



Oakville Hydro Electricity Distribution Inc.

2015 Distribution Rate Adjustment Application (EB-2014-0102)

Effective January 1, 2015

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. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution.

Oakville Hydro Electricity Distribution Inc.

Reply Submission

Filed: November 11, 2014

1. Introduction

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application with the Ontario Energy Board (the “Board”) on August 13, 2014 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to its rates effective January 1, 2015 (the “Application”). The Application was filed in accordance with the Chapter 3 of the Filing Requirements (the “Filing Requirements”) for Transmission and Distribution Applications dated July 25, 2014.

In its Application, Oakville Hydro requested approval for an adjustment to its distribution rates based on the Board’s annual IRM adjustment mechanism. Oakville Hydro also requested approval for the recovery of the incremental costs associated with the restoration of power after a severe ice storm swept through Southern and Eastern Ontario on December 22, 2013. Oakville Hydro submitted that the incremental costs of \$356,237, excluding carrying charges, were directly related to the ice storm, that they exceeded the Board’s materiality level and that they were incurred prudently in accordance with the Z-Factor Guidelines set out in the Filing Requirements.

The Board issued a Procedural Order Number 1 on September 24, 2014. In the Procedural Order, the Board requested that intervenors and/or Board staff wishing information and material in addition to the evidence filed with the Board request it by October 2, 2014. The Procedural Order also directed Board staff and intervenors to file written submissions by October 29, 2014. Oakville Hydro was directed to file its response to those submissions by November 12, 2014.

2. IRM Adjustments

In its Application model, Oakville Hydro inadvertently entered kWh as the billing determinant for the rate riders proposed for the Sentinel Light and Street Lighting rate classes rather than kW. In its submission, Board staff advised that it would make the necessary corrections to Oakville Hydro’s Application model at the time of the Board’s Decision on the Application. Board staff

1 had no further concerns with the annual IRM adjustment mechanism, proposed retail
2 transmission rates or the proposal to defer the disposition of the balances of the deferral and
3 variance accounts until such time as they meet the Board's threshold for disposition.

4 On October 30, 2014, the Board issued the Input Price Index of 1.6% to be used as the inflation
5 adjustment for rates adjusted through the Price Cap IR for rates effective in 2015. Oakville
6 Hydro asks that Board staff adjust the price escalator in its Incentive Regulation Mechanism
7 model to reflect the revised inflationary adjustment.

8 **3. Z-Factor Claim**

9 **3.1 Updated Evidence**

10 In response to Board staff interrogatory number 2-Board staff-3, Oakville Hydro updated its
11 evidence to include the request to recover carrying charges of \$5,272 associated with the ice
12 storm costs. Oakville Hydro has provided updated rate riders in Table 1 – Proposed Rate Riders.

13 **3.2 Z-Factor Criteria**

14 Z-Factor claims are intended to provide for unforeseen events outside of a distributor's
15 management control. The eligibility criteria are, as set out in the *Board's Report on 3rd*
16 *Generation Incentive Regulation for Ontario's Electricity Distributors – July 14, 2008* are
17 provided below.

1 **Z-Factor 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.

2 **3.2.1 Causation**

3 Oakville Hydro submits that the total incremental costs of \$361,509, including carrying charges,
4 incurred to restore power to its customers are directly related to the ice storm and clearly outside
5 of the base upon which Oakville Hydro's rates were derived.

6 In its submission, Board staff stated that, "...Oakville Hydro has demonstrated that the amounts
7 sought for recovery are directly related to the ice storm and outside of the base upon which
8 Oakville Hydro's 2013 rates were set.¹" Energy Probe submitted that "...the amounts claimed
9 are directly related to the Z-factor event and are incremental to the base upon which rates are
10 derived²" subject to its submissions with respect to the inclusion of Oakville Hydro's claim for
11 regular time hours worked on pre-schedule vacation days³. VECC made similar submissions⁴.

¹ Board staff submission, page 5

² Energy Probe submission, page 2

³ Energy Probe submission, page 3

⁴ VECC submission, page 3

Regular Time Paid for Work on Pre-scheduled Vacation Days

Both Energy Probe and VECC submitted that labour costs for payments made to union employees at regular rates of pay for work on pre-scheduled vacation days are not incremental costs and therefore not outside of the base upon which rates were derived. The ice storm swept through Oakville Hydro's service area during peak vacation time when many employees schedule their vacation plans and days off to spend time with their families. These employees cancelled their plans and were dedicated to providing their assistance to restore power to the residents of the Town of Oakville in a timely fashion. Therefore, Oakville Hydro incurred additional costs as a result of having to reschedule these vacation days at a future time. Oakville Hydro incurred labour costs at regular rates for the time worked during the ice storm and vacation costs at regular rates for the vacation days rescheduled in 2014.

3.2.2 Materiality

Oakville Hydro's materiality level is 0.5% of its distribution revenue requirement. Therefore, Oakville Hydro's materiality level is \$177,843 or 0.5% of its distribution revenue requirement of \$35,568,668. The costs incurred to restore power to Oakville Hydro's service area were double its materiality level. In their submissions, Board staff and intervenors submitted that Oakville Hydro's Z-factor Claim met the materiality test.⁵

3.2.3 Prudence

In its Application, Oakville Hydro submitted that the amounts that it had incurred to restore power after the ice storm had been incurred prudently. Board staff submitted that, "...Oakville Hydro acted prudently and promptly in securing assistance to restore power and did so in a cost-effective way, given the circumstances".⁶ In their submission, Energy Probe took issue with the inclusion of overtime costs paid to non-union and management employees that did not have an

⁵ Board staff submission, page 5, Energy Probe, page 2 and VECC submission, page 3

⁶ Board staff submission, page 6

overtime clause in their employment agreements⁷. VECC made a similar submission⁸. VECC also submitted that any premium payments to electricity distributors should be disallowed.⁹ Oakville Hydro's response to those submissions is provided in the following paragraphs.

Payment of Overtime to Non-Union and Management Employees

Energy Probe submitted that, in the absence of a written policy or employment contracts with provisions for the payment of overtime to non-union or management employees it is not appropriate to require Oakville Hydro's ratepayers to pay for such overtime¹⁰. VECC made a similar submission.¹¹

In response to Board staff interrogatory number 2-Board staff 5 c), Oakville Hydro submitted that it was both prudent and appropriate to offer paid overtime to non-union and management staff given the timing, severity and duration of the storm. Oakville Hydro's non-union and management employees worked long hours to support the ice storm restoration efforts sacrificing their holiday plans. Without the dedication and support of all of its employees, Oakville Hydro could not have restored power to its customers in the short timeframe that it did. Both union and non-union employees worked around the clock to restore power to the residents of the Town of Oakville.

As discussed in response to Board staff interrogatory number 2-Board staff-5, Oakville Hydro discussed its procedures for engaging the staff required to restore power. Once the crews were created, a non-union supervisor was assigned to ensure the work of each crew was being planned and completed properly, safely and in a timely manner. There simply were not enough available employees to provide supervision and support to the crews in the field that were working around the clock without incurring overtime costs. In addition, Oakville Hydro requested assistance

⁷ Energy Probe submission, page 3

⁸ VECC submission, page 4

⁹ VECC submission, page 5

¹⁰ Energy Probe submission, page 3

¹¹ VECC submission, page 4

1 from non-union staff to perform some of the required tasks. For example, management staff
2 called customers back that had left urgent messages, others assisted with scouting for damaged
3 areas within Oakville and others performed remote verification of service restoration by pinging
4 meters.

5 Oakville Hydro reiterates that it has been Oakville Hydro's practice on previous occasions to
6 compensate non-union and management employees (without overtime clauses in their
7 employment contracts) with overtime payments when overtime is required for extended periods
8 of time in order to respond to emergency situations such as the 2013 ice storm. A parallel
9 example of this would be the payments to non-union and management staff that supervised
10 Oakville Hydro's assistance with the restoration of power in Long Island, New York after
11 Hurricane Sandy caused massive power outages¹².

12 Oakville Hydro also submits that during the restoration effort it received many thanks from its
13 customers for working long hours. Oakville Hydro's customers tweeted their appreciation for
14 the long hours that employees dedicated to the restoration of power:

- 15 • *Thank you to all hydro workers working long hours – night and day - to restore power*
16 *as quickly as possible across our province*
- 17 • *@Oakvillehydro Thanks for all of your hard work to restore power to everyone. We*
18 *appreciate your efforts*
- 19 • *Massive effort by #hydro workers in many parts of S. #Ontario. Special shoutout to*
20 *@Oakvillehydro: thank you for your continued commitment*
- 21 • *And an enormous thank you to the people who have been working all day & night in*
22 *these terrible conditions @Oakvillehydro #IceStormTO*

23 Oakville Hydro submits that the level of effort put forth by all of Oakville Hydro's employees to
24 restore power after the ice storm is well beyond what might be considered as the normal course

¹² Response to Board staff interrogatory number 2-Board staff-5, part b)

1 of business. Oakville Hydro submits further that this level of effort was acknowledged and
2 appreciated by its customers.

3 Oakville Hydro also submits that the Board approved overtime costs paid to both management
4 and non-management employees by Canadian Niagara Power in its decision on the combined
5 proceeding on storm damage cost claims for Canadian Niagara Power – Fort Erie, Canadian
6 Niagara Power – Port Colborne, Peterborough Distribution Inc. and Lakeland Power Distribution
7 Ltd. (EB-2007-0514/0595/0571 and 0551). In its submission, SEC noted that Canadian Niagara
8 Power had claimed \$292,830 in overtime labour paid to a “mix of both management and non-
9 management” employees. In its Decision with Reasons, the Board found that “the four claims do
10 not raise any concerns regarding prudence...”

11 Oakville Hydro also notes that the Ontario Ice Storm Assistance Program, which is available to
12 Municipalities, does not deem overtime costs paid to non-union and management employees
13 without an overtime clause in their agreement as “ineligible” costs. All incremental costs for
14 overtime are eligible for recovery under the program¹³. Oakville Hydro submits that the
15 Province’s treatment of overtime costs is appropriate.

16 Oakville Hydro reiterates its submission that the recognition of the extraordinary effort put forth
17 by all of its employees in the face of a storm of this magnitude is both appropriate and prudent.

18 **Invoiced Costs from Electricity Distributors**

19 VECC expressed concern regarding the basis for the invoiced costs from one of the two
20 electricity distributors that assisted with the restoration of power after the ice storm¹⁴. VECC
21 submitted that any premiums on labour included in the invoice should be disallowed.

¹³ Appendix C – Ontario Ice Storm Assistance Program – September 2014 Program Update provided in response to Board staff interrogatory number 2-Board staff-9

¹⁴ VECC submission, page 5

Oakville Hydro did not question the basis for the invoices from the electricity distributors that assisted with the restoration of power after the ice storm, as it is customary in the industry to charge for emergency services on a cost recovery basis. However, in order to alleviate any concerns regarding the inclusion of premium payments in Oakville Hydro's Z-factor claim, Oakville Hydro has received confirmation from the electricity distributor that charges were on a cost recovery basis and did not include premium payments. Hours worked during normal business hours were charged at regular rates and hours worked outside of normal business hours were charged at overtime rates.

In its submission, VECC also noted that Oakville Hydro has now entered into a Mutual Aid Agreement with neighbouring utilities and requested confirmation that the Agreement stipulates that charges are to be based on cost recovery and a premium is not charge for services.¹⁵ Oakville Hydro confirms that the Agreement stipulates that labour charges are to be based on "the aiding member's standard practices" and that other charges are to be based on "reasonable and customary rates". There is no provision in the Agreement for premium charges.

3.3 Allocation and Recovery

3.3.1 Allocation

In response to Energy Probe interrogatory number 2-Energy Probe-3, Oakville Hydro allocated the ice storm costs on the same basis as the Board's cost allocation model as filed in its 2014 cost of service application. In its submission, Energy Probe submitted that this allocation methodology would be a more appropriate and accurate allocation of costs.¹⁶ However, based on Oakville Hydro's response to interrogatory number 2-Energy Probe-3, Energy Probe submitted that the allocation method used by Oakville Hydro in its Application is adequate in this circumstance. Therefore, Oakville Hydro has allocated the costs based on the distribution

¹⁵ VECC submission, page 5

¹⁶ Energy Probe submission, page 4

revenue for each rate class approved in its last cost of service proceeding as proposed in its Application.

3.3.2 Recovery

In its Application, Oakville Hydro proposed that costs be recovered through a fixed and variable rate rider. However, in response to Energy Probe interrogatory number 2-Energy Probe-5 b), Oakville Hydro agreed with Energy Probe's suggestion that the storm related costs were customer count driven. In response to part c) of Energy Probe's interrogatory, Oakville Hydro proposed that the costs be recovered through a fixed rate rider.

In its submission, Board staff noted that while the Board had approved a fixed rate rider in its decision on Milton Hydro's Z-factor application (EB-2014-0162), Oakville Hydro's original proposal was also appropriate¹⁷. Both Energy Probe and VECC submitted that storm related costs were customer count driven.¹⁸ Oakville Hydro agrees with Energy Probe and VECC and has proposed that the ice storm costs of \$361,509, including carrying charges, be recovered through a fixed rate rider as set out in the table below.

Table 1 – Proposed Rate Riders

Rate Class	Revenue Requirement	Allocated Revenue Requirement	2014 Average Number of Customers / Connections	Proposed Rate Rider
Residential	\$ 19,587,240	\$ 200,444	59,243	\$ 0.28
General Service < 50 kW	4,474,243	45,787	4,923	0.78
General Service > 50 kW	8,572,099	87,722	913	8.01
General Service > 1,000 kW	1,539,461	15,754	16	82.05
Sentinel Lighting	19,942	204	160	0.11
Street Lighting	1,021,667	10,455	10,319	0.08
Unmetered Scattered Load	111,692	1,143	675	\$ 0.14
Total	\$ 35,326,344	\$ 361,509		

¹⁷ Board staff submission, page 7

¹⁸ Energy Probe submission, page 4, VECC submission, page 6

1 Energy Probe also submitted that the Board should direct Oakville Hydro to base the monthly
2 fixed charge on the forecasted number of customer / connections as set out in its response to
3 Energy Probe interrogatory number 2-Energy Probe-4¹⁹. Energy Probe noted that there was a
4 wide variation in the customer growth rate between classes and that those classes with higher
5 growth rates would end up paying more than their allocated share of the costs and that there
6 would be no true-up by rate class.²⁰ Oakville Hydro agrees that the growth rate varies among the
7 classes however, as discussed in response to part e) of Energy Probe interrogatory number 2-
8 Energy Probe-4, the amount of the forecasted over collection is not material. Therefore,
9 Oakville Hydro submits that it is appropriate to base the monthly fixed charge on the 2014 Board
10 approved forecast as proposed in the Application.

11 **4. Conclusion**

12 For the foregoing reasons, Oakville Hydro respectfully requests that the Board approve:

- 13 • Oakville Hydro's proposed IRM rate adjustments;
- 14 • Oakville Hydro's request to recover costs of \$361,509 associated with the restoration
15 of power after the December 2013 ice storm through a fixed rate rider;
- 16 • the continuation of current low voltage service charges as approved in EB-2013-
17 0159;
- 18 • the continuation of the rate riders for the stranded meters assets as approved in EB-
19 2013-0159;
- 20 • the continuation of the rate riders for the recovery of incremental capital expenditures
21 as approved in EB-2013-0159;
- 22 • the continuation of the Account 1576 and CGAAP CWIP Differential rate riders as
23 approved in EB-2013-0159;

¹⁹ Energy Probe submission, page 4

²⁰ Energy Probe submission, page 5

- 1 • the continuation of the rate riders for the disposition of Group 1 Deferral and
- 2 Variance accounts as approved in EB-2013-0159;
- 3 • the approval for the proposed adjustments to the current Retail Transmission Service
- 4 Rates as approved in Oakville Hydro's 2014 application, EB-2013-0159; and
- 5 • The continuation of existing specific service charges and loss factors as approved in
- 6 EB-2013-0159.

7 All of which is respectfully submitted this 11th day of November 2014.

8 ***Original signed by***

9 Jim Collins

10 Chief Financial Officer