EB-2022-0019

Canadian Niagara Power Inc.
Application for electricity distribution rates and other charges effective January 1, 2023

Final Submissions of VECC October 27, 2022

Canadian Niagara Power Inc. (CNPI) filed an incentive rate-setting mechanism application with the Ontario Energy Board (OEB) on August 3, 2022, 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, 2023. Canadian Niagara Power Inc. has also applied for a Z-factor claim, to recover costs (and carrying charges) related to the damage caused to its distribution system by a windstorm and to adjust previously approved balances in Account 1588 – Retail Settlement Variance Account Power and Account 1589 – Retail Settlement Variance Account Global Adjustment.

VECC's submissions relate to CNPI's Z-factor claim.

Z-factor Claim

CNPI seeks recovery of costs resulting from a storm on December 11, 2021. The wind event caused wind related outages affecting 22,106, or 83% of CNPI's customers.[1] CNPI obtained assistance from Welland Hydro and three third party contractors to restore power. This is the third Z-factor claim filed by CNPI. The first was for an historic snow event in 2006 and the most recent in 2019 for two severe wind storm events.[2] All previous requested amounts were approved for recovery by the OEB.[3]

Case No.	Requested	Approved
EB-2007-0514	$1,965,825	$1,965,825
EB-2020-0008	$261,587	$261,587

[1] Schedule F p.1
[2] October 31, 2019 & November 1, 2019
[3] VECC 1-a

In the application as originally filed, CNPI sought recovery of $157,900 for a Z-factor claim.[4] In response to interrogatories, CNPI made adjustments to the capital costs and the final proposed Z-factor claim is for $148,987.[5]

Table 1: Summary of Z-factor Claim

Category	As Filed	Updated
Acct 1572 Balance	$135,887	$135,887
Acct 1572 2022 Interest Forecast	$1,000	$1,000
Capital Expenditures Revenue Requirement	$21,000	$12,100
Total Z-factor Claim	**$157,900**	**$148,987**

As per the 2022 Chapter 3 Filing Requirements, distributors under a Price Cap IR or Annual IR Index rate-setting plan may request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage, referred to as a claim for a "Z-factor" event.[6] A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence, as follows:

Criteria	Description
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.
Prudence	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.

Causation

In response to interrogatories CNPI appropriately removed costs that were not directly related to the Z-factor event. CNPI adjusted the total storm costs from $510,300 to $475,409 to exclude $34,893 in capital wind-related restoration costs

4 Manager's Summary p. 14
5 Preamble – Response to Interrogatories
6 Filing Requirements For Electricity Distribution Rate Applications- 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 24, 2022 p.

which were incurred in the week prior to December 11, 2021.[7]

Table 2: Summary of Storm Costs[8]

Cost Category	Capital Cost $		O & M Cost (Regular-Time Labour) $	O & M Cost (Recorded in Account 1572) $	Total Cost $
CNPI Labour (Regular)	$ 100,460	1	$ 53,962	$ -	$ 154,422
CNPI Labour (Overtime)	$ 63,916		$ 1,653	$ 64,851	$ 130,419
Materials	$ 60,995				$ 60,995
LDC Mutual Aid Costs	$ 9,421				$ 9,421
Contracted Services - Line Services	$ 28,895			$ 70,058	$ 98,954
Contracted Services - Excavation and Tree Removal	$ 20,153				$ 20,153
Other	$ 68			$ 978	$ 1,046
Total	$ 283,907	2	$ 55,615	$ 135,887	$ 475,409

Note 1: Per response to Staff-7c, the Labour (Regular) component of Capital Cost is no longer included in the Z Factor Claim.
Note 2: Per response to Staff-7c, the Capital Component has been reduced to exclude some costs incurred prior to Dec. 11.

CNPI further adjusted the Z-factor amount to exclude Regular-time labour costs of $100,460 from the capital component of the claim. This is appropriate and consistent with the $55,615 in Regular-time labour costs related to O&M costs that were originally excluded from the O&M component of the claim. Recovery of regular-time labour costs is already embedded in rates and CNPI would have incurred these costs whether or not the storm had occurred. CNPI reduced the capital component of the claim to $183,447[9] with a revenue requirement impact of $12,100.[10]

With respect to overtime for its non-union employees, CNPI does not have a formal policy but indicates CNPI managers and supervisors do not qualify for overtime pay and no overtime costs associated with management employees are included in the claim.[11]

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[7] Staff 1-c
[8] Staff 1-a
[9] $283,997-$100,460 = $183,447
[10] Preamble – Response to Interrogatories p. 2 Updated Table 7
[11] Staff 8-b

CNPI provided its annual Emergency Response amounts budgeted and included in rates, compared to actual expenditures, for OM&A and Capital, as follows:[12]

Table 3: Emergency Response Cost Comparison

Year	Budget	Actual	Variance	Z-factor	Budget	Actual
	OM&A	OM&A	OM&A		Capital	Capital
2017	39,977	13,553	-26,424			26,232
2018	40,277	89,766	49,489			190,417
2019	40,700	83,981	43,281	285,050		803,443
2020	41,331	18,297	-23,034			277,070
2021	42,054	55,615	13,561	135,887		232,639
Total	**204,339**	**261,212**	**56,873**			**1,529,801**

With respect to OM&A, the actual costs exceed the level of emergency response budget underpinning rates in 2021, and as a whole for the years 2017 to 2021. In 2021, CNPI spent its 2021 Emergency Response OM&A budget.

CNPI confirms the costs included in the Z-factor claim are incremental costs.[13] In considering the above, VECC submits CNPI has demonstrated that the Z-factor costs were directly related to the storm and outside of the base upon which CNPI's rates were set.

Other Comments

CNPI underspent its vegetation management budget for the years 2017, 2018 and 2020. In 2021, vegetation management costs exceed the level budgeted and included in rates.[14] CNPI indicates it completed 100% of its vegetation management plan for each of the years 2017 to 2021[15] although no details on annual accomplishments were provided such as km cleared or number of trees trimmed.

In its Decision regarding CNPI's 2019 Z-factor claim, the OEB noted "that a programmatic approach to "storm-hardening" an LDC's service territory also falls within the realm of prudent utility practice. While no amount of storm-hardening

[12] Staff 15-b
[13] Staff 7-b
[14] Staff 14-a
[15] VECC 4-b

could have fully offset the severity of the windstorm experienced by Canadian Niagara Power on October 31, 2019, a storm-hardened system could have mitigated the impact. The OEB finds it concerning that CNPI has not allocated sufficient O&MA dollars to better deal with outages and storm response, nor planned or budgeted for such weather events, "due to the infrequent and extreme nature of such events". The OEB would encourage Canadian Niagara Power to engage in better risk assessment and risk management particularly in light of the increasing severity of weather events in recent years."[16]

As shown in Table 3 above CNPI has not budgeted Emergency Response capital in rates. In response to the OEB's comments regarding better risk assessment and risk management, CNPI indicates that it has accelerated its voltage conversion and distribution automation investments in recent years and these investments are expected to mitigate risks associated with extreme weather events. Further, CNPI has begun exploring changes to design criteria and standards with a focus on considering storm hardening and/or additional redundancy in its capital planning such as using underground cable where practical and adjusting the relative mechanical strength properties between wood poles and overhead conductors to reduce the extent of damage from falling trees. CNPI indicates these efforts have initially been focused on areas with higher likelihood of experiencing significant damage, combined with difficult restoration. [17]

This is the second Z-factor claim by CNPI within three years. VECC submits further assurance is needed from CNPI to demonstrate that it is updating its risk assessment and risk management accordingly.

Materiality

CNPI has an approved revenue requirement of $21,388,669 from its 2017 cost of service application and the materiality threshold is calculated as:
$21,388,669 * 0.5% = $106,943.[18]

VECC concurs the Z-factor claim of $148,987 exceeds the materiality threshold.

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[16] EB-2020-0008 OEB Decision p.17
[17] Staff-15
[18] 0.5% for a distributor with a distribution revenue requirement of between $10 million and $200 million

Prudence

CNPI sought assistance from external parties[19] to restore power. After the first interruption, power was restored in 20 hours to 90% of the customers impacted.[20] CNPI applied the applicable protocols under its Business Continuity Plan without deviaition.[21] VECC submits that CNPI acted promptly to restore power.

The invoicing arrangements with Welland Hydro are based on pass through costing and do not include a premium consistent with the South Central Ontario LDC Mutual Assistance Plan in place.[22] However, CNPI indicates invoices from non-LDC vendors may have included a premium rate (double time), which CNPI explains is a typical practice applied by vendors for emergency work outside of regular hours. VECC takes no issues with the contractor support to assist with power restoration efforts, and, under the circumstances, the associated costs for this assistance but submits CNPI, in approving invoices, should know definitively if a premium was paid.

VECC submits the OEB's criteria of causation, materiality and prudence have been met.

CNPI seeks recovery through fixed rate riders over a 12-month period from January 1, 2023 to December 31, 2023 allocated on the basis of distribution revenue, using the last OEB approved distribution revenue proportions. In CNPI's Z-factor for 2019 wind storm costs, the OEB approved the allocation based on this approach (i.e. the last OEB-approved distribution revenue by rate class and recovery through fixed rate riders). Further, the OEB found it appropriate to calculate the rate riders based on the actual number of customers in its most recently reported actual customer counts.[23] VECC submits this approach is appropriate.

[19] Welland Hydro, GAMS, Pineridge, Peters Excavating (Staff-9 b)
[20] VECC 1-b
[21] VECC 5-a
[22] Staff-9
[23] EB-2020-0008 OEB Decision