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2300 Yonge Street
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November 13, 2025
Our File: EB20250030

Attn: Ritchie Murray, Acting Registrar

Dear Mr. Murray:

Re: EB-2025-0030 – Hydro One Networks Inc. Z-Factor – SEC Submissions

We are counsel to the School Energy Coalition (“SEC”). Pursuant to Procedural Order No. 1, these are SEC’s submissions regarding Hydro One Network Inc.’s (“Hydro One”) request to recover through a Z-factor costs related to a major storm that affected its service territory.

Overview

Hydro One filed a consolidated annual update for Hydro One Distribution, Orillia Rate Zone (“RZ”) and Peterborough RZ for distribution rates effective January 1, 2026. As part of its Application, Hydro One seeks to recover through a Z-factor \$70.1M on a revenue requirement basis, consisting of \$196.1M of capital expenditures and \$26.7M in asset removal costs, for damage caused by a major storm that began on March 29, 2025 and was considered a Major Event through April 6, 2025.¹

SEC acknowledges the severity of the storm and commends Hydro One for the effectiveness of its response. Despite this, Hydro One has not met OEB’s requirements to justify the full amount of its Z-factor claim. Given that a portion of the requested costs are already included in base rates, and considering the imprudence associated with the company’s reduced vegetation management activities, the OEB should disallow \$55.8M in capital expenditure and at least \$2.4M in asset removal costs. To allow full recovery as proposed would be unfair to Hydro One’s customers, especially for those customers in Peterborough and Orillia RZs who have distribution rate impacts of up to 8.6%, despite the extended recovery period.²

¹ Application, A-6-1, Attachment 3

² Application, A-6-1, Tables 20-22

Summary of SEC Position			
	Capital (\$M)	Capital Amount to be Disallowed \$M	Capital Amount Eligible for Recovery (\$M)
Asset Replacements Included in Rate Base		6.5	
Capitalized Regular Labour Not Incremental		29.7	
Prudence (Vegetation Management)		19.6	
Total	196.1	55.8	140.3
Hydro One	187	53.2	133.8
Peterborough	7.4	2.1	5.3
Orillia	1.8	0.5	1.3
Total	196.1	55.8	140.3

	Asset Removal Costs (\$M)	Asset Removal Costs to be Disallowed (\$M)	Asset Removal Costs Eligible for Recovery (\$M)
Hydro One	25.5	2.4*	23.1*
Peterborough	1	0	1
Orillia	0.2	0	0.2
Total	26.7	2.4	24.3

Z-Factor Criteria

Hydro One's approved 2023-2027 Custom IR Framework, includes access to the OEB's Z-factor mechanism.³ To be eligible to recover costs for a Z-factor, a distributor must demonstrate that it meets the criteria of causation, materiality and prudence.⁴ Moreover, the OEB also requires the applicant to demonstrate that its achieved regulatory return on equity ("ROE") does not exceed 300 basis points above its deemed ROE for the last full year.

Causation

To meet the criteria of causation, a distributor must demonstrate that the amounts claimed directly related to the Z-factor event, and must be clearly outside of the base upon which rates were set.⁵ A Z-factor event must be unforeseen, and outside the distributor's control to manage.⁶

SEC does not dispute that the storm was an unforeseen event, beyond management's control, and that it caused extensive damage requiring significant work to restore the distribution system. However, some of the costs claimed by Hydro One are already embedded in approved base rates and therefore are not outside the base upon which those rates were set as they are not incremental. As the OEB

³ EB-2021-0110, [Settlement Proposal, October 24, 2022](#), p.25-26

⁴ [Filing Requirements For Electricity Distribution Rate Applications, Chapter 3, Incentive Rate-Setting Applications \(June 19, 2025\)](#), p.20; [Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors \(July 14, 2008\)](#), Appendix V

⁵ [Filing Requirements For Electricity Distribution Rate Applications, Chapter 3, Incentive Rate-Setting Applications \(June 19, 2025\)](#), p.20; [Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors \(July 14, 2008\)](#), Appendix V;

⁶ [Filing Requirements For Electricity Distribution Rate Applications, Chapter 3, Incentive Rate-Setting Applications \(June 19, 2025\)](#), p.20

has said, the recoverable costs “must be truly outside of costs built-in base rates and reflect no more than the expense that would not have been incurred but for the unforeseen event”.⁷

Base Rates. SEC submits that a number of assets replaced as part of the storm recovery would otherwise have been addressed through Hydro One’s normal operations. As part of Hydro One’s approved 2023–2027 rates, significant capital expenditures were included, and approved, under its system renewal category to address distribution assets in poor condition.⁸ This includes programs to replace poles, conductors, and line transformers.⁹

For poles, as part of Hydro One’s Distribution 2023-2027 application, it stated that 79,000 poles were in poor condition¹⁰ and that it plans to replace 10,300 per year (30,900 of them over 2025 to 2027), as part of its pole sustainment program.¹¹ A rate that would see it replace 39% of its poles in poor condition over the period.

As shown below, through its storm recovery work, Hydro One replaced a substantial number of poles that were already in poor condition. After prorating the poles replaced where asset condition information was not provided, Hydro One replaced a total of 242 poles in poor condition. Based on Hydro One’s own plans, it is reasonable to assume that 39%, or 94 poles in poor condition, would have been replaced over the remaining three years in its rate term (2025 to 2027). These replacements should therefore be treated as part of base rates. In total, these 94 poles represent 3.3% of the \$86.9M spent on Poles, Fixtures and Towers¹², equal to \$2.9M.

	Number of Poles Replaced			
	Assets in Fair/Good Condition (#)	Assets in Poor Condition (#)	Unknown Condition (#)	Total Assets Replaced (#)
<u>Hydro One Distribution</u>				
Poles	2015	184	691	2890
Prorate Poles without condition information	633	58	0	
Total	2,648	242	0	2890
	91.63%	8.37%		
<u>Peterborough RZ</u>				
Poles	11	2	167	180
Prorate Poles without condition information	141	26	0	
Total	152	28	0	180
	84.62%	15.38%		
<u>Orillia RZ</u>				
Poles	17	1	0	18
Total	17	1	0	18
	91.63%	8.37%		

Source: IRR I-5-4

⁷ [Decision and Order \(EB-2022-0317\), June 15 2023](#), p.1

⁸ EB-2021-0110, [DSP, Exhibit B-3-1](#), Section 3.1, p.17

⁹ EB-2021-0110, [DSP, Exhibit B-3-1](#), D-SR-05 (Distribution Lines Trouble Calls and Storm Damage Response Program), D-SR-10 (Distribution Lines Sustainment Initiative), D-SR-08 Distribution Lines Minor Component Replacement

¹⁰ EB-2021-0110, [DSP, Exhibit B-3-1](#), Section 3.1, p11 and18; Section 3.2, p.48; Section 3.8, p.12; ISD D-SR-07, p.2

¹¹ EB-2021-0110, [DSP, Exhibit B-3-1](#), ISD D-SR-07, p.8, Table 1

¹²Interrogatory Response I-5-11

This is consistent with Hydro One's own evidence that 88 of the poles replaced as part of the storm recovery were already planned for replacement during this rate term, and another 27 were planned for refurbishment¹³, which is another component of its pole sustainment program funded in base rates.¹⁴ Seeking Z-factor recovery for these asset replacements, which it was already funded and planning to undertake, either results in an indirect and inappropriate expansion of its approved capital program during the rate term if other poles are substituted instead, or double recovery if they are not.

Hydro One's base rates also include significant funding for the replacement of line transformers and overhead conductors. While the company does not have asset condition information for line transformers¹⁵, or overhead conductors,¹⁶ it is almost certain that among the assets which were replaced as part of the storm response¹⁷, some portion would have been replaced through the company's system renewal capital programs during the remainder of its 2023–2027 rate term. It is also reasonable to apply the 3.3% used for Hydro One Distribution poles. The resulting disallowance for assets replaced during the storm, but already scheduled to be replaced during the next three rate years, is 3.3% of \$196.1 or \$6.5M.

For Hydro One's Peterborough and Orillia RZs, it is unclear how many poor poles and other assets were planned for replacement during the next three years. In the circumstance, it would be reasonable to apply the same percentage as applied for Hydro One Distribution, 3.3% of the capital expenditures in these areas.

Capitalized Internal Labour. Embedded within the capital expenditures, Hydro One seeks to recover through the Z-factor, are 203,309 hours of regular labour, with a capitalized cost of \$29.7M.¹⁸ These amounts are not incremental and differ from overtime labour hours. Regular labour reflects the capitalization of labour already funded in OM&A included in base rates.

Hydro One has not provided any evidence showing that these hours are incremental to the base labour funded through approved rates. The OEB has been clear that Z-factor recovery is limited to costs that are incremental to the base upon which rates were set, and it has previously denied recovery of "non-incremental regular labour."¹⁹ While most Z-factor claims focus on OM&A, where incremental costs are easier to identify, distributors have consistently excluded regular labour because it is already funded.²⁰

The same principle applies here. Capitalizing regular labour does not convert non-incremental hours into incremental storm-related spending. There is no basis to permit recovery of these costs through the Z-factor. Allowing recovery of these amounts would result in double recovery, once through OM&A in base rates and again through the Z-factor. This is clearly unreasonable.

¹³ Interrogatory Response I-1-2(c)

¹⁴ EB-2021-0110, [DSP, Exhibit B-3-1](#), ISD D-SR-07, p.8

¹⁵ EB-2021-0110, [DSP, Exhibit B-3-1](#), Section 3.2, p.71

¹⁶ EB-2021-0110, [DSP, Exhibit B-3-1](#), Section 3.2, p.58

¹⁷ Interrogatory Response I-5-4

¹⁸ Interrogatory Response I-5-13, Table 1

¹⁹ See [Decision With Reasons, \(EB-2007-0514/595/572/551\) July 31, 2007](#), p.23

²⁰ See for example, [Decision and Order \(EB-2014-0162\), October 16, 2014](#), p.4, Table 1; [Decision and Order \(EB-2014-0211\), December 12, 2014](#), p.5, Table 1

The OEB has also considered the treatment of capitalized costs in other incremental funding contexts, including ICM funding. In EB-2020-0181, the Board allowed capitalized overheads to be included in Enbridge Gas' ICM project costs, but only after making clear that these amounts cannot duplicate OM&A already funded in base rates. The OEB stated that at rebasing "the onus will be on Enbridge Gas to demonstrate there has been no 'double counting' or over-recovery of O&M through capitalized overheads."²¹ The decision reinforces a simple principle, capitalization does not make a base rate funded cost incremental. If a cost is already included in base rates, it cannot be recovered again simply because it has been capitalized.

Asset Removal Costs. Hydro One seeks recovery of \$25.5M for asset removal costs. The OEB should deny recovery of \$2.4M of those costs. Built into its 2025 rates is \$77M for asset removal costs, while its total forecast for the year, including Z-factor-related amounts, is \$100.1M.²² Excluding Z-factor costs Hydro One forecasts spending \$74.6M on asset removal in 2025. This means that \$2.4M of the claimed Z-factor costs can be accommodated within the budget already included in base rates. For Peterborough and Orillia RZs, the amounts for asset removal costs because of the storm are more than what was included in base rates²³, and therefore no disallowance is proposed.

Additionally, the evidence is that asset removal costs include labour. Hydro One was unable to break down those costs, including how much reflects regular labour, because its methodology is based on a fixed percentage of asset costs.²⁴ It is reasonable to assume that a significant portion of the costs related to retiring and removing assets include regular labour. For the same reasons discussed earlier, these costs are not incremental and should be disallowed, as they are already funded in base rates. Hydro One should be required to provide further information on its methodology so a reasonable estimate of regular labour costs can be removed.

Materiality

SEC does not dispute that Hydro One has met the materiality criteria. The amounts for Hydro One, Peterborough and Orillia RZs exceed their respective materiality threshold and the amounts have a significant influence on the operation of the distributors.²⁵

Prudence

Any claimed amount must be prudently incurred, which requires that the distributor's decision to incur the cost represent the most cost-effective option for ratepayers, though not necessarily the least initial cost.²⁶

SEC does not take issue with the prudence of the costs to repair and replace assets, but with the prudence of the company's ongoing operations, which likely resulted in the need to spend more money to replace more assets than should have been necessary.

²¹ [Decision and Order \(EB-2020-0181\)](#), May 6, 2021, p.19

²² Interrogatory Response I-5-12

²³ Application, A-6-1. Table 12

²⁴ Interrogatory Response I-1-1(a)(b)

²⁵ Application, A-6-1, p.15

²⁶ [Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors \(July 14, 2008\)](#), Appendix V; [Filing Requirements For Electricity Distribution Rate Applications, Chapter 3. Incentive Rate-Setting Applications \(June 19, 2025\)](#), p.20

Hydro One's evidence demonstrates that it underspent its vegetation management budget over the three preceding years (2022-2024) by approximately 10% and cleared 60% fewer kilometres of right-of-way than planned.²⁷ For the Peterborough and Orillia RZs, while spending exceeded the plan, significantly fewer kilometres of right-of-way were cleared.²⁸

While Hydro One states its vegetation management program is reasonable and prudent and operates to mitigate storm impacts²⁹, SEC submits its lack of vegetation management, compared to its own plans which its customers are paying for, almost certainly contributed to the number of trees affected by the storm and, consequently, the extent of damage caused by tree contacts, which was substantial.³⁰ Hydro One's own expert evidence in its last Custom IR application on its vegetation management program, Optimal Cycle Protocol ("OCP"), "confirms a direct relationship between tree defects and reliability performance", which was greater during [Force Majeure] events indicating OCP reduces the impact of major storm [Force Majeure] events.³¹

There is no way to calculate with precision the extent to which reduced vegetation management in the years leading up to the storm contributed to the resulting damage. Despite this, there is clearly a connection. The OEB should reduce the Z-factor amount by at least 10% or \$19.6M to reflect that Hydro One performed and spent less on vegetation management than was planned and funded in rates paid by customers. As a result, the company likely incurred higher storm-related costs than would otherwise have been the case. This is imprudent and should not be recoverable from ratepayers.

In EB-2022-0018, the OEB rejected a reduction of a Z-factor claim based on an argument of underspending in vegetation. However, the circumstances were quite different.³² First, the scale of the underspending was quite different where it was only in 1 year³³, where here it is in each of the previous 3 years.³⁴ Second, the OEB determined that Burlington Hydro's shareholder did not benefit, in part, because its ROE for that year was well below its approved amount.³⁵ This is in contrast with Hydro One, who has over earned in each of those past three years.³⁶

Recovery Period

Hydro One has proposed a two-year recovery period for its own costs and a five-year period for Peterborough and Orillia RZs. SEC supports this proposal as it helps to mitigate bill impacts, particularly for Peterborough and Orillia customers. SEC notes that with the disallowances proposed by SEC, the revenue requirement will need to be recalculated, and the recovery periods may be able to be shortened due to the resulting reduction in bill impacts.

²⁷ Interrogatory Response I-5-3, Tables 1 and 2

²⁸ Interrogatory Response I-5-3, Tables 1 and 2

²⁹ Interrogatory Response I-2-10

³⁰ Interrogatory Response I-2-10

³¹ See [EB-2021-0110, Exhibit B-3-1](#), Section 3.3, Attachment 3, p.17 Hydro One Optimal Cycle Protocol (OCP) First Cycle Performance Assessment (Clear Path Utility Solutions, LLC)

³² [Decision and Rate Order \(EB-2022-0018\), March 23, 2023](#), p.18-19

³³ [Decision and Rate Order \(EB-2022-0018\), March 23, 2023](#), p.18-19

³⁴ Interrogatory Response I-5-3 Tables 1 and 2

³⁵ [Decision and Rate Order \(EB-2022-0018\), March 23, 2023](#), p.16-17

³⁶ [2024 OEB Scorecard \(Hydro One Networks Inc.\)](#)



Summary

SEC agrees with Hydro One that the storm which affected its service territory in March 2025 qualifies as a significant Z-factor event, but amounts claimed by Hydro One should be reduced to account for costs already included in base rates and to reflect the impact of its imprudent vegetation management practices.

Yours very truly,
Shepherd Rubenstein P.C.

Mark Rubenstein

cc: Brian McKay, SEC (by email)
Jane Scott, SEC Consultant (by email)
Applicant and intervenors (by email)