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January 12, 2015

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-2014-0060
Cambridge and North Dumfries Hydro Inc. --- 2015 IRM Application
Energy Probe – Argument

Pursuant to the Procedural Order No 1, issued November 18, 2014, please find attached the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2014-0060 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. Grant Brooker, Cambridge and North Dumfries Hydro (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 Cambridge
and North Dumfries Hydro Inc. for an order approving just and
reasonable rates and other charges for electricity distribution to
be effective May 1, 2015.

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

ARGUMENT

January 12, 2015

**CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.
2015 RATES APPLICATION**

EB-2014-0060

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 component of the 2015 rates application of Cambridge and North Dumfries Hydro Inc. (“Cambridge”).

Energy Probe notes that Z-factor claims must satisfy three eligibility criteria, in accordance with the *Board's Report on 3rd Generation Incentive Regulation for Ontario's electricity Distributors* ("Report") dated July 14, 2008.

Submissions on these eligibility criteria are provided below. Energy Probe also provides submissions on the allocation of the amounts to be recovered and the proposed recovery methodology.

B - SUBMISSIONS

Cambridge is claiming a Z factor amount of \$497,314, including \$9,520 in carrying charges, that is related to incremental OM&A costs (Application, page 24). This amount includes costs related to subcontractors, overtime labour and vehicle costs, materials that are expenses and miscellaneous expenses, less an amount of \$19,072 that Cambridge proposes to recover from Hydro One (Table 12). The costs proposed to be recovered do not include any regular hours for employees (Board Staff Interrogatory #13).

a) Materiality

AS defined in the Report, materiality means that the amounts claimed 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 productive improvements.

The materiality threshold for Cambridge in the EB-2009-0260 proceeding for 2010 rates was \$125,000. Energy Probe agrees with Cambridge that since the Z-factor event took place in 2013, the 2014 cost of service application and the associated materiality threshold should not be used.

As submitted below, Energy Probe submits that the Board should reduce the amount of the Z-factor claim. As long as the remaining amount is in excess of the materiality threshold of \$125,000, Energy Probe submits that the claim has met the materiality criteria. However, should the Board reduce the Z-factor claim to below this level of \$125,000, then Energy Probe submits that the materiality criteria will not have been met and no Z-factor recovery is required.

b) Prudence

In the Report, prudence means the amounts claimed must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Energy Probe submits that not all of the costs were prudently incurred and the amounts do not represent the most cost-effective option for ratepayers. In support of this submission, Energy Probe provides the following table, which is a summary of the response to VECC Interrogatory #11. Cambridge noted that its tree trimming cycle is a four year cycle.

Tree Trimming Under Spending			
<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
2010	418,971	313,360	(-105,611)
2011	376,918	254,435	(-122,483)
2012	330,617	332,661	2,044
2013	<u>322,770</u>	<u>277,214</u>	<u>(-45,556)</u>
Total	1,449,276	1,177,670	(-271,606)

As the above table illustrates, Cambridge under spent compared to its budget over the four year cycle between 2010 and 2013 by more than \$270,000, or nearly 19%.

Moreover, compared to the budget amount of \$418,971 built into the 2010 cost of service rates the actual tree trimming expenses incurred over the 2010 through 2013 period of \$1,177,670 are \$498,214, or 30% lower than that built into rates (\$418,971 x 4 = \$1,675,884). This shortfall is almost identical to Z-factor amount proposed to be recovered by Cambridge.

Energy Probe notes that the 2010 budget figure was not adjusted in the EB-2009-0260 settlement agreement. Specific adjustments were used in moving from the original forecast for 2010 to the settlement amount of OM&A and none of the reductions included any adjustments to tree trimming expenses.

Energy Probe submits that there is little doubt that Cambridge would still have incurred some expenses as a result of the December 2013 ice storm.

However, Energy Probe submits that if Cambridge had maintained its tree trimming at the levels that were built into the 2010 base rates, the costs would have been significantly reduced.

Energy Probe notes that the evidence in this proceeding (pages 24-25) indicates that a major part of the problem results from tree and tree limbs.

"The accumulation of ice during the storm (referred to as ice loading) resulted in trees, limbs, powerline conductors and poles to break and fall down. Crews worked in extremely treacherous and dangerous working conditions – the ice and freezing rain was unrelenting. As one line was restored, 1 a tree in a different location would fall on the same or another line and create a new outage. A large portion of CND's service territory is in heavily treed, rural locations and crews faced unique challenges. At one point during the first night, CND received over 600 individual trouble reports, including ten hydro poles that had to be replaced, as well as hundreds of trees and limbs that had fallen on to power lines. Numerous powerline fuses were replaced after trees and limbs had been removed from the lines. Approximately 700 kilometers of powerlines were affected by the ice storm."

Clearly, if Cambridge had not reduced its tree trimming activity from that built into 2010 rates or even if it had matched the annual budgeted spending over the 2010 through 2013 period, there would have been less outages and less expense in returning the system to full operation.

Energy Probe submits it is not prudent for the distributor to reduce its tree trimming activity for which it is being paid by ratepayers, and then turn around and request recovery for the ice storm when at least a portion of these costs were avoidable. It is not cost effective because ratepayers have paid for a level of tree trimming in 2010 through 2013 that did not take place and now they have to pay the incremental costs associated with the ice storm.

It is further noted that Cambridge did not have a formal tree trimming policy in place at, or before, the time of the December 2013 ice storm (Board Staff Interrogatory #16), but indicated that it operated under a less formal program.

c) Causation

In the Report, causation means that the amounts claimed should be directly related to the Z-factor event and that the amount must be clearly outside of the base upon which current rates were set.

As noted above, Energy Probe notes that Cambridge under spent on tree trimming activity by approximately 30% as compared to the amounts built into base rates in 2010 and escalated in 2011 through 2013.

Energy Probe submits that the Z-factor claim of nearly \$500,000 cannot all be considered to be directly related to the Z-factor event. A portion of the amount claimed is directly related to the tree trimming that did not take place over the 2010 through 2013 period that should have been done based on the amount included in base rates.

Cambridge may submit that it did all of the tree trimming it planned to do, and saved the money based on lower costs to accomplish the same amount of work. However, Cambridge has not provided any evidence in the proceeding to support this. Even if this were the case, Energy Probe submits that Cambridge could have done more tree trimming and still remain within its budget. Diverting crews to assist other distributors should not result in work not being done in its own service territory to the ultimate harm of its ratepayers.

In summary, Energy Probe submits that the total amount claimed of \$497,314 does not meet the eligibility criteria set out in the Report for Z-factor events. Part of the cost is the direct result of a reduction in tree trimming that took place in 2010 through 2013 relative to that built into rates being paid by ratepayers. It is not prudent to charge customers for a service that is not fully provided to those ratepayers and then turn around and try and recover all of the costs associated with fixing a problem which was clearly increased by the reduction in tree trimming.

Energy Probe submits that the Board should reduce the amount eligible for Z-factor recovery by an amount of somewhere between 30% and 100%. The 30% figure is based on the fact that Cambridge spent 30% less in 2010 through 2013 on tree trimming than was included in base 2010 rates. The 100% reduction reflects the fact that the absolute dollar amount that was under spent over the 2010 through 2013 period relative to that built into rates was \$498,214, virtually identical to the amount claimed by Cambridge.

d) Allocation and Recovery

i) Allocation

Cambridge proposes to allocate the amounts to be recovered to rate classes based on the number of customers in each rate class. Energy Probe strongly disagrees with this approach. Rather, Energy Probe submits that the Board should allocate costs based on the EB-2009-0260 allocation of distribution revenues. This would be consistent with virtually every other Z-factor application (EB-2007-0514/0505/0571/0551 and EB-2011-0186), including the recent decisions for Milton Hydro (EB-2014-0162), Halton Hills (EB-2014-0211) and Oakville Hydro (EB-2014-0102), all of which were Z-factor applications for the same December 2013 ice storm costs.

Energy Probe submits that the rationale used by Cambridge to support its proposal to allocate costs by customer numbers does not stand up to scrutiny. Cambridge submits that most of the damage was done in rural areas and rural areas are made up primarily of residential customers (Board Staff Interrogatory #18). As a result, most of the costs

should be allocated to residential customers. Use of customers for the allocation accomplishes this.

Energy Probe submits that this rationale is flawed. If the costs are primarily rural based, why should residential customers, or any other customers for that matter, be allocated any of the costs? Similarly, why should rural customers be allocated any undergrounding costs, as an example, since these are primarily incurred in urban areas?

ii) Recovery

Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider 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.

However, Energy Probe submits that the Board should direct Cambridge to base the monthly fixed rate rider on the latest actual number of customers that is currently available. The figures for September, 2014 were provided in the response to Energy Probe Interrogatory #4. This would be consistent with the Board's Decision and Order in EB-2014-0211, Corrected December 12, 2014, for Halton Hills Hydro Inc. (page 10).

iii) Timing of the Recovery

Energy Probe supports the timing of the recovery as proposed by Cambridge, being May 1, 2015 through April 30, 2016. Energy Probe is concerned with the time that has elapsed from the event in December, 2013 to the time that the event costs will be fully recovered, being more than two years. However, given the circumstances related to Cambridge in that it had a 2014 rebasing application to deal with, Energy Probe believes the proposal to be reasonable.

iv) True-Up of Costs

Energy Probe supports the true-up of the cost recovery. Given the expected growth in the customer base, Cambridge will likely over recover the amount of the Z-factor recovery. As noted in the response to Board Staff Interrogatory #24 and Energy Probe Interrogatory #4d, Cambridge proposes to recover only the Board approved costs and carrying charges related to the 2013 ice storm. Cambridge further notes that it proposes to be consistent with the recent EB-2014-0162 decision related to Milton Hydro's Z-factor application in which the Board directed Milton Hydro to transfer the approved balance from Account 1572 "Extraordinary Event Costs" to a separate sub-account of Account of 1595 "Disposition and Recovery of Regulatory Balances Control Account". This will enable Cambridge to track the difference between the approved Z-factor recovery amount and the actual amount collected from the rate riders and true up the difference to customers. Energy probe supports this proposal.

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

January 12, 2015

**Randy Aiken
Consultant to Energy Probe**