

**IN THE MATTER OF the Ontario Energy Board
Act, 1998, S.O. 1998, c. 15, Sch. B, as amended;**

**AND IN THE MATTER OF an Application by
Lakeland Power Distribution Ltd. pursuant to
section 78 of the *Ontario Energy Board Act* for an
Order or Orders approving just and reasonable
rates for the delivery and distribution of
electricity.**

**SUBMISSIONS OF THE
SCHOOL ENERGY COALITION**

General

1. The School Energy Coalition is a coalition established to represent the interests of all Ontario publicly-funded schools in matters relating to energy regulation, policy, and management. It is made up of all seven of the major school-related organizations, representing all of the school boards, and all levels of school management, and through them representing the approximately 5000 schools in Ontario.
2. SEC and its members have a significant interest in the activities of regulated electricity distributors and their affiliates in the province, including the applicant in this matter (the “Utility”) due to the severe financial implications those activities have on school boards, their students and the people of the province of Ontario.
3. SEC’s intervention in Lakeland Power Distribution Ltd. 2007 Distribution Rate Application (Application) is focused on the utility’s proposal for recovery through rate riders beginning May 1, 2007 of costs incurred in connection with storm damage in August 2006.

Issues of Principle

4. The School Energy Coalition is concerned with the implications of this application for a Z factor on LDCs around the province. In our submission, there are two concerns that the Board should address: a) the extent to which storms are a normal part of a utility’s operations, and b) what this application tells the Board about the existing materiality threshold of 0.2%.

5. With respect to storms, it is our submission that storms should *prima facie* be considered part of the normal management responsibility within a utility. While it is true that, in the case of the storm referred to in this application, it was unusually large and severe for the time of year, and cost 5% of annual revenue requirement and 6% of annual distribution expense for the Utility to handle, it is also true that variable weather and severe storms are a normal part of doing business as a electricity distribution company in Ontario. We suspect one would be hard pressed to find any Ontario utility that had not, at some time during its existence, experienced one or more storms of the size of the one LPDL faced.
6. With that in mind, we think the Board should consider the following questions of principle in the context of this application:
 - a. Do utilities have access to commercially available storm insurance at reasonable rates, sufficient to insulate ratepayers from this long-term risk? If underwriting standards have become stricter, as we believe may be the case, does this create a market disjunct that is exposing ratepayers to unacceptable risks?
 - b. Should the Board encourage or require Ontario LDCs to create and manage a common storm damage risk pool, in effect allowing them to self-insure at a more reasonable cost, and spreading the risk of storm costs at any given time over the ratepayers of the entire province? If some form of self-insurance is established, how should this be integrated with commercially available storm insurance so that the cost and coverage is optimized?
 - c. To what extent, if any, should the Board encourage hedging of extreme weather risks by Ontario LDCs? The emergence of a more sophisticated weather derivatives market in North America has created the potential that hedging, perhaps co-ordinated with a self-insurance plan, could more effectively manage the risk of extreme weather events.
7. In regard to all of the above issues, we note that the current system of Z factor treatment is essentially unfair to both the utility and the ratepayers. The utility has to go through an expensive, time-consuming, and uncertain process, after the fact, to seek recovery. The ratepayers are faced with a sudden increase in rates because of an act of nature. Both of these impacts could be ameliorated if storm damage were made the subject of a more comprehensive risk management strategy, and the questions above are directed at that end. We therefore urge the Board to establish an appropriate process to consider those issues, with a view to managing extreme weather risk more effectively.
8. This leads to the second area, materiality threshold. Two issues arise:
 - a. What is apparent to us from reviewing these and other applications is that Z-factor treatment of storm damage is sensitive, under the current rules, not just to the extent of the damage, but also to the size of the utility. The former makes some sense, subject to our comments above. However, making Z factor treatment sensitive to the size of the utility is not immediately intuitive. If a storm is a once-in-a-lifetime event, that is still the case whether the utility is large or small. Under the Board's current rules, damage

caused by the same storm could qualify for Z factor treatment in one utility, but not in its immediate neighbour. In our submission, at least recovery of storm damage costs should not be driven by utility size.

- b. The materiality threshold for LDPL is \$6,796. In theory, storm damage of \$6,796 in a year would qualify for Z factor treatment. This is clearly not appropriate. If the rule were applied widely, it would mean that virtually every LDC in the province would have an annual Z factor for storms. It is submitted that such an obviously unacceptable result throws into question whether the Board's current Z factor materiality formula is a viable one. On the face of it, the current formula is likely wrong by at least one order of magnitude, perhaps much more.
9. It is submitted that the Board should reconsider its current materiality thresholds for Z factor treatment, with particular emphasis on how the threshold reflects recovery of storm damage.

Determination of Z-factor Costs

10. Z-factor costs related to a storm occurred in the Utility's service territory in August 2006 in the amount of \$217,870 are being claimed. This is composed of:
 - Regular and Overtime Labor, \$79,731;
 - Contract Labor, \$96,752;
 - Material, \$25,347;
 - Meals and Other of \$16,038
11. The Applicant has requested a Z-factor rate rider equivalent to \$1.64 per month per customer to be recovered over a one year period based on its customer counts as recorded in the Applicant's 2006 EDR.

Non-Incremental Regular Labor Cost

12. The Applicant has included the cost of regular labor hours in the amount of \$7,134 in the claim. As regular hour internal labor costs should be treated as non-incremental costs, it should therefore be excluded from the Z-factor amount.

Labor Unit Cost

13. The Applicant has claimed \$72,597 total overtime labor charges to be recovered as Z-factor costs. 1053 overtime hours were incurred by the Utility's internal non-management labor, (Ref: Responses to Interrogatories to SEC, page 3). This translates into a blended average of \$69 labor unit cost per hour for the Utility.

14. SEC has particularly asked the Applicant to provide copies of invoices issued by the neighbouring LDCs and external contractors who directly assisted the Applicant in restoring the electricity system. Total invoiced amount for neighbouring LDCs and external contractors represent 44% of total claimed storm costs. Also reflected on their invoices is information related to the number of regular and overtime hours billed, hourly labor rate charged, type, quantity, and unit charge rate of various equipments and material used in the storm restoration activity.
15. SEC notes that the labor unit costs vary significantly across utilities. Labor unit costs are costs associated with an additional productive hour of work performed by an employee in a specific job function. When reviewing the valid invoices issued by the neighbouring LDCs providing assistance to the Applicant above, we have noted that the average labor unit cost varies from \$69 (Lakeland Power) to \$133 (Orillia Power Distribution) per hour. We have in the past expressed our view that a labor unit cost study across all the utilities be conducted, using actual data from the latest full calendar year across the utilities. This is but further evidence that such a study is necessary.

Insurance Coverage

16. The Applicant does not carry property damage insurance coverage for its distribution system. Many utilities do have such coverage, and as a result do not have to seek recovery of the full amount of damage from ratepayers. It is submitted that the Board should consider whether the lack of insurance coverage is a factor in determining how much the Applicant should be allowed to recover from ratepayers.

Conclusion

17. We appreciate the opportunity to provide our comments, and hope that our input is of value.

Respectfully submitted on behalf of the School Energy Coalition this 12th day of April, 2007.

SHIBLEY RIGHTON LLP

Per: _____
Jay Shepherd