



November 27, 2014

By RESS and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

55 Taunton Road East

Ajax, ON L1T 3V3

TEL (905) 427-9870

TEL 1-888-420-0070

FAX (905) 619-0210

www.veridian.on.ca

Dear Ms. Walli:

**Re: Z-Factor Application for Recovery of December 2013 Ice Storm Restoration Costs-
Reply Submission
Veridian Connections Inc.
EB-2014-0272**

Veridian Connections Inc. ("Veridian") hereby submits its Reply Submission in relation to Z-Factor Application to the Ontario Energy Board ("the Board") for recovery of restoration costs related to the December 2013 Ice Storm.

The reply submission has been filed through RESS and two copies have been couriered to the Board office.

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,

Laurie McLorg
Vice President, Financial Services

The power to make your community better.

Veridian Connections is a wholly owned subsidiary of Veridian Corporation



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

AND IN THE MATTER OF an application by Veridian Connections
Inc. for an Order or Orders pursuant to section 78 of the *Ontario
Energy Board Act, 1998* approving the recovery of amounts
related to the restoration of electricity service to Veridian
customers due to the December 2013 Ice Storm.

VERIDIAN CONNECTIONS INC. ("Veridian")

**Application for Approval of a Z-Factor Rate Rider for Recovery of Ice Storm Related
Restoration Costs**

EB-2014-0272

REPLY SUBMISSION

November 28, 2014

Introduction

Veridian Connections Inc. (Veridian) as a licensed electricity distributor filed an application (the "Application") with the Ontario Energy Board (the "Board" or the "OEB") on August 22, 2014, seeking approval of Z-Factor fixed rate rider for the period of May 1, 2015 to April 30, 2017 for recovery of the December 2013 Ice Storm related costs.

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 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.

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

Veridian requested that the amount be recovered by means of a fixed rate rider across all customer classes, allocated based on each class's proportion of Veridian's 2014 Board Approved Distribution Revenue. The fixed rate rider to be calculated on Veridian's 2014 Board Approved Forecast average number of customers/connections, for a period of 24 months beginning May 1, 2015 and ending April 30, 2017.

A notice of Application and Hearing was issued on September 10, 2014. Energy Probe Research Foundation ("Energy Probe") and the Vulnerable Energy Consumers Coalition ("VECC") applied and received intervenor status.

Veridian received interrogatories from Board staff, and Energy Probe on October 16, 2014. Veridian filed its responses October 30, 2014. Board staff, Energy Probe and VECC filed their Submissions on November 14, 2014.

This Reply Submission by Veridian summarizes the evidence on record, responds to issues raised by Board staff, Energy Probe and VECC in their respective submissions.

Reply Submission

Veridian submits that its Z-Factor Application has met the Board's Z-Factor eligibility criteria as follows:

Causation: All costs claimed in this application are directly related to the 2013 ice storm and are clearly outside the base for which rates were derived.

Materiality: 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: Veridian's management made appropriate and sound decisions when incurring the costs claimed in this application.

The submissions of intervenors and Board staff do not challenge the eligibility criteria of causation, materiality or prudence in any significant manner.

- Board staff submission, page 4 states *"Overall, Board staff submits that Veridian has demonstrated that the amounts sought for recovery are directly related to the ice storm and outside of the base upon which Veridian's 2013 rates were set"*. Further, on page 5, *"Board staff submits that Veridian's \$732,035 total cost claim is material."*
- Energy Probe submission, page 2 states *"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"*. Energy Probe further states, *"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"*.
- VECC submission, page 3 states *"VECC submits Veridian's Z-Factor claim meets the causation criterion"*. VECC further states *"VECC submits the materiality criterion is satisfied as the Z-Factor amount clearly exceeds the materiality threshold"*.

Veridian has organized its reply submission to respond to the issues raised. The summary is provided below:

Z-Factor Costs Claimed

Board staff

Causation:

- Regarding Veridian's ROE for 2013; Board staff request to describe the nature of the unrealized gain on the financial instrument
- Clarify unaudited amounts included in this application
- Confirmation that internal costs for which Veridian is not seeking recovery are incremental

Prudence

- Further explanation of premium rates charged by LDCs and contractors

VECC

- Requests clarification of the amount of unaudited costs included in the amount applied for recovery. Submits that unaudited costs above a 10% threshold are significant and should be excluded from recovery

Z-Factor Rate Rider

Allocation to Rate Classes and Calculation of Rate Rider

Board staff

- Board staff invites Veridian to highlight if they have a more appropriate allocation of ice storm costs to all rate classes other than the basis of Veridian's last approved distribution revenue

Energy Probe

- Submits that it is more appropriate to allocate costs across all rate classes based on Uniform System of Accounts ("USofA") 5020 as provided in response to Energy Probe Interrogatory #1
- Submits that the forecast of customer count/connections as of April 2015 as provided in response to Energy Probe Interrogatory #3 is appropriate to be used in the calculation of the rate rider
- Submits that it is appropriate that Veridian track the collection of the proposed rate rider and any over or under collection be refunded to or collected from customers in the future

VECC

- Submits that the Q3 2014 actual number of customer count/connections is appropriate to be used in the calculation of the rate rider

Timing of Recovery

Board staff

- Proposed a one year disposition period and request for Veridian to provide updated calculations on this basis

Energy Probe

- Proposed a one year disposition period
- Submits that the rate rider be effective January 1, 2015

VECC

- Proposed a one year disposition period
- Submits that the rate rider be effective the month following the Board's decision in Veridian's Z-Factor application

Detailed Reply Submission

Z-Factor Costs Claimed

Board staff

Board staff states on page 4 of their submission *"Board staff notes that Veridian's ROE for the two previous years (2011 and 2012) was in line with the deemed. However, it is Boards staff's view that there is insufficient information on the record explaining the one-time event referred to by Veridian that was the driver for the higher than normal earnings for 2013. Board staff suggests Veridian describe in its reply submission the nature of the unrealized gain on the financial instrument referred to by Veridian".*

The higher than normal earnings in 2013, was due to the recognition of an unrealized gain on a financial instrument. Veridian has long term debt with a third party which contains an interest rate swap

derivative. An interest rate swap derivative is a financial instrument in which two parties agree to exchange interest rate cash flows. This effectively provides Veridian with a fixed rate loan, but it is based upon the third party supporting this loan with a floating interest rate instrument.

Veridian included \$1,901,000 of unrealized gain in its 2013 financial statements. The unrealized gain adjustment relates to the accounting treatment for the interest rate swaps. Adjustments arise when there is a change in interest rates relative to the floating rate within the interest rate swaps. These adjustments represent the fair market value of the interest rate swap derivatives as at December 31, 2013. The entry is an accounting adjustment only and does not reflect increased earnings by Veridian.

Veridian also noted in its reply to Board Staff IR#8a) *"Veridian further notes that the eligibility criteria as set out in section 3.2.7 of the Filing Requirements do not include criteria related to Achieved ROE relative to Board Approved ROE"*.

Veridian also references the Board decision in Milton Hydro's Z-Factor application EB-2014-0162 where Board states *"The Board will not adjust Milton Hydro's claim as a result of its achieved return on equity in 2013. No party proposed an adjustment to the claim, yet Board staff indicated that a distributor earning a higher return should be able to use the excess return to fund emergency repairs. Board staff's suggestion has neither been reviewed nor endorsed by the Board as a policy applicable to Z-Factor claims"*.

In response to Board staff request (page 4 of the Board staff submission) for clarification on unaudited amounts and their inclusion in the overall claim, Veridian clarifies that the unaudited amount of \$76,508 is included in the overall claim of \$732,035. This equates to approximately 10% of the overall claim and is not viewed as significant. Veridian is requesting that it be included in the total it is seeking for recovery. The costs pertain to emergency line clearing as a direct result of the ice storm. The 2014 unaudited costs of \$76,508 is far below Veridian's materiality level of \$249,650. In reference to the unaudited costs, Board staff notes in its submission on page 4 *"Board staff notes that the amount is below Veridian's materiality threshold"*.

Board staff notes on page 4 of their submission *"it is not clear if the internal costs for which Veridian is not seeking approval are incremental to what is in current rates or not"*. Veridian confirms that the internal costs for which it is not seeking approval are in fact incremental to what is in current rates.

Board staff requests on page 6 of their submission, in regards to prudence, that Veridian confirm that the premium rates charged by both the LDCs and the contractors represent overtime and work done on statutory holidays. Veridian confirms that the premium rates were primarily for overtime and statutory holidays. Veridian was billed by one contractor premium rates on regular days. This contractor had to call in its staff from vacation to assist and therefore charged a premium rate. Veridian was unable to

secure other contractors due to the magnitude of the storm and requests for these contractors from other utilities. Veridian was obliged to secure this contractor at a premium rate in order to restore power to its customers in a timely manner.

VECC

VECC notes the same request as Board staff submission for clarification on unaudited costs. As stated above, Veridian clarifies that the unaudited amount of \$76,508 is included in the overall claim of \$732,035 and as this equates to approximately 10% of the overall claim, Veridian does not view it as significant in relation to Veridian's materiality threshold. Veridian further notes, that the state of costs being audited or unaudited are due to timing relative to Veridian's annual audit process and do not reflect differences in prudence or causation. Veridian believes that if VECC's proposal is for the unaudited costs to be disallowed, Veridian submits that VECC's position is unjustified and should not be considered by the Board. Consequently, If VECC's proposal is to have the unaudited costs be submitted for recovery by Veridian in a future application after audit of these costs has occurred, Veridian submits that this approach would create additional and unnecessary administrative burden and carrying costs, through the filing of a subsequent application for a non-material amount.

Veridian submits that the unaudited costs within the total amount sought for recovery are not material and should be included within the total costs approved.

Z-Factor Rate Rider

Allocation to Rate Classes and Calculation of Rate Rider

Board staff and VECC

Veridian proposes to recover ice storm Z-Factor costs by a fixed charge rate rider across all customer classes based on 2014 Board Approved Distribution Revenue and using the 2014 Board approved forecast average number of customers/connections per class.

In their submission, Board staff invites Veridian to highlight if they have a more appropriate allocation of ice storm costs to all rate classes other than the basis of Veridian's last approved distribution revenue

Board staff submits *"However, should there be evidence on the record regarding the nature of the distribution plant that sustained damage and the kinds of customers affected by the storm that would suggest a different allocation – for instance, by customer count rather than by revenues—Board staff invites Veridian to highlight it in its reply submission".*

Veridian advises that no detailed record of the kinds of customers affected by the ice storm is available that would support a different allocation of its Z-Factor costs.

Board staff, Energy Probe and VECC all support Veridian's proposal for recovery of the Z-Factor amount using a fixed charge rate rider.

Board staff and VECC support Veridian's proposal for allocation of costs across all customers based on distribution revenue from Veridian's 2014 Cost of Service application.

VECC submits on page 5 "*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*".

Veridian disagrees that the Q3 2014 actual customer/connections is more appropriate. The Q3 2014 actual customer/connections are derived from internal records, not formally reviewed or on record with the Board detailed by customer class. Veridian also references the Board decision in Milton Hydro's Z-Factor application EB-2014-0162 where the Board states "*The Board does not agree with VECC and Energy Probe that Milton Hydro's forecast customer number should be used. The Board finds the forecast to be unreliable as it was intended for internal purposes and had not been shared with developers in the Town of Milton*". Veridian submits that the Board Approved 2014 Forecast of customer/connection count is the most recent customer count approved by the Board for use in setting Veridian's rates, will be used in the 2015 IRM Model to set Veridian's 2015 distribution rates, and therefore is appropriate for use in calculating the Z-factor rate rider.

Energy Probe

On the matter of number of customer/connections to be used in calculating the rate rider, Veridian is unclear of Energy Probe's submission. In the first paragraph on Page 4, Energy Probe submits that the April 2015 customer/connection forecast is more appropriate for the calculation of the fixed rate rider as this will result in the smallest variance at the end of the rate rider recovery period. However, later in the third paragraph on Page 4, 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*. These statements appear to be contradictory.

Energy Probe has suggested that allocation of restoration costs among the rate classes is more appropriate based on USofA 5020 and not the basis of distribution revenue by rate class.

Veridian believes that the Board's practice of allocating such costs on the basis of distribution revenue, remains appropriate.

Veridian references the Board decision in Milton Hydro's Z-Factor application EB-2014-0162 where Board states on page 7 *"In addition, the Board finds it appropriate to allocate Z-Factor costs based on the last Board-approved distribution revenue by rate class, consistent with prior Board decisions. The Board is satisfied that distribution revenues are a reasonable proxy for allocating these costs"*.

Energy Probe states on page 4 of their submission *"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)"*.

Veridian states in its response to Energy Probe Interrogatory #4 *"Veridian confirms, that if ordered by the Board; it will track the revenue received through the Z-Factor rate rider by rate class and at the end of the proposed clearance period, the balance in the account, by rate class will be cleared to the customers in each of the rate classes"*.

Veridian reiterates its confirmation that if ordered by the Board, it will track collections of the rate rider. Veridian further proposes that any tracking mechanism requested by the Board be symmetrical in nature whereby any over recovery would be refunded to customers in the future and any under recovery would be recovered in the future.

Veridian references the Board decision in Milton Hydro's Z-Factor application EB-2014-0162 where Board states *"The Board directs Milton Hydro to transfer the balance of \$946,967 from account 1572 "Extraordinary Event Costs" to separate sub-accounts of Account 1595 applicable to principal and interest carrying charges. The use of Account 1595 "Disposition and Recovery of Regulatory Balances Control Account" will allow the difference between the \$946,967 approved Z-factor claim and the amount collected from the fixed rate riders to be tracked"*.

Timing of Recovery

Veridian proposed in its Application that the Fixed Rate Rider be effective May 1, 2015 for 24 months to April 30, 2017 to mitigate customer bill impacts.

Board staff

Board staff does not agree that a recovery period of two year is appropriate. Board staff submits a recovery period of one year is preferred in order to reduce intergenerational equity concerns.

VECC

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

Energy Probe

Energy Probe argues that the recovery period should be shortened to 12 months given the relatively small rate riders. In their submission, Energy Probe cites that the expiration of the stranded meter rate rider of \$2.55 per month for Residential customers in April 2015 compared with the small value of the new rider at \$0.36 would still reflect a reduction in rates.

Veridian agrees with the submissions of Board staff, VECC and Energy Probe that a recovery period of 12 months will result in an insignificant bill impact as the Smart Meter Rate Riders expire on April 30, 2015. Veridian submits that the 12 month Rate Rider is more appropriate.

Veridian has provided the following Table 1 calculating the Fixed Rate Rider based on a 12 month recovery period.

Table 1
Revised 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 (12 months recovery)
Residential	\$ 31,645,136	63.4%	\$ 463,955	105,999	\$ 4.38	\$ 0.36
Seasonal						
Residential	\$ 867,951	1.7%	\$ 12,725	1,590	\$ 8.00	\$ 0.67
GS < 50 kW	\$ 6,553,835	13.1%	\$ 96,087	8,781	\$ 10.94	\$ 0.91
GS 50 to 2,999 kW	\$ 8,894,814	17.8%	\$ 130,408	1,087	\$ 119.97	\$ 10.00
GS 3,000 to 4,999 kW	\$ 692,222	1.4%	\$ 10,149	5	\$ 2,029.76	\$ 169.15
Large Use	\$ 628,721	1.3%	\$ 9,218	2	\$ 4,608.89	\$ 384.07
Unmetered						
Scattered Load	\$ 145,696	0.3%	\$ 2,136	929	\$ 2.30	\$ 0.19
Sentinel Lighting	\$ 45,387	0.1%	\$ 665	475	\$ 1.40	\$ 0.12
Street Lighting	\$ 456,462	0.9%	\$ 6,692	29,943	\$ 0.22	\$ 0.02
	\$ 49,930,224	100%	\$ 732,035			

Energy Probe

Energy Probe argued concerns with the recovery of the ice storm costs not starting until May 2015 as it will have been nearly 1.5 years between the event and the beginning of the recovery of the associated costs. Energy Probe submits that an effective date of January 1, 2015 would save the rate payers money. Energy Probe argues that removal of the total interest costs of nearly \$14,000 would occur if the rate rider is effective January 1, 2015 rather than May 1, 2015.

Veridian has been unable to confirm Energy Probe's calculation of interest cost reductions of nearly \$14,000 using an effective date of January 1, 2015 for the rate rider and has calculated a reduction in interest of \$3,518 using a January 1, 2015 effective date.

Board staff does not comment on the timing of the effective period of the rate rider in their submission.

VECC

VECC submits that the recovery should begin in the month following the Board's decision in Veridian's Z-Factor application.

Veridian supports a May 1, 2015 effective date of the Z-Factor Rate Rider as the timing coincides with the change in Veridian's distribution rates as proposed in Veridian's 2015 IRM application, as well as changes to Time Of Use commodity pricing.

Conclusion

Board staff, VECC and Energy Probe agree that Veridian has met the Z-Factor criteria of causation, materiality and prudence.

The amount being claimed by Veridian (\$732,035) to restore services to its customers was significant and unavoidable.

Board submits *"Veridian has demonstrated that the amounts sought for recovery, are directly related to the ice storm and outside of the base upon which Veridian's 2013 rates were set"*.

The costs claimed by Veridian are material. They exceed the Board's threshold for materiality of \$249,650.

Board staff, VECC and Energy Probe support the recovery of the ice storm restoration costs by way of a Fixed Rate Rider.

Veridian agrees with Board staff, VECC and Energy probe to a shorter recovery period from 24 months to 12 months.

Approvals Sought

Veridian is seeking recovery of its ice storm costs in the amount of \$718,055 plus carrying charges of \$13,980 for a total Z-factor claim of \$732,035 by way of a Fixed Rate Rider as filed in Veridian's Z-Factor application.

Veridian is seeking approval to base the allocation of the Fixed Rate Rider to customer classes based on Veridian's 2014 Board Approved Distribution Revenue and to base the calculation of the Fixed Rate Rider on Veridian's Board Approved 2014 forecast average customer/connection count as filed in Veridian's Z-Factor application.

Veridian is seeking a recovery of the Z-Factor Fixed Rate Rider for 12 months beginning May 1, 2015 as set out in Table 1 above.

Veridian, in response and conclusion, respectfully submits that the costs for recovery within the Application have been prudently incurred in accordance with the Board's guidelines, and that the proposed rate riders are just and reasonable. Veridian respectfully requests the Board approval of these costs and approval of the proposed rate riders.