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November 14, 2014

BY FAX & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2014-0272
Veridian Connections Inc. --- Z Factor Application
Energy Probe – Argument

Pursuant to Procedural Order No. 1, issued October 7, 2014, please find attached Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2014-0272 proceeding for consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. George Armstrong, Veridian Connections (By email)
Randy Aiken, Aiken & Associates (By email)
Interested Parties (By email)

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Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Veridian
Connections Inc. for an order approving the recovery of certain
amounts related to the restoration of electricity service in the
service areas of Ajax, Pickering, Clarington and Port Hope due
to an ice storm in December 2013, to be effective May 1, 2015
for 24 months.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

ARGUMENT

November 14, 2014

**VERIDIAN CONNECTINS INC.
2014 Z-FACTOR APPLICATION**

EB-2014-0272

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

This is the Argument of the Energy Probe Research Foundation (“Energy Probe”) related to the issues raised by the Z factor application of Veridian Connections Inc. (“Veridian”).

Energy Probe takes no issue with the claim of Z factor eligibility. Energy Probe submits that Veridian has adequately substantiated the claim.

Energy Probe further notes that Veridian is asking for recovery of only the incremental third party costs associated with the ice storm, and is not seeking to recover the incremental internal costs related to labour, material and vehicles (Application, page 3). Energy Probe commends Veridian on this goodwill gesture to its customers.

In particular, Energy Probe submits that the amounts claimed by Veridian are directly related to the Z factor event and are incremental to the base upon which rates were derived.

The third party costs for which Veridian is seeking recovery total \$718,055 (Table 3) and are clearly related to the ice storm (Application, page 8). Furthermore, this amount is clearly incremental to the base upon which rates were derived (Staff Interrogatory #5).

The amounts were prudently incurred, in the view of Energy Probe. As indicated in the responses to Staff interrogatories 3 and 4, the costs incurred by Veridian reflected a combination of regular labour rates and premium (overtime) rates from both external contractors and from other distributors, depending on the hours worked on a given day. Energy Probe submits that this is appropriate. The costs are also clearly in excess of the Board-defined materiality threshold for Veridian of \$249,650 (Application, page 8).

Energy Probe does, however, take issue with the allocation to and recovery from customers of the amount to be recovered. Energy Probe also makes a submission on the timing of the recovery of the costs.

Submissions on these issues are provided below.

B - SUBMISSIONS

a) Allocation and Recovery

i) Allocation

Veridian proposed to allocate the ice storm costs to the rate classes based on 2014 Board approved distribution revenues. As noted in the evidence at page 8, storm restoration costs are included in Account 5020 (Overhead Operations). In the response to Energy Probe Interrogatory #1, which asked for a Table 9 that reflected the allocation of Account 5020 rather than the Board approved distribution revenues, Veridian indicated that in its opinion, either of these two methodologies was appropriate.

Energy Probe submits that it is more appropriate to allocate the ice storm costs based on Account 5020, where these costs would reside on an actual basis if not for the Z factor claim. This reflects the true allocation of costs to rate classes. The allocation based on Board approved distribution revenues includes the allocation of costs that are independent of storm restoration costs and thus skew the allocation of the costs being recovered in this application.

Further, the Board approved distribution revenues are not a true reflection of allocated costs because they are heavily influenced by the approved revenue-to-cost ratios. In Table 8.2-1 in the EB-2013-0174 Settlement Proposal dated March 26, 2014, the agreed to revenue-to-cost ratios ranged from 80% to 115.33%. This range of more than 35 percentage points highlights that the customers that are under contributing to the revenue requirement would, again, be allocated a lower portion of the ice storm costs, while those over contributing would, again, be allocated more than their fair share of the costs.

Energy Probe submits that allocating the costs based on Account 5020 is a more fair and equitable allocation of the costs than is distribution revenues, which suffers from being influenced by other costs that are not related to the ice storm and by revenue-to cost ratios that do not reflect the allocation of costs (i.e. are not 100% for all classes).

ii) Recovery

Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider, as proposed by Veridian, is appropriate. Costs should be recovered based on a customer basis, rather than a consumption basis. This is because the costs proposed for recovery in this application are customer driven and not consumption driven.

Energy Probe generally supports the use of a forecasted number of customers over which to recover the costs. However, in this particular proceeding, Veridian was unable to provide forecasts of the number of customers beyond April, 2015 (Energy Probe Interrogatory #3). A forecast was, however, provided for April, 2015.

Energy Probe submits that the use of the number of customers that will result in the smallest variance at the end of the rate rider recovery period is appropriate and notes that Veridian has provided a forecast of the number of customers by rate class at the end of April, 2015 (Energy Probe Interrogatory #3c). Energy Probe submits that the Board should direct Veridian to use these figures in the calculation of the rate rider, as they will result in a smaller over collection of the ice storm costs.

Veridian has agreed that the collection through the proposed rate rider will be tracked and refunded to customers in the future (Energy Probe Interrogatory #4). Energy Probe submits that this is appropriate because of the potential for significantly different growth rates in the number of customers across rate classes. For example, if the growth in residential customers was higher than for other classes, this rate class would contribute more to the recovery of the ice storm costs and any amount recovered in excess of the actual costs should be reflected in the refund to the rate classes that contributed to the over recovery.

In summary, Energy Probe submits that the fixed rate rider should be set based on the most recent actual number of customers/connections in each rate class over the term of the rate rider, with any variances tracked by rate class and cleared in a subsequent proceeding to those rate classes.

c) Timing of the Recovery

Veridian is requesting a recovery period of 24 months, starting May 1, 2015 based on the mitigation of customer bill impacts.

Energy Probe is concerned with both aspects of this proposal. In particular, with recovery of the ice storm costs not starting until May, 2015, it will have been nearly 1.5 years between the event and the beginning of the recovery of the associated costs. With a 24 month rate rider, these costs will still be recovered nearly 3.5 years after the event took place.

Given the relatively small rate riders, Energy Probe submits that at a minimum the recovery period should be shortened to 12 months. For a residential customer this proposal would increase the monthly rate rider from \$0.18 per month to \$0.36. As shown in the response to Energy Probe Interrogatory #2, the stranded meter rate rider of \$2.55 per month expires in April, 2015, so the new rider at \$0.36 would still reflect a reduction in rates.

Energy Probe also submits that the recovery should begin as soon as is possible, rather than waiting for May 1, 2015. Any delay in the recovery of the costs from the event that gave rise to the costs should be minimized.

Energy Probe submits that the addition of this rate rider effective January 1, 2015, and therefore, overlapping with the stranded meter rate rider for 4 months would not be a

burden on ratepayers. Rather, it would actually save ratepayers money. This can be seen in Table 8 in the Application. The total claim of \$732,035 includes \$13,194 in interest for February through April and a further \$786 for interest in January. Removal of this cost of nearly \$14,000 would result in lower amounts - a reduction of nearly 2% of the total claim - recovered from ratepayers if the rate rider is effective January 1, 2015 rather than May 1, 2015.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe focused on the quantum and allocation of the Z factor claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 14, 2014

**Randy Aiken
Consultant to Energy Probe**