the wind and thunderstorm. However, OEB staff is concerned that the utility's ratepayers are overpaying for vegetation management costs beyond what Burlington Hydro has actually incurred in 2022 and other recent years, and where now the utility is seeking similar costs because they were directly incurred as part of the storm restoration.

Utilities operating under incentive rate-adjustment mechanisms have some flexibility and are expected to manage their operations and cost management. OEB staff is of view that it may assist the OEB panel if Burlington Hydro provided further explanation to clarify its OM&A spend in its reply submission.

OEB staff submits that the vegetation management costs of the Z-factor claim, totalling \$88,845 (Table 3), should be disallowed. Burlington Hydro requested and was approved a material increase in vegetation management expenses in the 2021 cost of service application, but has documented on the record that it has materially underspent the vegetation management budget, as funded through distribution rates paid by ratepayers in 2021 and up to October 2022. Therefore, in OEB staff's view, Burlington Hydro's customers are paying more for vegetation management services through rates than the utility is needing to spend for normal vegetation management service. All else being equal, the excess goes to the benefit of its shareholders. While OEB staff recognizes that there would have been storm-related vegetation management costs, OEB submits that these costs can and should be accommodated through what is funded through distribution rates, and there does not need to be an incremental recovery through a Z-factor rate rider.

Overall, OEB staff submits that Burlington Hydro has demonstrated that the amounts sought for recovery are directly related to the storm. OEB staff submits that the proposed Z-factor claim, with the exception of the contracted services - excavation and tree removal, are outside of the cost base upon which Burlington Hydro's rates were set. For the reasons documented above, OEB staff submits that all the costs for contracted services - excavation and tree removal incurred during the storm should not be recoverable through the Z-factor claim. Since Burlington Hydro's actual vegetation management costs (outside of storm damage claims) are materially below the budgeted amounts funded by the ratepayers through approved distribution rates in many recent

years, OEB submits that Burlington Hydro could redirect a portion of its vegetation management budget for 2022 to cover the cost of similar vegetation management activities which is the contracted service cost of excavation and tree removal of the Z-factor claim.

### *Materiality*

The OEB has previously indicated that the materiality threshold for a Z-factor claim is 0.5% of the revenue requirement for a distributor with a revenue requirement greater than \$10 million and less than or equal to \$200 million.<sup>47</sup>

Burlington Hydro has an approved revenue requirement of \$33,917,025 from its 2021 Cost of Service application,<sup>48</sup> which results in a materiality threshold of \$169,585. The amount of Burlington applied for Z-factor claim is above that threshold and, therefore, considered material. OEB staff notes that this may change depending on the OEB's determinations with respect to the concerns expressed by OEB staff in this submission on the cost claim for the contracted services - excavation and tree removal.

### *Prudence*

In its application, Burlington Hydro has provided the following comments with respect to prudence:<sup>49</sup>

- Labour costs were incurred according to previously negotiated agreements.
- Burlington Hydro 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.
- Burlington Hydro used materials available in stores and minimized the costs to procure materials on an emergency basis.
- Burlington Hydro prioritized and coordinated work to ensure restoration was completed efficiently and power was restored to customers as quickly as possible.
- Burlington Hydro has followed its Emergency Response Plan.<sup>50</sup>

OEB staff submits that Burlington Hydro acted prudently and promptly to secure assistance to restore power quickly and safely and contractor costs were incurred according to previously negotiated agreements.

---

<sup>47</sup> [Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors](#), September 17, 2008, Appendix B: Amended Filing Guidelines, p. VIII

<sup>48</sup> EB-2020-0007

<sup>49</sup> Manager's Summary, p. 37

<sup>50</sup> OEB Staff IR-9b and SBUA IR-7a

In summary, based on its review of the evidence, OEB staff submits that the criteria of causation, materiality and prudence are met. Burlington Hydro has provided evidence to support its Z-factor claim. However, based on the reasons that OEB staff discussed in the previous section, OEB staff submits that all the contracted services – excavation and tree removal cost for the Z-factor claim should not be recoverable.

OEB staff further acknowledges that Burlington Hydro is requesting the revenue requirement associated with the incremental capital spending only for the 2023 rate year. This is consistent with the OEB's Decision on Canadian Niagara Power Inc. (CNPI)'s prior Z-factor claim for its 2021 rates.<sup>51</sup>

### *Allocation and Rate Design*

In its application, Burlington Hydro states that consistent with the OEB's Decision on its prior Z-factor claim for 2019 rates,<sup>52</sup> it has allocated the costs associated with the windstorm to all rate classes, on the basis of its last approved distribution revenue requirement from its 2021 cost of service. Burlington Hydro is requesting that the total Z-factor amount of \$198,360 be recovered through fixed rate riders, over a 12-month period. Burlington Hydro is proposing to use the number of customers as of December 31, 2021, as submitted in its 2021 Record-keeping and Reporting Requirements (RRR) filing, as the billing determinant to calculate rate riders.

Consistent with the OEB's Decision on Burlington Hydro's prior Z-factor claim for its 2019 rates<sup>53</sup> and the OEB's Decision on CNPI's prior Z-factor claim for its 2021 rates,<sup>54</sup> OEB staff submits that Burlington Hydro's proposal to allocate the costs associated with the wind and thunderstorm on the basis of distribution revenue and the 2021 filed customer numbers in the RRR filings as the billing determinant is reasonable, as is its request for a 12-month recovery period.

~All of which is respectfully submitted~

---

<sup>51</sup> EB-2022-0019, Decision and Rate Order, December 8, 2022

<sup>52</sup> EB-2018-0021, Decision and Rate Order, March 28, 2019, pp. 13-14

<sup>53</sup> *Ibid*

<sup>54</sup> EB-2022-0019, Decision and Rate Order, December 8, 2022