



**EB-2014-0272**

**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 Veridian  
Connections Inc. for an order, approving the recovery of  
certain amounts related to the restoration of electricity  
service in the service areas of Ajax, Pickering, Clarington  
and Port Hope due to an ice storm in December 2013, to  
be effective May 1, 2015 for 24 months.

**BEFORE:** Christine Long  
Presiding Member

Allison Duff  
Member

**DECISION AND ORDER**  
**February 19, 2015**

Veridian Connections Inc. (Veridian) filed an application with the Ontario Energy Board (the Board) on August 22, 2014 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for the recovery of certain amounts related to the restoration of electricity service in the service areas of Ajax, Pickering, Clarington and Port Hope due to an ice storm in December 2013.

The Energy Probe Research Foundation (Energy Probe) and the Vulnerable Energy Consumers Coalition (VECC) applied for and were granted intervenor status and cost eligibility. The hearing process included interrogatories and written submissions.

The following issues are dealt with in this Decision:

- Materiality
- Prudence
- Causation
- Cost Recovery
- Implementation

## Background

On December 21-22, 2013 an ice storm swept across Southern and Eastern Ontario. Falling trees and power lines resulted in extensive damage to electricity distribution systems across the Province. Approximately 41,800 Veridian customers, almost 35% of its customer base, were without power at the height of the ice storm. To aid in restoring power, Veridian obtained the assistance of six external contractors and six electricity distributors. Power was restored to most customers by December 28, 2013.

On May 2, 2014, Veridian notified the Board of its intention to file a “Z-factor” claim. A Z-factor claim is an option available to an electricity distributor to seek the recovery of costs arising from unforeseen events outside of its control. If a claim is approved, the distributor can establish a new, incremental rate, without having to wait until its next cost of service proceeding.

Veridian requested the recovery of \$718,055 for Operations Maintenance & Administration (OM&A) costs incurred and carrying costs of \$13,980 for a total claim of \$732,035. The Z-factor claim did not include incremental internal OM&A costs incurred as a result of the storm, only external costs. Veridian proposed recovery of its claim through a fixed rate rider, charged to all rate classes for 24 months beginning May 1, 2015 and ending April 30, 2017.

Z-factor claims must satisfy three eligibility criteria<sup>1</sup>:

- 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.

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<sup>1</sup> Report of the Board 3<sup>rd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors, dated July 14, 2008

- Prudence – The amounts 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.
- 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.

### Materiality

Veridian’s approved revenue requirement was \$49,930,177 in its 2014 cost-of-service application (EB-2013-0174). The Board-defined materiality threshold for a Z-factor claim is 0.5% of distribution revenue requirement if greater than \$10 million and less than or equal to \$200 million. Therefore, Veridian’s materiality threshold is \$249,650.

No party took issue with the fact that the Z-factor claim of \$732,035 exceeded the materiality threshold.

### Board Findings

The Board finds that the materiality test has been met.

### Prudence

Veridian’s Z-factor claim consists of the following costs:

**Table 1 - Claimed Z-Factor Costs**

Description		
Electricity Distributors	\$	112,346
External Contractors	\$	462,676
Accommodation and Meals	\$	38,028
Vehicles	\$	73,319
Communication	\$	20,616
Miscellaneous	\$	11,071
Projected carrying costs	\$	13,980
<b>Total Claimed Z-factor Costs</b>	<b>\$</b>	<b>732,035</b>

Veridian incurred incremental OM&A costs when it retained crews from six external contractors and six electricity distributors to help with the restoration effort.

Board staff submitted that Veridian acted in a prudent, cost efficient manner, given its priority was to restore power quickly and safely. However, Board staff requested Veridian explain the basis for the premium labour rates charged by electricity distributors and external contractors. Board staff did not have a concern if the premium labour rates were charged for overtime and work performed on statutory holidays.

Board staff also requested that Veridian confirm the amount of unaudited costs incurred in 2014 and the portion included in the Z-factor claim. Board staff did not take issue with the inclusion of these costs provided they were less than Veridian's materiality threshold.

VECC was also concerned with the unaudited costs which were incurred in 2014. VECC submitted that if unaudited costs were \$140,773, or 20% of the total claim, they should be excluded as the amount was too high to be approved on an unaudited basis.

Energy Probe submitted that the claim costs were prudently incurred.

In reply submission, Veridian indicated that premium labour rates were charged for overtime and statutory holidays with one exception. One contractor had to call in its staff from vacation to assist in the restoration work and therefore charged a premium rate.

Veridian confirmed that unaudited costs of \$76,508 were included, equating to approximately 10% of the Z-factor claim. Veridian submitted that the unaudited costs were not material and should be approved.

### Board Findings

The Board finds that Veridian prudently incurred costs, using its affiliations with external distributor organizations and enlisting the services of outside contractors in order to restore service to its customers. The Board is not concerned that \$76,508 was incurred in 2014 and omitted from Veridian's 2013 year-end audit. Veridian confirmed the 2014 costs were incurred for emergency line clearing required after the ice storm and were incremental to current rates. In addition, the Board finds the incurrence of premium

labour rates was a cost-effective decision made by Veridian, given the need to restore service to customers as quickly as possible.

### **Causation**

VECC and Energy Probe submitted that Veridian's Z-factor claim met the causation criterion.

Board staff submitted that Veridian had demonstrated that the claimed costs were directly related to the ice storm and outside of the base upon which 2013 rates were set. Board staff questioned Veridian's 2013 return on equity of 12.39% as it was higher than the Board approved return of 9.85%. Board staff requested additional information regarding the one-time event identified by Veridian as a reason for the higher return.

In reply argument, Veridian explained that the one-time event related to an unrealized gain on its long term debt which required an accounting adjustment in 2013. Veridian submitted that the adjustment did not reflect increased earnings in 2013.

### **Board Findings**

The Board finds that the causation criterion has been met and approves the \$718,055 in OM&A costs included in the Z-factor claim. The Board is satisfied that the costs were directly related to the ice storm event.

The total approved claim is dependent upon the Board's findings with respect to carrying costs, which is covered in the following Cost Recovery section.

In summary, the Board finds Veridian's Z-Factor claim satisfies the three eligibility criteria of materiality, prudence and causation.

### **Cost Recovery**

Once the cost of the claim has been determined, the Board must decide on the manner in which costs will be allocated to customers for recovery. By convention, costs for Z-factor claims are recovered by dedicated rate riders. Veridian proposed fixed charge rate riders across all customer classes for 24 months. The rate riders were based on Veridian's 2014 Board-approved distribution revenue and forecast average number of customers and connections in 2014.

No party took issue with Veridian's proposal to establish fixed rate riders to all customer classes to recover the costs included in its Z-factor claim.

#### *Allocation of Costs to Customer Classes*

Board staff and VECC supported Veridian's proposal to allocate costs across all customer classes based on the Board-approved distribution revenue from Veridian's cost-of-service application (EB-2013-0174).

Energy Probe submitted that the allocation of Z-factor costs among the rate classes should be based on the allocation of Account 5020 "Overhead Distribution Lines and Feeders: Operation Labour" costs and not distribution revenue. Energy Probe indicated that an allocation based on distribution revenue includes costs that are independent of storm restoration and depend upon a range of revenue-to-cost ratios which skew the allocation of costs.

#### Board Findings

The Board approves Veridian's proposal to allocate the Z-factor costs across all rate classes based on the last Board-approved distribution revenue by rate class and recover its approved claimed costs through fixed rate riders. This finding is consistent with prior Board decisions<sup>2</sup>. The Board is satisfied that distribution revenues are a reasonable proxy for allocating these Z-factor costs.

#### *Customer/Connection Counts*

Veridian's proposed rate riders were based on the average number of customers and connections in 2014 as approved by the Board in EB-2013-0174.

VECC and Energy Probe submitted that the rate riders should be based on actual number of customers and connections as of September 30, 2014, the most recent actual numbers available. Energy Probe also submitted that the rate riders could be based on the April 2015 forecast to minimize the potential for collection variances.

#### Board Findings

The Board finds it appropriate to calculate the rate riders based on the actual number of

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<sup>2</sup> EB-2007-0514/0595/0571/0551 and EB-2011-0186

customer and connections as of September 30, 2014. The Board finds it preferable to use the latest actual customer count data provided in evidence rather than forecast numbers.

### *Effective Date and Term of Rate Rider*

Veridian initially requested an effective date of May 1, 2015 to coincide with the end date for the Smart Meter rate riders currently in place. In addition, Veridian proposed a 24-month recovery period. Board staff, VECC and Energy Probe submitted a 12-month recovery period was more appropriate given the rate riders were relatively small and would not result in a significant bill impact for customers. In reply argument, Veridian agreed to a 12-month recovery period.

**Table 2 - Z-factor Rate Riders with 12 or 24 Month Recovery Period**

Customer Class	2014 Board Approved Distribution Revenue Allocation by Rate Class	% by Class	Allocation to Rate Class	2014 Board Approved Forecast Average number of customers/connections	Proposed Recovery Per Customer/Connection	Fixed Monthly Rate Rider (12 months recovery)	Fixed Monthly Rate Rider (24 months recovery)
Residential	\$ 31,645,136	63.4%	\$ 463,954	105,999	\$ 4.38	\$ 0.36	\$ 0.18
Residential (Seasonal)	\$ 867,951	1.7%	\$ 12,725	1,590	\$ 8.00	\$ 0.67	\$ 0.33
GS < 50	\$ 6,553,835	13.1%	\$ 96,087	8,781	\$ 10.94	\$ 0.91	\$ 0.46
GS 50 to 2,999	\$ 8,894,814	17.8%	\$ 130,408	1,087	\$ 119.97	\$ 10.00	\$ 5.00
GS 3,000 to 4,999	\$ 692,222	1.4%	\$ 10,149	5	\$ 2,029.76	\$ 169.15	\$ 84.57
Large Use	\$ 628,721	1.3%	\$ 9,218	2	\$ 4,608.89	\$ 384.07	\$ 192.04
Unmetered Scattered Load	\$ 145,696	0.3%	\$ 2,136	929	\$ 2.30	\$ 0.19	\$ 0.10
Sentinel Lighting	\$ 45,387	0.1%	\$ 665	475	\$ 1.40	\$ 0.12	\$ 0.06
Street Lighting	\$ 456,462	0.9%	\$ 6,692	29,943	\$ 0.22	\$ 0.02	\$ 0.01
	\$ 49,930,224	100.0%	\$ 732,035				

VECC also submitted that the effective date of the rate riders should be the month following the Decision to minimize the carrying cost to consumers. VECC submitted that an overlap of the Z-factor and the Smart Meter rate rider riders until April 30, 2015, would not be a burden on consumers.

Energy Probe was concerned that the proposed effective date of May 1, 2015 was 1.5 years after the ice storm occurred. Energy Probe submitted that the effective date of the rate riders should be January 1, 2015 to reduce the carrying cost to consumers.

In addition, Energy Probe submitted that a true-up mechanism should be established to record the difference between the approved Z-factor claim and the amount recovered from customers.

Veridian did not propose a true-up mechanism in its application; however, it indicated in reply submission that it would true-up if ordered by the Board.

### Board Findings

The Board finds it appropriate to establish March 1, 2015 as the start date for the Z-factor rate riders to minimize the cost of interest to customers. The Board will not delay the effective date of this Decision. The bill impact on customers is reasonable, despite the 2-month overlap with the Smart Meter rate riders. As a result, the Board directs Veridian to accrue interest to February 28, 2015 only, recalculate its total claim and rate riders, based on a 12-month recovery period ending on February 28, 2016.

The Board finds that a true-up mechanism is not required as Veridian's materiality threshold is \$249,650 or 34% of the Z-factor claim. There is no evidence to indicate the potential for an over or under collection of the approved claim would exceed 34%.

### **Implementation**

The Board has made findings in this Decision which change the Z-factor rate riders from those proposed by Veridian. In filing its draft Rate Order, the Board expects Veridian to file detailed supporting material, including all relevant calculations showing the impact of the implementation of this Decision on its Z-factor rate riders, including bill impacts.

The Board will issue a Rate Order after the following steps are completed.

### **THE BOARD ORDERS THAT:**

1. Veridian shall file with the Board, and shall also forward to Energy Probe and VECC, a draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision and Order within **4 days** of the date of this Decision and Order.
2. Energy Probe and VECC and Board staff shall file any comments on the draft Rate Order with the Board and forward to Veridian within **2 days** of the date that Veridian files the draft Rate Order.
3. Veridian shall file with the Board and forward to Energy Probe and VECC responses to any comments on its draft Rate Order within **2 days** of the date of receipt of



comments.

### Cost Awards

The Board will issue a separate decision on cost awards after the following steps are completed:

1. Energy Probe and VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Veridian shall file with the Board and forward to Energy Probe and VECC any objections to the claimed costs within **17 days** from the date of issuance of the final Rate Order.
3. Energy Probe and VECC shall file with the Board and forward to Veridian any responses to any objections for cost claims within **24 days** from the date of issuance of the final Rate Order.
4. Veridian shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote the file number, **EB-2014-0272**, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date. With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Kelli Benincasa at

[Kelli.Benincasa@ontarioenergyboard.ca](mailto:Kelli.Benincasa@ontarioenergyboard.ca) and Board Counsel, Ljuba Djurdjevic at [Ljuba.Djurdjevic@ontarioenergyboard.ca](mailto:Ljuba.Djurdjevic@ontarioenergyboard.ca).

**ADDRESS**

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

E-mail: [boardsec@ontarioenergyboard.ca](mailto:boardsec@ontarioenergyboard.ca)  
Tel: 1-888-632-6273 (Toll free)  
Fax: 416-440-7656

**DATED** at Toronto, February 19, 2015

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary