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January 12, 2015

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)
Cambridge and North Dumfries Hydro Inc. EB-2014-0060
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: Cambridge and North Dumfries Hydro 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 Cambridge and North Dumfries Hydro Inc.
to the Ontario Energy Board for an order approving just and
reasonable rates and other charges for electricity distribution
to be effective May 1, 2015.

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.

- Cambridge and North Dumfries Hydro Inc. (CND) is applying for recovery of $487,794 plus carrying costs up to April 30, 2015 in the amount of $9,520 for a total Z-Factor claim of $497,314.

- CND indicates the restoration costs reflect incremental operations, maintenance and administration (OM&A) costs incurred to repair and restore its distribution system and related administration after a severe ice storm on December 21 and 22, 2013.

- Approximately 30,000 of CND's customers (almost 60% of its customer base) were impacted by the storm. Most of the damage to the distribution infrastructure was tree related in more rural areas and restoration involved removing fallen trees from lines.

- The majority of the costs (close to 97%) were incurred in 2013. The remaining 3% of the total costs ($12,532) related to clean-up were incurred in January 2014.[1]

- CND indicates its response to the ice storm is in accordance with the provisions of its Emergency Plan and it did not deviate from its Emergency Plan.[2]

- 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: **materiality**, **prudence** and **causation**.[3]

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[1] VECC IR#5(b)
[2] Board Staff IR#20
[3] Chapter 3 Filing Requirements July 17, 2013, Section 3.2.2

- ***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.*

- CND's materiality threshold is approximately $125,000. This is based on 0.5% of CND's 2010 revenue requirement of approximately $25,000,000 approved in EB-2009-0260 for 2010 rates which is the computation applicable to applicants with a distribution revenue requirement greater than $10M but less than or equal to $200M.[4]

- CND indicates the 2010 distribution revenue requirement is the appropriate basis for the materiality computation as the Z-Factor claim occurred in 2013, prior to the May 1, 2014 effective date of CND's 2014 Cost of Service application (EB-2013-0116).[5] VECC agrees.

- CND's proposed Z-Factor amount of $497,314 exceeds the materiality threshold. VECC's comments below request that the Board reduce CND's Z-Factor amount, however the resulting amount is still in excess of the materiality threshold. On this basis VECC submits CND's Z-Factor claim satisfies the materiality criterion.

- ***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.*

- CND's OM&A costs include third party contractor costs, overtime labour and vehicle costs, materials and supplies and miscellaneous expenses including meals for all crews and accommodations for out-of-town crews as follows:

o Third Party Contractors	$316,740
o Overtime Labour and Vehicles	$146,756
o Materials	$ 38,171
o Miscellaneous Expenses	$ 5,199
o Less: Recovered from Hydro One for assistance provided by CND	($19,072)
	$487,794

- CND proposes to recover an amount of $19,072 for an amount billed to Hydro One Networks Inc. based on work completed on behalf of Hydro One customers. The recovery includes overtime hours, vehicles and miscellaneous costs.[6]

Third Party Contractors

[4] Chapter 2 Filing Requirements July 18, 2014, Section 2.4.5
[5] Manager's Summary Page 2
[6] Board Staff IR#

- The nine Third Party Contractors include two distribution companies (Bluewater Power Services Corp. and S. Thomas Energy Ltd.) and seven contractors. In response to interrogatories, CND provided a breakdown of LDC costs[7] and contractor costs[8].

- CND confirms that the hours worked by the external contractors in the restoration effort were verified. CND confirms that it checked how the invoiced costs for labour rates and equipment were determined by the external contractors.[9]

- CND confirms that it verified the hours worked by the LDCs in the restoration effort. However, CND did not check and does not know how the invoiced costs for labour rates and equipment were determined by the LDCs. CND checked the costs to see if they were reasonable.[10]

- The LDC costs of Bluewater Power Services Corp. and St. Thomas Energy Inc. were $18,461 and $6,956[11], respectively and total $25,417.

- It is unclear to VECC why CND would verify how the invoiced costs for labour rates and equipment were determined for the external contractors but not for the two LDCs. Without this information, VECC submits a determination of prudence with respect to these costs is not feasible. If the basis for costs is not known, how do ratepayers know whether or not CND has paid a premium or has only been billed for work done for them. VECC submits that CND should investigate & clarify in its reply submission the basis for the invoiced costs of the LDCs and confirm that a premium was not paid and only costs applicable to CND were charged to CND.

- VECC submits if a premium 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.

- For the work performed by external contractors, the majority of the invoiced costs were based on premium rates.[12] In response to VECC IR#10, CND provided the emergency overtime rates and statutory holiday rates for each contractor. VECC notes that for all but one contractor, the statutory holiday rates were double time. For one contractor, the statutory holiday rate was triple time. This contractor represents almost 19% of the total 3rd party labour costs.[13] In VECC's view triple time is excessive. It is unclear to VECC if and how a triple time rate was negotiated. VECC asks that CND, in its reply submission, discuss the basis for approving this rate and whether CND feels a labour rate above

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[7] Board Staff IR 15(b)
[8] VECC IR#7
[9] Board Staff 14(e)
[10] VECC IR #15(b)
[11] Board Staff IR#15(b)
[12] Board Staff IR 14(d)
[13] VECC IR#7 $48,208/$258,015 = 18.7%

double time is prudent.

Overtime Labour & Vehicles

- A total of 1,824 overtime labour hours and 357 overtime vehicle hours were incurred by CND.

- CND has not included regular payroll costs (748 hours/$39,323[14]) and associated truck costs which is appropriate.[15] Overtime was not paid to CND's Leadership Team.

Materials

- CND confirmed materials acquired were at normal rates from regular suppliers.[16]

Miscellaneous Costs

- With respect to miscellaneous costs, CND confirms that it followed its corporate policies regarding employee allowances for meals and accommodations.[17]

Vegetation Management

- In response to VECC IR# 11, CND indicated its tree trimming cycle is a four year cycle and CND provided its budget and actual tree trimming costs for the years 2010 to 2013 and its forecast for 2014 as shown in the Table below.

Year	Budget	Actuals	Variance $	Variance %
2010	$418,971	$313,360	-$105,611	-25.2%
2011	$376,918	$254,435	-$122,483	-32.5%
2012	$330,617	$332,661	2,044	+0.6%
2013	$322,770	$277,214	-$45,556	-14.1%
Total 2010-2013	**$1,449,276**	**$1,177,670**	**-$271,606**	**-18.74%**
2014	$343,089	$303,371	-$40,018	-11.7%

- VECC notes that the amount of vegetation management built into rates as part of the 2010 Cost of Service application is $418,971. In 2010 CND underspent by 25.2% compared to the amount built into rates.

- In 2013, the year of the ice storm that is the subject of this application, CND's actual vegetation management expenditures of $277,214 are 14.1%[18] below the 2013 budgeted

[14] VECC IR#6(c)
[15] VECC IR#5(a)
[16] VECC IR#8(a)
[17] VECC IR#5(c)

amount of $322,770 and 34% ($141,757)[19] below the $418,971 approved in 2010 rates.

- In fact over the four year period 2010-2013, CND underspent $271,606 (18.7%) compared to the total budgeted amount of $1,449,276 and $498,214 (30%) compared to the $1,675,884[20] amount built into rates.

- To explain the variance in tree trimming costs (operating budget) for 2011, CND indicated that there were various storm situations where CND lost contractor crews to other utilities that required assistance in restoring power to customers and since no additional contractor crews were available due to storm work, crew time was also lost in completing work on capital projects.[21]

- To explain the variance in tree trimming costs (operating budget) for 2013, CND again indicates that its contractor tree trimming crews were sent to various electrical utilities in Southern Ontario to assist in power restorations due to an ice storm in April and a severe wind storm in July. Thus CND lost crews to these restoration efforts and had to complete work on capital projects with fewer resources.[22]

- In response to Board Staff IR#18(a) regarding the nature of the distribution plant that sustained damage, CND stated:

  "Poles and overhead wires sustained damage in the ice storm. The accumulation of ice caused trees, limbs, power line conductors and poles to break and fall down. In some cases, the force of the ice laden trees and branches falling into the power lines caused conductors and poles to break. In other cases, the fallen ice laden trees and branches remained in contact with the intact power lines creating a short circuit which caused fuses to blow or circuit breakers to open."

- In VECC's view had CND maintained its tree trimming expenditures at the level built into 2010 rates, its ice storm costs which are predominantly tree related, would be significantly lower. VECC submits CND's loss in contractor crews to other utilities resulted in a reduction in its operating budget with respect to tree trimming which did not result in the most cost-effective option for customers. Through rates, customers have paid for tree trimming that was not undertaken and now CND is asking its customers to pay for damage caused by trees that should have been better maintained as part of its annual tree trimming program.

- In considering the above, VECC submits that the Board should reduce CND's Z-Factor amount by the 30% underspending on tree trimming compared to the amount built into

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[18] $271,606/$1,449,276 = 18.74%
[19] $418,971-$277,214 = $141,757
[20] $418,971 x 4 = $1,675,884
[21] VECC IR#11
[22] VECC IR#11

rates and paid for by customers. This would result in a decrease of $146,338 for a Z-Factor amount of $314,456 excluding carrying charges.

- ***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.*

- CND confirms the components of the total claim amount of $497,314 are directly related to the Z-Factor event.[23] CND indicates it would not have incurred any of the identified incremental costs if the ice storm had not occurred.[24]

- CND confirms that the total claim is clearly outside of the base upon which rates for 2013 were derived.[25]

- VECC notes CND's storm costs budget was overspent in 2011 and 2012. In 2013 the storm costs budget was overspent by 53% prior to the occurrence of the ice storm on December 21st and 22 due to typical wind, lightning and ice storm expenditures.

- VECC submits the reduced Z-Factor claim put forward by VECC is the amount directly related to the Z-Factor event and clearly outside of base rates. In VECC's view, its proposed Z-Factor reduction amount of $146,338 is a cost component related to tree trimming which is not outside of the base upon which rates are derived.

Cost Recovery: Z-Factor Rate Rider

- CND proposes to recover the ice storm Z-Factor costs by a Fixed Charge Rate Rider based on allocating costs across all customer classes, computed based on customer numbers over a 12 month period commencing May 1, 2015 and ending April 30, 2016.

- VECC submits the recovery of the Z-Factor amount using a monthly fixed Rate Rider is appropriate. 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.

- CND proposes that the most equitable way to recover Z-Factor costs is on the basis of customer numbers as this approach is more representative of the customers that were impacted by the December Ice Storm. The alternative is to recovery costs on the basis of distribution revenue.

- Using customer numbers as the basis for allocation, approximately 89% of the costs are allocated to residential customers. Using distribution revenue, the allocation to the

[23] Board Staff IR#11(a)
[24] Manager's Summary Page 29
[25] Board Staff IR#11(b)

residential class is less than 50%.[26]

- CND submits that the majority of the costs should be allocated to the residential class since the majority of the outages were in the residential and more rural areas where trees are more likely to grow and be impacted by the ice storm.

- VECC does not support CND's approach to use customer numbers as the basis for allocating costs. VECC submits that the Board should approve an allocation of costs that is based on 2010 distribution revenues (EB-2009-0260).

- Firstly, VECC submits that this approach is consistent with the Board's recent Decisions in other Z-Factor applications related to the December 2013 ice storm. (i.e. Milton Hydro (EB-2014-0162), Halton Hills (EB-2014-0211) and Oakville Hydro (EB-2014-0102). The Board is satisfied that distribution revenues are a reasonable proxy for allocating these costs.[27]

- Secondly, VECC submits in principle, the recovery of the costs should be allocated similar to how it would be done if the cost were included in the cost allocation model for rate setting purposes. Use of distribution revenue is a simple way of doing this as the distribution revenue by class is roughly equivalent to the allocation of costs by customer class for rate setting and simpler to implement. Given the damage described by CND, it appears the majority of the assets involved are poles and wires. Based on the CA model filed with CND's 2014 final rates the % of distribution assets (primary poles, secondary poles, primary O/H wires, secondary O/H wires) allocated to residential ranges from roughly 40% to 48%. So while the use of distribution revenue represents a very slight over allocation to residential it is far more representative of how the costs would be allocated than the use of customer count which would result in a significant over allocation.

- With respect to calculating the Fixed Charge Rate Riders, VECC submits the latest actual customer count/connections should be used. In response to Energy Probe IR#4, CND provided the most recent month available for actual number of customers by rate class (September 30, 2014). VECC submits this data should be used instead of the December 31, 2013 numbers proposed by CND. This approach is consistent with the Board's Decision in EB-2014-0211 where the Board found it preferable to use the latest actual customer count data provided in evidence, rather than the December 31, 2013 numbers as proposed by Halton Hills Hydro in order to mitigate the potential for over or under collection.[28]

Timing of the Recovery

[26] Manager's Summary Page 27
[27] EB-2014-0211 Decision Page 10
[28] EB-2014-0211 Decision Page

- CND proposes that the Fixed Rate Rider be effective May 1, 2015 for 12 months to April 30, 2016.

- 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 CND's Z-Factor application.

<u>True-Up of Costs</u>

- CND proposes to recover only the Board approved costs and carrying charges related to the 2013 Ice Storm. Consistent with the recent OEB decision with respect to Milton Hydro's Z-factor application, which was also related to the 2013 Ice Storm (EB-2014-0162), CND proposes to transfer the approved balance from Account 1572 "Extraordinary Event Costs" to a separate sub-account of Account 1595. The use of Account 1595 "Disposition and Recovery of Regulatory Balances Control Account" will allow the difference between the approved Z-factor amount and the actual amount collected from the final rate riders to be tracked and ultimately to be refunded to or recovered from customers.[29] VECC supports this approach. If customer growth increases as anticipated, CND could over recover from customers. The use of more recent customer numbers may help to reduce this potential over collection.

Lost Revenue Adjustment Mechanism Variance Account

<u>Background</u>

- The Board established an LRAM variance account ("LRAMVA") to capture at the customer rate-class level, the difference between the following:

    i. The results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor's franchise area); and

    ii. The level of CDM program activities included in the distributor's load forecast (i.e. the level embedded into rates).[30]

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[29] Board Staff IR#24 & Energy Probe IR#4(d)
[30] Guidelines for Electricity Distributor Conservation and Demand Management

- The difference between the approved CDM amount (kWh and MW) in the distributors load forecast and the actual verified final program results will be the LRAM amount eligible for recovery.[31]

- CND is requesting the recovery of $282,127 in LRAMVA, including $7,291 through to April 30, 2015 resulting from CDM activities in 2013 from 2011, 2012 and 2013 programs.

- CND relied upon the results provided by the OPA and did not determine it necessary to engage a third party to verify the OPA's results.

- CND used the OPA's 2013 Draft Verified Results Report to calculate the LRAMVA. In response to Board Staff IR#8, CND updated its LRAMVA calculation to $282,030 based on the OPA's 2013 Final Verified Results Report. The update does not change the resulting LRAMVA rate riders.

- CND confirms that the load forecast underpinning 2013 rates did not include a CDM component as it was based on CND's 2010 Cost of Service Application EB-2009-0260. The 2010 load forecast did not include a CDM component.[32]

- CND last rebased in 2014 rates and its updated 2014 load forecast includes a CDM component.

- CND confirmed that it has not recovered any of the LRAM amounts proposed for recovery in a previous application.

- VECC supports CND's lost revenue calculations subject to the comments below regarding CND's Demand Response 3 Program.

<u>Demand Response 3 Program</u>

- CND confirmed the savings reported for the Demand Response 3 Program are contracted values and not actual measured demand reductions in each year.[33]

- CND does not have any record as to how much actual demand reduction was actually achieved in each year due to the Demand Response 3 Program nor whether the demand reduction was coincident with the peak interval used to establish the customers' billing demands.[34]

EB-2012-0003 Page 12
[31] Guidelines for Electricity Distributor Conservation and Demand Management
EB-2012-0003 Page 13
[32] Board Staff IR#9
[33] VECC IR#4(a)
[34] VECC IR#4(b)

- VECC submits that there are three fundamental problems with CND's inclusion of Demand Response 3 Programs in its LRAM application. First, there is no evidence that the program was actually activated for even one month. As a result, there is no evidence that the program had any effect on CND's actual 2013 load.

- Second, if it was activated, it is not known from the evidence in this proceeding whether any Demand Response 3 activations in 2013 would have occurred at the same time as the customer's billing demand (kW) for the month was established, as the customer's monthly peak may not correspond to the system's peak.

- Finally, even if they were coincident, if a demand response event was called, and the customer's monthly peak was shaved, it is likely that the customer's second highest peak in the month is only slightly less than their highest peak. Thus, the impact on distribution revenues is likely to be minimal with virtually zero impact on billing demand.

- On this basis, VECC submits that in CND's application, no lost revenues from GS 50-999 kW and GS>1000 kW customers' participation in Demand Response 3 Programs should be included for recovery.

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 12th of January 2015.