



PUBLIC INTEREST ADVOCACY CENTRE
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Michael Janigan
Counsel for VECC

October 28, 2014

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Oakville Hydro Electricity Distribution Inc. EB-2014-0102
Final Submissions of VECC

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC
Encl.

cc: Oakville Hydro Electricity Distribution Inc.

ONTARIO ENERGY BOARD

IN THE MATTER OF

the Ontario Energy Board Act, 1998, being
Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF

an Application by Oakville Hydro Electricity Distribution Inc. (Oakville Hydro)
to the Ontario Energy Board for an Order or Orders approving
just and reasonable rates for electricity distribution
to be effective January 1, 2015.

Submissions of Vulnerable Energy Consumers Coalition (VECC)

Z-Factor Costs

- Z-Factor claims are intended to provide for unforeseen events outside of management's control. Oakville Hydro is applying for recovery of a Z-Factor claim of \$356,237 plus carrying charges for the period January 1, 2014 to December 31, 2014 in the amount of \$5,272¹, for a total claim of \$361,509 due to a severe ice storm in December 2013.
- Oakville Hydro indicates the costs reflect incremental operations, maintenance and administration (OM&A) costs incurred to restore electricity service to approximately two thirds of its 65,000 customers (42,900 customers) that were impacted by the storm beginning December 22, 2013.
- Oakville Hydro updated the percentage of the total costs that were incurred in 2013 and have been audited from 88% to 91% leaving \$30,884 in 2014 costs that have not been audited, but will be audited during the first quarter of 2015.² As the unaudited costs are less than 10% of the total, VECC takes no issue with the level of unaudited costs.
- Oakville Hydro did not incur material capital costs as a result of the ice storm and is not seeking recovery of its capital costs in this application.
- Oakville Hydro confirmed its response to the ice storm followed its Emergency Operations Plan.³
- The Board determined that in order for amounts to be considered for recovery by way of a Z-Factor, the amounts must satisfy all three of the following eligibility criteria: **causation**,

¹ 2-Board Staff -3

² 2-Board Staff-2

³ 2-VECC-2

materiality, and prudence.⁴

- **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.
- Oakville Hydro indicates its incremental OM&A costs are directly related to the ice storm and the restoration of power and clearly outside of the base upon which Oakville Hydro's rates were derived in its 2014 Cost of Service application (EB-2013-0159).⁵
- Oakville Hydro indicates it could not have been able to plan and budget for a storm of this magnitude. Oakville Hydro provided information on the amount of budgeted costs for emergency maintenance costs included in rates and the actual amounts incurred for the years 2010 to 2013 and January to August 2014. The data shows that the amount in rates in 2013 excluding the ice storm is approximately 40% below the actual costs incurred.⁶
- VECC submits that the majority of the Z-Factor claim represents costs that are directly related to the ice storm and outside of the base upon which rates were derived with the exception of labour costs at regular rates for work on pre-scheduled vacation days which is discussed below under Prudence.
- **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.
- Oakville Hydro's materiality threshold is \$177,843 based on 0.5% of Oakville Hydro's 2014 distribution revenue requirement of \$35,568,668. VECC submits the materiality criterion is satisfied as Oakville Hydro's Z-Factor amount clearly exceeds the materiality threshold.
- **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.
- In addition to its own powerline crews, Oakville Hydro received assistance from London Hydro and Goderich Hydro and third party contractors.
- Oakville Hydro's \$356,237 in costs (excluding carrying charges) include the following:
 - \$200,696 - Incremental labour (excluding burdens with benefits & vehicles)
 - \$11,986 - Materials
 - \$86,363 Third Party Contractors
 - \$45,375 – LDC costs - London Hydro & Goderich Hydro
 - \$5,809 – 3rd Party Communication (Web, Twitter, Facebook)

⁴ Chapter 3 Filing Requirements July 17, 2013, Section 3.2.2

⁵ Application Page 15

⁶ 2-Board Staff-8, Table 8, 2013 = \$229,998/\$609,000 = 38%

- \$6,009 - Meals, Accommodations & Other (working overtime)
- VECC takes issue with one labour component included in Oakville Hydro's labour costs as well as the prudence of certain LDC costs.

Labour Costs

- Oakville Hydro provided a breakdown of its \$200,696 internal labour costs for its union and non-union employees.⁷ Overtime payments were made to: union employees (\$86,677) as per employment contract; non-union employees (\$38,899) as per overtime clause in employment agreement. In addition, Oakville Hydro made overtime payments to other non-union and management employees (\$51,089) without a specific overtime clause in employment agreements.
- VECC supports the inclusion of overtime in the Z-Factor claim for employee groups with overtime clauses in their employment agreements supported by Oakville Hydro's evidence that it did not deviate from its normal approach to overtime for these employee groups (union & non-union that have an overtime clause in their contract). However VECC does not support the inclusion of overtime for employee groups where overtime is not typically paid.
- Oakville Hydro indicates it does not have a formal policy for payment of overtime for non-union employees. Oakville Hydro offered a choice to non-union and management employees (without overtime clauses) for overtime hours during the ice storm to be paid out or taken as lieu time in 2014. The \$51,089 represents actual amounts paid.⁸
- VECC does not support the inclusion of these overtime costs in the Z-Factor claim for non-union and management employees that do not have overtime clauses in their employment agreements on the basis that it deviates from Oakville Hydro's normal approach to overtime and without a formal policy ratepayers should not be expected to pay for this overtime, especially when ratepayers do not pay for overtime for this employee group during the normal course of business. In the past three years, Oakville Hydro has only paid out overtime to non-union employees with overtime clauses in their contract⁹. On this basis, VECC submits this \$51,089 in overtime costs should be disallowed by the Board.
- Oakville Hydro also included \$23,032 in its labour costs for payments made to union employees at regular rates of pay for work on pre-scheduled vacation days. VECC submits it is not appropriate to include this amount as these costs are not incremental costs and are not outside of the base upon which rates were derived. VECC submits this \$23,032 in regular time payments should be disallowed by the Board.

⁷ 2-Board Staff-5

⁸ 2-Board Staff-5 (c)

⁹ 2-VECC-5

LDC Costs

- Oakville Hydro provided a breakdown of its invoiced costs for its Third Party Contractors and assisting LDCs that included labour charges, accommodation charges, meals, truck charges and other charges as well as a breakdown of its \$200,696 labour costs.
- Oakville Hydro indicates it is only able to ascertain the basis for invoiced costs for one of the LDCs that provided assistance during the ice storm. VECC submits that if Oakville Hydro does not know the basis for invoiced costs for the other LDC, the prudence test has not been passed. If the basis for costs is not known, how do ratepayers know whether or not Oakville Hydro has paid a premium in labour rates or has only been billed for work done for them. VECC submits that Oakville Hydro should investigate & clarify in its reply submission the basis for the invoiced costs of the other LDC and confirm that a premium was not paid on labour and only costs applicable to Oakville Hydro were charged to Oakville Hydro.
- VECC submits if a premium on labour was paid, ratepayers should not have to pay the premium as costs paid should be based on cost of service recovery from the assisting LDC and thus, any premium amount should be disallowed by the Board.
- In considering the above, VECC submits that the Z-Factor amount approved by the Board should be reduced by \$74,121 in labour costs¹⁰ for the reasons noted above plus a further disallowance equal to any premium in labour rates paid if it is determined in Oakville Hydro's reply submission that a premium was paid to one of the LDCs.
- Oakville did not have a formal written agreement with neighboring utilities regarding the provision of services in emergencies at the time of the ice storm. However, subsequent to the event Oakville Hydro entered into a signed Mutual Aid Agreement with neighboring and other utilities.¹¹
- VECC submits Oakville Hydro should confirm in its reply submission whether or not the agreement stipulates that charges are to be based on cost recovery and a premium is not charged for services. In VECC's view, the agreement needs to reflect this understanding.

Z-Factor Rate Rider

- Oakville Hydro proposes to recover the costs associated with the ice storm from all rate classes (except the embedded distributor class) on this basis of distribution revenue and using the Board's last Board-approved fixed-variable split.

¹⁰ \$51,089 + \$23,032 = \$74,121

¹¹ 2-Board Staff-7

- Oakville Hydro's application proposed fixed and variable Rate Riders for Ice Storm Cost Recovery to be effective for 12 months from January 1, 2015 to December 31, 2015.
- In response to 2-Energy Probe-5, Oakville Hydro agreed that storm costs were customer count driven. As a result, Oakville Hydro is now proposing that the incremental costs associated with the restoration of power be recovered through a fixed Rate Rider.
- VECC submits that a fixed Rate Rider should be implemented over fixed and variable Rate Riders as the storm related costs are customer driven and not consumption driven.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 29th of October 2014.