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January 26, 2015

DELIVERED BY RESS, COURIER AND E-MAIL

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

Dear Ms. Walli:

Re: Cambridge and North Dumfries Hydro Inc. - Application for an Order or Orders approving or fixing just and reasonable distribution rates and other service charges to be effective May 1, 2015 (Board File No. EB-2014-0060)

Please find enclosed the Reply Submissions of Cambridge and North Dumfries Hydro Inc. in regards to the above noted matter.

Yours Truly,

Original signed by John A.D. Vellone

BORDEN LADNER GERVAIS LLP

JADV/JKL

Copy: Sarah Hughes, Grant Brooker and Ian Miles, Cambridge and North Dumfries Hydro Inc.
Parties to EB-2014-0060

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TOR01: 5833251: v1

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. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable distribution rates and other service charges to be effective May 1, 2015.

**REPLY SUBMISSIONS OF
CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.**

January 26, 2015

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**REPLY SUBMISSIONS OF
CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.**

DELIVERED: JANUARY 26, 2015

A. INTRODUCTION

1. Cambridge and North Dumfries Hydro Inc. (“**CND**” or the “**Applicant**”) filed an application on October 15, 2014 (the “**Application**”) with the Ontario Energy Board (the “**Board**”) under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval of its proposed distribution rates and other charges to be effective May 1, 2015 on the basis of the 4th Generation Incentive Rate-setting Mechanism (“**4GIRM**”). The Board assigned the Application file number EB-2014-0060.
2. CND is pleased to present this written reply to the submissions of Board staff (“**Staff**”), the Vulnerable Energy Consumers Coalition (“**VECC**”) and Energy Probe Research Foundation (“**EP**”) received January 12, 2015 (Staff, VECC, EP are collectively referred to as the “**Parties**”).
3. In its Application, CND applied for an Order or Orders approving seven individual proposals.¹ Certain of these proposals were not contested by the Parties through their respective submissions. Accordingly, CND submits that an Order or Orders should be granted approving:
 - a) An adjustment to the existing rates to reflect the Annual Adjustment Mechanism;
 - b) An adjustment to the retail transmission service rates;
 - c) Disposition of Deferral and Variance accounts, representing a net refund to customers in the amount of \$426,573 as updated in CND’s response to Staff IR-3; and
 - d) Continuation of rates and charges as detailed in EB-2014-0116, including the Smart Meter Entity Charge, the Low Voltage Service Rate, the Wholesale

¹ Application, page 9.

Market Service Rate, the Rural or Remote Electricity Rate Protection Charge, the Standard Supply Service – Administrative Charge (if applicable), the microFIT Generator Service Classification Service Charge, the Transformer Allowance for Ownership, the Primary Metering Allowance for transformer losses, the specific service charges, Retail Service Charges and loss factors.

4. Pursuant to Procedural Order No. 2 dated November 25, 2014, the Board determined that it will not hear CND's gross load billing proposal in the Application. Accordingly, CND will refrain from making submissions pertaining to this issue. CND acknowledges the Board's determination that it is able to apply for a stand-by rate or for gross load billing as a separate application in order to deal with load displacement generation activities.
5. The remainder of this document reviews the submissions of Staff, VECC and EP and provides the reply of CND in respect of the following two outstanding issues:
 - a) the Z-Factor; and
 - b) LRAMVA.

B. THE Z-FACTOR

6. As a result of the severe ice storm that hit Southern and Eastern Ontario on December 21 and 22, 2013 (the "**Storm**"), CND incurred costs that qualify for Z-Factor recovery as set out in Section 3.2.7 of Chapter 3 of the Board's *Filing Requirements for Electricity Distribution Rate Applications* dated July 17, 2013 (the "**Filing Requirements**") and Section 2.6 of Board's *Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated July 14, 2008 (the "**2008 Report**").
7. The Storm has been the subject of a number of other Z-Factor claims related to the same Storm, which have been approved by the Board including in EB-2014-0102 (Oakville Hydro Inc.), EB-2014-0211 (Halton Hills Hydro), and EB-2014-0162 (Milton Hydro).

8. CND's Z-Factor claim is for \$497,314 comprised of the net principal amount of \$487,794, plus carrying costs in the amount of \$9,520. As stated in the Application, this represents the balance as of April 30, 2015 after applying the OEB's prescribed interest rate of 1.47%.
9. Table 1 below represents a summary of costs incurred by CND during the Storm:

Table 1 – Z-Factor Ice Storm Cost Summary²

Description	Cost
Subcontractors	\$316,740
Overtime Labour and Vehicles	\$146,756
Materials	\$38,171
Miscellaneous Expenses	\$5,199
Less: recovered From Hydro One	(\$19,072)
Net Costs	\$487,794
Carrying Charges	\$9,520
Total Restoration Costs	\$497,314

10. In accordance with the Filing Requirements, CND prepared its Application and provided evidence that the three eligibility criteria for submitting a Z-Factor claim – materiality, prudence and causation – have been met. CND's evidence, as well as the submissions of the Parties, are addressed below.

B.1 MATERIALITY

11. The *2008 Report* states the materiality criteria is as follows:

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.³

12. As stated in the Application, the materiality threshold established for CND's last Cost of Service Application was \$125,000 based on 0.5% of the revenue requirement of approximately \$25,000,000. As the Z-Factor Claim occurred in 2013, prior to the May 1, 2014 effective date of CND's 2014 Cost of Service

² Application at Table 12, page 28.

³ *2008 Report* at Appendix, page IV.

Application, CND submits that the 2010 distribution revenue requirement is the appropriate basis for the computation.

13. In this context, CND submits that the total cost claim of \$497,314 exceeds the materiality threshold. This amount of money is significant for CND, and would dramatically impact on the operation of CND if it had to be absorbed in normal course expenditures.
14. Staff agreed that CND's \$497,314 total cost claim is material.⁴ VECC similarly agreed that CND's Z-Factor claim satisfies the materiality criterion.⁵ While EP acknowledges that CND's \$497,314 total cost claim meets the materiality criteria, EP has recommended reductions in the value of the total cost claim which EP suggests should be considered in a new assessment of materiality.⁶ CND does not agree with EP or VECC that the Board should reduce the amount of the Z-Factor claim. This will be discussed further below.

B.2 PRUDENCE

15. The *2008 Report* states the prudence criteria is as follows:

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.⁷

16. As stated in the Application, CND began its response to the Storm at 2:06am on December 22, 2013 and invoked its Emergency Plan later that morning. This plan called for all line crews to be on standby to be called in to complete or support repairs. This included all of CND's other related departments. Additional contractor crews, forestry crews and trucks from Bluewater Power Services Corp. , St. Thomas Energy Inc., D. L. Hannon Inc., Valard Construction LP, Dundas Power Line Ltd., South West Power Corporation, Davey Tree Expert Co. of Canada Ltd., Badger Daylighting Inc. and Folmur Construction Ltd. were also called in for the restoration process. It was determined that CND crews were

⁴ Staff submissions dated January 12, 2015 ("Staff Submissions"), page 6.

⁵ VECC submissions, January 12, 2015 ("VECC Submissions"), page 3.

⁶ EP submissions, January 12, 2015 ("EP Submissions"), pages 2-3.

⁷ *2008 Report* at Appendix page IV.

unable to affect full restoration on a timely basis. The Emergency Plan was in effect until end of day December 25, 2013.⁸

17. Each of the Parties has made submissions on several issues relating to prudence.

These issues can be summarized in the following sub categories:

- a. Tree Trimming / Vegetation Management
- b. Third Party Contractors

B.2.a CND's Tree Trimming and Vegetation Management Policy

18. In response to VECC IR-11, CND described its tree trimming process as being a four year cycle for both the City of Cambridge and the Township of North Dumfries.

19. In regard to the tree trimming cycle, Staff submitted as follows:

Board staff notes that while CND has acknowledged the correlation between the presence of trees in a given area and the impact of the ice storm, it has also acknowledged in its response to BSI #16, that at the time of the ice storm, it did not have a formally documented tree trimming policy and operated under a less formal program. CND reported that it adhered instead to a corporate tree trimming program in the period prior to the onset of the ice storm. Board staff requests CND to explain in its reply submission the difference between "tree trimming policy" and "corporate tree trimming program".⁹

20. CND's "corporate tree trimming program" is explained in response to Staff IR-16 and the document titled *Forestry Contract Specifications* attached as Appendix C to CND's IRR submissions dated December 16, 2014. Specifically, prior to the Storm CND had a formal corporate tree trimming program in-place pursuant to which qualified personnel¹⁰ would complete tree trimming across the CND service territory on a 4-year cycle¹¹ in accordance with CND's detailed specifications¹² and the ANSI A300 Standard.¹³ The balance of the document goes on to stipulate the pruning standards applicable to the CND system which are in addition to the standards set out in ANSI A300.

⁸ Application, page 31.

⁹ Staff Submissions, page 7.

¹⁰ CND IRRs, Appendix C, under the heading "Contractor Qualifications" at para. 3.

¹¹ *Ibid* under the heading "Description of Work" at bullet #1.

¹² *Ibid* at para. 2.

¹³ *Ibid* at para. 3.

21. This corporate tree trimming program was expressly referenced in CND's recent 2014 Electricity Distribution Rate Application,¹⁴ where in response to EP IR 1.1-Energy Probe-1(b) CND described its tree trimming maintenance as follows:

The city and the township are each divided into four areas so that one fourth of the City of Cambridge and one fourth of the Township of North Dumfries are trimmed each year. Hence, it is a four year trim cycle for the city and the township.¹⁵

22. Finally, in response to Staff IR16(a)(ii), CND confirmed that the corporate tree trimming program described above was adhered to in the period prior to the onset of the Storm.

23. CND's new "tree trimming policy" is titled *Vegetation Management Program*, was issued February 2014, and is attached as Appendix D to CND's IRR submissions dated December 16, 2014. This policy was created as part of CND's overall efforts to formalize and standardize its corporate policies and procedures. The new Vegetation Management Program did not change CND's corporate tree trimming program. Rather, it put CND's existing corporate tree trimming program into CND's new standard format for corporate policies and procedures. For example, the Vegetation Management Program attached as Appendix D to CND's IRR submissions is very similar in form to CND's Purchasing & Contracts Policy which is attached as Appendix B to CND's IRRs.

24. CND submits that in the Board's assessment - substance should matter over form. From a substantive perspective, the new "tree trimming policy" maintained all of the core elements of the previous "corporate tree trimming program." Specifically, the new "tree trimming policy" continues to rely on qualified personnel¹⁶ to perform tree trimming on a 4-year cycle¹⁷ in accordance with CND's specifications¹⁸ and the ANSI A300 Standard.¹⁹

25. The substantive additions in the new "tree trimming policy" are limited to:

¹⁴ EB-2013-0116.

¹⁵ CND response to 1.1-Energy Probe-1(b), EB-2013-0116.

¹⁶ CND IRRs, Appendix D, under the heading "Key Components of the CNDHI Vegetation Management Program" under the subheading "Competent Contractors".

¹⁷ CND IRRs, Appendix D, under the heading "General Procedures" at para. 6.

¹⁸ CND IRRs, Appendix D, under the heading "General Procedures".

¹⁹ CND IRRs, Appendix D, under the heading "General Procedures" at para. 2.

- a. Adding a formalized allocation of responsibilities for managing this program as among various CND personnel (prior to the creation of the new policy, this allocation of responsibility was managed directly by the Vice-President, Operations); and
 - b. Adding express reference to the applicable safety standards including Electricity Utility Safety Rules (“EUSR”) , ANSI Standard Z133, and the applicable ESA guidelines (all of which were previously applicable and followed, but were simply not expressly referenced in the written specifications).
26. CND submits that its previous corporate tree trimming program and its new tree trimming policy is, was and continues to be reasonable and prudent given prior experience in the CND service territory (including prior weather and storm related events). It is the same program that CND continues to implement today. There would not have been any costs avoided, given the magnitude of the Storm and the circumstances in which it fell, because the activities undertaken by CND and its contractors remained the same both before and after the Storm.
27. EP and VECC raised concerns relating to the magnitude of CND’s tree trimming expenditures in the years leading up to the Storm. The EP and VECC submissions are not clear as to whether they viewed this issue as one of causation or prudence. Because the test for prudence is focused on the amount CND is seeking recovery for in this Z-Factor claim, CND submits that the issue must in-fact be one of causation. CND will address these concerns below under the causation section.

B.2.b Third Party Contractors

28. To assist in emergency Storm restoration efforts, CND was required to subcontract much of its restoration work to third party contracting crews. Given the period of time during which the Storm occurred, these contractors charged CND emergency overtime rates and statutory holiday rates when appropriate. As identified in Table 17 of the Application, the total subcontractor costs for this period were \$316,740.²⁰

²⁰ Application, page 36.

29. Due to holiday hours and vacation shutdowns, CND experienced significant difficulties scheduling, recruiting and mobilizing crews. As this was not a normal situation, CND was forced to find external help in an emergency context which necessitated deviation from CND's normal procurement procedures. With respect to the procurement process deviation, Staff submitted as follows:

Board staff notes that in response to BSI #14c, CND responded that due to the emergency nature of the ice storm, it deviated from the tendering of contractor services. Although Board staff is generally concerned with such deviations, Board staff appreciates that in situations arising from such extraordinary events, a utility faces limited options in safe and timely power restoration efforts.²¹

30. VECC submitted as follows with respect to CND's subcontracting during the Storm:

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 costs²² and contractor costs.²³

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.²⁴

31. CND agrees with Staff and VECC in this regard.

32. VECC further submits that the subcontracts to the two LDCs identified above:

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.²⁵

The LDC costs of Bluewater Power Services Corp. and St. Thomas Energy Inc. were \$18,461 and \$6,956, respectively and total \$25,417.²⁶

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.

²¹ Staff Submissions, page 7.

²² CND response to Staff IR-15(b).

²³ CND response to VECC IR-7.

²⁴ CND response to Staff IR-14(e) reproduced from VECC Submission, page 4.

²⁵ CND response to Staff IR-15(b).

²⁶ VECC Submission, page 4.

33. As noted in CND's response to Staff IR-15(b), CND reached out to the Electrical Distributors Association ("EDA"), to seek help with restoration efforts. Two LDCs provided crews including power linepersons and trucks to assist with the Z-Factor Storm event restoration. CND submits that the basis for the invoiced costs was the timely requirement of restoration and the limited available crews capable of such restorative work in the region.
34. In a decision dated Dec. 4, 2014 (EB-2014-0102) in respect of a Z-Factor claim made by Oakville Hydro, the Board noted that VECC similarly argued that the prudence test had not been met as Oakville Hydro did not know the basis for its invoiced costs from the other electricity distributor. VECC argued that any premium amounts paid to the distributors should be disallowed by the Board. To address VECC's concerns, Oakville Hydro indicated that it received confirmation from the external electricity distributor regarding the invoices, and verified that the charges were on a cost-recovery basis and did not include premium payments. Ultimately, the Board accepted Oakville Hydro's reply submission that the external distributor invoices were submitted on a cost-recovery basis and no premium payments were made.
35. CND confirms that it has reached out directly to both Bluewater Power Services Corporation and St. Thomas Energy Inc. and has confirmed that the amounts charged to CND were on a cost recovery basis and did not include premium payments (beyond overtime and holiday pay that the LDCs themselves incurred and had to remit to their staff).
36. CND acknowledges that this represents a clarification to its response to Staff IR-15(b) where CND acknowledged that "[t]he invoiced costs are based on premium rates since the work took place outside of regular working hours (i.e. evening or on statutory holidays)." Specifically, CND has confirmed with the LDCs themselves that the premium rates charged reflected the LDCs actual underlying cost structures for work outside of regular working hours.

37. Given this and in the interest in safety, public well-being, the timely requirements imposed by the Storm, the invoiced amounts from the LDC crews were both reasonable and prudent.

38. VECC further submitted as follows:

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.²⁷ 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.²⁸ 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 double time is prudent.²⁹

39. CND believes that all of the labour rates included in the Z-Factor claim are prudent. The premium charged by contractors varied depending upon their willingness to work on an emergency basis during the holiday period. CND was competing with numerous other utilities for qualified and experienced individuals to assist in power restoration services. As stated by CND in response to VECC IR-10:

"CND had little choice in determining the rates charged by contractors during this timeframe, as CND required additional resources to restore power to customers. The contractors charged overtime rates for working non-regular hours, since the contractors were to be closed during the week of December 23 to 27, 2013 and the crews were on scheduled time off until their regularly scheduled work days began in January 2014."³⁰

40. Given the circumstances, CND submits the premiums paid and negotiated arm's length rates were reasonable and the best cost option available in the circumstances.

²⁷ CND response to Staff IR-14(d).

²⁸ CND response to VECC IR-10.

²⁹ VECC Submission, page 4.

³⁰ CND response to VECC IR-10.

B.3 CAUSATION

41. The 2008 *Report* states the causation criteria is as follows:

Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.³¹

42. CND has confirmed that it has only recorded incremental OM&A costs relating to the Z-Factor event. Restoration costs incurred by CND staff during CND's regular work days have not been included in the claim.³²

43. As more fully described in the Application, the Storm was well documented, highly unusual, entirely outside of the control of CND and impacted much of the eastern portion of North America. CND would not have incurred any of the identified incremental costs but for the occurrence of the Storm. CND included a reasonable estimate of storm related costs based on prior years' experience in the 2010 Cost of Service application, however a storm of this magnitude and related costs were not included.³³

44. CND provided a table of average storm costs in the Application, which is reproduced as Table 2 below (2013 actual excludes the costs related to the Storm):

Table 2 – Storm Costs Budgeted and Actual Costs 2010-2013³⁴

Storm Costs Budget Vs. Actual				
Year	Per COS and Budget	Actual	Variance: Underspent (Overspent)	Percent
2010	\$75,317	\$68,041	\$7,276	9.66%
2011	\$70,486	\$105,473	(\$34,987)	-49.64%
2012	\$72,601	\$76,647	(\$4,046)	-5.57%
2013	\$74,778	\$114,145	(\$39,367)	-52.65%

³¹ 2008 *Report* at Appendix page IV.

³² Application, page 26 lines 9-13.

³³ Application, pages 29-30.

³⁴ Application at Table 13, page 30.

45. As can be seen, CND incurred more than what was budgeted for storm related costs in 2013 from CND's 2010 cost of service application prior to the Storm. The costs incurred as a result of the Storm were incremental to and resulted in a significant variance from CND's normal budget for storm costs. As stated in CND's response to Staff IR-21, "[t]he storm cost budget amounts in 2010 through 2013 were based on typical wind, lightning and ice storm expenditures over a one year period."³⁵
46. In this context, Staff agrees that CND has demonstrated that the amounts sought for recovery are directly related to the Storm and outside of the base upon which CND's 2013 rates were set.³⁶
47. VECC acknowledges in their submissions that 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 Storm on December 21st and 22 due to typical wind, lightning and ice storm expenditures.³⁷ CND explained the overspending on storm costs in 2011, 2012 and 2013 in CND's response to Staff IR-21. During the years that the budget for storm costs was exceeded, CND has absorbed the over expenditures.³⁸
48. This observation illustrates a more general point. Rates are established based on a reasonable forecast of expected costs. Going forward management are then afforded the discretion to reallocate amounts as actual costs become known. In some categories of OM&A costs, such as storm related costs, a utility will overspend. For other OM&A costs, a utility will find savings.

Historical Tree Trimming Expenditures

49. Both VECC and EP have raised concerns about the prudence of CND's management's determination to spend less on tree trimming than was in budget in 2010 to 2013. Specifically:

³⁵ CND response to Staff IR-21.

³⁶ Staff Submission, page 6.

³⁷ VECC Submission, page 7.

³⁸ CND response to Staff IR-21.

- a. VECC argues that “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.”³⁹
 - b. “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.”⁴⁰
50. Before directly addressing the VECC and EP concerns, it is helpful to put CND’s tree trimming program into context.

Context: CND’s Tree Trimming Program (2010-2013)

51. As was described in CND’s Distribution System Plan⁴¹, CND’s Vegetation Management Program includes a 4 year trimming cycle, a regular inspection program, as well as tree-trimming during the implementation of capital projects and reactive maintenance in response to requests from the public to trim or remove trees in proximity to power lines.
52. In setting the annual operations and maintenance (“O&M”) budget for tree trimming, CND includes the estimated costs to complete the planned cycle for the year, as well as an estimate of additional expenditures with respect to reactive maintenance identified during regular line patrols, emergencies, and customer requests. The O&M budget for tree trimming does not, by its nature, include any tree-trimming work that is performed during the implementation of capital projects and is thus capitalized.

³⁹ VECC Submission, page 6.

⁴⁰ EP Submissions, pages 3-4.

⁴¹ EB-2013-0116, Appendix 2-AB, Pg. 51 of 157.

53. Tree trimming activity for O&M work requires a patrol of the area to be trimmed for the specified year and a plan is prepared on when and how to complete the trim work along the road allowances and rights-of-way for the power lines. As an example, some trim areas require access during specific times of the year, such as low lying wet areas. The work involves trimming back the new growth since the last trim cycle four years earlier. In this case, trees can usually be trimmed back to the same extent as in the prior trim cycle.

54. During capital project work, tree trimming is more extensive in order to prepare for (for example) a new rebuild line construction. Pole heights and structure configurations usually change to meet new clearance and regulations in effect that pertain to the new line. This means that with higher pole heights, trimming must be completed outside of the previous extent of tree trimming, and in cases of powerline realignment, significant portions of trees must be trimmed, or in some cases the total tree must be removed.

55. In CND's response to VECC IR-11(b), CND provided an explanation for the differences between its O&M tree trimming budget and actual costs for the years between 2010 and 2013. This has been reproduced as Table 3 below:

Table 3 – Tree Trimming Budget and Variance⁴²

Year	Budget	Actuals	Variance	Explanation
2010	418,971	313,360	-25.2%	Contractor prices for tree trimming were lower than anticipated in the budget. Fewer storm related tree problems resulted in savings in labour and trucking costs.
2011	376,918	254,435	-32.5%	Through the year there were various storm situations where CND lost contractor crews to other utilities that required assistance in restoring power to customers. Since no additional contractor crews were available due to storm work, crew time was also lost in completing work on capital projects.
2012	330,617	332,661	+0.6%	
2013	322,770	277,214	-14.1%	In this year CND experienced an ice storm in April, and a severe wind storm in July. Once again contractor tree trimming crews were sent to various electrical utilities in Southern Ontario at these times to assist in power restorations. Thus CND lost crews to these restoration efforts, and had to complete work on capital projects with fewer resources.

⁴² CND response to VECC IR-11(b).

56. With the concerns raised by EP and VECC in submissions, CND conducted a further analysis of its tree trimming expenditures. To assist the Board, CND has prepared Table 4 below which provides a further breakdown of all tree trimming costs incurred in each year, including a breakdown of costs between O&M and capital expenditures.
57. What is noteworthy is that, as part of CND's distribution system plant rebuild/renewal projects, a portion of the capital expenditures in the years 2010 through 2013 included costs associated with tree trimming. In these cases, tree trimming was required in order to ready the construction site for the rebuild project and in many cases to reflect changes in the design of the distribution system plant (e.g. height of poles and required tree clearance).
58. Table 5 below provides a further breakdown of the capital projects undertaken in 2010 through 2013 and the amount of expenditures related to tree trimming.
59. To further assist the Board, CND has also included in Table 4 the percentage of the planned scope of work completed in each year after considering both O&M and capital expenditures. Notably, CND was able to complete 100% of its planned tree trimming each year when considering work completed both as part of the capital and O&M efforts.

Table 4: Summary of All Tree Trimming Expenditures 2010 – 2013

Summary of All Tree Trimming Expenditures 2010-2013

Year	Cycle	O&M Budget	Actual Operating Expenses	Actual Capital Expenditures		Total Tree Trimming Expenditures (Operating and Capital)	% of Work Completed in Cycle (Operating)	% of Work Completed in Cycle (Capital)	Total % of Work Completed in Cycle	Additional Comments
				Within Cycle	Outside of Cycle					
2010	4	\$418,971	\$313,360	\$14,357	\$9,572	\$337,289	90%	10%	100%	Savings of \$63,660 due to tendered contractor pricing. CND completed trim in Cycle 4. No additional trim crews were required.
2011	1	\$376,918	\$254,435	\$101,804	\$709	\$356,948	60%	40%	100%	Savings of \$11,370 due to tendered contractor pricing. CND completed trim in Cycle 1. Contractor trim crews were sent to assist other utilities with storm damage. CND had to concentrate trim crews on capital work.
2012	2	\$330,617	\$332,661	\$0	\$97,639	\$430,300	100%	0%	100%	Savings of \$9,865 due to tendered contractor pricing. CND completed trim in Cycle 2. CND contractor crews were able to complete O&M and Capital projects.
2013	3	\$322,770	\$277,214	\$162,084	\$49,745	\$489,043	75%	25%	100%	No savings on tendered contract pricing. CND completed trim in Cycle 3. Contractor trim crews assisted other utilities during wind storms. CND completed a large quantity of Capital trim work in Cycle 3.

Table 5: Capital Costs Undertaken 2010-2013 relating to Tree Trimming

Tree Trimming Costs Capitalized			
Year	Project Description	Amount	Cycle/Area
2010	Vanier/Ripplewood	\$1,440	2
	Edworthy	\$3,017	4
	Riverbank	\$2,760	2
	Roseville/Cameron	\$1,620	1
	Beke/Shouldice	\$11,340	4
	Old Beverly	\$2,880	3
	Greenfield/Reidsville	\$872	1
	Total for 2010	\$23,929	
2011	Sheffield	\$709	3
	Roseville/Kings Road	\$10,804	1
	Alps Road	\$39,701	1
	Brant Waterloo Road	\$51,300	1
	Total for 2011	\$102,514	
2012	Roseville Road	\$8,650	1
	Brant/Waterloo Reids	\$41,637	1
	Alps/Reidsville	\$9,800	1
	Reidsville/Wrigley	\$17,952	1
	Spragues Road	\$19,600	4
	Total 2012	\$97,639	
2013	Morrison Drive	\$22,000	3
	Branchton Ph 1	\$13,090	3
	Branchton Ph 2	\$32,625	3
	Maple Manor	\$39,164	3
	Cheese Factory	\$55,205	3
	Lockie Road	\$49,745	4
	Total 2013	\$211,829	

Reply Part 1: CND management should be afforded discretion to reallocate O&M budget items during IRM years as circumstances evolve.

60. O&M tree trimming cost savings were not simply pocketed by CND. In 2011, CND achieved an ROE of 9.57%, less than the OEB's regulatory return of 9.66%. And in 2013, CND achieved an ROE of 7.80%, less than the Board's regulatory return of 9.85% (see pg. 42 of the Application).
61. Rather, what appears to be cost savings when only looking at the O&M budget looks different when considering the capitalized component of tree trimming work. And even if there were cost savings in tree trimming in a given year, those savings would be applied to other necessary areas that form part of CND's overall O&M budget.
62. CND management should be afforded the discretion to apply its budget where necessary as different circumstances arise during IRM years.
63. This approach was endorsed by the Board in its recent decision in respect of a Z-Factor claim made by Milton Hydro related to the same Storm (EB-2014-0162). In its Decision, the Board explained at page 5 that:

"[d]uring a Price Cap IR period, a utility is incented to drive efficiencies through changes to its operations and budgets. A utility may change individual line items within its budget and Board approval is not required. It would be contrary to the intent of Price Cap IR for the Board to hold Milton Hydro to a line item in its 2011 budget when its 2013 budget was provided in evidence."

Reply Part 2: Allegations that lower O&M tree trimming costs would have affected Storm costs are unproven, speculative and demonstrably false.

64. In the context of management decisions, EP makes the following arguments about the prudence of CND's spending on tree trimming:

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.

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.

65. Similarly, VECC stated as follows:

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.

66. Both EP and VECC allege (without providing any evidence in support of this allegation) that CND's Z-Factor costs would have been significantly reduced had tree trimming underspending not occurred.

67. CND disagrees with this allegation entirely. There is no proven correlation between CND's tree trimming budget in a given year and actual Storm recovery costs. Trimming limbs off a tree would have done very little to solve the problems that occurred during the Storm, where entire trees (not just limbs) were falling and taking down power lines.

68. As CND described in its Application, approximately 30,000 of CND's customers were impacted by the storm at various times, representing almost 60% of its customer base. CND's service area is 306 square kilometers and utilizes over 721 circuit kilometers of overhead conductor.⁴³ During the Storm, CND cleared approximately 700km of power lines that had been affected by the ice and trees.⁴⁴

69. To illustrate that there is no direct correlation between the tree trimming cycle and the extent of tree damage caused to CND's distribution system during the Storm, CND has included 4 diagrams for each of the tree trimming cycles over a four year period (Cycles 1 through 4 attached as Appendix A) that contain the following information:

- a. The portion of the service territory that is included in the tree trimming cycle, which is highlighted using bold black lines;
- b. The year in which the tree trimming was undertaken for the applicable area (e.g. Cycle 1 represents the area for tree trimming undertaken in fiscal 2011);

⁴³ Ontario Energy Board - 2013 Yearbook of Electricity Distributors, published August 14, 2014 at page 56.

⁴⁴ Application, page 24, lines 12-16.

- c. The particular portions of the area that were significantly impacted by the Storm, including downed trees and limbs, which are circled in red; and
 - d. Identification of the areas that included a rebuild of the distribution plant as part of CND's capital expenditure renewal program, of which tree trimming would also have been conducted and the spending would have been capitalized.
70. These diagrams clearly illustrate: (i) that the Storm resulted in damage across CND's service territory; and (ii) the damage to trees was not concentrated in any one particular area. There is also no evidence to suggest that the tree damage occurred in an area that was not subject to tree trimming. This is further evidenced by Table 4 above which summarizes the scope of tree trimming work completed in each Cycle.

Reply Part 3: CND's O&M tree trimming decisions made in 2010-2013 were prudent.

71. In making the allegations noted above, both EP and VECC apply the benefit of hindsight to challenge the prudence of the decisions made by CND's management in respect of its tree trimming spending in 2010, 2011 and 2013.
72. CND submits that this approach is not appropriate. Rather, in a retroactive factual inquiry the evidence must be concerned with the time the decision was made and must be based on facts about the elements that could or did enter into the decision at the time. This is consistent with the Board's approach for assessing the prudence of management decisions. On appeal of the Board's decision in *Enbridge Gas Distribution Inc.*, RP-2001-0032 (December 13, 2002), the Ontario Superior Court endorsed the test the Board applied in determining prudence:
- a. Decisions made by the utility's management should generally be presumed to be prudent unless challenged on reasonable grounds.
 - b. To be prudent, a decision must have been reasonable under the circumstances that were known or ought to have been known to the utility at the time the decision was made.

- c. Hindsight should not be used in determining prudence, although consideration of the outcome of the decision may legitimately be used to overcome the presumption of prudence.
- d. Prudence must be determined in a retroactive factual inquiry, in that the evidence must be concerned with the time the decision was made and must be based on facts about the elements that could or did enter into the decision at the time.⁴⁵

73. In this context, CND submits that its decisions in 2010, 2011 and 2013 in respect of its tree trimming program was prudent. Specifically:

- a. In 2010, actual tree trimming costs simply came in less than budgeted due to fewer tree related problems and lower contractor costs (this is described in the table filed in CND's response to VECC IR-11(b)). Specifically, approximately \$63,660 was saved due to a competitive bid process implemented by CND at the time. Put simply - less money was required to complete the full scope of work, so the extra money was allocated to other items in the OM&A budget to address cost overruns in other categories of expenses. This is entirely reasonable in the circumstances. All of the work was completed. And management must regularly manage and reallocate spending to address overages and underages so that at all times the LDC operates within the means provided by Board approved rates. CND had no reason to believe at the time that more spending on tree trimming would be merited.
- b. In 2011, actual O&M tree trimming costs came in lower than budget due to (i) contractor savings of \$11,370; and (ii) there was an extensive amount of tree trimming work completed for CND's capital rebuild projects in the Cycle 1 area. As a result, tree trimming in this Cycle was completed with a combination of O&M trimming and capital project trimming. Due to limited contractor resources, additional trimming in other areas was not completed.

⁴⁵ *Enbridge Gas Distribution Inc. v. Ontario Energy Board*, 75 O.R. (3d) 72, [2005] O.J. No. 756 (Div. Ct.) at para. 10, rev'd on other grounds 210 O.A.C. 4 (C.A.), leave to appeal to S.C.C. refused [2006] 2 S.C.R. vii.

- c. In 2012, O&M tree trimming costs were on budget and Cycle 2 was completed. There were no capital rebuild projects planned or completed within Cycle 2.
 - d. In 2013, a number of large capital projects were completed in Cycle 3. This resulted in a large amount of tree trimming being completed in association with these capital projects. All planned tree trimming work was completed in 2013 with a combination of O&M and capital expenditures.
74. In light of the foregoing, CND submits that its tree trimming program is, was and continues to be reasonable and prudent given prior experience in the CND service territory (including prior weather and storm related events). It is the same program that CND continues to implement today.
75. In conclusion, CND disagrees that a reduction in the Z-Factor cost claim is merited. With respect to causation, CND has provided evidence that the full amount requested is directly related to the Storm and clearly outside of the base rates. EP and VECC both suggest an arbitrary reduction on these known incremental Z-Factor costs based on a historical variance in budget versus actual O&M tree trimming costs between 2010 and 2013. There is no evidence to support VECC or EP's view that had CND maintained O&M budgeted levels of tree trimming, the costs related to the Storm would be lower. The damages that arose as a result of the Storm were directly related to a Z-Factor event outside CND's management control.

C. ALLOCATION AND COST RECOVERY

76. CND proposed, in its Application, that the most equitable method of recovering Z-Factor costs was based on customer numbers. Based on this method, approximately 89% would be allocated to residential customers. CND noted that this was more representative of the customers impacted by the Storm, which were predominantly rural customers.⁴⁶ CND proposed a Fixed Rate Rider of \$0.79 per

⁴⁶ Application, page 40.

customer per month for a period of 12 months (May 1, 2015 to April 30, 2016) as the most equitable manner in which to recover Z-Factor costs.⁴⁷

77. The implicit logic of CND's proposed approach is illustrated in Table 6 below.

Table 6 - Comparison of Z-Factor recovery methodologies

Rate Class	Percentage of Rural customers in each customer class (compared to Urban):		Percentage of Z-Factor costs attributable based on	
	Urban	Rural	Customer Numbers	Distribution Revenue
Residential	90.42%	82.30%	89.4%	49.5%
GS<50	8.08%	16.18%	9.0%	10.6%
GS >50 to 999	1.44%	1.47%	1.4%	23.7%
GS 1000 to 4999	0.06%	0.00%	0.0%	6.8%
Large User	0.01%	0.00%	0.0%	5.5%
Embedded	0.00%	0.04%	0.0%	0.7%
Street Lights	Not Available		0.0%	2.9%
USL	Not Available		0.1%	0.2%
Total	100.00%	100.00%	100.0%	100.0%
Urban defined as within the City of Cambridge. Rural defined as within the Township of North Dumfries. Figures are based on current best available data.			from Table 20 in Application	from CND's response to Board staff IR 17

78. CND acknowledges that while the use of distribution revenue is one way of allocating Z-Factor costs, it is not necessarily the most equitable or appropriate way. In view of the table above, CND disagrees that allocation by customer count would result in a significant over allocation to the residential class. Rather, CND submits that its proposed allocation by customer number is more equitable based on the circumstances resulting from the Storm.

79. In making this decision, CND acknowledges that in recent Z-Factor decisions the Board has found it appropriate to allocate Z-Factor costs based on distribution revenue by rate class. CND notes that in those other decisions, the Board did not

⁴⁷ Application, page 41.

have the evidence of equity of approaches as summarized in the table above. CND does not object to the submissions of Staff, EP or VECC that allocation by distribution revenue is a viable alternative approach. Ultimately, CND will comply with the Board's decision if it determines that allocating Z-Factor costs by distribution revenue is the Board's preferred approach in this particular circumstance.

80. Both Staff and EP take no issue with the proposed date of recovery May 1, 2015. CND submits that the selection of this timeframe was reasonable given the events related to the storm and the 2014 rebasing application. With respect to the timing, EP stated as follows:

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.⁴⁸

81. By contrast, VECC opposes the date of May 1, 2015 stating as follows:

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.

82. CND disagrees. CND has applied for rates effective May 1, 2015, and the Z-Factor claim has been filed as part of this Application. CND believes that VECC's proposal does not merit the increased administrative burden associated with administering two different effective dates for rate changes, nor does it warrant the potential risk of customer confusion with multiple rate changes in 2015.

83. CND submits that none of the Parties took issue with CND's approach with respect of true up costs. Specifically, CND submits its approach is consistent with the

⁴⁸ EP Submissions, page 6.

recent OEB decision with respect to Milton Hydro's Z-Factor application, which was also related to the 2013 Storm (EB-2014-0162).⁴⁹

D. LRAMVA

84. In its Application, CND requested recovery of \$282,127 in LRAMVA, including forecast carrying charges of \$7,291 through to April 30, 2015, resulting from its CDM activities in 2013, from 2011, 2012 and 2013 programs.⁵⁰ This value was updated to \$282,030 through CND's response to Staff IR-8.⁵¹ The revised claim amount does not result in any change in the LRAM rate riders, and therefore CND proposes that its original rate riders are still applicable.⁵²

85. With respect to the LRAMVA, Staff submitted as follows:

CND has requested approval of an updated LRAMVA amount of \$282,030 related to lost revenues in 2013 that are the result of approved conservation programs delivered in 2011, 2012 and 2013. CND last rebased in 2014 and prior to that in 2010. In response to Board staff interrogatory #8, CND updated its LRAMVA amount after receiving the final, verified program results from the OPA. Board staff submits that CND has appropriately calculated its lost revenues consistent with the Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003). Further, CND has appropriately relied on the final results as produced by the OPA for all programs, including the Demand Response 3 program. Board staff submits that this approach is consistent with that accepted by the Board, most recently in Power Stream Inc.'s 2015 rate application (EB-2014-0108). Board staff supports the recovery of the full updated LRAMVA amount of \$282,030 as requested by CND.⁵³

86. CND agrees with Staff's assessment of CND's approach and its support of the recovery of the fully updated LRAMVA amount of \$282,030 requested.

87. With respect to the LRAMVA, VECC stated as follows:

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.⁵⁴

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.

⁴⁹ VECC Submissions, page 9.

⁵⁰ Application, page 20.

⁵¹ CND response to Staff IR-8.

⁵² *Ibid.*

⁵³ Staff Submissions, page 2.

⁵⁴ CND response to Staff IR-9.

88. VECC further submitted that it supports CND's lost revenue calculations subject to comments on the Demand Response 3 Program ("D3 Program") as follows:

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.⁵⁵

89. As stated in the above Staff Submissions, CND has appropriately relied on the final results as produced by the OPA for all programs, including the Demand Response 3 program. CND submits that the confidential and private nature of the D3 activation⁵⁶ is not tantamount to there being no evidence that the program was activated.

90. The *Guidelines for Electricity Distribution Conservation and Demand Management* (the "CDM Guidelines", EB-2012-0003) issued by the Board on April 26, 2012 state (on page 13) that "The difference between the approved CDM amount (kWh and MW) in the distributors load forecast and the actual verified final program results, either from the OPA or a third party in accordance with the OPA's EM&V protocols, will be the LRAM amount available for recovery."

91. The CDM Guidelines clearly confirm that the OPA final program results are appropriate for use in calculating LRAMVA balances. CND has relied on this definition in using the final OPA verified results to calculate the lost revenues resulting from approved conservation programs delivered in 2011, 2012 and 2013.

⁵⁵ VECC Submissions, page 11.

⁵⁶ CND response to VECC IR-4(b).

92. CND further submits that if the Board wishes to consider the matters raised by VECC, this would more appropriately be done in the context of a broader consultation. CND made its request for LRAMVA disposition in this Application in compliance with the Board's filing requirements and the CDM Guidelines, and CND does not believe this Application is the appropriate forum to address the expansion of those requirements.

93. CND submits that this approach was endorsed by the Board in its recent decision in respect of calculating LRAMVA balances in a claim made by Brantford Power Inc. (EB-2014-0187) where the Board stated as follows:

In its reply submission, Brantford Power stated the DR3 program is an OPA program. Brantford Power also submitted the CDM Guidelines clearly confirm that the OPA final program results are appropriate for use in calculating LRAMVA balances. Brantford Power submits that the Board should approve its full claim of \$107,734, including the impact of the DR3 program.

The Board approves the LRAMVA claim as submitted, including amounts associated with the DR3 program. Brantford Power availed itself of the OPA programs, and the results have been evaluated and verified by the OPA. The recovery of these claims shall be over a one year period.

94. Further, CND refers to the quote from the Board's decision in the PowerStream Inc. Decision (EB-2014-0108) from page 6 as follows:

"While VECC's argument may have some merit with respect to the uncertainty of DR3 program results, the Board stands by the OPA's estimated benefits of these programs. The Board also notes that it has been consistent in accepting the OPA's analysis and conclusions with respect to CDM results, and in the case of the DR3 programs, has awarded the full LRAMVA amount as claimed by other distributors".⁵⁷

E. CONCLUSIONS

95. For all of the foregoing reasons, CND submits that the Board should make an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity effective May 1, 2015:

- a. An adjustment to the existing rates to reflect the Annual Adjustment Mechanism;
- b. An adjustment to the retail transmission service rates;

⁵⁷ *Ibid.*

- c. Disposition of Deferral and Variance accounts, representing a net refund to customers in the amount of \$426,573;
- d. Recovery of Account 1568 – LRAMVA which includes lost revenues for 2013;
- e. The recovery of incremental OM&A costs in the amount of \$497,314 related to a significant ice storm in December of 2013, presented in this application as a Z-Factor claim; and
- f. Continuation of rates and charges as detailed in EB-2014-0116, including the Smart Meter Entity Charge, the Low Voltage Service Rate, the Wholesale Market Service Rate, the Rural or Remote Electricity Rate Protection Charge, the Standard Supply Service – Administrative Charge (if applicable), the microFIT Generator Service Classification Service Charge, the Transformer Allowance for Ownership, the Primary Metering Allowance for transformer losses, the specific service charges, Retail Service Charges and loss factors.

All of which is respectfully submitted this 26th day of January, 2015.

Original signed by John A.D. Vellone

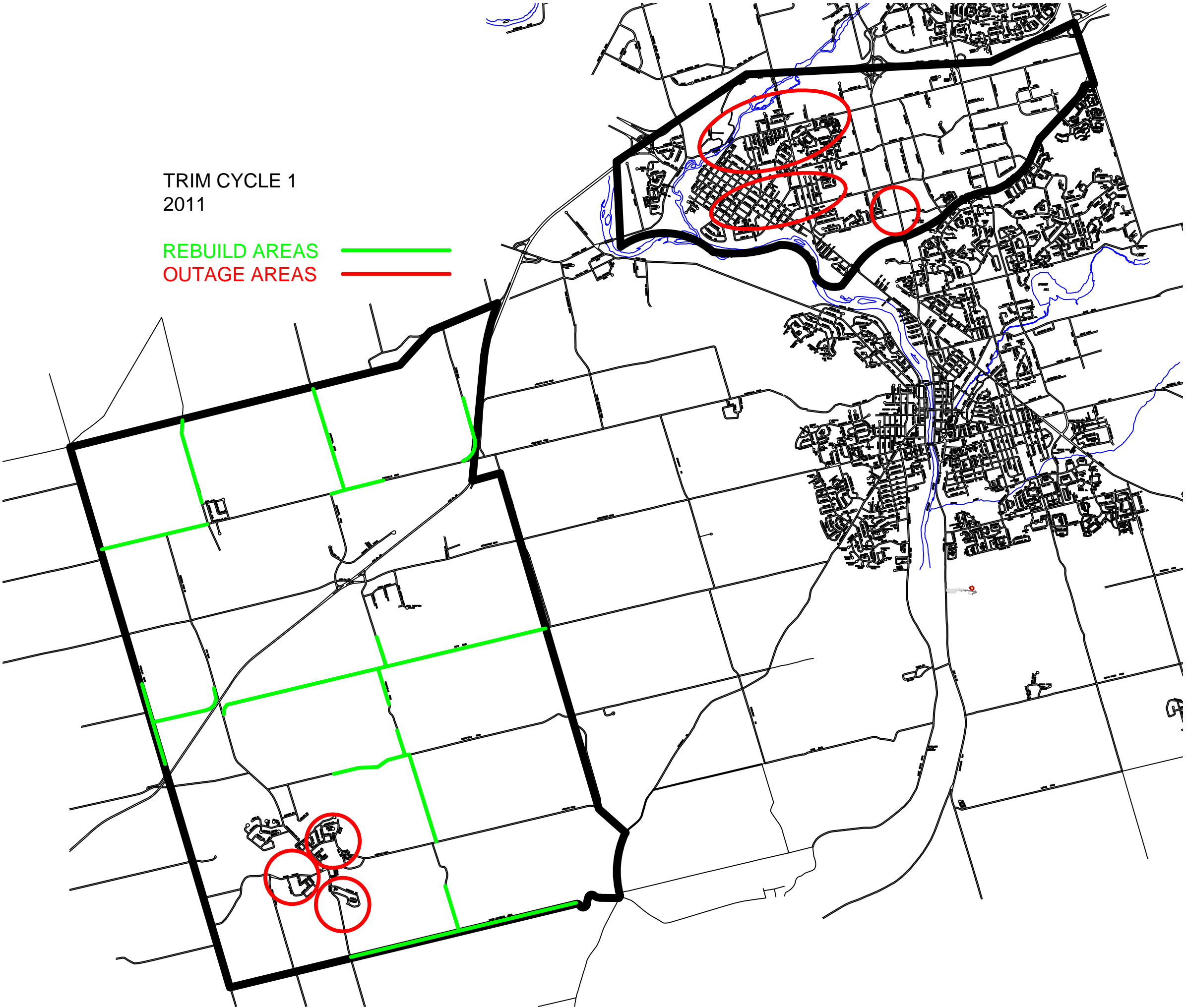
John A.D. Vellone

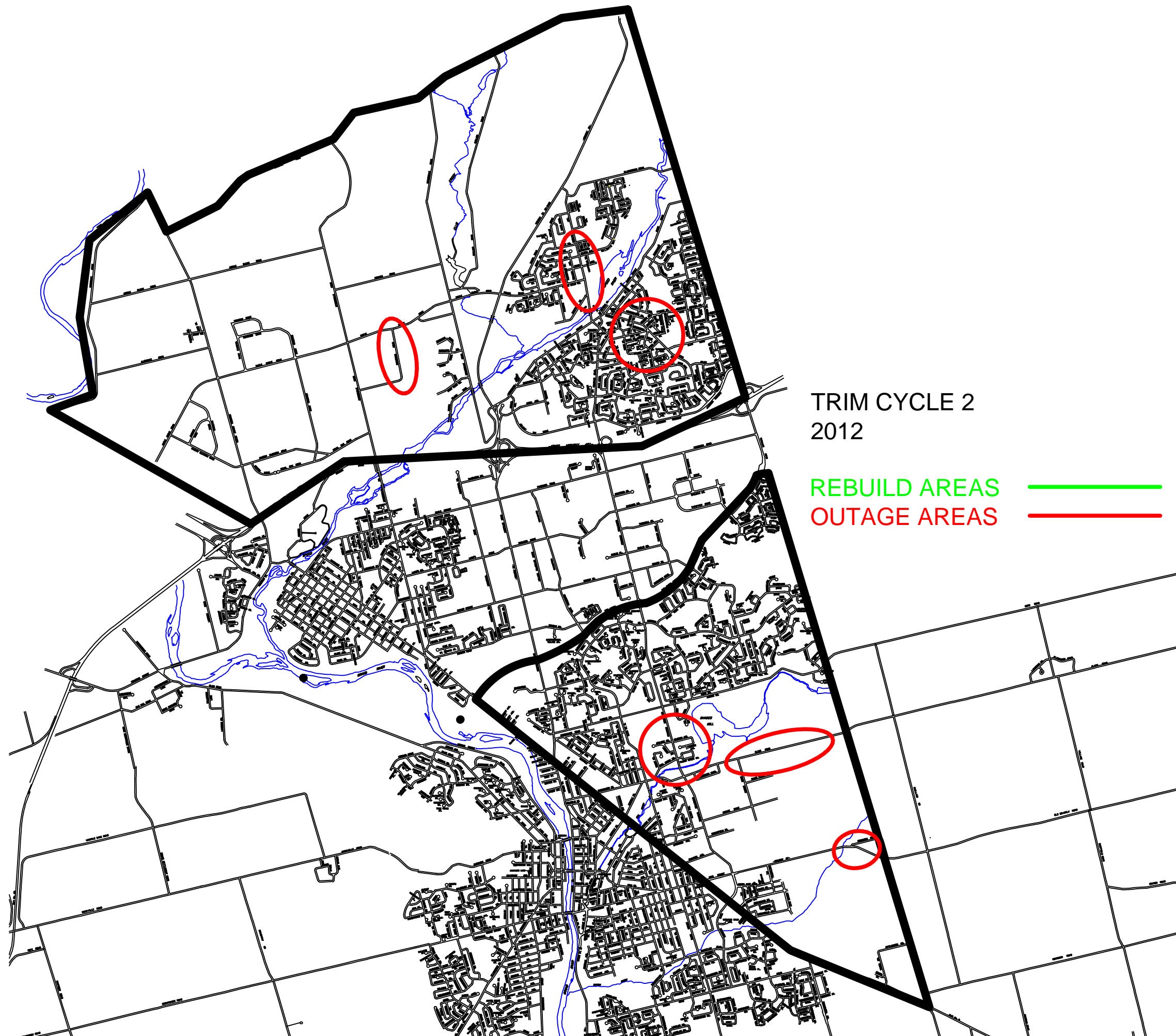
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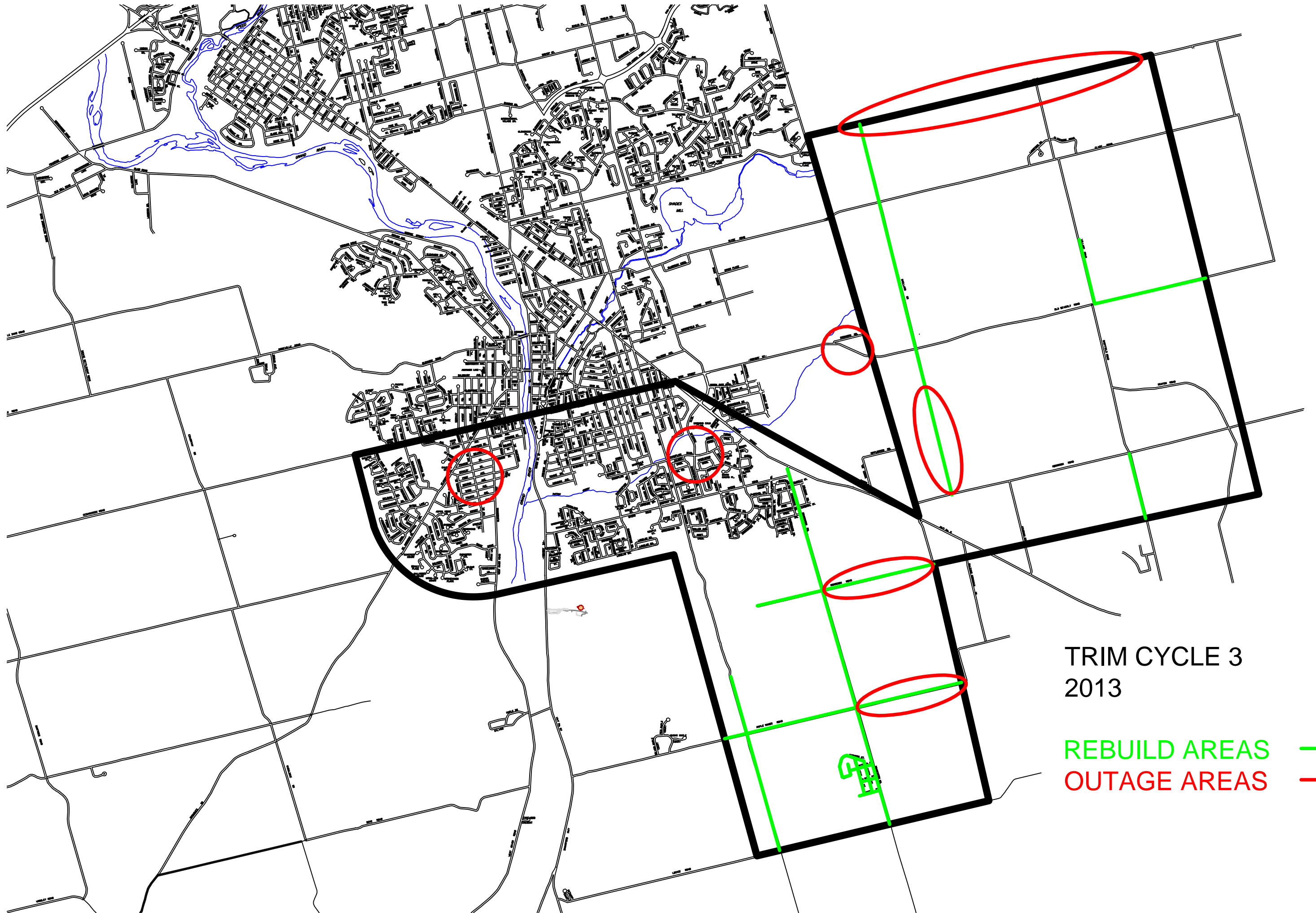
APPENDIX A – Tree Trimming Cycle Diagrams

TRIM CYCLE 1
2011

REBUILD AREAS
OUTAGE AREAS







TRIM CYCLE 3
2013

REBUILD AREAS
OUTAGE AREAS



TRIM CYCLE 4
2010 / 2014

REBUILD AREAS
OUTAGE AREAS

