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

BY EMAIL

September 26, 2025

Mr. Ritchie Murray
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Burlington Hydro Inc.
2026 Cost of Servicer Application
OEB File Number: EB-2025-0051

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 2.

Yours truly,

Original Signed By

Petar Prazic
Digitally signed by Petar Prazic
Date: 2025.09.26 16:48:59 -04'00'

Petar Prazic
Applications Department

Encl.

cc: All parties in EB-2025-0051

ONTARIO ENERGY BOARD

OEB Staff Submission

Burlington Hydro Inc.

2026 Cost of Service Application

EB-2025-0051

September 26, 2025

1. Introduction

This is OEB staff's submission on the settlement proposal filed by Burlington Hydro Inc. (Burlington Hydro) related to its application for January 1, 2026 electricity distribution rates (Application). The settlement proposal represents a complete settlement on all issues on the OEB-approved issues list.

The settlement proposal was arrived at during a settlement conference held between August 11-14, 2025. The parties to the settlement proposal include Burlington Hydro and the following approved intervenors (collectively, the Parties):

- Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC)
- Consumers Council of Canada (CCC)
- Distributed Resource Coalition (DRC)
- Environmental Defence
- Pollution Probe
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers Coalition (VECC)

Enbridge Gas Inc. is also an intervenor but did not attend and was not a party to the settlement. OEB staff attended the settlement conference; however, it was not a party to the settlement proposal.

If the settlement proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see a monthly distribution charge increase of $3.76 (2.82%) before taxes and Ontario Electricity Rebate.

2. Overview

OEB staff submits that the settlement proposal is in the public interest and the accompanying explanation and rationale is adequate to support the settlement proposal. OEB staff further submits that the settlement proposal would result in just and reasonable rates for the customers of Burlington Hydro.

OEB staff's position was developed in consideration of the objectives of the Renewed Regulatory Framework[1] (RRF), the Handbook for Utility Rate Applications,[2] applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations.

This submission provides reasons for OEB staff's position by commenting the issues as they appear on the OEB-approved issues list, as shown below.[3]

- Issue 1: Capital Spending and Rate Base
- Issue 2: Operating, Maintenance and Administration (OM&A)
- Issue 3: Cost of Capital, PILs, and Revenue Requirement
- Issue 4: Load Forecast
- Issue 5: Cost Allocation, Rate Design, and Other Charges
- Issue 6: Deferral and Variance Accounts
- Issue 7: Other

[1] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[2] *Handbook for Utility Rate Applications*, October 13, 2016
[3] EB-2025-0051: OEB Approved Issues List

3. OEB Staff Submission on the Issues

OEB staff makes the following submissions on the issues:

Issues 1: Capital Spending and Rate Base

1.1 Are the proposed capital expenditures and in-service additions appropriate?

OEB staff supports the reduction in capital expenditures and in-service additions agreed to by the Parties in the Settlement Proposal to reduce the cost impact for customers.

The Parties agreed to reduce Burlington Hydro's proposed 2026 net in-service additions by $3.25M (13%) from $24,870,805 to $21,620,805. This reduction includes $1.25M from investments outside the System Access category and $2M from System Access investments, subject to treatment under the System Access Variance Account.

The Parties agreed to establish the System Access Variance Account to track the revenue requirement impact of differences between actual and forecasted 2026 System Access capital additions, net of capital contributions. The Settlement Proposal notes that the account will be asymmetrical, such that (i) the maximum amount of additional 2026 System Access capital additions used to calculate the revenue requirement recorded in the account will be limited to $2M above the baseline, reflecting Burlington Hydro's forecast budget in the application, while (ii) all the revenue requirement impact of the aggregate amounts of actual 2026 System Access capital additions that are less than the baseline will be fully recorded in the account.[4]

Furthermore, the Settlement Proposal notes that the Parties stated that the proposed level of spending is sufficient to maintain a safe and reliable distribution system and facilitate access for new connections and service upgrades.[5]

OEB staff supports the establishment of the proposed System Access Variance Account. OEB staff notes that Burlington Hydro's proposed 2026 System Access budget is largely driven by third-party infrastructure projects, such as the Dundas Street Road Widening project.[6] The pre-filed evidence states that this project has historically faced unplanned costs and delays due to design and scheduling changes requested by the road authority.[7] OEB staff submits that the creation of this account appropriately reflects the financial impacts of external factors that may be above the baseline net capital costs for System Access costs capped at $2M,[8] while also ensuring that customers are not

[4] Settlement Proposal, p. 11.
[5] Settlement Proposal, p. 13.
[6] Chapter 2 Appendices, Tab 2AA – Capital Projects.
[7] Exhibit 2, pp. 112-119.
[8] Settlement Proposal, p. 10.

overpaying when actual costs are lower than forecasted.

1.2 Are the proposed rate base and depreciation amounts appropriate?

OEB staff supports the proposed rate base and depreciation amounts which have been calculated in accordance with the agreements reached through the settlement process.

The Parties agreed to a $2M reduction in Burlington Hydro's opening 2026 rate base in addition to the $3.25M reduction to the 2026 Test Year capital in-service additions.[9] Together, these adjustments represent a total reduction of approximately 1.3% to the 2026 rate base. In addition, the Parties agreed to increase the opening 2026 accumulated depreciation for USoA 1611 by $1.37M to reflect a correction to depreciation rate for GIS and CIS assets (adjusted from 10% to 20% for 2022-2025). This corrects the depreciation for GIS and CIS assets based on the OEB approved 2021 rates.

OEB staff submits that the proposed adjustments to Burlington Hydro's 2026 rate base and depreciation are reasonable.

Accumulated Depreciation - UsoA 1611 Computer Software

The Parties agreed to increase the opening 2026 accumulated depreciation for UsoA 1611 Computer Software by $1,372,768.

In the application[10], Burlington Hydro states that there was an error of USoA 1611 service life in last COS[11]: the 5-year service life of GIS and CIS assets in this account approved in last COS should have been 10 years which is the actual useful lives for these assets[12].

In response to the clarification question[13], Burlington Hydro provides the impact of this error on the test year's revenue requirement: the test year's revenue requirement in proposed rates is $371,425 higher than the revenue requirement had the assets in this account been depreciated over a 5-year useful life instead of 10-year from 2022-2025.

OEB staff submits that the increase of 2026 opening accumulated depreciation is appropriate. OEB staff is of the view that for the rates purpose, a 20% depreciation rate (5-year useful life) for USoA 1611 approved in Burlington Hydro's last COS should be applied over the rate term from 2021 to 2025. This adjustment correctly reflects in the 2026 opening rate base that Burlington Hydro had continued to depreciate the CIS and

[9] Settlement Proposal, pp. 14-15
[10] EB-2025-0051, Exhibit 2, Section 2.4.1-Depreciation/Amortization Policy, page 27

[11] EB-2020-0007
[12] EB-2025-0051, Interrogatory Response, 2-staff-28 (a), page 74
[13] OEB Staff Clarification Questions, OEB Staff-CQ-100

GIS assets, as approved in its 2021 Cost of Service, using a 20% depreciation rate (5-year useful life) between 2022 and 2025.

1.3 Is the addition of previously approved Incremental Capital Module project assets to rate base appropriate?

In the Settlement Proposal, the Parties agreed with the addition of the previously approved Incremental Capital Module (ICM) assets to Burlington Hydro's rate base, subject to the disallowance of $160,692 (approximately 3%) from the OEB's Decision and Order[14] from Burlington Hydro's 2025 IRM application, which is included in the $2M reduction to opening rate base.[15]

As part of Burlington Hydro's 2025 IRM application,[16] the OEB approved $4,762,343 in ICM funding for the relocation of distribution assets associated with the Dundas Street Road Widening project.[17]

In the application, Burlington Hydro stated that this project was expected to be completed by the end of 2025 and as such incorporated these assets into its rate base calculations and 2026 Fixed Asset Continuity Schedule.[18]

In its interrogatory responses, Burlington Hydro stated that the Northampton Boulevard to Guelph Line section of the Dundas Street Road Widening project is now forecasted to be in service in 2026 rather than 2025,[19] and explained that the project delay was a result of modifications made by the road authority.[20] Burlington Hydro stated that despite the revised timeline, the scope of work remain unchanged.[21] Furthermore, Burlington Hydro confirmed that it will determine any potential credits owing to customers regarding the 2025 ICM project when 2025 actual results are available.[22]

OEB staff is of the view that the delay is reasonable and outside of Burlington Hydro's control. As the scope of the ICM project remains unchanged with what was approved, OEB staff does not have concerns with the in-service date.

OEB staff submits that the $160,692 disallowance is reasonable as it aligns with OEB's recent Decision and Order.

Issue 2: OM&A

[14] EB-2024-0010, Decision and Order, December 17, 2024, p. 27.
[15] Settlement Proposal, p. 15.
[16] EB-2024-0010.
[17] Section of Dundas Street from Guelph Line to Kerns Road and from Northampton Boulevard to Guelph Line.
[18] Exhibit 2, p. 44.
[19] 2-Staff-19 a).
[20] Staff-98 a).
[21] Staff-98 b).
[22] Staff-98 f).

2.1 Are the proposed OM&A expenditures appropriate?

OEB staff considers the agreement reached by the Parties with respect to 2026 OM&A expenses reasonable and appropriate.

Burlington Hydro applied for a $8,912,701 increase to OM&A, from 2021 OEB-approved $21,127,400 to $30,040,101 in the 2026 Test Year (47% increase). The main cost drivers were salary increases, inflation, vegetation management, IT, and 23 new FTEs. The Parties agreed to reduce Burlington Hydro's 2026 Test Year OM&A envelope before property taxes by $4.20M, from $30,157,314 to $25,957,314 (13.93% reduction).[23]

OEB staff submits that the $4.20M reduction to 2026 OM&A is just and reasonable. The proposed $25.96M OM&A envelope brings Burlington Hydro's spending closer to historical average levels while allowing for inflationary increases. It also reflects that Burlington Hydro did not effectively demonstrate the need for 23 additional FTEs, and aligns Burlington Hydro's compensation closer to market average because they were at P68 in 2023.[24] Total OM&A per customer is also significantly reduced, aligning with the OEB's commitment to reducing ratepayer impacts.

OEB staff notes that OM&A increased by 12.5% annually in each of 2025 and 2026. OEB staff also notes that the historical average spend for OM&A between 2021-2025 (inclusive of the updated 2025 Bridge Year forecast) was $23.32M, with an average annual increase of 5.5%. The proposed $4.20M reduction to 2026 OM&A ($25.96M) results in an average annual increase of 4.65% for 2025 and 2026.

2.2 Is the proposed shared services cost allocation methodology and the quantum appropriate?

OEB staff supports the proposed shared services cost allocation methodology and quantum.

Issue 3: Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital structure appropriate?

The Parties agreed to use the proposed capital structure, rate of return on equity, and short-term debt rate as published by the OEB, subject to an update if new parameters are available prior to the OEB rendering a decision on this Application. The Parties

[23] EB-2025-0051, IRR 4-Intervenors-92. The as-filed OM&A amount of $30,040,101 was updated by Burlington Hydro through interrogatory responses to $30,157,314 to account for 2025 year-to-date actuals in Chapter 2 Appendices 2-JA, 2-JC, and 2-K.
[24] EB-2025-0051, Attachment 6.

agree that Burlington Hydro will adjust the long-term debt rate on its 2026 debt issuance from 4.60% to the deemed long-term debt rate set by the OEB as part of the 2026 Cost of Capital parameters which will be published in the fourth quarter of 2025. The Parties further agreed that Burlington Hydro will not issue new long-term debt in 2025.

OEB staff submits that the agreed upon cost of capital methodologies have been appropriately determined in accordance with OEB policies and practices.

3.2 Is the proposed PILs (or Tax) amount appropriate?

Overall, OEB staff supports the forecast PILs expense of $873,601 as agreed to by the Parties.

In this Settlement Proposal,[25] the Parties agreed to Burlington Hydro's proposal of applying Accelerated Investment Incentive Program (AIIP) to the Capital Cost Allowance (CCA) for 2026 test year's PILs without smoothing mechanism.

In its pre-filled evidence , OEB staff notes that Burlington Hydro is continuing applying AIIP when calculating the 2026 test year's PILs. OEB staff also notes that during the phase-out period from 2024 to 2027, the effect of the AIIP is twice the normal first-year claim as compared to the legacy half-year rule for the CCA.

In response to the clarification question asking for the revenue impact of applying the AIIP to 2026 PILs with the smoothing adjustment,[26] Burlington Hydro calculated the Test Year grossed-up PILs amount of $1,098k with smoothing mechanism, which is $173k higher than the proposed PILs amount of $926k.

OEB staff notes the $173k smoothing amount may not be material as compared to Burlington Hydro's materiality threshold $242K. OEB staff does not take issue of not using the smoothing mechanism to increase 2026 test year's PILs since the OEB has not mandated the smoothing mechanism. OEB staff notes that ratepayers are not harmed under the proposal by Burlington Hydro because Account 1592 Sub-account CCA changes will continue to record the debit balances from the inconsistent CCA rules on the capital additions in the rate term.

OEB staff supports Burlington Hydro's proposal of continuance of applying the AIIP during the phase-out period for the 2026 Test Year and 2027 and continue using the Account 1592 sub-account CCA changes to record the CCA differences resulting from the different CCA rules after 2027 until next rebasing application.

Additional details of Account 1592, Sub-account CCA Changes are discussed in Issue 6.1.

[25] EB-2025-0051, Burlington Hydro Settlement Proposal_09192025, Section 3.2, p. 19
[26] OEB Staff Clarification Questions, OEB-Staff-CQ-115.

3.3 Is the proposed Other Revenue forecast appropriate?

The Parties agree to increase Other Revenue by $150,000 as compared to Burlington Hydro's interrogatory responses. OEB staff has no issues with the agreed upon revised 2026 Test Year Other Revenue. The adjustment of $150,000 is mainly driven by increases in interest income, reflecting an adjusted forecast based on historical averages.

3.4 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

Updated Service Life & Depreciation Rate - UsoA 1611 Computer Software

The Parties agreed to Burlington Hydro's proposal of changing the service life and deprecation rate of its CIS and GIS in USoA 1611 from 20% (5-year) as approved in last rebasing application to 10% (10-year) in this rate application.

In response to one interrogatory,[27] Burlington Hydro states that it does not typically replace its new CIS and GIS systems after 5 years and uses these assets for 10 years before replacement. It also states that it has no plans to replace its new CIS implemented in July 2021 during the 2026-2030 rate term.

Chapter 2 Filing Requirements provides the following regarding the asset useful lives:[28]

> *The Kinectrics Report provides information that the OEB expects distributors will consider as they report on asset service lives as part of their cost of service applications. However, while the Kinectrics Report contains a range of useful lives for assets, distributors must ensure that these ranges (and the specific useful lives selected within the ranges) are appropriate to their circumstances when preparing a cost of service application. Distributors must also provide explanations and support for any proposed useful lives that are not within the ranges contained in the Kinectrics Report.*

OEB staff acknowledges that the typical useful life of computer software ranges from 2 to 5 years[29] per the Kinectrics Report issued by the OEB in 2012. However, Burlington Hydro provided the rational to justify the changes made to the proposed range since CIS and GIS systems are actually used for 10 years which is beyond the maximum 5-year useful life. OEB staff is of view that Burlington Hydro has reflected the pattern in which the CIS and GIS systems' future economic benefits are expected to be consumed

[27] EB-2025-0051, Interrogatory Response, 2-staff-28 (a), page 74
[28] Chapter 2 Filing Requirements, May 7, 2025, section 2.2.4
[29] Asset Depreciation Study for the Ontario Energy Board (July 8, 2010), Table F-2

by the entity since last rebasing based on the actual circumstances.

OEB staff does not take issue with Burlington Hydro's proposal to change the service life and depreciation rate for CIS and GIS in this application since the changes have appropriately reflected the actual circumstances of useful life.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff submits that the calculation of the Revenue requirement is appropriate.

Issue 4: Load Forecast

4.1 Is the proposed load forecast methodologies and the resulting load forecasts appropriate?

OEB staff submits that the load forecast included in the settlement proposal is reasonable.

OEB staff supports the proposed consumption, demand and customer forecasts of 1,485 GWh, 2047 MW, and 87,979 respectively (Table 4.1A and 4.1B of the settlement proposal). Relative to the Application, this reflects an increase of 21 GWh for consumption and 62 MW for demand. The Parties agreed to include the COVID variable to forecast load for the Residential, GS<50 kW and GS>50 kW customers. The Parties also agreed to update the lost load for the GS>50 kW customer that ceased operations in early 2025.[30] The proposed customer forecast increased by 153 compared to the Application. The forecasted quantity of residential customers in 2026 will be increased by 250 customers, from 63,050 in the application to 63,300.

Issue 5: Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios, appropriate?

The revenue-to-cost ratios for the GS<50 kW, Street Lighting and USL rate class are above the OEB prescribed ranges. The Parties agreed Burlington Hydro would decrease the revenue-to-cost ratio to 120% in 2025 for these rate classes. To maintain revenue neutrality, the revenue to cost ratio for the GS>50 kW rate class is increased to 93.51% from 91.41%.

OEB staff has no concerns with the cost allocation methodology as agreed to by the Parties through the settlement proposal, or with the resulting revenue-to-cost ratios

5.2 Is the proposed rate design, including fixed/variable splits, appropriate?

OEB staff does not have any concerns with the proposed rate design, including the

[30] VECC-CQ-6

fixed/variable splits.

5.3 Are the proposed Retail Transmission Service Rates (RTSR) rates appropriate?

OEB staff supports the RTSR rates as agreed to by the Parties. Burlington Hydro updated the UTR and Hydro One sub transmission rates for 2025 in accordance with the OEB's rate orders EB-2024-0244 and EB-2024-0032 respectively.

5.4 Are the proposed loss factors appropriate?

OEB staff supports the proposed total loss factor of 4.22% as shown in the settlement proposal. The proposed Distribution loss factor is 3.87% which remains below 5%.

OEB staff supports Burlington Hydro's continuation of the distribution loss study building on its learnings from its June 21, 2023 report as specified in item 6 in Appendix A of the settlement proposal.

5.5 Are the Specific Service Charges and Retail Service Charges appropriate?

OEB staff supports the agreement in which the Parties accepted that Burlington Hydro's proposed Specific Service Charges and Retail Service Charges are appropriate. OEB staff notes that the 2025 wireline pole attachment charge, and 2025 retail service charges are consistent with the values approved in the OEB's latest Decisions and Orders.[31]

5.6 Are rate mitigation proposals required and appropriate?

The Parties agree to dispose of the deferral and variance accounts over a two-year period for rate mitigation purposes. OEB staff submits that this is appropriate.

Issue 6: Deferral and Variance Accounts

6.1 Are the proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

Overall, OEB staff submits that the proposal for disposition of the Group 1 and Group 2 accounts, requests for discontinuation of accounts, and the continuation of existing accounts,[32] is appropriate.

The Parties agreed to the disposition of the following DVA balances as of December 31,

[31] EB-2024-0226, Decision and Order, September 26, 2024 and EB-2024-0227, Decision and Order, September 26, 2024
[32] EB-2025-0051, Burlington Hydro Settlement Proposal, pp. 35-40

2024 and forecasted interest through to December 31, 2025, over a two-year disposition period[33]:

- Group 1 DVAs debit balance of $930,725 (excluding Account 1589)
- Group 1 DVA Account 1589 RSVA – Global Adjustment debit balance of $3,023,132
- Group 2 DVAs debit balance of $1,969,814

Group 1 DVA Interim Disposition

The Parties agreed that Burlington Hydro will dispose the balances of its Group 1 DVAs on an interim basis as of December 31, 2024, including the carrying charges to December 31, 2025.

In its interrogatory responses,[34] Burlington Hydro states that it is still in the process of verifying the accuracy of the automated settlement calculations and is targeting completion by the end of 2025. It also states that it has not identified any material adjustments to Group 1 accounts due to the new process up to this point.

OEB staff does not take issue with Burlington Hydro's proposal for the disposition of Group 1 DVAs on an interim basis in this application. Although Burlington Hydro has confirmed that it has not identified any material adjustments in the IESO settlements and Group 1 DVAs due to the new process up to this point,[35] the internal review by Burlington Hydro for the settlement has not concluded. OEB staff notes that the interim disposition would avoid the issue of rates retroactivity if any material adjustments are identified subsequently to the proposed balances in this application.

Account 1592 - PILs and Tax Variances, Sub-account CCA Changes

Bill C-97 introduced the AIIP which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018.

In the Letter[36], the OEB provided accounting guidance (CCA Guidance) on the impacts from accelerated CCA resulting from the AIIP program and established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes 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. OEB staff notes that Burlington Hydro embedded the accelerated CCA in its 2021 rebasing application[37]. The

[33] EB-2025-0051, Burlington Hydro Settlement Proposal, Table 6.1B, p. 38
[34] EB-2025-0051, Interrogatory Response, 9-staff-82, p. 187
[35] OEB Staff Clarification Questions, OEB-Staff-CQ-117
[36] Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance (Issued July 25, 2019)
[37] EB-2025-0051, Exhibit 6, section 6.2.1.6, page 19, row 12

accelerated CCA was in full effect until the end of 2023 and is gradually being phased out in 2024 and 2025 for the utility.

The debit balance of $411,547 in sub-account CCA Changes of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA during the phase-out period (i.e. 2024 and 2025). This amount was calculated based on the actual capital additions in this period. For the purpose of settlement, the Parties accepted the amount.

OEB staff takes no issue of Burlington Hydro's calculation of the CCA differences that is accumulated in Account 1592, Sub-account CCA Changes for the phase-out period from 2024 to 2025. OEB staff also notes that Burlington Hydro calculates the CCA differences by comparing the CCA on the actual capital additions in 2024 and 2025 under the legacy rule to the accelerated CCA on the same capital additions under the AIIP[38]. OEB staff notes that this calculation method has been used by distributors, accepted by parties, and approved by the OEB in a number of previous Cost of Service proceedings.[39]

In the settlement proposal,[40] Burlington Hydro states that it will continue to keep open Account 1592 – PILs and Tax Variance for 2006 and Subsequent Years – CCA Changes to capture the revenue requirement impact of the accelerated CCA deductions for eligible property. OEB staff acknowledges Burlington Hydro's proposal to continue applying AIIP in 2025 and 2026 as discussed under Issue 3.2. OEB staff notes that the application of the AIIP in the PILs model for both the Bridge Year and the Test Year should be reflected in the actual tax filing as well.

OEB staff submits that Burlington Hydro's proposal for disposition of this account is appropriate and also supports the continuation of this account, given that the smoothing mechanism is not applied to the test year's PILs.

Account 1511 – Incremental Cloud Computing Implementation Costs

See details in Account 1508 - Cloud Computing Implementation Costs - ERP Replacement which are discussed under Section New Group 2 DVAs below.

Account 1509 – Impacts Arising from the Covid-19 Emergency

[38] EB-2025-0051, Burlington Hydro Settlement Proposal, , Table 6.1A
[39] InnPower Corporation 2024 Cost of Service Decision and Order, EB-2023-0033, November 23, 2023; Milton Hydro Distribution Inc. 2023 Cost of Service Decision and Order, EB-2022-0049, October 13, 2022 and Kinston Hydro Corporation 2023 Cost of Service Decision and Order, EB-2022-0044, November 22, 2022
[40] EB-2025-0051, Burlington Hydro Settlement Proposal, , section 6.1, page.35

In this application[41], Burlington Hydro had proposed to dispose of $320,439 net incremental Covid-19 costs which covers the period of 2020 and January to April in 2021 as this was the period for which the Means Test was met. Burlington Hydro has performed the Means Test against the respective approved ROE numbers in effect for the two different rate periods in 2021 because Burlington Hydro's 2021 approved ROE changed from 9.36% to 8.34% on May 1, 2021.

In response to the interrogatory[42], Burlington Hydro provides the breakdown of the annual amounts recorded in the Covid-19 sub-account (i.e. Other Costs and Savings) for which a 50% recovery rate applies and demonstrates that the impact recorded in this account was only incurred as a result of the pandemic. Burlington Hydro has also confirmed that it has not recorded any amounts in the Exceptional Pool for which a 100% recovery rate applies, therefore, it adjusted the DVA continuity schedule to reflect a 50% recovery rate of the amounts which is $160,219 for the disposition[43]. This amount comprises of $115,987 in 2020 and $44,232 from January to April in 2021.

According to the Regulatory Treatment of Impacts Arising from the COVID-19 Emergency (The COVID Report) issued on June 17, 2021[44], OEB staff has reperformed the Mean Test for 2021 on a full-year weighted average basis which shows the achieved ROE (6.44%) was greater than the deemed ROE (5.68%). This result indicates that Burlington Hydro failed the Mean Test for 2021 and the 2021 amount of $44,232 is not eligible for recovery.

For the purpose of settlement[45], the Parties agreed to record a balance of $115,987 in 2020 and exclude 2021 amount of $44,232 for disposition in Account 1509 – Impacts Arising from the COVID-19 Emergency, which is reduced by $204,452 as compared to the originally proposed amount of $320,439 in this application. OEB staff notes this amount correctly reflects 50% recovery of 2020 incremental costs and no recovery of the 2021 portion costs.

OEB staff supports the Parties' agreement for disposition in the account and also supports the discontinuation of this account.

Account 1508 – Sub-account Capital Additions Dundas Street Road Widening Project - Revenue Requirement Differential Variance Account (CVA1)

This CVA1 was approved in Burlington Hydro's 2021 Cost of Service[46] decision and order to record the revenue requirement associated with the difference between budgeted and actual capital additions, net of capital contributions, in the 2021 Test Year

[41] EB-2025-0051, Exhibit 9, Section 9.1.6
[42] EB-2025-0051, Interrogatory Response, 9-staff-93, page 202
[43] EB-2025-0051, DVA Continuity Schedule, Tab 2b
[44] EB-2020-0133, Section 4.1.2
[45] EB-2025-0051, Burlington Hydro Settlement Proposal, , section 6.1 (b), p 35
[46] (EB-2020-0007) Decision and Rate Order, April 15, 2021, Accounting Order #1

for the Dundas Street Road Widening Project (the Project) and the resulting impact during the IRM period. Based on the Accounting Order in Burlington Hydro's 2021 decision and order, the revenue requirement of the net base budget of $3,035,948 for the Project is to be recorded in the asymmetrical CVA1 with the accrued carrying charges for disposition at Burlington Hydro's next rebasing application.

In its 2025 IRM application, Burlington Hydro requested funding for an Incremental Capital Module (ICM). During the proceeding, it was noted that the Dundas St. Road Widening Project (Walkers Line to Appleby Line) was not completed in 2021 or subsequent years because the project was delayed by the road authority. The 2025 IRM decision and order states that:[47]

> The OEB finds that instead of waiting to return the balance to ratepayers at Burlington Hydro's next rebasing application, Burlington Hydro should use the entire balance in that account, as of December 31, 2023 including the carrying charges up until Q4 2024, to offset some of the funding required for the ICM project. The OEB recognizes that this will clear the balance in this account earlier than anticipated in the 2021 Decision and Order, but this represents a better outcome for the utility and its rate payers. Burlington Hydro's need for ICM funding is lower, and rate payers do not have to wait until the rebasing proceeding to get their refund. Burlington Hydro is directed to request the discontinuance of the account at its next rebasing application

In the draft rate order stage[48], which was near the end of the 2025 IRM proceeding, Burlington Hydro provided evidence showing the actual net capital addition amount of $517,315 related the Project. Hence, in the final rate order of 2025 IRM, it states:

> The OEB will not engage in a detailed review of the December 31, 2023 balance in the CVA in this proceeding, particularly when Burlington Hydro did not provide evidence related to used and useful assets from 2021 Road Widening Project until the end of the proceeding. Because this evidence was introduced so late, it has not been tested, and the OEB and other parties in this proceeding are unable to fully assess its implications. The OEB expects Burlington Hydro to create an accounting entry in the CVA to reflect the order in this proceeding. Burlington Hydro is directed to request the final disposition of the amounts in this account, including the prudence review and reconciliation of the amounts, in its next rebasing application. A future panel of the OEB may consider the evidence Burlington Hydro chooses to present on its 2021 Road Widening Project capital expenditures at that time.

In this application, Burlington Hydro provides the reconciliation of the record in its 2025

[47] EB-2024-0010, Decision and Order Burlington Hydro 2025 IRM, p. 21
[48] EB-2024-0010, Burlington Hydro_DRO_20250109, p2

IRM application[49] and clarifies that the Project includes two scopes of work which are "Walkers Line to Appleby Line" and "Appleby line to Tremaine". It further states that "Appleby line to Tremaine" incurred gross capital expenditures of $1,285,725 (incl. actual net capital additions $517,315 and actual capital contribution $768,410)[50] over the 2021-23 period while "Walkers Line to Appleby Line" did not proceed (i.e. Had nil capital expenditures). Burlington Hydro requests the final disposition of a credit amount of $15,259 including forecast principal and interest to December 31, 2025 and proposes to discontinue the account[51]. This amount was calculated based on the actual net capital additions of $517,315 related to "Appleby line to Tremaine", which was $2,518,633 less than the budget amount of $3,035,948, applying the price cap adjustments during the IRM period.

OEB staff notes that this Project has two sub-projects and the actual net expenditures for one (i.e. Appleby line to Tremaine) were only introduced at the Draft Rate Order[52] stage of the 2025 IRM. As a result, the OEB and other parties did not have enough time to fully assess the "used and useful" status of the assets. In the Final Rate Order[53], the OEB determined that there were no actual capital additions in 2021 and directed Burlington Hydro to offset the revenue requirement approved for the 2025 ICM funding[54] by the 2023 ending balance in CVA1 based on the full $3,035,948 budget for the Project, rather than the variance between the budgeted amount and the actual net capital additions of the sub-project completed in 2021.

Based on Burlington Hydro's response to the interrogatory,[55] OEB staff notes that the section of "Appleby line to Tremaine" is within the 2021 DSP scope which is a subset of the Project, of which the cost should be included in CVA1.

OEB staff submits that "Appleby line to Tremaine" is included in the Project as well as in CVA1 budget $3,035,948 approved by the OEB, which represents the amount against which actual expenditures are to be tracked.

Therefore, OEB staff supports the disposition of $15,259 credit balance in this account and discontinuation of this account.

<u>New Group 2 DVAs</u>
In the settlement proposal, the Parties agreed to establish the following two new Group 2 DVAs:

[49] EB-2025-0051, Exhibit 9, 9.1.11.2
[50] (EB-2024-0010) Burlington Hydro Responses, VECC-4 (j)
[51] EB-2025-0051, Exhibit 9, section 9.1.11
[52] EB-2024-0010, Burlington Hydro_DRO_20250109, p2
[53] EB-2024-0010, Final Rate Order, February 11, 2025, p5
[54] EB-2024-0010, Decision and Order, December 17, 2024
[55] EB-2025-0051, Interrogatory Response, 9-staff-94, page 209

1. Account 1508 Sub-account – System Access Variance Account - Revenue Requirement Differential Variance Account

In the settlement proposal,[56] the Parties agreed to establish an asymmetrical variance account (System Access Variance Account) to record the revenue requirement associated with the difference between actual 2026 System Access capital additions and the forecasted 2026 System Access capital additions embedded in rates of this Application, net of capital contributions, in the 2026 Test Year. The baseline net capital addition used to determine any variance is Burlington Hydro's forecast budget of $13,500,384, above which the maximum amount of 2026 System Access net capital additions recorded in the account will be capped to $15,500,384 (which is $2 Million over the baseline). The revenue requirement impact of the aggregate amounts of actual 2026 System Access net capital additions that are less than the baseline will be fully recorded in the account.

Burlington Hydro provided a drafting accounting order for this new DVA.[57] The accounting order in Appendix C of the Settlement Proposal states that the tCCA under the AIIP shall be used, which is consistent with the treatment of the CCA on the capital additions in the 2026 Test Year.

The Parties also agreed that Burlington Hydro will make further entries into the account equal to the revenue requirement impact in the 2026 Test Year associated with the difference between actual and budgeted net capital additions in respect of System Access (i.e. the 2026 debit or credit entry), escalated annually by the OEB Price Cap IR annual adjustment (Inflation minus X-factor) in effect for that year as well as growth in billing determinants for each rate year from 2027 until its next rebasing.

The Parties agreed that the System Access Variance Account shall be disposed on a final basis as part of any ACMor ICM application that Burlington Hydro may file during the IRM period, or at its next rebasing application. In addition, the Parties also agree that for the purposes of calculating any ACM or ICM materiality threshold for Burlington Hydro during the IRM period, the 2026 rate base shall be deemed to include this $2 Million maximum variance agreed upon by the Parties for the purposes of the System Access Variance Account regardless of the actual 2026 system access in-service additions.

OEB staff supports the establishment of this asymmetric DVA. OEB staff notes that the asymmetric mechanism can provide sufficient funds to Burlington Hydro if all the System Access spending does in fact materialize while protecting the ratepayers unlimited upside over-spending risk by having a cap. It also gives the ratepayers full

[56] EB-2025-0051, Settlement proposal, section 1.1, p.10
[57] Accounting Order_SA Variance Account_BHI

benefits from any underspending by the distributor. OEB staff notes that a similar capital variance account was accepted by parties and approved by the OEB in Kingston Hydro's 2016-2020 Custom Incentive Rate Application[58]. In that application, Kingston Hydro established a new asymmetrical capital variance account to record the revenue requirement associated with the difference between actual and forecasted cumulative capital additions (net of capital contributions) for 2016-2020. When in-service capital additions were lower or the pacing of capital additions was slower than the forecast over the 2016-2020 period, Kingston Hydro recorded variances in this account until the actual capital additions caught up to the cumulative capital additions or until Kingston's next rebasing year and any balance in this account will be refunded to ratepayers. As an asymmetrical account, therefore, the overspending or faster pace of spending will not result in debit entry being recorded in this variance account.

OEB staff agrees with the Parties that the AIIP will be used in the account. OEB staff notes that the settlement proposal does not comment on how to record the CCA rule change during the rate term for the capital additions in this account. OEB staff submits that similar to what is required for the approved ICM assets,[59] the impact of the CCA rule change associated with capital additions in this account should be included in Account 1592 sub-account CCA Changes and be brought forward for disposition in Burlington Hydro's next rebasing application.

OEB staff does not take issue with Burlington Hydro's proposal to dispose of this account during the IRM period since it is appropriate that this Group 2 DVA account will be brought for prudence review together with either ACM or ICM request or in the next rebasing application.

2. Account 1508 – Sub-account Cloud Computing Implementation Costs - ERP Replacement

In the settlement proposal,[60] the Parties agreed to establish a new deferral account to record cloud computing implementation and ongoing subscription costs in respect of Burlington Hydro's Enterprise Resource Planning system (ERP) replacement. Any amounts recorded in the account must be offset by the revenue requirement of the on-premise ERP replacement capital expenditures avoided. Specifically, this avoided ERP replacement capital expenditure is no greater than $2,143,000 or lower if some amounts within the budgeted $2,143,000 are capitalized in accordance with IFRS. In the settlement, the Parties agreed that Burlington Hydro will close the generic cloud DVA 1511 in accordance with the Cost of Capital proceeding.[61]

[58] Decision and rate Order,_Kingston Hydro, Schedule C, Accounting Order, p. 499
[59] Chapter 3 Filing Requirements, Section 3.3.2.5 Changes in Tax Rules for Capital Cost Allowance (CCA)
[60] EB-2025-0051, Settlement Proposal, section 6.1 (g), p. 37
[61] EB-2024-0063, Section 3.8, p. 103

Based on the response to the interrogatory[62], OEB staff notes the costs associated with non-ERP related cloud computing solutions have been included in OM&A ($523,038) and Capital ($196,860) respectively in this application.

In November 2023, the OEB established a generic Cloud DVA and the Accounting Order[63] for the generic DVA states that a utility may consider a new deferral account or other approaches that take into account the timing and duration of the contract term. Per the OEB's decision issued in March 2025 for the Cost of Capital generic proceeding,[64] OEB notes that Cloud Computing deferral account is not expected to be an on-going generic account and the account will be closed if no proposal is made. The decision further states that "current Account 1511 Cloud DVA was issued on a transitional basis until the utility's next rebasing application and the risk profile of cloud computing solutions versus on-premise solutions wasn't assessed on a generic basis".

OEB staff submits that Burlington Hydro's proposal of establishing this new utility-specific ERP-related Cloud DVA is appropriate since it reflects the regulatory proposal by Burlington Hydro for its anticipated ERP implementation costs on cloud during its rate term. Furthermore, OEB staff notes that the ratepayers would not be harmed because the avoided ERP on-premise cost would offset against the cloud-based ERP solution.

OEB staff also supports the discontinuation of the generic cloud Account .

Discontinuance of DVAs

Through the settlement, the Parties agreed to discontinue the following Group 2

[62] EB-2025-0051, Interrogatory Response, 9-staff-88, page 194
[63] Accounting Order (003-2023) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, November 2, 2023.
[64] EB-2024-0063 (March 27, 2025), Section 3.8

accounts:

- Account 1508 Pole Attachment Revenue Variance
- Account 1508 Customer Choice Initiative Costs
- Account 1508 Local Initiatives Program Costs
- Account 1508 GOCA Variance Account
- Account 1508 Designated Broadband Project Impacts
- Account 1508 ULO Implementation Cost
- Account 1508 LEAP EFA Funding Deferral Account
- Account 1508 Green Button Initiative Costs
- Account 1508 Collection Charge Lost Revenue
- Account 1508 Waterdown Rd Widening Project CVA2
- Account 1508 Dundas Rd Widening Project CVA1
- Account 1572 Extra-Ordinary Event Costs – 2022 Windstorm (Z-Factor)
- Account 1509 Impacts Arising from the Covid-19 Emergency
- Account 1511 Incremental Cloud Computing Implementation Costs

OEB staff supports the discontinuation of the above Group 2 accounts since the costs for some accounts either have been forecasted and included in the rates (for example, Account 1508 Pole Attachment Revenue Variance and Account 1508 Customer Choice Initiative Costs) or the relevant policy initiatives for some accounts has been completely implemented and there are no further anticipated activities moving forward (for example, Account 1508 Green Button Variance Costs and Account 1509 Impacts Arising from the Covid-19 Emergency).

Issue 7: Other

7.1 Is the proposed effective date appropriate?

OEB staff supports the Parties' view that Burlington Hydro proposed effective date is appropriate.

7.2 Has the applicant responded appropriately to all relevant OEB directions from previous proceedings?

OEB staff supports the Parties' view that Burlington Hydro has responded appropriately to all previous OEB directions.

Burlington Hydro also included a number of settlement commitments within Appendix A as part of its Settlement proposal.[65] This includes commitments on DSP Metrics,

[65] EB-2025-0051, Settlement Proposal of Burlington Hydro Inc., Appendix A, September 19, 2025.

Reactive versus Proactive asset replacement, Energy Transition Planning, a Distribution Losses Case Study, and reduce DER connection costs. OEB is supportive of these commitments.

7.3 Is the proposal for an Advanced Capital Module to replace the existing Supervisory Control and Data Acquisition system and implement a fully integrated Advanced Distribution Management System appropriate?

OEB staff supports the Advanced Capital Module (ACM) funding request to replace its Supervisory Control and Data Acquisition (SCADA) system and install an Advanced Distribution Management System (ADMS).

In the pre-filed evidence, Burlington Hydro proposed that the project would be placed in service in 2027, with an estimated cost of $3.64M.[66] Burlington Hydro stated that by implementing an integrated SCADA and ADMS solution, Burlington Hydro will benefit from enhanced system interoperability, streamlined operations, and a more cohesive approach to grid management.[67]

Burlington Hydro stated that Burlington Hydro's existing SCADA system, acquired in 2007, lacks enhanced functionality that modern SCADA systems can deliver when integrated with Outage Management Systems.

The project meets the ACM materiality threshold, as its estimated cost is below Burlington Hydro's maximum eligible incremental capital amount of $11.55M for 2027, based on its forecasted capital expenditures.

Burlington Hydro stated that it expects to meet the Means Test for capital funding eligibility, as it expects its projected 2027 ROE will remain within 300 basis points of the 9.00% deemed ROE set for 2026–2030.

With respect to prudence, Burlington Hydro stated that it evaluated two alternatives, maintaining the status quo and upgrading only the SCADA system. It concluded that these options would result in limited automation, increased operational risks, and an inability to fully modernize the grid or meet regulatory expectations.[68]

The Parties agreed with the ACM request, provided that Burlington Hydro will not introduce it as an in-service addition any earlier than January 1, 2028 rather than in 2027 as proposed in the application and interrogatory responses.

OEB staff submits that the SCADA and ADMS project is a prudent option that will improve outage management, enhance grid reliability, and support Burlington Hydro's

[66] Exhibit 2, Section 2.7
[67] Exhibit 2, Appendix B, Business Case: SCADA Replacement and ADMS Acquisition, p. 5
[68] Exhibit 2, Appendix B, Business Case: SCADA Replacement and ADMS Acquisition, p. 11-12

ability to meet evolving regulatory and operational requirements through increased automation and system integration.

~All of which is respectfully submitted~