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October 29, 2020

VIA E-MAIL

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: EB-2020-0008 – Canadian Niagara Power Inc. 2021 Electricity Distribution Rates
Vulnerable Energy Consumers Coalition (VECC) Final Submissions**

Please find enclosed the final submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

(Original Signed By)

John Lawford
Counsel for VECC

Copy to: Greg Beharriell, Canadian Niagara Power Inc.

EB-2020-0008
Canadian Niagara Power Inc.
Application for electricity distribution rates effective January 1, 2021
VECC Submissions October 29, 2020

Canadian Niagara Power Inc. (Canadian Niagara Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 7, 2020 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2021.

VECC' submissions are in relation to Canadian Niagara Power's Z-Factor claim, to recover storm damage costs.

Z-Factor Claim

Canadian Niagara Power is requesting recovery of \$261,587 in costs (\$258,050 plus \$3,357 in carrying charges) related to a severe windstorm on October 31 and November 1, 2019.

Canadian Niagara Power recorded sustained outages to 19,225 customers, or approximately 65% of its total customer base. Canadian Niagara Power indicates it obtained assistance from two neighbouring LDC's through a third party mutual assistance agreement (Niagara Peninsula Energy and Welland Hydro), and also used a number of private utility-based contractor (Gams, K-Line, Peters Excavating & Pineridge Tree Service) to restore power.¹ Restoration efforts continued for several days with approximately 90% of customers restored by the morning of November 2, and the vast majority of customers restored by November 4.

Canadian Niagara Power notified the OEB of its intent to file a Z-Factor claim in relation to the storm in its next IRM application.²

Z-factor claims must satisfy three eligibility criteria.³

- 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 – 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.

¹ Schedule I

² Schedule H

³ Board's Report on 3rd 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

Canadian Niagara Power provided a comparison of its Outage Storm Response Budget from 2015 to 2020 YTD:

O&M Outage/Storm Response Budget vs. Actual

Year	Budget (\$)	Actual (\$) (non-Z-Factor)	Actual (\$) (Z-Factor)	Variance (\$)
2015	0	36,325	0	36,325
2016	16,500	0	0	-16,500
2017	39,977	13,553	0	-26,424
2018	69,894	89,766	0	19,872
2019	24,313	83,981	258,050	317,718
2020 YTD	25,391	12,261	0	-13,129

Canadian Niagara Power's response to non-Z-factor storms in 2019 exceeds the amount already funded in rates (2017) and the amount budgeted for 2019. It's reasonable to conclude the O&M Outage/Storm Response Budget was exceeded before the storm occurred.

Costs included in the claim relate to overtime, materials, mutual aid from other utilities and contracted services to assist with line services and excavation and tree removal.⁴ VECC concludes all costs included in the claim are directly related to the Z-factor event and incremental to base rates. VECC submits Canadian Niagara Power has met the Causation criterion.

Materiality

Canadian Niagara Power's approved revenue requirement from its most recent cost of service application for 2017 rates (EB-2016-0061) is \$21,388,669 and the materiality threshold is calculated as: $\$21,388,669 \times 0.5\% = \$106,943$.⁵

VECC submits Canadian Niagara Power's Z-factor claim of \$261,587 exceeds the materiality threshold and the Materiality criterion has been met.

Prudence

Canadian Niagara Power summarizes its Z-factor costs as follows:

⁴ Schedule I

⁵ Manager's Summary P22

Cost Category	Capital	O&M	Account 1572	Total
CNPI Labour (Regular)	\$74,783	\$15,903	\$0	\$90,686
CNPI Labour (Overtime)	\$30,760	\$0	\$102,267	\$133,027
Materials	\$56,480	\$0	\$8,000	\$64,480
LDC Mutual Aid Costs	\$0	\$0	\$84,802	\$84,802
Contracted Services:				
Line Services	\$329,460	\$0	\$39,651	\$369,111
Excavation and Tree Removal	\$23,614	\$0	\$22,155	\$45,769
Other	\$1,800	\$0	\$1,175	\$2,975
Total	\$516,896	\$15,903	\$258,050	\$790,849

Canadian Niagara Power did not request Z-factor cost recovery of regular labour which is appropriate. In addition, Canadian Niagara Power did not request Z-factor cost recover of the capital costs, or the incremental return on capital, related to this storm event.

Canadian Niagara Power indicated that it followed its Emergency Preparedness Plan in responding to the storm.⁶ Canadian Niagara Power indicates it paid overtime rates to its third party contractors in accordance with its LDC Mutual Aid agreement and other third-party contracts.⁷ Canadian Niagara Power did not pay overtime for non-union employees and management.⁸ Further, Canadian Niagara Power confirmed the Z-factor labour costs did not include payments made to union employees at regular rates of pay for work on pre-scheduled vacation days.⁹ VECC takes no issue with the claimed costs and submits the prudence criterion has been met.

In summary, VECC submits CND's Z-factor claim satisfies the three eligibility criteria of causation, materiality and prudence.

Z-Factor Cost Recovery

Canadian Niagara Power proposes to recover its total Z-factor claim of \$261,587 through fixed rate riders over a 12-month period from January 1, 2021 to December 31, 2021. Further, Canadian Niagara Power proposes to (a) allocate Z-factor costs across all rate classes, in proportion to last OEB-approved revenue by rate class, and (b) recover the allocated amounts through fixed rate riders, based on the most recently reported actual customer counts, consistent with the OEB's recent decision and rate order relating to Burlington Hydro Inc.'s Z-factor claim for 2019 rates (EB-2018-0021, Decision and Order, March 28, 2019, pp. 13-14).¹⁰

Board Staff asked questions regarding the impact of the COVID-19 pandemic and the economic effects it may have on Canadian Niagara Power's customer base and whether Canadian Niagara Power considered:

- a) absorbing the cost of the storm;
- b) deferring collection of the cost of the storm;

⁶ Staff-1 (a)

⁷ Staff-1 (c)

⁸ Staff 2(b)

⁹ Staff 2 (c)

¹⁰ Manager's Summary P23

- c) performed an assessment on its customers' current ability to pay; or
- d) considered any other bill impact mitigation strategies to assist its customers.¹¹

With respect to absorbing the cost of the storm, Canadian Niagara Power replied that it decided not to seek recovery of capital costs related to the storm event through the Z-Factor mechanism and is absorbing the incremental depreciation expense associated with the capital costs, foregoing the incremental return on rate base for the 2021 rate year. VECC wishes to point out that in other Z-factor claims, utilities have typically not included capital costs in the claim.¹² Thus, VECC does not see Canadian Niagara Power's proposal to forego the annual capital related revenue requirement associated with the storm-related capital investments as a bill impact mitigation strategy to assist its customers.

Low income customers are more vulnerable than ever as a result of the impact of the COVID-19 pandemic and their ability to pay has significantly declined and continues to erode. Canadian Niagara Power indicates it considered deferring the collection of the storm costs, but determined that since changes in other rate riders in 2021 will result in net decreases in the total bill amounts for most rate classes even with the Z-Factor rate, it would be preferable to recover the cost in 2021 as opposed to 2022, which is Canadian Niagara Power's next rebasing year. For a Residential RPP customer consuming 750 kWh per month, the application results in a total bill decrease of \$0.66 or 0.5%, inclusive of the impact of the Z-Factor rate rider.¹³ The proposed storm rate rider is \$0.51 per month for residential customers.¹⁴

Given the financial impacts of COVID-19 will likely continue into 2022 and beyond, and the fact that 2022 is a rebasing year with resulting bill impacts for residential customers that are unknown at this time, VECC supports Canadian Niagara Power's proposal to recover the storm costs in 2021 given the total bill impact for 2021 is negative.

VECC also supports Canadian Niagara Power's methodology as detailed above to recover the storm costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 29th Day of October.

¹¹ Staff-6

¹² EB-2014-0060 Cambridge and North Dumfries Hydro Inc. Decision and Rate Order P9; EB-2014-0252 Burlington Hydro Inc. Decision and Rate Order P2

¹³ Manager's Summary P24

¹⁴ Schedule B P38