



PUBLIC INTEREST ADVOCACY CENTRE
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ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Janigan
Counsel for VECC

November 14, 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)
Veridian Connections Inc. EB-2014-0272
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: Veridian Connections 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 Veridian Connections Inc.
to the Ontario Energy Board for an Order approving the
recovery of 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.

Submissions of Vulnerable Energy Consumers Coalition (VECC)

Z-Factor Costs

- Z-Factors are intended to provide for unforeseen events outside of a Distributor's management control.
- Veridian Connections Inc. (Veridian) is applying for recovery of \$718,055 plus carrying costs in the amount of \$13,980 for a total Z-Factor claim of \$732,035.
- Veridian indicates the restoration costs reflect incremental operations, maintenance and administration (OM&A) costs incurred to restore electricity service to approximately 41,800 of its customers (36%) after a severe ice storm on December 21 and 22, 2013. Veridian distributes electricity to approximately 117,765 customers.¹ The restoration work includes connecting and repairing power lines and clearing ice and tree branches from lines and transformers.
- Veridian incurred OM&A costs (\$1,169,756) and Capital costs (\$217,275) to restore electricity.
- Veridian has not included the \$217,275 in capital costs for recovery in its Z-Factor application as it deems the costs not material.²
- Of the total \$1,169,756 in OM&A costs, Veridian has incurred \$451,702 in internal costs (labour, material, vehicles) and \$718,055 in external third party costs (line contracting companies, other LDCs, emergency line clearing contractors).

¹ Manager's Summary Page 2

² Manager's Summary Page 3

- In this application Veridian is only seeking to recover the incremental third part costs as a goodwill gesture to its customers in recognition of the inconvenience of the prolonged power outage. Veridian is absorbing its internal costs. Veridian indicates the internal costs Veridian is not seeking to recover reduce returns that would otherwise accrue to Veridian's shareholder. Veridian characterizes this reduced return as Veridian's shareholder's contribution to the restoration costs.³
- Approximately \$1,028,983 (88%) of the OM&A costs were incurred in 2013 and audited as part of Veridian's 2013 year-end. The balance of the OM&A costs in the amount of \$140,773 were incurred in 2014 and are unaudited but will be audited in the months of February and March 2015.⁴
- VECC is unclear based on the evidence if the \$140,773 in unaudited costs is included in the \$718,055 in costs sought for recovery and asks that Veridian confirm this in its reply submissions. If the unaudited costs are included, VECC notes the unaudited costs represent approximately 20% of the total⁵, which in VECC's view is significant (above a 10% threshold) and should be excluded from recovery.
- Veridian submits that the costs sought for recovery meet the Z-Factor requirements as set out in the Board's Guidelines.
- 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**, **materiality**, and **prudence**.⁶
- ***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.*
- Veridian states that its external, third party OM&A restoration costs of \$718,055 are incremental and outside the base upon which rates were derived, and were incurred directly as a result of the ice storm and would not otherwise have been incurred.⁷
- VECC submits Veridian's Z-Factor claim meets the causation criterion.
- ***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.*
- Veridian's materiality threshold is \$249,650 based on 0.5% of Veridian's 2014 revenue requirement of \$49,930,177 approved in EB-2013-0174 which is applicable to applicants

³ Board Staff IR#6

⁴ Board Staff IR#1

⁵ \$140,773/\$718,055=19.6%

⁶ Chapter 3 Filing Requirements July 17, 2013, Section 3.2.2

⁷ Manager's Summary Page 8

with a distribution revenue requirement greater than \$10M but less than or equal to \$200M.⁸

- VECC submits the materiality criterion is satisfied as the 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 line crews and technical staff, Veridian incurred the following costs:

○ Other Electricity Distributors (6)	\$145,575
○ Power Line Contractors (3)	\$266,422
○ Emergency line clearing contractors (3)	\$274,374
○ Communication Costs	\$ 20,616
○ Miscellaneous	<u>\$ 11,071</u>
	\$718,055
- Veridian provided a detailed breakdown of all third party costs in the amount of \$686,369 related to labour (83.8% or \$575,021), vehicle (10.6% or \$73,319) and accommodation/meals (5.5% or \$38,028).⁹
- Veridian has a formal Mutual Assistance Plan with neighbouring utilities and the following six LDCs responded with staff and vehicles: Whitby Hydro, Oshawa PUC, Lakeland Power Orillia Power, Peterborough Utilities and Parry Sound.
- Veridian indicates the invoiced costs from LDCs are based on a combination of regular labour rates and premium rates depending on the length of time worked per day and the specific dates worked. The rates are based on the collective agreements and the responding utilities.¹⁰
- Veridian indicates the invoiced costs from external contractors are based on a combination of regular labour and premium rates depending on the hour and days for which services were provided.¹¹
- Communication costs include third party website updates, media and news releases.
- Miscellaneous costs include additional meals, fuel and hydrovac services.
- Subject to Veridian's response regarding unaudited costs, VECC takes no issue with Veridian's proposed costs for recovery.

⁸ Chapter 2 Filing Requirements July 18, 2014, Section 2.4.5

⁹ Manager's Summary Page 14

¹⁰ Board Staff IR#3

¹¹ Board Staff IR#4

Z-Factor Rate Rider

- Veridian proposes to recover the ice storm Z-Factor costs by a Fixed Charge Rate Rider across all customer classes.
- VECC submits that the recovery of the Z-Factor amount using a monthly fixed Rate Rider is appropriate. VECC supports Veridian's rationale for a fixed charge in that the costs of electricity service restoration are not dependent upon a customer's energy consumption or demand and are associated more directly with a customer's connection to the distribution network. VECC agrees and submits the recovery of costs should also not be dependent on consumption or demand.¹²
- Veridian has calculated the proposed Fixed Rate Rider by class on the basis of approved distribution revenue requirement allocations by customer class from Veridian's 2014 Cost of Service application (EB-2013-0174) over 24 months using the 2014 Board Approved forecast average number of customers/connections per class.
- VECC supports Veridian's calculation of the Rate Rider based on distribution revenue from Veridian's 2014 Cost of Service application with one adjustment. VECC submits customer count/connections based on Q3 2014 numbers provides a more accurate reflection of counts and should be used in the Rate Rider calculation. September 2014 actual number of customers is provided in Energy Probe IR#3(b).

Timing of the Recovery

- Veridian proposes that the Fixed Rate Rider be effective May 1, 2015 for 24 months to April 30, 2017 to mitigate customer bill impacts.
- VECC does not support a May 1, 2015 effective date on the basis the costs should be recovered when the costs are incurred. VECC submits pushing cost recovery out later to May 1, 2015 increases the carrying costs on the account which results in increased costs to customers. VECC does not support an approach that unnecessarily increases costs to customers.
- VECC submits the recovery should begin the month following the Board's decision in Veridian's Z-Factor application.
- VECC notes the Stranded Meter Rate Riders expire on April 30, 2015. VECC does not see the addition of the Z-Factor Rate Rider to overlap with the Stranded Meter Rate Rider as a burden to ratepayers.

¹² Board Staff IR

- VECC also supports a shorter recovery period from 24 months to 12 months given that the proposed Fixed Rate Riders for 24 months are small, the change would not result in a significant bill impact and the Smart Meter Rate Riders expire on April 30, 2015.

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 14th of November 2014.