

**EB-2024-0010**

**Burlington Hydro Inc.**

**Application for electricity distribution rates and other charges  
effective January 1, 2025**

**VECC Submissions November 1, 2024**

Burlington Hydro Inc. (Burlington Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 15, 2024, under section 78 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B)*, seeking approval for changes to its electricity distribution rates to be effective January 1, 2025. Burlington Hydro also applied for incremental capital funding for the relocation of electrical distribution assets on Dundas Street due to road widening work.

VECC submissions relate to Burlington Hydro’s incremental capital funding request.

**Incremental Capital Module**

Burlington Hydro is seeking approval for incremental capital funding in the amount of \$5,120,792 (updated from \$5,357,809)<sup>1</sup> for an externally driven and non-discretionary System Access project on Dundas Street with total net project costs of \$5,563,693 as detailed below.

The project relates to relocating distribution assets due to road widening work, as requested by Halton Region, the road authority under the Public Service Work on Highway Act (“PSWHA”). Burlington Hydro has not filed any requests for ICM funding for road widening projects prior to this application.<sup>2</sup> The total incremental annual revenue requirement associated with the ICM request is \$151,229. Burlington Hydro confirmed the project start date is January 1, 2025, and the in-service date is December 31, 2025.<sup>3</sup>

| <b>Project Description</b>                                    | <b>Gross</b>        | <b>Contributed Capital</b> | <b>Net</b>         |
|---|---------------------|----------------------------|--------------------|
| Dundas Street Road Widening – Guelph Line to Kerns Road       | \$8,055,103         | \$3,400,523                | \$4,654,580        |
| Dundas Street Road Widening – Northampton Blvd to Guelph Line | \$2,023,992         | \$1,114,879                | 909,113            |
| <b>Total</b>  | <b>\$10,079,095</b> | <b>\$4,515,402</b>         | <b>\$5,563,693</b> |

<sup>1</sup> Staff-9

<sup>2</sup> VECC-1

<sup>3</sup> VECC-3 (c)

## ICM Criteria

In order to qualify for ICM funding, a distributor must satisfy the OEB's eligibility criteria of materiality, need and prudence as follows:<sup>4</sup>

|             |  |
|-------------|--|
| Materiality | <p>A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold.</p> <p>Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.</p> <p>Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.</p> |
| Need        | <p>The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.</p>  |
| Prudence    | <p>The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.</p>  |

### Materiality

Burlington Hydro calculated its materiality threshold capital expenditure value as \$11,771,200. Based on an updated 2025 capital forecast of \$16,891,993, which Burlington Hydro confirms includes the requested ICM project, the maximum eligible incremental capital is \$5,120,792.<sup>5</sup>

| Description                                 | 2025               |
|---|--------------------|
| Capital Forecast                            | \$16,891,993       |
| Less: Materiality Threshold                 | \$11,771,200       |
| <b>Maximum Eligible Incremental Capital</b> | <b>\$5,120,792</b> |

<sup>4</sup> OEB Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p.17

<sup>5</sup> Staff-13

VECC submits Burlington Hydro has met the Materiality criterion:

- Burlington Hydro's 2025 capital forecast exceeds the OEB-defined materiality threshold.
- The total net project cost for the ICM projects is \$5,563,693 of which \$5,120,79 is eligible for an ICM. Burlington Hydro is only seeking ICM funding to the maximum eligible incremental capital amount of \$5,120,792.
- The cost of the Dundas Street Road Widening Project represents 33% of the 2025 capital budget,<sup>6</sup> and will clearly have a significant influence on the operation of Burlington Hydro.

## **Need**

### Means Test

If a distributor's most recently available regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then funding for any incremental capital project would not be allowed.

Burlington Hydro's 2023 actual ROE was 8.11%, which is less than the 8.34% approved in its 2021 Cost of Service application (EB-2020-0007).<sup>7</sup> Burlington Hydro meets the Means Test. Burlington Hydro's ROE forecasts for 2024 and 2025 are lower at approximately 7% and 5% respectively.<sup>8</sup>

### ICM Amount Related to Claimed Driver

The incremental capital being requested by Burlington Hydro is directly related to the cost of the Dundas Street Road Widening project, from Guelph Line to Kerns Road and from Northampton Boulevard to Guelph Line, which is a discrete externally driven and non-discretionary road widening project.

### Outside of Base Rates

Burlington Hydro indicates the 2025 Dundas Street ICM road widening project (Guelph to Kerns Road; Northampton Boulevard to Guelph Line) was not included in the capital expenditures in Burlington Hydro's 2021 Cost of Service Application (EB-2020-0007) and as such is not funded through existing rates.<sup>9</sup>

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<sup>6</sup>  $\$5,563,693 / \$16,891,993 = 33\%$

<sup>7</sup> Exhibit 1 p. 26

<sup>8</sup> VECC-2

<sup>9</sup> Exhibit 1 p. 26

Although, the specific project locations were not included in the 2021 capital forecast that underpins base rates, the 2021 net capital forecast approved by the OEB of \$13,490,133 included a net base budget for road widening projects: \$3,035,948 for the Dundas St Road Widening Project (Walkers Line to Appleby Line) and \$1,500,000 for Waterdown Road Widening Project<sup>10</sup> for a net total of \$4,535,948 that was included in the calculation of base rates. VECC submits this approved road widening funding in base rates needs to be taken into account when determining the appropriate ICM amount for 2025.

As part of the Settlement Proposal in Burlington Hydro's 2021 Cost of Service application, the Parties agreed to establish two separate asymmetrical capital variance accounts for the Dundas Street Road Widening Project (Walkers Line to Appleby Line) and the Waterdown Road Widening Project to record the revenue requirement due to variances between the 2021 budgeted and actual net capital additions in the 2021 Test Year and the subsequent IRM period for each project. For each project, if the budgeted net capital additions in the 2021 Test Year exceed actual net capital additions, Burlington Hydro will make an entry in the applicable variance account in the 2021 Test Year, for the revenue requirement impact associated with the difference, representing a refund to ratepayers. For the purposes of settlement only, Burlington Hydro will also record this revenue requirement difference in each subsequent rate year until rebasing, as if that variance was never included in 2021 base rates. Specifically, for each rate year from 2022 until its next rebasing application, Burlington will make further entries into the applicable variance account, equal to the revenue requirement impact in the 2021 Test Year, escalated annually by the OEB Price Cap IR annual adjustment (Inflation minus X-factor). If the actual net capital additions in the 2021 Test Year exceed budgeted net capital additions, no entry will be made to the variance account.<sup>11</sup> The balance of the account will be disposed at BHI's next rebasing application.

The 2021 Dundas Street Road Widening Project (Walkers Line to Appleby Line) Project was not completed in 2021 or subsequent years because the project was delayed by the road authority.<sup>12</sup> As a result, the revenue requirement impact of not proceeding with the project will be returned to ratepayers at rebasing as though the variance was never included in base rates.

The Waterdown Road Widening project proceeded but at a higher cost due to an additional scope of work identified during project construction, which was partially funded by the road authority.<sup>13</sup> No entry will be made to the variance account for net capital additions in the 2021 Test Year that exceed budgeted net capital additions.

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<sup>10</sup> EB-2020-0007 Appendix 2-AA (Settlement March 17, 2021)

<sup>11</sup> EB-2020-0007 Settlement Proposal Page 41

<sup>12</sup> VECC-4 (f)

<sup>13</sup> Exhibit 1 p.29

Burlington Hydro's 2025 forecast capital budget does not include any other road widening projects except for the Dundas Street Road Widening ICM project (Guelph Line to Kerns Road and Northampton to Guelph Line) totaling \$10,079,095 (\$5,563,693 net).<sup>14</sup>

In VECC's view a portion of the net project costs of \$5,563,693 are not outside of the base upon which the rates were derived. VECC submits the OEB should reduce the incremental capital request by \$1,500,000 to account for the amount in 2021 base rates for road widening projects that will not be refunded to customers.

### Prudence

The evidence indicates Burlington Hydro must relocate approximately 164 poles (and associated hardware, cable and wire) and 21 transformers. The scope of work includes the installation of new poles, the transfer of conductors to the new poles, the removal of old poles in the overhead portion, and the relocation/installation of underground infrastructure.<sup>15</sup>

In response to VECC-7 and Staff-17, Burlington Hydro confirmed that of the 164 poles and 21 transformers, four poles and 1 transformer are in poor condition. VECC agrees with OEB Staff that the ICM should be reduced by approximately 4% (\$197,757) to reflect the estimated value of replacing the four poles and one transformer identified as being in poor condition<sup>16</sup>, as such costs should be accounted for in Burlington Hydro's annual pole and transformer replacement programs under System Renewal.

### Cost estimate - Comparable Projects

Burlington Hydro indicates it considered factors such as road authority design timelines, material cost, material lead times, and labour and equipment cost from three road widening projects<sup>17</sup> in developing the forecast for the 2025 ICM project.<sup>18</sup>

VECC asked interrogatories<sup>19</sup> to better understand the variance in estimated \$/km of overhead and underground work for the ICM project in this application compared to the three previous comparable projects.

Table 1 shows the unit cost per circuit km for overhead and underground for the Waterdown Road Widening project which was included in the 2021 capital forecast. Table 2 shows the forecast cost for the ICM project based on the unit costs for the Waterdown Road Widening project provided in Table 1.

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<sup>14</sup> Exhibit 1 p.29

<sup>15</sup> Appendix B p. 1

<sup>16</sup> OEB Staff Submission 20241101 p. 6-7

<sup>17</sup> Dundas St Road Widening (Walkers Line to Appleby Line); Dundas St Road Widening (Appleby line to Tremaine); Waterdown Road Widening

<sup>18</sup> VECC-4 (k)

<sup>19</sup> VECC-4, VECC-7

Table 1: Previous Project Cost Estimate/Circuit km - Waterdown Road Widening

| Previous Project Description | Gross Capital | Circuit km OH <sup>20</sup> | \$/km OH <sup>21</sup> | Circuit km UG <sup>22</sup> | \$/km UG  |
|------------------------------|---------------|-----------------------------|------------------------|-----------------------------|-----------|
| Waterdown Road Widening      | \$3,500,000   | 12                          | \$201,030              | 6                           | \$181,274 |

Table 2: ICM Cost Estimate Based on Waterdown Road Widening Project Unit Costs/km as per Table 1

| 2025 ICM Project Description Compared to Dundas Street        | Circuit km OH | Forecast OH \$     | Circuit km UG | Forecast UG \$   | Total              | ICM Request         |
|---|---------------|--------------------|---------------|------------------|--------------------|---------------------|
| Dundas Street Road Widening – Guelph Line to Kerns Road       | 23            | \$4,623,679        | 1             | \$181,274        | \$4,804,953        | \$8,055,103         |
| Dundas Street Road Widening – Northampton Blvd to Guelph Line | 20            | \$4,020,590        | 4             | \$725,097        | \$4,745,687        | \$2,023,992         |
| <b>Total</b>  | <b>43</b>     | <b>\$8,644,269</b> | <b>5</b>      | <b>\$906,371</b> | <b>\$9,550,639</b> | <b>\$10,079,095</b> |

The data shows the requested ICM project cost is slightly higher than the estimate using unit costs for overhead and underground work from the comparable Waterdown Road Widening project estimate. However, the split in costs between the two sections of the project is significantly different which is concerning. It's unclear from the evidence how Burlington Hydro derived the estimates in the requested ICM for each section and why the section with 23 km in overhead work and 1 km of underground is three times more than the section with 20 km of overhead and 4 km of underground.

OEB Staff is requesting a further 3% (\$160,692) reduction in the ICM amount due to reflect the lack of prudence in the cost estimate process and the resulting requested costs.<sup>23</sup>

VECC is concerned with the cost estimate provided by Burlington Hydro and supports a reduction in the requested ICM. VECC supports OEB Staff's 3% reduction.

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<sup>20</sup> VECC-4 (c)

<sup>21</sup> VECC-4 (d)

<sup>22</sup> VECC-4 (c)

<sup>23</sup> Ibid. p. 10

## Conclusion

In considering the above VECC is requesting a total reduction of \$1,858,449 to the requested ICM based on the following:

- \$1,500,000 – amounts not outside of base rates
  - \$197,757 - replacement of poor condition assets (4 poles & 1 transformer) funded through annual replacement programs
  - \$160,692 - lack of prudence in the cost estimate process
- \$1,858,449**