



Burlingtonhydro inc.

Board Secretary  
Ontario Energy Board  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON  
M4P 1E4

December 7, 2018

Dear Ms. Walli,

**Re: Electricity Distribution License ED-2003-0004  
2019 IRM Application for Electricity Distribution Rates (EB-2018-0021)  
Z-Factor Event Application**

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Burlington Hydro Inc. ("Burlington Hydro") is submitting supplementary evidence for its 2019 IRM Application for Electricity Distribution Rates (EB-2018-0021), filed as the attached *Appendix N – Supplementary Evidence – Z-Factor Application*. It experienced a Z-factor event on May 4, 2018, specifically a powerful wind storm. It notified the Ontario Energy Board ("OEB") on November 2, 2018 that the event had occurred and requested on November 27, 2018 that the Z-factor application be combined with its IRM proceeding EB-2018-0021.

This event was outside Burlington Hydro's control, significantly impacted operations and resulted in Burlington Hydro incurring a material level of prudently incurred costs. This event meets the Z-factor amount eligibility criteria as set out in Section 2.6 of the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated July 14, 2008 and Section 3.2.8 of the *Board's Chapter 3 Filing Requirements for Electricity Distribution Rate Applications*, dated July 12, 2018.

This Z-factor application is being filed through the OEB's RESS system; two hard copies will follow by courier.

Yours truly,

**Original Signed by**

Sally Blackwell  
Director, Regulatory Affairs  
Email: sblackwell@burlingtonhydro.com  
Tel: 905-336-4373

## **Appendix N – Supplementary Evidence**

### **Z-Factor Application**

## Z-FACTOR APPLICATION

### Overview

Burlington Hydro Inc. (“Burlington Hydro”) experienced a Z-factor event on May 4, 2018, specifically a powerful wind storm. This event was outside Burlington Hydro’s control, significantly impacted operations and resulted in Burlington Hydro incurring a material level of prudently incurred costs. This event meets the Z-factor amount eligibility criteria as set out in Section 2.6 of the *Board’s Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors dated July 14, 2008* (“the Incentive Regulation Report”) and Section 3.2.8 of the *Board’s Chapter 3 Filing Requirements for Electricity Distribution Rate Applications*, dated July 12, 2018 (“the Chapter 3 Filing Requirements”).

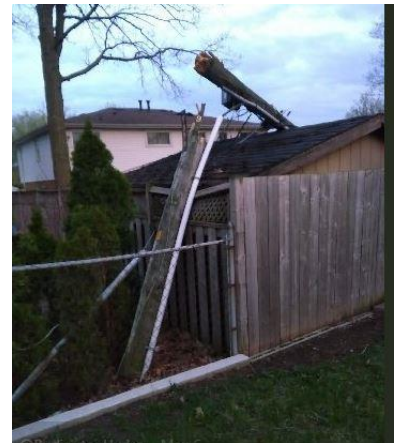
Burlington Hydro is seeking recovery of \$368,487 associated with the restoration of electricity service to its customers during this event and proposes to recover this amount from rate payers through a 12-month fixed rate rider effective May 1, 2019.

### Background

On May 4, 2018, parts of Southern Ontario experienced a powerful wind storm. Environment Canada issued warnings that day of strong winds and thunderstorms with the potential to cause power outages across Southern Ontario. The storm was more severe than originally forecast, producing gusts of over 100 km/h, toppling trees and poles, knocking out power for hundreds of thousands of customers and briefly grounding flights at Toronto Pearson International Airport.



1 The wind storm affected 30,940 or 46% of Burlington Hydro's  
2 customers. Burlington Hydro restored service to 90% of  
3 customers by May 5 at 17:26. Restoration took approximately 26  
4 hours. The wind storm was one of the most severe storms in  
5 Burlington Hydro's history - the harm caused by this  
6 extraordinary event was incremental to Burlington Hydro's  
7 experience and expectations.



## 8 **Eligibility Criteria**

9 Z-factors are unforeseen events that are not within management's control. The eligibility criteria  
10 for applications to recover amounts in the Z-factor are set out in the Incentive Regulation  
11 Report. In order for amounts to be considered for recovery in the Z-factor, the amounts must  
12 satisfy all three criteria as follows:

13  
14 **Materiality:** The amounts must exceed the Board-defined materiality threshold and  
15 have a significant influence on the operation of the distributor; otherwise they should be  
16 expensed in the normal course and addressed through organizational productivity  
17 improvements.

18  
19 **Causation:** Amounts should be directly related to the Z-factor event. The amount must  
20 be clearly outside of the base upon which rates were derived.

21  
22 **Prudence:** The amount must have been prudently incurred. This means that the  
23 distributor's decision to incur the amount must represent the most cost-effective option  
24 (not necessarily least initial cost) for ratepayers.

## 26 **Materiality**

27 The total incremental operating costs and capital expenditures associated with the restoration of  
28 electricity service to Burlington Hydro's customers during the May 4 wind storm were \$346,646  
29 and \$332,678 respectively as identified in Table 1 below.

**Table 1 – Z-Factor Event Costs**

Category	Operating \$	Capital \$	Total \$
Incremental Labour/Material/Vehicle Costs	\$195,487	\$55,090	\$250,577
3rd Party Contractors	\$89,215	\$233,602	\$322,817
Grid Smart City Partners	\$61,944	\$43,986	\$105,930
<b>Total</b>	<b>\$346,646</b>	<b>\$332,678</b>	<b>\$679,324</b>

Burlington Hydro is seeking cost recovery of \$368,487, comprised of \$346,646 in operating costs and \$21,841 in revenue requirement associated with capital expenditures, as identified in Table 2 below. This calculation of the revenue requirement associated with capital expenditures of \$332,678 is identified in Table 3 below.

**Table 2 – Relief Requested**

Category	Amount \$
Operating Costs	\$346,646
Capital Expenditures	\$21,841
<b>Total</b>	<b>\$368,487</b>

**Table 3 – Revenue Requirement Impact of Capital Expenditures**

Description	%	Amount
Incremental Capital		\$332,678
Depreciation Expense		(\$8,133)
<b>Incremental Capital to be included in Rate Base</b>		<b>\$324,545</b>
Deemed Short Term Debt (4%)	2.11%	\$274
Deemed Long Term Debt (56%)	4.73%	\$8,597
Deemed Equity (40%)	9.36%	\$12,151
Amortization Expense		\$8,133
Grossed up PILs		(\$7,313)
<b>Revenue Requirement</b>		<b>\$21,841</b>
<b>PILs Calculation</b>		
Deemed Equity		\$12,151
Add Back Amortization Expense		\$8,133
Deduct CCA	12.5%	(\$40,568)
<b>Taxable Income</b>		<b>(\$20,284)</b>
PILs Before Gross Up	26.5%	(\$5,375)
<b>Incremental Grossed Up PILs</b>		<b>(\$7,313)</b>

Burlington Hydro's materiality threshold is defined as 0.5% of distribution revenue requirement which is the threshold applicable for distributors with a revenue requirement greater than \$10MM and less than or equal to \$200MM. Burlington Hydro's materiality threshold is \$144,178 which represents 0.5% of its distribution revenue requirement of \$28,835,532, as approved in its 2014 Cost of Service application (EB-2013-0115). The relief requested of \$368,487 as a result of expenditures incurred during the May 4 wind storm exceeds the materiality threshold.

### **Causation**

The amounts incurred were directly related to the restoration of service as a result of the May 4 wind storm – specifically, if the wind storm had not occurred, Burlington Hydro would not have incurred any of these costs. The amounts incurred are outside of the base upon which Burlington Hydro's rates were derived. Burlington Hydro has several strategies for mitigating the impact of extreme weather events such as proactive vegetation management, disaster recovery planning and emergency response preparedness, however it could not have foreseen, planned or budgeted for the storm experienced on May 4. Therefore the costs associated with

1 this extreme weather event were not included in the rates approved in Burlington Hydro's 2014  
2 Cost of Service.

### 3 **Prudence**

4 The amounts associated with restoring service to customers during the May 4 wind storm were  
5 incurred prudently. Burlington Hydro's decision to incur these amounts represented the most  
6 cost-effective option for rate payers.

- 7
- 8 • Labour costs were incurred according to previously negotiated agreements;
- 9 • Burlington Hydro relied on alliances and mutual aid agreements to restore power quickly  
10 and safely;
- 11 • Contractor costs were incurred according to previously negotiated agreements;
- 12 • Repairs were made where appropriate and the portions of the system that were rebuilt  
13 were constructed on a 'like for like' basis;
- 14 • Burlington Hydro used materials available in Stores and minimized the costs to procure  
15 materials on an emergency basis;
- 16 • Burlington Hydro prioritized and coordinated work to ensure restoration was completed  
17 efficiently and power was restored to customers as quickly as possible

### 18 **Recoverability of Z-Factor Costs**

19 Burlington Hydro proposes to recover a total of \$368,487 through a fixed rate rider over a 12-  
20 month period commencing May 1, 2019 as set out in Table 4 below. In its decision on  
21 Burlington Hydro's ice-storm Z-factor claim (EB-2014-0252) the Board found it appropriate to  
22 recover the Z-factor claim across all rate classes based on Burlington Hydro's 2014 Board-  
23 approved distribution revenue by rate class; and to calculate the rate riders based on its most  
24 recent actual customer count data. Consistent with that decision, Burlington Hydro has allocated  
25 the Z-factor event costs to all rate classes based on its last Board-approved distribution  
26 revenue. The monthly rate rider is calculated using the number of customers as of December  
27 31, 2017 as submitted in its RRR filing.

1 **Table 4 – Determination of Proposed Z-Factor Rate Riders**

Rate Class	2014 CoS (EB-2013-0115) Revenue Requirement	Allocation of Revenue Requirement	# of customers/ connections as at Dec 31, 2017	Monthly Rate Rider
Residential	\$17,480,231	\$223,379	60,593	\$0.31
GS < 50kW	\$3,864,127	\$49,379	5,523	\$0.75
GS > 50kW	\$7,138,613	\$91,224	1,006	\$7.56
Unmetered Scattered Load	\$113,055	\$1,445	582	\$0.21
Street Lighting	\$239,506	\$3,061	15,386	\$0.02
<b>Total</b>	<b>\$28,835,532</b>	<b>\$368,487</b>		

4 **Conclusion**

5 Burlington Hydro respectfully requests recovery of \$368,487 associated with the restoration of  
6 electricity service to its customers during the May 4 wind storm. This event meets the Z-factor  
7 amount eligibility criteria as set out in the Incentive Regulation Report and the Chapter 3 Filing  
8 Requirements. It proposes to recover this amount from rate payers through a 12-month fixed  
9 rate rider effective May 1, 2019.