

**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

August 20, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Milton Hydro Distribution Inc. ("Milton Hydro")
2015 Z-factor Distribution Rate Application
Board Staff Submission
Board File No. EB-2014-0162**

In accordance with Procedural Order #2, please find attached Board Staff's submission in the above noted proceeding. Milton Hydro and the intervenors have been copied on this filing.

Milton Hydro's reply to the submission is due on September 4, 2014.

Yours truly,

Original Signed By

Suresh Advani

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

**2015 ELECTRICITY DISTRIBUTION RATES
(Z-factor)**

Milton Hydro Distribution Inc.

EB-2014-0162

August 20, 2014

**Board Staff Submission
Milton Hydro Distribution Inc.
2014 Z-factor Distribution Rate Application
EB-2014-0162**

Introduction

Milton Hydro Distribution Inc. ("Milton Hydro") filed an application with the Ontario Energy Board seeking approval for the recovery of certain amounts related to the restoration of electricity service in the Town of Milton due to an ice storm in December 2013.

Board staff has reviewed Milton Hydro's application and its responses to interrogatories, based on which its submissions are set out below.

On December 21st and 22nd an ice storm swept across Southern and Eastern Ontario bringing down trees and power lines resulting in extensive damage to electricity distribution systems across the Province. Milton Hydro had approximately 15,000 customers, almost 50% of its customer base, without power at the height of the ice storm. To aid in restoring power, Milton Hydro put a call to GridSmartCity and the Electricity Distributors Association and obtained the assistance of nine external contractors and nine electricity distributors.

On February 10, 2014 Milton Hydro sent a letter to the Board notifying the Board of the infrastructure damage caused by the ice storm and Milton Hydro's intention to file a Z-factor claim.

In this Application, Milton Hydro requested the recovery of a Z-factor claim in the amount of \$946,967 as incremental OM&A costs. Milton Hydro has deemed its capital costs related to the restoration effort as not material and has not included such costs in its claim. Milton Hydro is requesting that the amount be recovered by means of a fixed rate rider across all metered customer classes based on Milton Hydro's customer count on December 31, 2013, for a period of 18 months beginning November 1, 2014 and ending April 30, 2016, to coincide with its next cost-of-service rate application.

A detailed breakdown of the expenses to be recovered is as follows:

Description	
Milton Hydro unionized employees overtime only + vehicles	\$80,360
Electricity Distributors	\$440,684
External Contractors	\$374,761
Accommodation and Meals	\$22,854
Fuel – outside distributors vehicles	\$6,307
Material	\$9,277
Miscellaneous	\$1,265
Projected carrying charges	\$11,460
Z-Factor Amount Requested for Recovery	\$946,967

Based on the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*¹ dated July 14, 2008, Z-factors are intended to provide for unforeseen events outside of a distributor's management control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery 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.

¹ http://www.ontarioenergyboard.ca/oeb/ Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

Causation

In its Application and in response to Board staff interrogatories (“BSI”), Milton Hydro has:

- Stated that the cost of restoration is outside the base upon which its rates were derived in its 2011 cost-of-service rate application (Application p.7);
- Stated that if the ice storm event had not occurred, Milton Hydro would not have incurred any of the costs included in the \$946,967 it is seeking to recover (BSI #9);
- Stated that there are no other sources for reimbursement such as insurance or shareholder contributions for reimbursement (BSI #8, #12);
- Stated that up to the time of the December 21st and 22nd ice storm, there were no unspent hours or dollars in Milton Hydro’s 2013 budget for emergency distribution system issues (BSI #11b);
- Stated that the costs contained within the application have been audited as part of Milton Hydro’s 2013 year end audit (BSI #3);
- Confirmed that the claim includes overtime hours only for Milton Hydro staff, vehicle costs, invoiced costs from the other electricity distributors and power line contractors and the costs of hotel and meals to house and feed the supporting line crews. (Application p.4, and BSI #4);
- Provided a breakdown of the incremental labour costs by department and a breakdown of the vehicle costs included in the total claim (Application p.13, and BSI #6);
- Provided budget and actual costs for addressing emergency distribution system problems from 2008 to 2013 (BSI #11d); and
- Confirmed that its achieved regulatory ROE for 2013 reported to the Board was 10.61%, and stated that any amount of the entire Z-Factor claim should not be borne by Milton Hydro based on the level of its return on equity in 2013 being

higher than its Board approved ROE in its 2011 cost-of-service rate application (EB-2010-0137), which was 9.58%. Milton Hydro also stated that it has not earned the OEB-approved regulated return since its 2006 cost-of-service application and therefore it is inappropriate to offset the ice storm restoration costs in the one year that Milton Hydro earns its regulated return on equity (BSI #13).

Board staff notes that Milton Hydro's achieved regulatory ROE for 2013 was 103 basis points higher than the Board approved ROE. Board staff is of the view, that in general, a distributor earning a ROE higher than the Board-approved ROE should, to a certain extent, be able to fund emergency repairs to its damaged distribution system. However, Board staff recognizes that Milton Hydro has not repeatedly or continuously exceeded the Board-approved ROE and in light of its circumstance of lower earnings in the years prior to 2013, Board staff submits that Milton Hydro's position is reasonable.

Based on the budget and actual costs for addressing emergency distribution system problems from 2008 to 2013 provided by Milton Hydro, Board staff notes that Milton Hydro has consistently overspent in this aspect of its budget. Board staff submits that in order to mitigate emergency related Z-factor claims going forward, Milton Hydro should develop a more realistic budget for addressing emergency distribution system problems.

Overall, Board staff submits that Milton Hydro has demonstrated that the amounts sought for recovery are directly related to the ice storm and outside of the base upon which Milton Hydro's 2013 rates were set .

Materiality

Board staff notes that the Board's materiality threshold for a Z-factor claim is 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than \$10 million and less than or equal to \$200 million.

In its Summary, Milton Hydro noted an approved revenue requirement of \$13,005,180 from its 2011 cost-of-service application (EB-2010-0137) and a corresponding materiality threshold of \$65,025.

Board staff submits that Milton Hydro's \$946,967 total cost claim is material.

Prudence

In its Application and in response to Board staff interrogatories, Milton Hydro has:

- Explained that its retention of crews from nine external contractors and nine electricity distributors was the result of its affiliation with GridSmartCity and the Electricity Distributors Association (Application p.7 and BSI #5a);
- Stated that Milton Hydro verified the hours worked by the nine external contractors and nine electricity distributors in the restoration effort; however, it reported that it does not know how the invoiced costs for labour rates and equipment were determined by each of the local distribution companies or power-line contractors (BSI #5c);
- Stated that it follows a tree trimming policy and hires a contracted arborist to perform tree trimming (Application p.8);
- Demonstrated that it complied with the emergency response strategy contained within its Emergency Preparedness Plan (BSI #10a); and
- Noted that Milton Hydro's Emergency Preparedness Plan supersedes its Purchasing Policy (BSI #10b).

Although Board staff is concerned with the lack of verification of the invoiced costs of the local distribution companies or power-line contractors, Board staff appreciates that in situations arising from such extraordinary events, a utility faces limited or no options in safe and timely power restoration efforts.

Overall, Board staff submits that Milton Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

In summary, based on its review of the evidence, Board staff submits that the criteria of causation, materiality and prudence were met. As such, Board staff supports the amount requested for recovery.

Allocation of Costs and Rate Riders

In its application, Milton Hydro notes that due to the wide expanse of the outage area it

is not possible to identify specific customer classes that were impacted by the ice storm and proposes to recover the ice storm Z-Factor costs by way of a Fixed Rate Rider of \$1.54 per month, across all metered customer classes based on Milton Hydro's customer count at December 31, 2013. Milton Hydro calculated the monthly Residential customer class total bill impact to be 1.2% and the monthly General Service < 50 kW customer class total bill impact to be 0.5%.

In justifying its exclusion of unmetered customer classes, Milton Hydro stated in its response to Board staff interrogatory #7 that many unmetered connections are also associated with metered accounts – such as a residential customer's use of a sentinel light, for example -- leading to the consequence that many customers would be paying the rate rider twice if the charge were also levied on these entities.

Milton Hydro also stated in the same response that the share attributable to a customer class for the costs of restoration are not related to the distribution revenues related to that class.

In support of its proposal to recover all costs through a fixed rate rider only, Milton Hydro stated that the costs of restoration of electricity service are fixed; once the repairs were completed, the restoration costs would be shared equally by all customers. Milton Hydro also stated that the costs of restoration of electricity service are not dependent on a customer's energy consumption or demand on Milton Hydro's distribution system. Further, Milton Hydro stated that the costs are incurred without regards to energy or demand and a customer in one class should not pay more or less than a customer in another class simply based on consumption or demand.

Board staff agrees with Milton Hydro that the costs of restoration of electricity service are not dependent on a customer's energy consumption or demand on Milton Hydro's distribution system.

Board staff submits that ice storm damage is a general distribution system problem and that normally in electricity distribution rate-setting, the Board allocates distribution costs between classes on the basis of distribution revenue.

Board staff does not agree with Milton Hydro that only metered customer classes should pay for the costs of restoration. Board staff submits that unmetered connections-based

customer classes such as Sentinel Lighting, Unmetered Scattered Load and Street Lighting are distinct and separate classes with their own contributions to a distributor's revenue and as such should be impacted in the same fashion as the remaining classes.

Board staff further submits that, for reasons of simplicity and fairness, a fixed rate rider derived by allocating Milton Hydro's approved recovery amount to all rate classes on the basis of the last approved distribution revenue would result in the best outcome.

Based on Board staff's position (outlined above) on the allocation of costs and derivation of rate riders, the total monthly bill impact (calculated by Milton Hydro in response to Board staff interrogatory #7) is \$1.26 for the Residential customer class and \$3.01 for the General Service < 50 kW customer class.

All of which is respectfully submitted