

EB-2025-0030

Hydro One Networks Inc.

Application for electricity distribution rates and other charges effective January 1, 2026

VECC Submissions November 13, 2025

Hydro One Networks Inc. (Hydro One) filed a custom incentive rate-setting (CIR) update application with the Ontario Energy Board (OEB) on September 29, 2025, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to its electricity distribution rates to be effective January 1, 2026. This is the first consolidated annual application by Hydro One seeking approval of the 2026 distribution rates and charges for Hydro One Distribution, Orillia Rate Zone and Peterborough Rate Zone. This application seeks final approval to dispose various account balances, including 2021 to 2024 wheeling charges, Account 1588 and 1589 balances for 2023, the 2024 Group 1 Deferral and Variance Accounts, and Earnings Sharing Mechanism balance, which includes an adjustment. It also requests approval for eligible Lost Revenue Adjustment Mechanism amounts, and a Z-Factor claim to recover costs incurred due to the ice storm that occurred in March 2025.

VECC's submission below relates to Hydro One's Z-factor request.

Z-factor

The purpose of the Z-factor is to permit recovery of costs of major unforeseen and uncontrollable events.

On March 29, 2025, Hydro One experienced a severe ice storm that caused damage to its distribution system. The outages impacted 600,000 customers and 42% of Hydro One's customer base.¹

Hydro One filed a Major Event Report with the OEB on June 5, 2025 covering the 9 days from March 29 to April 6. Each of the days from March 29 – April 6 qualified as a Major Event Day based on the IEEE 1366 reliability methodology.² Hydro One notified the OEB of its intent to file a Z-factor claim on April 29, 2025, which is within the required six months following the Major Event.³

¹ A-6-1 p. 2

² A-6-1 Attachment #3

³ A-6-1 Attachment #1

As a result of the storm, Hydro One incurred OM&A costs and \$196.2 million in net capital costs⁴ (see Table 1). Hydro One is not requesting recovery for the operating-related costs of the ice storm as no material incremental costs were expensed.⁵

Table 1: Z-factor Net Capital Expenditures⁶

\$ M	Internal Resources	Third-Party Contractors	Mutual Aid Partners	Total \$ M
Labour - Regular	29.7	50.0	7.3	86.9
Labour - Overtime	51.5	0.50	-	52.0
Materials	14.6	2.0	0.1	16.6
Fleet	12.8	15.9	1.4	30.2
Sub-contractor		0.7	-	0.7
Other	6.3	2.8	0.6	9.8
Total	114.9	71.8	9.4	196.1
%	58%	37%	5%	100%
Hydro One Distribution				187.0
Peterborough RZ				7.4
Orillia RZ				1.8
Total				196.2

Relief Requested

Hydro One seeks recovery of \$69.4 million of revenue requirement (excluding carrying costs) which includes \$26.7 million in expensed asset removal costs.⁷

Table 2: Relief Requested

\$ M	Hydro One Distribution	Peterborough RZ	Orillia RZ	Total
Z-factor Net Capex	187.0	7.4	1.8	196.2
Rev Reqmt impact of Capex	38.8	3.0	0.9	42.7
Asset Removal Costs	25.5	1.0	0.2	26.7
Total Relief Sought	64.3	4.0	1.1	69.4

VECC Submission

VECC submits that the Z-factor capital should be reduced to account for amounts already included in base rates related to capital, asset removal and regular capitalized labour costs.

⁴ \$222.9 million Gross Capital Costs which includes Asset Removal Costs (CCC 6-a)

⁵ Staff-4-a

⁶ VECC-13

⁷ A-6-1 p.16

Eligibility Criteria

As per the 2025 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.

Causation

VECC submits that Hydro One has not demonstrated that all capital amounts sought for recovery are outside of Hydro One’s base rates.

In VECC-4 (b), Hydro One provided the condition of the assets that were replaced in each rate zone, which also included a quantity of assets where condition data was not available. In VECC-11, Hydro One provided the costs of the assets⁸ that were replaced.

VECC submits the costs associated with poor condition assets should be disallowed as these assets will likely be replaced in the near term, within 1 to 2 years, and the costs should have been accounted for in Hydro One’s base capital plan outlined in the 2023-2027 DSP. In addition, VECC submits that the assets where condition data is not available (cannot be cross referenced by location data) should be added to the number of assets that are in poor condition and accounted for in the reduction of costs. VECC proposes that the assets with no records on their asset condition be extrapolated using the distribution of known asset conditions.

⁸ Poles, Conductors and Transformers

Hydro One Distribution Rate Zone

Using the above methodology, VECC calculates the total percentage of poles in poor condition in the Hydro One Distribution rate zone to be 7.9%, which represents a reduction of \$6.9 to the Z-factor claim.

Replaced Assets	Hydro One	#Poor ⁹ (%)	# Assets Condition Not Confirmed ¹⁰	Extrapolation #Poor Assets	Total #Poor	\$ M ¹¹	Proposed Reduction \$ M
Broken Poles	2890	184 (6.4%)	691	44 (1.5%)	228 (7.9%)	86.9	6.9
Damaged Transformers	758	2 (0.26%)	756	2 (0.26%)	4 (0.5%)	45.1	0.24

Applying the same methodology to Transformers results in a further reduction of \$0.24 to the cost of the Z-factor.

Hydro One incurred \$54.9 million in capital expenditures related to overhead conductors and devices. Hydro One's DSP indicates that out of 113,000 km of conductors there were approximately 11,000 (9.7%) overhead conductor defects identified on the distribution system.¹² VECC submits the replacement of conductors with defects should be accounted for in the Z-factor and proposes that an additional reduction of \$5.34 million in Z-factor costs on the basis that conductor defects should be addressed in the near term as part of Hydro One's base budget.¹³

Peterborough Rate Zone

Using the same methodology, VECC calculates the total percentage of poles in poor condition in the Peterborough rate zone to be 2.2% representing a \$0.096 reduction to the Z-factor claim.

Replaced Assets	Peterborough	#Poor (%) ¹⁴	# Assets Condition Not	Extrapolation #Poor Assets	Total #Poor	\$ M ¹⁶	Proposed Reduction \$ M
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⁹ VECC-4-b

¹⁰ # of Assets where Condition cannot be cross referenced by location data (VECC 4-b)

¹¹ VECC-11

¹² EB-2021-0110 B-3-1 Section 3.2 p.58

¹³ 9.7% x \$54.9 M = \$5.34 million

¹⁴ VECC-4(b)

¹⁶ VECC-11

			Confirmed¹⁵				
Broken Poles	180	2 (1.1%)	167	2 (1.1%)	4 (2.2%)	4.3	0.096

Orillia Rate Zone

Using the same methodology, VECC calculates the total percentage of poles in poor condition in the Orillia rate zone to be 5.5% representing a \$0.055 reduction to the Z-factor claim in Z-factor costs.

Replaced Assets	Orillia	#Poor (%) ¹⁷	# Assets Condition Not Confirmed ¹⁸	Extrapolation #Poor Assets	Total #Poor	\$ M ¹⁹	Proposed Reduction \$ M
Broken Poles	18	1 (5.5%)	0	0	1 (5.5%)	1.0	0.055

In total VECC proposes a reduction of \$12.6 million²⁰ in capital costs to reflect a disallowance of assets in poor condition. Costs for normal replacement are already funded through Hydro one's base electricity distribution rates. This is consistent with the purpose of the Z-factor, which is to permit recovery of costs of major unforeseen and uncontrollable events.

Asset Removal Costs in Base Rates

Asset removal costs are expensed²¹ and include labour, equipment, and other expenditures associated with dismantling, disconnecting and disposing of the asset, as well as site restoration where applicable.²² Hydro One calculates asset removal costs as a fixed percentage of the asset costs, based on the asset type and the type of work completed, and does not have a further categorization of these costs.²³

As part of the Z-factor, Hydro One seeks recovery of \$25.5 million in asset removal costs for the Hydro One Distribution rate zone. VECC submits \$2.6 million of this amount is included in base rates. Hydro One's planned amount for asset removal costs in 2025 is \$77 million and the latest

¹⁵ # of Assets where Condition cannot be cross referenced by location data (VECC 4-b)

¹⁷ VECC-4-b

¹⁸ # of Assets where Condition cannot be cross referenced by location data (VECC 4-b)

¹⁹ VECC-11

²⁰ \$6.9+\$0.24+\$5.34+\$0.096+\$0.055= \$12.6 million

²¹ VECC-1-c, d

²² Staff-1-a

²³ Staff-1-a, b

forecast excluding the Z-factor amount is \$74.6 million²⁴, resulting in a positive variance of \$2.6 million. VECC submits the Z-factor amount related to asset removal costs should be reduced by \$2.6 million to account for this amount in the base budget.²⁵

Labour Hours in Base Rates

Hydro One incurred \$29.7 million in costs related to internal labour (regular) and \$51.5 million in internal labour (overtime).²⁶ VECC submits only incremental capitalized labour related to overtime is eligible for recovery as part of the Z-factor. Regular Capitalized labour is already funded through existing rates and should be excluded. As a result, VECC submits \$29.7 million in regular labour costs associated with capital expenditures should be disallowed from the Z-factor claim.

Materiality

Hydro One’s materiality threshold is \$3.0 million. The Z-factor claim exceeds the materiality threshold.

Prudence

VECC has no concerns regarding prudence in Hydro One’s response to the storm event. However, VECC has some concerns regarding Hydro One’s Vegetation Management historical spending and achievements that in VECC’s view contributed to the impact of the storm.

Vegetation Management

Over the period 2022 to 2025, Hydro One underspent on its Vegetation Management program actuals compared to plan by \$88.3 million (19%). In 2025, Hydro One spent essentially 0% of its planned budget of \$300,000 in the Orillia rate zone.²⁷

Table 3: Variance in Vegetation Management Spending

\$ M	2022	2023	2024	2025	Total	% of Plan
Hydro One Distribution	(6.7)	(13)	(16.9)	(51.7)	(88.3)	(19%) ²⁸

Coincident with the underspending, Hydro One underachieved on its planned accomplishments with respect to km of Right of Way cleared over the 2022 to 2025 period by 38%. In addition,

²⁴ \$100.1 M - \$25.5 M = \$74.6 M (VECC-12)
²⁵ VECC-12
²⁶ VECC-13-a
²⁷ VECC-5-c
²⁸ \$88.3/\$471.1 (Plan Amount 2022-2025)=19%

Hydro One underachieved on its planned accomplishments by 65% and 67% in the Peterborough and Orillia rate zones, respectively.

Table 3: Variance in Accomplishments (km of Right of Way Cleared)

ROW km cleared	2022	2023	2024	2025	Total	% of Plan
Hydro One Distribution	(8,760)	(3,792)	(8,669)	(13,888)	(35,109)	(38) ²⁹
Peterborough	(47)	(123)	(54)	(99)	(323)	(65)
Orillia	(49)	(19)	(31)	(57)	(156)	(67)

The number of tree contact interruptions increased in 2024 compared to the previous three years.³⁰ It seems reasonable to VECC that the increase in the number of tree contact interruptions can be attributed in part to the km of right of way that were not cleared as planned.

In 2025, there were 9,733 interruptions as a result of the storm.³¹ In VECC's view, Hydro One's underachievement of its Vegetation Management program made the impact of the storm worse, particularly in Peterborough, which was one of the hardest hit areas.³²

Given the underspending in Vegetation Management and the decrease in planned vegetation management accomplishments, VECC submits the OEB should reduce the Z-factor capital by 5% or \$9.8 million.

ROE Impact

Hydro One's achieved regulatory ROE in 2024 did not exceed the OEB deemed ROE by more than 300 basis points. The achieved ROE for 2024 was 9.79%, 43 basis points above the deemed ROE of 9.36%.

Conclusion

For the reasons discussed above, VECC submits the OEB should reduce the Z-factor capital by \$52.1 million and the asset removal costs by \$2.6 million.

In Base Rates	Z-factor Reduction \$M
Replacement of Poor Condition Assets	12.6
Regular Labour	29.7

²⁹ 35,109 km/92,871km=38%

³⁰ VECC-15-1

³¹ VECC-5

³² VECC-2

Underachievement in Planned Vegetation Management	9.8
Total	52.1
Asset Removal Costs	2.6