



August 21, 2014

By RESS and Courier

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Dear Ms. Walli:

**Re: Z-Factor Application for Recovery of December 2013 Ice Storm Restoration Costs
Veridian Connections Inc.: ED-2002-0503**

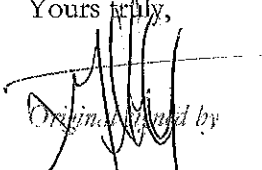
Veridian Connections Inc. ("Veridian") hereby submits its Z-Factor Application to the Ontario Energy Board ("the Board") for recovery of restoration costs related to the December 2013 Ice Storm. Notice of intent to submit this application was provided to the Board by Veridian on May 2, 2014.

As outlined in the May notice, the December ice storm had unprecedented impacts on Veridian's electricity distribution system, and the costs incurred to restore service to customers were significant and unavoidable. Restoration costs included both internal and third party costs, and Veridian is seeking recovery of only the external or third party costs relating to purchased services such as tree trimming and lines contractor support. Approval for recovery of \$718,055 in such costs is being sought.

Veridian is requesting approval for a twenty-four (24) month fixed rate rider with an effective date of May 1, 2015 for all customers.

If there are any questions concerning this material, please contact Tracey Strong, Manager, Corporate Planning, at tstrong@veridian.on.ca or (905) 427-9870 ext 2239.

Yours truly,


Original signed by
George Armstrong
Vice President, Corporate Services

The power to make your community better.

Veridian Connections is a wholly owned subsidiary of Veridian Corporation



Veridian Connections Inc. (“Veridian”)

ED-2002-0503

**APPLICATION FOR APPROVAL OF Z-FACTOR RATE RIDER FOR
RECOVERY OF ICE STORM RELATED COSTS**

Filed: 2014-08-22

MANAGER'S SUMMARY

1 -Introduction

The Applicant is Veridian Connections Inc. ("Veridian"). Veridian is a licensed electricity distributor operating pursuant to license ED-2002-0503. Veridian distributes electricity to approximately 117,765 customers in Ajax, Pickering, Clarington, Brock, Belleville, Scugog, Uxbridge, Port Hope and Gravenhurst.

Veridian hereby applies to the Ontario Energy Board ("OEB") pursuant to section 78 of the Ontario Energy Board Act, 1998 as amended (the "OEB Act") for approval of a proposed fixed rate rider effective for the period of May 1, 2015 to April 30, 2017 as set out in this Z-Factor Application ("Application").

Veridian confirms that the amount included in this Application is as of June 30, 2014 and is consistent with the amounts stated in its Reporting and Record Keeping 2.1.1 filing for Quarter Two (Q2) of 2014.

Veridian also confirms that it has prepared this application under Canadian Generally Accepted Accounting Standards ("CGAAP"). This application is reflective of the capitalization policy changes as per the Board's letter *"Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013"* dated July 17, 2012.

Veridian incurred total incremental OM&A costs of \$1,169,756 and capital costs of \$217,275 to restore electricity service to approximately 41,800 customers in Veridian's service areas of Ajax, Pickering, Clarington and Port Hope after a severe ice storm swept through Southern and Eastern Ontario on December 21 and 22, 2013.

The amount of \$1,028,983 in OM&A costs were incurred in 2013 and included within Veridian's audited financial statements of December 31st, 2013. The balance of the OM&A costs, \$140,773, were incurred in 2014 and are unaudited.

Veridian has included a statement as to the accuracy of the information, from its Vice President of Finance on the last page of this application.

Veridian submits that the ice storm event of December 2013 and the resulting widespread and extensive efforts to restore power to Veridian's customers meets the Z-Factor Eligibility Criteria

1 as set out in Section 2.6 of the Board's Report on 3rd Generation Incentive Regulation for
2 Ontario's Electricity Distributors issued July 14, 2008 and Chapter 3 of the Filing Requirements
3 for Electricity Distribution Rate Applications – 2014 Edition for 2015 Rate Applications, Section
4 3.2.7, issued July 25, 2014.

5 Veridian's materiality threshold, as defined by the OEB is \$249,650. This is based on 0.5% of
6 Veridian's distribution revenue requirement of \$49,930,177, as approved in Veridian's 2014
7 Electricity Distribution Cost of Service Rate Application (EB-2013-0174). The total incremental
8 OM&A costs of \$1,169,756 significantly exceed Veridian's materiality threshold.

9 Veridian has determined that the revenue requirement associated with the capital costs
10 incurred is not material and therefore Veridian has not included these costs for recovery within
11 this application.

12 For the purposes of this Application, Veridian has categorized its incremental OM&A costs as a)
13 \$718,055 in external, third-party costs and b) \$451,702 in internal costs related to labour,
14 material and vehicles. Although both categories of costs are material and therefore eligible for
15 recovery, Veridian is seeking only to recover the incremental, third-party costs of \$718,055.
16 Veridian proposes this reduced cost recovery as a goodwill gesture to its customers in
17 recognition of the inconvenience of the prolonged power outage. Therefore, Veridian is willing
18 to forego recovery of \$451,702 in internal costs.

19 Specifically, Veridian is applying for recovery of \$718,055 plus carrying costs in the amount of
20 \$13,980 for a total Z-Factor claim of \$732,035.

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2 - Overview of this Application

On Saturday December 21, 2013 and Sunday December 22, 2013 a severe ice storm hit Southern and Eastern Ontario.

Extensive power outages began as ice accumulated and trees and limbs fell on primary and secondary conductors. The outages began in west Pickering and moved their way east. By Sunday, December 22nd, over 41,000 of Veridian's customers were without power across its service areas of Pickering, Ajax, Clarington and Port Hope.

Due to the extent of the outage, the restoration efforts continued for nine (9) days. The following table depicts the daily restoration efforts, including the number of customers without power at the beginning of each day, from Sunday, December 22nd and to Monday December 30th: Close to 80% of affected customers were restored within 48 hours.

Table 1
Customer Outage by Day

	22-Dec	23-Dec	24-Dec	25-Dec	26-Dec	27-Dec	28-Dec	29-Dec	30-Dec
Ajax	17,851	7,408	2,540	1,640	1,305	370	1,912	144	501
Pickering	14,337	11,531	6,559	2,740	4,018	2,884	389	104	21
Clarington	6,817	3,903	243	51	446	8	1,517	22	197
Port Hope	2,857	768	416	197	58	24	15	1	3
Total per day	41,862	23,610	9,758	4,628	5,827	3,286	3,833	271	722

Over 80% of affected customers restored

The restoration efforts included deployment of all available Veridian lines and technical staff as well as additional line contracting companies, other electricity distributors and emergency line clearing contractors.

Veridian has a formal Mutual Assistance Plan with neighbouring utilities. Whitby Hydro Energy Services Corporation, Oshawa PUC Networks Inc., Peterborough Utilities Services Inc., Parry Sound Power, Lakeland Power and Orillia Power Distribution Corporation responded with staff and vehicles to assist. At the height of restoration activity a total of 38 crews (approximately 85 persons) were deployed in the field. This included 44 Veridian field staff and 41

contract/mutual assistance field staff. These crews were split between the four municipalities affected: Ajax, Clarington, Pickering and Port Hope.

Restoration efforts began immediately on Saturday, December 21st, starting with the restoration of priority customers and critical infrastructure. Once this was complete, the restoration focus followed the industry standard three (3) wave approach; feeders were cleared and restored, then laterals and finally individual services.

The total incremental restoration costs that Veridian incurred to restore electricity service to its customers is \$1,169,756 and capital costs of \$217,275. Veridian is applying for recovery of its incremental outside third party OM&A costs not including carrying costs of \$718,055. These costs are summarized in Table 2 below.

Table 2
Z Factor Ice Storm Third Party Costs

Electricity Distributors	\$145,572
Power Line Contractors	\$266,422
Emergency Line Clearing Contractors	\$274,374
Communication Costs	\$20,616
Miscellaneous	\$11,071
Total Third Party Costs	\$718,055

3 - Filing Guidelines

The OEB's rate setting process has a mechanism to address extraordinary events that are outside of management's control. This mechanism is called a Z-Factor Adjustment and in general, the unforeseen event must be material and the causation clear. The Third Generation Incentive Rate Mechanism ("3GIRM") Report and Supplemental 3GIRM Report requires a distributor to report Z-factor events promptly to the OEB and must meet three criteria in order to be eligible for a Z-Factor Adjustment. These requirements are discussed in detail below.

Veridian provided notice to the OEB on May 2, 2014 advising of Veridian's intention to file a Z-Factor Application for the recovery of external costs incurred to restore electricity service to approximately 41,800 customers in the Veridian service territories during and after the 2013 ice storm.

In particular, the notice stated that:

"The December ice storm had unprecedented impacts on Veridian's electricity distribution system, and the costs incurred to restore service to customers were significant and unavoidable. In its application, Veridian will exhibit that the Z-factor amounts sought for recovery satisfy the board's eligibility criteria of causation, materiality, and prudence.

During its power restoration efforts, Veridian incurred total operating expenses of approximately \$1,200,000. This amount includes both internal costs (labour, vehicle and materials) and external costs related to the deployment of third party resources such as tree trimming and lines services contractors. In its application, Veridian will be seeking recovery of only its external costs, which totaled approximately \$750,000. The remaining costs will be absorbed by Veridian."

4 - Eligibility Criteria

Section 2.6 of the Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors issued July 14, 2008 sets out the Z-Factor Eligibility Criteria and Chapter 3 of the Filing Requirements for Electricity Distribution Rate applications, Section 3.2.7 issued July 25, 2014 provides further guidance.

Z-Factor Eligibility Criteria

Criteria	Description
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 amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

A severe ice storm passed through Southern and Eastern Ontario on December 21st and December 22nd. This storm caused a build up of ice which resulted in downed trees, limbs and power lines which left over 600,000 customers province-wide without electricity. Extensive power outages occurred within Veridian's service area due to the storm conditions. The outages began in west Pickering and moved their way east over the course of the evening of December 21st. By daybreak on Sunday, December 22nd, at the height of the storm, over 41,800

Veridian customers were without power- from Pickering in the west to Port Hope in the east. By December 24th close to 80% of those customers without power had been restored.

Veridian's external, third party OM&A restoration costs of \$718,055 associated with this severe ice storm were incremental and clearly outside of the base upon which rates were derived.

Included within Veridian's 2010 Board Approved revenue requirement (EB-2009-0140), was an amount of \$643,238 within the Uniform System of Accounts ("USoA") 5020 for Overhead Operations, including storm restoration costs. The amount recorded to this account in 2013 prior to the December ice storm was \$610,472. The total OM&A cost for the December 2013 ice storm restoration would increase total storm restoration costs by a further \$1,028,983.

The third party costs that Veridian is seeking to recover for power line contractors, emergency line clearing contractors, and support from other electricity distributors were directly incurred as a result of this severe ice storm and would not otherwise have been incurred.

Materiality

Veridian's materiality threshold as defined by the OEB is \$249,650 based on 0.5% of Veridian's distribution revenue requirement of \$49,930,177 as approved in Veridian's 2014 Electricity Distribution Cost of Service Rate Application(EB-2013-0174). The costs of restoring electricity service after the ice storm was approximately 1.4 percent of Veridian's annual distribution revenue or about 3 times materiality.

Prudence

Environment Canada issued special weather warnings and weather statements related to the storm on December 19th and 20th, 2013. In response, Veridian moved to an elevated state of preparedness by notifying on-call staff, preparing vehicles and issuing standby notices to other critical staff.

As predicted freezing rain began, causing extensive power outages that commenced on December 21st. Restoration efforts began immediately on Saturday, December 21st, with actions to restore the most customers in the quickest amount of time. This was done by focusing on main feeders, then single phase lines and finally individual services attached to customers homes.

1 By daybreak on December 22nd the scale of the power outages experienced by customers was
2 deemed to require a Level 3 Power Restoration effort, which is the highest level within
3 Veridian's Power Restoration Plan. As stated previously, over 41,800 of Veridian's customers
4 were without power at the height of the ice storm.

5 It was quickly assessed that additional, third party support was also required in order to shorten
6 restoration times for Veridian customers.

7 Veridian sought support from reputable competent power line and emergency line clearing
8 service providers that were familiar with its service areas, business and safety practices.

9 Veridian's formal Mutual Assistance Plan with neighbouring utilities was also enacted and
10 several utilities responded with staff and vehicles to assist. The count in the field at the height
11 of restoration was 38 crews (approximately 85 persons) including Veridian, mutual assistance
12 and contracting staff. These crews were split between the four municipalities affected: Ajax,
13 Clarington, Pickering and Port Hope.

14 Significant volumes of customer calls to Veridian's call centre began to be received on
15 December 21st, and high volumes continued for several days. The average number of calls
16 received each day between December 22nd and December 26th by the call centre queues was
17 2,930 compared to a standard daily average of 600.

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Summary of Costs

The total incremental OM&A restoration costs that Veridian incurred to restore electricity service to its customers is \$1,169,756. Veridian is applying for recovery of its incremental, third party OM&A costs of \$718,055, not including carrying costs.

The OM&A costs of \$1,169,765 include cost for restoration of power such as labour, vehicle and accommodations. These costs are considered operating costs and not capital due to the nature of the work completed. The work included connecting and repairing power lines and clearing ice and tree branches from lines and transformers.

As stated previously, although all of these costs are material and eligible for recovery, Veridian is seeking only to recover the incremental, third-party costs of \$718,055. Veridian has proposed this cost sharing of these extraordinary costs between the utility and its customers as a gesture of goodwill to its customers in recognition of the inconvenience of such an extensive power outage during the 2013 Christmas holiday period. Veridian is willing to forego eligible recovery of \$451,702 in internal costs in this circumstance.

Veridian incurred various incremental third party costs as outlined previously.

Table 3
Z Factor Ice Storm Third Party Costs

Electricity Distributors	\$145,572
Power Line Contractors	\$266,422
Emergency Line Clearing Contractors	\$274,374
Communication Costs	\$20,616
Miscellaneous	\$11,071
Total Third Party Costs	\$718,055

Costs for electricity distributors, power line contractors and emergency line clearing contractors included labour, vehicle and equipment, accommodation and some meal charges.

Miscellaneous costs included additional meals, fuel and hydrovac services. Communication costs included third party website updates, media and news releases.

- 1 Other electricity distributors and contractors continued to assist with restoration efforts until
2 January 15th 2014. A detailed list is provided in the tables below.

Table 4
Ice Storm Third Party Costs-Electricity Distributors

Lakeland Power	20,798
Orillia Power Distribution Corp	33,816
Parry Sound Power	6,515
Oshawa PUC Networks Inc.	6,268
Peterborough Utilities Services Inc.	64,652
Whitby Hydro Energy Services	13,525
Total	145,572

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Table 5
Ice Storm Third Party Costs-Powerline Contractors

K-Line Maintenance and Construction	207,239
Ascent Solutions Inc.	57,905
Pro-tech Utility Contractors	1,278
Total	266,422

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Table 6
Ice Storm Third Party Costs-Emergency Line Clearing

Davey Tree Experts	177,560
Asplundh Canada ULC	22,312
Ontario Line Clearing & Tree Services	74,502
Total	274,374

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Table 7
Detailed Breakdown of Contractor Costs

Contractor	Labour	Vehicle	Accom/Meals	Total
Oshawa PUC Networks Inc.	4,542	1,600	125	6,268
Orillia Power Distribution Corp	30,037	3,121	658	33,816
Whitby Hydro Energy Services	10,637	2,408	480	13,525
Lakeland Power	13,669	6,765	364	20,798
Peterborough Utilities Services Inc.	47,031	15,100	2,521	64,652
Parry Sound Power	6,430	-	85	6,515
K-Line	159,432	36,557	11,250	207,239
Ascent	50,570	6,840	495	57,905
Pro-tech Utility Contractors	350	928		1,278
Davey Tree	156,060		21,500	177,560
Asplundh	21,762		550	22,312
Ontario Line Clearing	74,502		-	74,502
Total	575,021	73,319	38,028	686,369

5 - Z-Factor Rate Rider Calculation

Veridian proposes to recover the ice storm Z-Factor ice storm costs by a fixed charge rate rider across all customer classes for several reasons.

Firstly a fixed charge rate rider effective May 1st, 2015 will coincide with the expiration of the fixed charge Rate Rider for Recovery of Stranded Meters in Veridian's current Tariff of Rates and Charges, thus contributing to rate stability.

Secondly, Veridian believes that a fixed charge rate rider is simple, transparent and easy for customers to understand and calculate the exact amount of recovery they will incur. A combination of volumetric and fixed rate riders is less transparent and costs for each customer are unknown until the end of the recovery period. Additionally, the costs of restoration of electricity service are not dependent upon a customer's energy consumption or demand and are associated more directly with a customer's connection to Veridian's distribution network, rather than their throughput or demand.

The table below shows the principal and interest costs for recovery of the Z-Factor Ice Storm costs.

Table 8
Ice Storm Costs for Recovery and Carrying Charges

Account	Closing Principal Balance December 31st	Projected Int on Dec 31st balance for Jan	Principal Balance January 31st	Interest Feb 1, 2014 to April 30,	Total Claim
1572 Ice Storm Operating Costs	\$641,547	\$786	\$718,055	\$13,194	\$732,035

The fixed rate rider by class is calculated by allocating recovery to each rate class based on the class's proportion of 2014 Board Approved Distribution Revenue and then calculating a monthly fixed rate rider for recovery over a 24 month period using the 2014 Board Approved forecast average number of customers/connections per class (EB-2013-0174). Veridian proposes that the rate rider be effective from May 1, 2015 for 24 months to April 30, 2017 for mitigation of customer bill impacts.

Table 9
Proposed Ice Storm Z-Factor Rate Rider

Customer Class	2014 Board Approved Distribution Revenue Allocation by Rate Class	%age by Class	Allocation to Rate Class	2014 Board Approved Forecast Average number of customers/ connections	Proposed Recovery Per Customer/ Connection	Fixed Monthly Rate Rider (24 months recovery)
Residential	\$ 31,645,136	63.4%	\$ 463,955	105,999	\$ 4.38	\$ 0.18
Seasonal						
Residential	\$ 867,951	1.7%	\$ 12,725	1,590	\$ 8.00	\$ 0.33
GS < 50 kW	\$ 6,553,835	13.1%	\$ 96,087	8,781	\$ 10.94	\$ 0.46
GS 50 to 2,999 kW	\$ 8,894,814	17.8%	\$ 130,408	1,087	\$ 119.97	\$ 5.00
GS 3,000 to 4,999 kW	\$ 692,222	1.4%	\$ 10,149	5	\$ 2,029.76	\$ 84.57
Large Use	\$ 628,721	1.3%	\$ 9,218	2	\$ 4,608.89	\$ 192.04
Unmetered						
Scattered Load	\$ 145,696	0.3%	\$ 2,136	929	\$ 2.30	\$ 0.10
Sentinel Lighting	\$ 45,387	0.1%	\$ 665	475	\$ 1.40	\$ 0.06
Street Lighting	\$ 456,462	0.9%	\$ 6,692	29,943	\$ 0.22	\$ 0.01
	\$ 49,930,224	100%	\$ 732,035			

Veridian has recorded the incremental OM&A third party costs in the Uniform System of Accounts ("USofA") Account 1572 Extraordinary Event Costs – Ice Storm Z-Factor. Veridian will also record carrying costs projected to April 30, 2015, calculated on the monthly opening balance of this account using the OEB prescribed interest rate of 1.47% for deferral and variance accounts as published on the OEB website. Carrying charges are recorded in a separate sub-account of USofA 1572 Extraordinary Event Costs – Ice Storm Z-Factor Carrying Charges.

Veridian has calculated the monthly total bill impact for a Residential customer with monthly consumption of 800 kWh to be 0.16% and the monthly total bill impact for a General Service less than 50kW customer with monthly consumption of 2,000 kWh to be 0.15%. Veridian has used the OEB Approved Tariff of Rates and Charges effective May 1, 2014 in calculating the total bill impacts.

6 – Conclusion

Veridian is filing a Z-Factor application for recovery of incremental third party costs to restore electricity to customers as a result of a severe ice storm that swept through Southern and Eastern Ontario on December 21st and December 22nd, 2013.

Veridian submits that the costs sought for recovery of restoration of \$718,055 and carrying charges of \$13,980 meet the Z-Factor requirements as set out in Section 2.6 of the Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors issued July 14, 2008 and Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications – 2014 Edition for 2015 Rate Applications, Section 3.2.7, issued July 25, 2014.

The details of the costs sought for recovery have been provided in this Application. Veridian confirms that the OM&A costs included in the recovery amount of \$732,035 are outside of the base upon which its 2013 rates were derived.

Veridian has allocated the costs to each rate class on the basis of distribution revenue and has calculated a Z-Factor fixed rate rider on the basis of 2014 forecast average of customers/connections by class.

Veridian has proposed recovery by means of a fixed rate rider over a twenty four (24) month period beginning May 1, 2015 and ending April 30, 2017 in order to mitigate the total bill impact of the fixed rate rider.

7 – Relief Sought

Veridian is requesting approval for the recovery of \$718,055 plus carrying charges of \$13,980 for a total recovery of \$732,035 for third party costs incurred to of restore electricity service to Veridian customers during and after a severe ice storm on December 21st and 22nd, 2013.

Veridian is requesting that the total third party restoration costs (including carrying charges) of \$732,035 be approved as a Z-Factor Adjustment recovered through class specific fixed rate riders as set out in Table 9 of Section 5 - Z-Factor Rate Rider Calculation of this Application for the period of May 1, 2015 to April 30, 2017.

8 – Form of Hearing Requested

Veridian requests that this Application be disposed of by way of written hearing.

Respectfully submitted this 22nd day of August, 2014.

Tracey Strong

Manager, Corporate Planning

Veridian Connections Inc.



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ONTARIO ENERGY BOARD
VERIDIAN CONNECTIONS INC.
ED-2002-503

APPLICATION FOR APPROVAL OF A Z-FACTOR RATE RIDER FOR RECOVERY OF
ICE STORM RELATED COSTS

CERTIFICATION OF EVIDENCE

I, Laurie McLorg, Vice President of Finance, hereby certifies that the evidence filed in Veridian Connections Inc.'s Application for Approval of a Z-Factor Rate Rider For Recovery of Ice Storm Related Costs is accurate, consistent and complete to the best of my knowledge and has been filed in accordance with Section 2.6 of the Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors issued July 14, 2008 and Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications-2014 Edition for 2015 Rate Applications, Section 3.2.7, issued July 25, 2014.

Laurie McLorg
Vice President of Finance
August 14, 2014

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Veridian Connections is a wholly owned subsidiary of Veridian Corporation

