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November 10, 2023

VIA E-MAIL

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: EB-2023-0009 Canadian Niagara Power Inc. Z-factor Application
Submissions of VECC

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

Yours truly,

Shelley Grice

Digitally signed by Shelley Grice
DN: C=CA, E=shell.grice@rogers.com, OU=VECC, CN=Shelley Grice
Reason: I am the author of this document
Date: 2023.11.10 07:10:17-05'00'

John Lawford

Counsel for VECC

Copy to: CNPI

EB-2023-0009
Canadian Niagara Power Inc.
Application for electricity distribution rates effective January 1, 2024

Submissions of VECC November 10, 2023

Canadian Niagara Power Inc. (CNPI) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 17, 2023, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to its electricity distribution rates to be effective January 1, 2024. CNPI also applied for a Z-factor claim, to recover costs (and carrying charges) related to the damage caused to its distribution system by a snow and windstorm that occurred between December 23-25, 2022.

Niagara Region and the Town of Fort Erie each declared a state of emergency. Approximately 7,723 customers (29%) experienced one sustained outage and 8,139 customers (30%) experienced more than one sustained outage.[1] CNPI recorded more than 32,000 customer interruptions, representing 106% of CNPI's customer base (many customers experienced more than one interruption during the storm and restoration).[2] The vast majority of customers had power restored by December 27th.[3] It took 104 hours to restore 90% of the customers.[4]

CNPI recorded total costs of $1,930,136 related to this storm event, which includes $955,116 in capital and $975,020 in operating costs as follows:

Table 1: Storm Costs[5]

Cost Category	Capital Cost	O&M (Regular Labour)	O&M (Account 1572)	Total Cost
CNPI Labour (Regular)	$ 88,548	$ 78,778	$ -	$ 167,326
CNPI Labour (Overtime)	$ 48,357	$ -	$ 258,887	$ 307,244
Materials	$ 144,632	$ -	$ -	$ 144,632
LDC Mutual Aid Costs	$ 61,932	$ 4,128	$ 174,729	$ 240,789
Contracted Services - Line Services	$ 549,753	$ -	$ 271,527	$ 821,280
Contracted Services - Excavation and Tree Removal	$ 59,029	$ -	$ 131,839	$ 190,869
Other	$ 2,865	$ -	$ 55,132	$ 57,997
Total	$ 955,116	$ 82,906	$ 892,114	$ 1,930,136

[1] VECC-2
[2] Manager's Summary p. 29
[3] Attachment F: MED Report p. 1
[4] Attachment F: MED Report p. 4
[5] Staff-9 (b)

The capital costs cover the replacement of poles and overhead wires (primary and secondary).[6] The majority of the O&M costs are labour related; CNPI Labour, LDC Mutual Aid Costs, and Contracted Services were all labour based charges.[7]

CNPI's total Z-factor claim is $984,114 in revenue requirement, which appropriately excludes $171,454 in regular-time labour costs as these costs are already embedded in rates. Capital is evaluated as the revenue requirement associated with capital cost, and interest is based on a 2023 forecast as follows:

Table 2: Total Z-factor Claim

Category	Amount
OM&A Component Principal Balance	$892,114
2023 Interest Forecast	$44,000
Capital Expenditures Revenue Requirement	$48,000
Total Z-Factor Claim	**$984,114**

Consistent with its 2022 Z-factor claim, CNPI is only requesting one year's worth of recovery for the capital component of the claim, not the ongoing capital funding until its next rebasing (expected in 2027).

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. 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.

[6] Staff-8 (a) & (b)

[7] Staff-9 (c)

Causation

CNPI confirms the Z-factor claim is directly related to the Z-factor event and if the event had not occurred, CNPI would not have incurred any of the costs.[8] CNPI also confirms the costs are clearly outside of the base upon which rates were derived.[9]

Historically, over the period 2017 to 2021, the average spend on storm response has been $47,000[10] in O&M and $287,000[11] in capital. In CNPI's 2022 base rates, approximately $50,000 is budgeted for storm restoration O&M costs, however there is no budget for storm capital costs. In the response to VECC-3, CNPI demonstrates the claim amounts (non-capital & capital) are incremental to the storm restoration amounts included in base rates.

CNPI has experienced very impactful severe weather events in each of 2020, 2021, and 2022, and CNPI has filed three Z-factor claims as follows:

Case No.	Requested	Approved
EB-2020-0008	$261,587	$261,587
EB-2022-0019	$148,897	$148,897
EB-2023-0009	$984,114	TBD

CNPI indicates it is not expected that the pattern experienced over the last three years will continue on an annual basis in upcoming years.[12] In the EB-2020-0008 Decision, the OEB stated "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".[13] The OEB encouraged CNPI to engage in better risk assessment and risk management particularly in light of the increasing severity of weather events in recent years. In response to Staff-12, CNPI provided an explanation of the sufficiency of its risk mitigation measures. If the pattern continues, CNPI should consider budgeting additional O&M and Capital dollars to deal with storm response.

With respect to Vegetation Management, CNPI has developed a three-year cycle.[14] CNPI manages its vegetation program within O&M.[15] CNPI's 2022 base rates include $545,000 in O&M for vegetation management. In 2022, CNPI recorded $588,000 in actual costs.[16] Zone 1 in Port Colborne and Zone 1 in Fort Erie were completed in 2022 as planned. Over the period 2017

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[8] VECC-1 (b)
[9] VECC-1 (a)
[10] VECC-3 Total Actual Non-Z-factor O&M $ 2017-2021 = $234.212/5 = $46,842 (Average)
[11] VECC-3 Total Actual Non-Z-factor Capital $ 2017-2021 = $1,434,303/5 = $286,861 (Average
[12] Staff-11 (c)
[13] EB-202-0008 Decision p. 17
[14] Staff-11 (a)
[15] Staff-11 (b)
[16] VECC-4

to 2021, CNPI spent on average $505,000 on Vegetation Management (see table below), consistent with budgeted amounts, and CNPI completed its Vegetation Management cycles as planned.[17]

Table 3: Vegetation Management Program Costs[18]

Year	Included in Rates ($)	Annual Budget ($)	Actual ($)	Variance ($)
2017	481,000	480,667	442,527	-38,140
2018	484,608	485,070	478,201	-6,869
2019	489,696	500,039	530,240	30,201
2020	497,286	524,085	492,409	-31,676
2021	505,989	509,713	581,800	72,087
Total	2,458,579	2,499,574	2,525,177	25,603
AVG			505,035	
2022	545,000	545,000	588,146	43,146

VECC takes no issue with CNPI's delivery of its Vegetation Management Program and resulting storm mitigation impacts.

VECC submits the Z-factor claim meets the causation criterion.

Materiality

CNPI has an approved revenue requirement of $ 23,184,975 from its 2022 cost of service proceeding. The OEB-defined materiality threshold for a Z-factor claim is 0.5% for a distributor with a distribution revenue requirement of between $10 million and $200 million.[19] CNPI's materiality threshold is $115,925.[20]

CNPI's Z-factor claim of $984,114 is above CNPI's threshold and considered material.

[17] EB-2022-0019 VECC-4

[18] VECC-4

[19] Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008, Appendix, p. V

[20] Manager's Summary p. 34

Prudence

CNPI deployed all available internal resources to the restoration effort and secured the external services of other LDCs through mutual aid agreements.[21] CNPI also engaged several third-party utility-based contractors. CNPI provided a summary of work performed by vendor.[22] All arrangements for standby were made before the storm began.[23]

CNPI has a Business Continuity Plan and also has an internal procedures document (Power Restoration Plan) that outlines roles and responsibilities during a major event. CNPI applied the applicable protocols under its Business Continuity Plan without deviation[24] and there were no significant deviations from the Power Restoration Plan.[25]

VECC submits that CNPI has demonstrated that it has prepared for extreme weather events and acted promptly to restore power. VECC submits the storm claim amounts were prudently incurred.

Conclusion

VECC submits CNPI has met the OEB's criteria of causation, materiality and prudence and the OEB should approved CNPI's Z-factor claim of $984,114.

Cost Allocation and Rate Design

CNPI proposes to recover its total Z-factor claim of $984,114 through fixed rate riders over a 12-month period from January 1, 2024 to December 31, 2024. CNPI proposes that the Z-factor claim amount be allocated across all rate classes, and in proportion to its OEB-approved distribution revenue requirement by rate class from its 2022 cost of service. It also requested that the allocated amounts be recovered through fixed rate riders based on the most recently reported actual customer count from 2022.[26]

VECC submits CNPI's proposal for cost allocation and rate design is appropriate and consistent with the approach proposed and approved in EB-2022-0019.

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[21] Attachment F: MED Report p. 5: Welland Hydro, Niagara Peninsula Energy, NOTL Hydro, Burlington Hydro, Cornwall Electric

[22] VECC-8

[23] Attachment F: MED Report p. 2

[24] VECC-1 (c)

[25] Staff-13 (c)

[26] Manager's Summary p. 35