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BY EMAIL AND RESS

November 25, 2025

Mr. Ritchie Murray
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. Murray,

EB-2025-0030 – Hydro One Networks Inc. – Application for 2026 Distribution Revenue Requirement – Reply Submission

In accordance with Procedural Order No. 1, please find enclosed Hydro One Networks Inc.'s reply submission in the above noted proceeding. Hydro One has included the following attachments as part of this reply submission:

- Attachment 1: 2026 Retail Transmission Service Rates (Updated)
- Attachment 2: 2026 Sub-Transmission Rates (Updated)
- Attachment 3: Bill Impacts – Hydro One Distribution (Updated)
- Attachment 4: Chapleau DVA Continuity Schedule (Updated)

An electronic copy of this reply submission has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

Elise Andrey

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Hydro One Networks Inc., for an Order or Orders made pursuant to section 78 of the *Ontario Energy Board Act, 1998* approving just and reasonable rates and other charges for the distribution of electricity, to be effective January 1, 2026.

REPLY SUBMISSION
HYDRO ONE NETWORKS INC.

November 25, 2025

INTRODUCTION

On August 28, 2025, Hydro One Networks Inc. (Hydro One) filed its first consolidated annual update application for distribution rates and charges for Hydro One Distribution, Orillia RZ and Peterborough RZ, effective January 1, 2026 (2026 Annual Update). The Application was made pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the OEB Act).

In the Application, Hydro One is applying to the OEB for an Order approving:

For Hydro One Distribution

a) Electricity distribution rates effective on January 1, 2026 where the revenue requirement for Hydro One Distribution is determined formulaically through a custom Revenue Cap Index (RCI) methodology approved in EB-2021-0110;
b) Updated Retail Transmission Service Rates (RTSR) effective on January 1, 2026;
c) The disposition of 2023 and 2024 Group 1 DVA balances, on a final basis, by means of specific rate riders effective over a 12-month period beginning on January 1, 2026; including final disposition of 2021-2023 wheeling debit amounts of $2,372,701 previously approved for Hydro One Distribution on an interim basis;
d) The disposition of ESM amounts from 2021 to 2024, for Hydro One Distribution, on a final basis, by means of specific rate riders effective over a 12-month period beginning on January 1, 2026; and
e) Recovery of z-factor costs by means of rate riders effective over a 24-month period (two-year recovery period) beginning on January 1, 2026.

For Orillia RZ

a) Electricity distribution rates effective on January 1, 2026 that are escalated by the Price Cap IR adjustment mechanism;
b) Updated RTSR effective on January 1, 2026;
c) The disposition of 2023 and 2024 Group 1 DVA balances, on a final basis, by means of specific rate riders effective over a 12-month period; including final disposition of 2021-2023 wheeling credit amounts of $2,372,701 previously approved for Orillia RZ on an interim basis;

d) Recovery of z-factor costs by means of rate riders effective over a 60-month period (five-year recovery period) beginning on January 1, 2026; and,
e) Disposition of the 2026 LRAM Eligible amounts that were previously approved in EB-2022-0040 by means of rate riders effective over a 12-month period beginning on January 1, 2026.

For Peterborough RZ

a) Electricity distribution rates effective on January 1, 2026 that are escalated by the Price Cap IR adjustment mechanism;
b) Updated RTSR, effective on January 1, 2026;
c) The disposition of 2023 and 2024 Group 1 DVA balances, on a final basis, by means of specific rate riders effective over a 12-month period beginning on January 1, 2026;
d) Recovery of z-factor costs by means of rate riders effective over a 60-month period (five-year recovery period) beginning on January 1, 2026; and,
e) Disposition of the 2026 LRAM Eligible amounts that were previously approved in EB-2022-0040 by means of rate riders effective over a 12-month period beginning on January 1, 2026.

This is Hydro One's Reply Submission in respect of the 2026 Annual Update Application (Reply Submission).

Hydro One has no concerns with submissions[1] supporting Hydro One's proposals on the following matters:

1. Custom RCI Adjustment for Hydro One Distribution, and Price Cap Adjustment for Orillia and Peterborough RZs
2. RTSR and Sub Transmission Rates for Orillia and Peterborough RZs
3. Disposition of the 2023 and 2024 Group 1 DVAs, including Account 1595(2021), on a final basis, except the 2023 and 2024 Account 1588 and 1589 balances

[1] Note, all items (1) to (7) were from OEB staff's submission. Point (6) was also accepted by SEC and further addressed in Section 2.1.4 below.

4. Disposition of 2021-2023 wheeling amounts on a final basis which were previous approved on an interim basis, and disposition of 2024 wheeling amounts on a final basis in this Application
5. Disposition of 2021-2024 ESM balances for Hydro One Distribution, inclusive of a retroactive adjustment to the 2020 balance, on a final basis
6. Proposed disposition period for z-factor amounts of 2-year period for Hydro One Distribution and 5-year period for Orillia and Peterborough
7. Disposition of LRAMVA-eligible balances for Orillia and Peterborough RZs

Hydro One has focused its Reply Submission on the outstanding items from parties' submissions. Accordingly, this Reply Submission is divided into the following parts:

- Section 1.0 – Disposition of Group 1 DVAs (addressing OEB staff's submission)
- Section 2.0 – Z-factor (submissions from OEB staff/SEC/CCC/VECC)
- Section 3.0 – Procedural Matters

1.0 DISPOSITION OF GROUP 1 DVAS

Hydro One requested to dispose of its consolidated Group 1 DVA balances on a final basis, which amount to a total credit balance of $94.9M as of December 31, 2024.

OEB staff provided the following submissions supporting Hydro One's proposals:

- Except for Accounts 1588 and 1589, OEB staff supported declaring the disposition of all Group 1 DVA balances (2023 and 2024) on a final basis, as there were no issues uncovered in the Internal Review relating to those balances.[2]
- OEB staff supported final disposition of the 2021-2023 wheeling adjustments that were previously approved on an interim basis. OEB staff agreed with Hydro One's analysis that RTSR billing quantities stipulated and agreed upon by both parties in the Wheeling Agreement continue to be appropriate.[3] OEB staff submitted that Hydro One has addressed the OEB's direction and concerns from its prior

[2] OEB staff submission, p. 9
[3] OEB staff submission, p. 16

Decision, and supported final disposition of the wheeling credit amounts in this Application (2021-2023 and 2024 balances).

- The Application included disposition of ESM balances (2021-2024) as part of Hydro One's prior settlement commitment in EB-2021-0110. There was a retroactive adjustment to ESM of $2.2M to the 2020 balance, which was supported by OEB staff.

Hydro One accepts OEB staff's submissions on the above, and responds to the OEB staff's submissions on the following points below:

- **Section 1.1:** Accounts 1588 and 1589
  - **Section 1.1.1:** Filing Timeline for Modified Workform
  - **Section 1.1.2:** Retroactivity Remediated by Interim Disposition of 1588 & 1589
- **Section 1.2:** Separate Rate Rider for Account 1588 to Dispose on Interim Basis
- **Section 1.3:** Separate Rate Rider for Account 1595 (2021)
- **Section 1.4:** Request for Additional Information

Each of these points are further discussed below.

1.1 ACCOUNTS 1588 AND 1589

OEB staff submitted that the OEB should allow Hydro One to dispose of 2023 and 2024 balances for Accounts 1588 and 1589, on an interim basis, for the following reasons:

i. *Use of Plugs:* Hydro One did not provide a breakdown to explain the 'plug' adjustment, when asked to separate out the reconciling items for "billing adjustments, IESO settlement adjustments, or other adjustments in breaking down the true-up amounts further".[4]

ii. *Lack of Modified Commodity Accounts Workform (Workform):* Hydro One did not file a modified Workform to support the reasonability of the Account 1588 and 1589

[4] OEB staff submission, pp. 10-11

balances in this proceeding, when it had committed to do so, on a best efforts basis, following the OEB staff meeting.

Given Hydro One's calendarization issue, OEB staff stated that the OEB could not make the 2023 and 2024 balances final until these issues are resolved, or at least addressed in Hydro One's plan to fully adopt the Accounting Guidance on a prospective basis.[5]

Hydro One does not oppose interim disposition of the commodity accounts, until it is able to file a modified Workform to support final disposition of the commodity balances. Hydro One will comply with the OEB's direction in EB-2023-0030, and expects to resolve the current limitations through system enhancements and process changes in its next rebasing application.[6]

Hydro One's response to points (i) and (ii) above are discussed in turn.

Use of Plugs

OEB staff challenged the appropriateness of Hydro One calculating 'plug' reconciling items, which are described as a comparison between the Account 1588 and 1589 transactions in the general ledger (GL) to that shown in the Workform on an aggregate basis.[7] OEB staff submitted this was not a reconciliation.

Hydro One is unable to isolate separate reconciling items related to accrued revenue estimates without calendarized meter data.[8] This limitation, however, does not impact the 2023 and 2024 balances for Accounts 1588 and 1589 sought for disposition. The reconciling items related to the plug adjustment, that are the subject of OEB's concerns, pertain to expected Global Adjustment (GA) revenue and are not a principal adjustment.[9]

[5] OEB staff submission, p. 11
[6] Exhibit A-04-06, section 1.4.1, p. 7
[7] OEB staff submission, p. 10
[8] Exhibit A-04-06, section 1.4.1, p. 5; Exhibit A-04-06, Att 1h, Q1 (Responses to Follow-Up Questions)
[9] Exhibit A-04-06, Attachment 1h, Q1, p. 12; Interrogatory Response to I-01-18 part a)

OEB staff asserts the need to calculate separate reconciling items in justifying reasonability of the Account 1588 and 1589 balances.[10] Hydro One clarifies that the credit adjustments of $26.3M (2023) and $11.2M (2024) – to be further broken down into reconciling items – relate to Account 1589, and not Account 1588.

OEB staff noted that Hydro One did not address the questions posed on identifying and explaining any additional adjustments related to “any billing adjustments, IESO settlement adjustments, or other adjustments" that are beyond those impacted by the calendarization limitations.[11] As part of filing the modified Workform, OEB staff submitted the OEB should direct Hydro One to separate reconciling items for the above specific drivers in breaking down true-up amounts further.”[12]

Hydro One should not be directed to identify reconciling items for any billing adjustments, IESO settlement adjustments, or other adjustments in the modified Workform, as it is normal for utilities to report on specific reconciling items that are deemed to be material on the Commodity Accounts Workform. It is more appropriate to continue investigating the breakdown of these adjustments (where feasible) and report any material reconciling items. Hydro One reviewed the IESO settlement adjustments going back to 2023 and confirmed that there were no such adjustments outside of the 24-month period. For any IESO settlement adjustments related to class A customers within the 24-month period, Hydro One follows the appropriate regulatory accounting procedures to settle the adjustments with the IESO. Any out-of-period billing adjustments or other potential adjustments will be identified as reconciling items to the GA variance, if they have a significant impact.

Lack of a Modified Workform

OEB staff submitted that Hydro One’s rationale for not filing a modified Workform was not reasonable because Hydro One would have known about the limitation with the non-availability of calendarized monthly billed loss-adjusted consumption and GA revenues, at the time it agreed to file a modified Workform. Hydro One disagrees with OEB staff’s

[10] OEB staff submission, p. 10
[11] OEB staff submission, p. 11
[12] OEB staff submission, p. 11

characterization of this situation. The agreement reached between OEB staff and Hydro One in the Joint Report was based on the understanding that the modified Workform would be produced on a best-efforts basis.[13] Hydro One made best efforts to produce a modified Workform; however, it was unable to complete the appropriate level of verification and reviews within the timeframes of this proceeding.

Prior to the OEB staff meeting on August 15, 2025, Hydro One was in the process of developing the methodology to obtain calendarized information based on the OEB's directions in EB-2023-0030. Following the OEB staff meeting, Hydro One expediated the requests over the course of the next two months[14] to obtain calendarized information specifically based on the GL. Hydro One conducted initial reviews of the Class B GA revenue by using calendarized consumption and dollars for each class B class but was unable to complete a rigorous review in time for filing the interrogatory responses. Accordingly, Hydro One confirmed in interrogatory responses that it reviewed the data provided by the IT team, but determined that there was no readily available approach or IT solution to produce the calendarized data for this proceeding.[15]

1.1.1 FILING TIMELINE FOR MODIFIED WORKFORM

OEB staff suggested that Hydro One should be directed to file a modified Workform for its 2027 Annual Update Application. Hydro One prefers filing the modified Workform as part of the 2028 Rebasing Application. This approach allows parties to concurrently assess the plan to adopt the Accounting Guidance along with the modified Workform, streamlining the review of the same Workform in one rate proceeding, as opposed to two adjacent proceedings.

At this time, Hydro One is still analyzing and performing reconciliations on the data to be used for the modified Workform. Hydro One intends to meet with OEB staff next year to: (i) confirm the approach to calendarize the data prior to implementation, and (ii) inform and validate the approach to develop the modified Workform.

[13] Exhibit A-04-06, Attachment 2
[14] Between August 27, 2025 and October 31, 2025
[15] Interrogatory Response to Exhibit I-01-18 a)

1.1.2 RETROACTIVITY REMEDIATED BY INTERIM DISPOSITION OF 1588 & 1589

OEB staff agreed that OEB's direction in EB-2023-0030 was to adopt the Accounting Guidance on a prospective basis, but notes that rate retroactivity will not be an issue, if the OEB approves the disposition of Accounts 1588 and 1589 on an interim basis. Hydro One does not take issue with the interim disposition of Accounts 1588 and 1589. However, reproducing the 2023 and 2024 GA reasonability tests using calendarized data in the modified Workform departs from the OEB's direction to adopt the Accounting Guidance on a prospective basis.

1.2 SEPARATE RATE RIDER FOR ACCOUNT 1588 TO DISPOSE ON INTERIM BASIS

OEB staff supports disposing of the Account 1588 balance on an interim basis and recommended that a separate rate rider should be created for Account 1588.[16]

Hydro One does not oppose OEB staff's recommendation. However, as the Account 1588 balance is allocated across all entities, this impacts the rider derivation for Hydro One Distribution, Peterborough RZ, Orillia RZ and Chapleau. Should the OEB direct Hydro One to create a separate rider for Account 1588, Hydro One would need to recalculate the updated riders (including the general DVA rider and the Account 1588 rider) at the time of the Draft Rate Order for all the entities.

1.3 SEPARATE RATE RIDER FOR ACCOUNT 1595 (2021)

OEB staff submitted that it would be appropriate to create a separate rate rider for Account 1595 (2021) as the clearance of the Account 1595 (2019) was previously done through a separate rider. OEB staff further noted that this approach aligns with the creation of separate riders for Accounts 1588 and 1589 to be disposed on an interim basis in this proceeding.

The establishment of a separate rider for Account 1595 (2021) is not required for the following reasons:

[16] OEB staff submission, p. 9

- Account 1595 balances are typically included in the disposition of Group 1 DVA balances through the "general" Group 1 DVA rate rider, unless a specific circumstance warrants a different approach. As Account 1595 (2021) will be disposed to the same customer classes as the other approved Group 1 accounts, there are no special circumstances to support clearance of this specific 1595 sub-account through a separate rider.
- The approach used for Accounts 1588 and 1589 is not comparable to Account 1595 (2021). OEB staff supported disposing of Account 1595 (2021) on a final basis, as opposed to on an interim basis for Accounts 1588 and 1589. Additionally, Account 1589 is typically cleared through a separate rider to non-RPP class B customers.
- The incremental effort associated with creating separate rate riders would result in regulatory inefficiencies.
- Significant time and testing procedures are required to set up new rate riders. There is a risk that any additional rate riders will not be implemented by January 1, 2026.

1.4 RESPONSE TO OEB STAFF'S REQUEST FOR ADDITIONAL INFORMATION

There were two outstanding items from OEB staff's submission, which are addressed below:

(1) Update to Hydro One Distribution custom models to reflect 2026 RTSR calculations, ST rates, and corresponding bill impacts including the update for the latest Time of Use (TOU) rates and Ontario Electricity Rebate (OER).[17] Please see Attachments 1, 2 and 3 to this Reply Submission addressing these updates.

(2) Chapleau DVA continuity schedule should be corrected to include "2024 OEB-approved dispositions" as they continue to show zero balances.[18] Hydro One previously included the amounts under "transactions" but have now separated them out and put them under "Board approved dispositions" in Attachment 4 to this

[17] OEB staff submission, pp. 1 and 5
[18] OEB staff submission, p. 8

Reply Submission. There is no change to the Chapleau Group 1 DVA balance requested for disposition.

2.0 SUBMISSIONS ON Z-FACTOR REQUEST

In its Application, Hydro One submitted a z-factor claim for recovery of $69.4M of revenue requirement impacts associated with the restoration of electricity service to its customers following the March 2025 storm.

Table 1 - Relief Sought by Rate Zone ($M)[19]

		Hydro One Distribution	Peterborough RZ	Orilla RZ	All Rate Zones
Z-Factor Related Net Capital Expenditures		$187.0	$7.4	$1.8	$196.2
Revenue Requirement Impact of Capital Expenditures	A	$38.8	$3.0	$0.9	$42.7
Asset Removal Costs	B	$25.5	$1.0	$0.2	$26.7
Total Relief Sought	A+B	$64.3	$4.0	$1.1	$69.4

As Hydro One's evidence and interrogatory responses demonstrate, the March 2025 storm was an extraordinary and unforeseen event that caused widespread and severe damage across Hydro One's distribution system. The storm resulted in approximately 1.2M service interruptions and affected over 600,000 customers, representing 42% of Hydro One's customer base.[20] The scope, duration, and impact of this event are uncontested, and the parties agree that the March 2025 storm system is a qualifying z-factor event under the OEB's framework. To the extent that other parties propose adjustments to the amounts that Hydro One proposes to recover in relation to the storm costs, their submissions generally focus on the incrementality and prudence of specific subsets of Hydro One's costs.

[19] Exhibit A-06-01, Table 4, p. 16
[20] Exhibit A-06-01, p. 2

To recover costs from a z-factor event, the applicant must show that those costs meet three criteria: materiality, causation, and prudence. In addition, the utility cannot have achieved an ROE in excess of 300 basis points above the deemed ROE in the previous year. Hydro One has submitted evidence that demonstrates that all criteria are met with respect to the amount sought in this Application.

Regarding materiality, the parties agree that Hydro One's z-factor application clearly exceeds the specified threshold amount of $3M. OEB staff, CCC, VECC and SEC each state in their submissions that Hydro One has satisfied the materiality requirement. The parties also do not dispute that Hydro One's most recent ROE does not exceed the 300 basis-point cap.

Regarding causation, the parties to this Application acknowledge the severity of the storm, and the effectiveness of Hydro One's response. OEB staff acknowledges that the costs incurred to respond to this storm were significant, and largely exceed the amounts funded through base distribution rates.[21] Notwithstanding, parties have made submissions in this case that some portions of the amounts sought for recovery, while a result of the storm, are not incremental to the amounts funded in base rates. In particular, the parties make the following arguments:

- **Assets Identified for Replacement:** OEB staff and CCC argue that some portion of the assets included in the z-factor claim were already planned for replacement and should be excluded for recovery. Hydro One disagrees and responds to these arguments in section 2.1.1.1.
- **Assets Assumed to be in Poor Condition:** SEC and VECC argue that Hydro One's recoveries in this Application should be reduced to exclude assets identified as in poor condition prior to the storm, and have made assumptions on what portion of assets should be considered to have been in poor condition. Hydro One disagrees and responds to these arguments in section 2.1.1.2.
- **Capitalized Labour:** SEC, CCC, and VECC argue that the capitalized regular labour hours should be excluded from the z-factor recovery on the basis that

[21] OEB staff submission, pp. 25-26

capitalizing labour does not convert “non-incremental” hours into incremental storm-related spending. Hydro One disagrees and responds to these arguments in section 2.1.1.3.

- **Asset Removal Costs:** SEC and VECC argue that Hydro One’s asset removal costs should be reduced on the basis that, in 2025, total asset removal costs exceeded the amounts in base rates by less than the asset removal costs incurred for the z-factor event. SEC and CCC also argue that Hydro One’s asset removal costs include labour costs that are not recoverable. Hydro One disagrees and responds to these arguments in section 2.1.1.4.

Finally, regarding prudence, the parties agree that Hydro One acted diligently and reasonably in responding to the storm’s impacts. OEB staff “recognizes that Hydro One acted promptly and restored power within a reasonable period” and in doing so called upon available internal and external resources.[22] CCC explicitly states that "it does not intend to take issue with the prudence of the expenditures.”[23] VECC agrees that Hydro One’s response to the storm event itself was prudent,[24] and SEC “does not take issue with the prudence of the costs to repair and replace assets.”[25]

However, CCC, SEC and VECC argue that some portion of Hydro One’s z-factor costs should be disallowed on the basis that the extent of the storm damage may reflect inadequacies in Hydro One’s vegetation management program. Hydro One disagrees; the damages resulting from this event are reflective of the unprecedented size and severity of the storm, not any shortcoming in Hydro One’s vegetation management program. Hydro One responds to the arguments put forward by CCC, SEC and VECC in section 2.1.2 of this reply.

The record of this proceeding demonstrates that the costs Hydro One proposes to recover were material, prudently incurred, and incremental to amounts funded in base rates and should be recovered. As Hydro One clarifies in this Reply Submission, the reductions

[22] OEB staff submission, p. 25
[23] CCC submission, p. 4.
[24] VECC submission, p. 6.
[25] SEC submission, p. 5.

proposed by the parties to this proceeding are based on a conception of Hydro One's capital planning that is not supported by the record or the basis on which rates are set. Further, these proposed disallowances are overlapping and not mutually exclusive, sometimes seeking disallowance of the same dollars twice. For the reasons that follow, the OEB should reject the arguments made by the parties and approve Hydro One's requested z-factor relief as set out in the Application.

2.1.1 CAUSATION: Z-FACTOR AMOUNTS ARE INCREMENTAL TO BASE RATES AND DIRECTLY ATTRIBUTABLE TO THE STORM

Before responding to the specific issues raised by other parties, it is important to situate the costs associated with responding to this extraordinary storm within the context of the overall capital expenditure envelope funded by Hydro One's base rates, and the utility's experience to date in delivering its investment plan. The pre-filed evidence in Exhibit A-06-01, Section 3.1, explains that:

> [D]ue to demand-driven and input cost pressures, Hydro One has faced significantly higher than planned expenditures over the current rate period, and reprioritization of planned capital work is underway and expected to continue over the remainder of the rate term to manage the overall capital portfolio in the context of these emerging needs and challenges.[26]

Table 8 of Exhibit A-06-01 further shows that due to these emerging needs and challenges, Hydro One's capital expenditures, as of the end of 2024, have exceeded the OEB-approved envelope by approximately $235.4M.[27] Together with other evidence on the record detailing the magnitude and extent of damage experienced in this storm, Table 8 demonstrates that the $196.2M z-factor capital costs sought for recovery in this Application are clearly incremental to capital amounts included in base rates.

It is also important to consider how Hydro One prudently manages its capital investment over the multi-year period between rebasing applications. In its interrogatory response to

[26] Exhibit A-04-06, Section 3.1

[27] $235.4M is equal to the cumulative variance of $69.0M in 2023 plus $166.4M in 2024. As discussed at Exhibit A-06-01, p. 17, lines 9-12 - The Z-factor capital costs for Hydro One Distribution were approximately 18% of total OEB approved capital expenditures for 2025, and greater than 65% of each of the System Service, System Access, and System Renewal categories planned for 2025

I-01-03 part (d), Hydro One explains that the utility is managing its capital and OM&A funding levels within the overall funding envelope approved in EB-2021-0110. Managing to an envelope enables the utility to address the evolving needs of its system and customers and reprioritize work as necessary to meets its service obligations and respond to changing system and business conditions. It does not – nor should it – be construed as delivering capital programs based on a static list of assets and scopes of work across the five-year rate term. Hydro One's envelope approach is both appropriate and consistent with the OEB's expectations under a custom IR multi-year capital plan to "[...] *manage within the rates set, given that actual costs and revenues will vary from forecast.*"[28]

While the planning assumptions underpinning the EB-2021-0110 Custom IR Application provide a framework for the necessary investments over the 2023-2027 period, these plans cannot anticipate the precise timing or nature of all emergent needs over a multi-year rate term. The parties' submissions discount the practical reality of managing a large and complex electricity distribution system during a period of rapid change and instead advocate that the OEB adopt a more static view of Hydro One's capital program and operating environment.

The capital envelope approved in Hydro One's 2023-2027 DSP reflects the totality of planned and demand-driven work Hydro One must undertake during the rate period, including the need to respond to emerging system conditions, material cost escalations, and growth-related pressures. The envelope is not premised on the assumption that extraordinary events of the magnitude experienced with this z-factor event will occur, nor is it designed to absorb the impact of such a significant weather event that required full redeployment of internal resources and substantial capital work.

Intervenors and OEB staff have argued that the impacts experienced due to this storm were already funded in base rates because certain assets were in poor condition or planned to be replaced, or because internal labour was used to carry out the work. These arguments reflect a fundamental misunderstanding of how utility capital plans must be

[28] Report of the Board, Renewed Regulatory Framework for Electricity Distributors, dated October 18, 2022, p. 19.

managed within a five-year envelope. As the evidence cited above demonstrates, the capital plan is already under pressure due to demand driven requirements and cost pressures exceeding the assumptions included in base rates. The z-factor event exacerbated these pressures; it did not offset or mitigate the need for Hydro One to do other prudent and necessary work within its capital envelope.

Accepting the parties' arguments that certain amounts are already included in base rates is tantamount to accepting that Hydro One's capital envelope is the appropriate source of funding for the incremental impact of this z-factor event. In the company's view, that is not a reasonable premise, nor is it aligned with OEB policy. If accepted, the opposing parties' arguments would ultimately reduce the funding available to accomplish the work set out in Hydro One's five-year investment plan – an outcome that would run counter to customers' interest in maintaining a safe, reliable distribution system. The z-factor remains the appropriate and OEB-intended vehicle for recovery of extraordinary costs related to extreme weather events.

2.1.1.1 ASSETS IDENTIFIED FOR REPLACEMENT

In its interrogatory response to I-01-02 part (c), Hydro One identified 115 poles, 18 crossarms, and 2 transformers that were previously planned for replacement in EB-2021-0110.[29] OEB staff and CCC argue that costs associated with these assets should be excluded from recovery because these costs are already funded through Hydro One's base distribution rates. OEB staff further submits that this approach is consistent with other recent z-factor decisions, where the OEB did not allow cost recovery for certain poles that were expected to be replaced in the near term. Hydro One disagrees with parties' arguments on this issue for the reasons that follow.

First, the assets identified in the last rebasing application do not in and of themselves prove that there is an overlap between base-rate funding and the z-factor relief sought. Rather, this information must be considered in the context of Hydro One's broader system planning and capital management. Hydro One must actively manage thousands of individual assets across the system. Active utility management means adjusting work

[29] Interrogatory Response to I-01-02, part (c)

plans in real-time as condition, reliability needs, customer impacts, and emergent events evolve and arise. Hydro One's evidence appropriately reflects that prudent system planning requires continuous reprioritization, particularly for a large and complex asset portfolio. These reprioritization efforts are a normal part of utility operations and reflect a prudent and necessary approach to managing within an approved five-year envelope.

OEB staff and CCC argue that the OEB should automatically reduce the z-factor recovery by the work identified in its last rebasing application, without any consideration of Hydro One's overall capital expenditures envelope and whether the utility has had to reprioritize investments in the distribution system to actively manage within its overall funding envelope. These arguments, if adopted, would send a message that utilities should be wary of actively managing their investment plans, as doing so could diminish their ability to demonstrate causation when seeking to recover legitimate z-factor costs. In Hydro One's view, such a ruling could discourage utilities from pursuing prudent reprioritization efforts and strategies in managing to their OEB-approved envelopes.

Second, the fact that certain assets were identified in rebasing application as needing capital replacement does not mean that the outcome of the proceeding guarantees funding for such replacement. In the implementation of an OEB decision or Settlement Agreement, there are many variables and factors that need to be recalibrated to manage within the OEB-approved envelope for the rate term. As described above, Hydro One is managing its expenditures levels for the 2023-2027 period to the overall funding envelope approved in EB-2021-0110, which includes reprioritization and calibration of work to address an increase in demand related work and rising cost pressures. In light of this context, it would not be reasonable to conclude that the cost of the assets identified in interrogatory response to I-01-02 part (c) are already funded through base rates. Thus, OEB staff and CCC's arguments on this issue should be dismissed.

Moreover, Hydro One's capital funding context is different from that of the other utilities in the z-factor decisions for which OEB staff has relied upon in support of its proposed disallowance.[30] None of the other utilities cited in these decisions operate under a custom

[30] OEB staff submission, p. 23

IR rate framework that sets a multi-year capital envelope for the utility to manage over its rate term. As a result, these utilities were not able to show that the capital work performed to date in their current rate terms clearly exceeded the amounts funded in base rates. To the contrary, in the Elexicon z-factor proceeding, the evidence showed significant underspending of the capital plan.[31]

Hydro One is managing to a five-year envelope and has put forward clear and conclusive evidence demonstrating that the capital work performed to date (excluding the impact of the z-factor event) already exceeds the amounts funded in base distribution rates, and that reprioritization of planned capital work is underway and expected to continue over the remainder of the rate term to manage the overall capital portfolio in the context of significant emerging needs and challenges. Hydro One has also demonstrated that the assets replaced and sought for recovery were directly the result of damages incurred as a result of the z-factor event.

For all these reasons, the OEB should reject OEB staff and CCC's arguments with respect to asset replacement and approve the full amount of capital recovery sought in this Application.[32]

2.1.1.2 ASSETS ASSUMED TO BE IN POOR CONDITION

SEC and VECC submitted that Hydro One's capital costs sought for recovery in this Application should be reduced to exclude assets, identified in interrogatory response to I-05-04, as in poor condition (prior to the storm) because the costs associated with replacing these assets are currently funded in base rates and therefore are not incremental. In addition, both parties have made assumptions on what portion of assets should be considered to have been in poor condition, despite their condition being unknown.[33] The OEB should reject these arguments for the following reasons.

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[31] EB-2022-0317, Decision and Order, p. 12

[32] Please also see Exhibit A-6-1, Table 8 showing the 2023 and 2024 plan versus actual and the supporting evidence which speaks to emerging needs and cost pressures.

[33] As explained in Interrogatory Response to I-05-12, Hydro One's primary focus after the storm was the safe and expedient restoration of power to its customers, which included working around significant connectivity challenges that were experienced during the height of the storm. As a result of these factors, it was not feasible to record and reconcile detailed replacement data for every

Similar to the argument raised above regarding asset replacement, it is not appropriate to assume that assets categorized as “poor condition” were specifically planned or funded for replacement in the current rate term, or are implicitly funded through base rates. Asset condition data is a key input to long-term planning and capital prioritization, but it does not guarantee imminent renewal within the approved rate period. It is normal and customary for utilities to have a certain demographic of assets in poor condition on its system and to manage the risk associated with these assets reactively. This reflects the practical reality balancing numerous priorities within a capital envelope constraint.

In EB-2021-0110, Hydro One identified 5% poles in poor condition.[34] The plan put forward in EB-2021-0110 included annual replacement of 10,300[35] poor condition poles (51,500 cumulatively from 2023-2027). These planned replacements did not represent the full population of poor condition poles. The Settlement Agreement underpinning the OEB Decision in EB-2021-0110 reduced the System Renewal budget by 21.7% lowering the number of poles that could be replaced over the 2023-2027 rate term, thus increasing the number of poles that would remain in poor condition over the rate term. Having regard to these facts which show that a portion of Hydro One’s poles were expected to remain in poor condition over the current rate term, it would be unreasonable to conclude that the replacement of all assets in poor condition is a normal course capital expenditure that should be excluded from z-factor relief. Accepting this argument could encourage utilities to put forward capital plans that envision 100% replacement of all poor condition infrastructure, rather than taking more measured, risk-balanced approaches to system renewal.

Further, the fact that certain assets that were replaced, in response to the z-factor, were in poor condition, does not mean that the costs associated with replacing these assets are not incremental to what is in base rates. The evidence clearly shows that the amount of

location in real time. Hydro One uses that location data to determine the condition of the poles replaced after the storm. Hydro One’s inability to provide verified asset condition for some of the assets is a reflection of the magnitude of the storm impacts and Hydro One’s focus on its operational priority to restore power safely and effectively.

[34] EB-2021-0110, Application and Evidence, Exhibit B-03-01, Section 3.2 – Figure 32 Specifies % of Poles in Poor Condition.

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

capital funded through base rates has been utilized in 2023 and 2024 to make necessary investments and address emerging needs and priorities for the system and customers, including incremental investments in Distribution Lines Trouble Calls and Storm Damage Response, as outlined in the interrogatory response to I-05-10 (reproduced below):

Table 2 - Hydro One Distribution Lines Trouble Call and Storm Damage Response Program (D-SR-05) Capital Expenditures ($M)

	2023			2024			2025		
Program	**Forecast[36]**	**Actual**	**Variance**	**Forecast**	**Actual**	**Variance**	**Forecast**	**YTD Actuals[37]**	**Variance**
D-SR-05	111.6	141.4	29.8	113.8	168.5	54.7	116.1	289.0	172.9

As capital expenditures to date have exceeded the amounts included in base rates due to demand-driven pressures and rising input costs, reprioritization of capital is underway and expected to continue over the remainder of the term to manage to the OEB-approved envelope. Hydro One respectfully submits that SEC and VECC's arguments regarding poor condition replacements lack appreciation of this important context and complex reality that Hydro One faces in the current rate term, as it manages its capital plan to the OEB-approved envelope.

For these reasons, SEC and VECC's argument regarding poor condition replacements should be rejected, and that the full amount of capital recovery sought in this Application should be approved.

In the alternative, should the OEB see merit in SEC and VECC's arguments with respect to the disallowance of costs related to poor condition replacements, the parties have

[36] In December 2022, Hydro One revised the capital expenditure and ISA forecast on a multi-year envelope and OEB-category basis to implement the OEB-approved Settlement proposal (the "Forecast"). This allocated the impact of the Settlement Proposal to the project and program level.
[37] Year-to-date Actual and Variance, updated to September 30, 2025

inappropriately estimated the percentage of poor condition poles planned for replacement between 2025 and 2027.

SEC and VECC rely on a series of inferences drawn from limited data to make sweeping conclusions about the investments Hydro One should be expected to make in the coming years. It is inappropriate to impose blanket reductions to Hydro One's recovery on the basis of the analyses that SEC and VECC manufactured in their arguments. However, if the OEB is inclined to consider SEC and VECC's arguments, Hydro One suggests that the following data is a more reliable accounting of the numbers which SEC and VECC attempted to estimate. It is crucial to note that in providing these numbers, Hydro One does not concede that these disallowances are appropriate or that the parties' proposed methodology accurately reflects planned work included in base rates.

In its submission, SEC attempts to estimate the share of poles in poor condition that are planned for replacement between 2025 and 2027. To do this, SEC multiplies the amount of poles it estimates to be in poor condition (value A in Table 3) by the amount of poor-condition poles planned for replacement (value B in Table 3). Through this methodology, SEC concludes that 3.3% of poor condition poles will be replaced in the three-year period after the storm, and argues that Hydro One's recovery should be reduced by that amount. The numbers SEC uses in this analysis are flawed, and should not be utilized by the OEB.

With respect to the share of poles in poor condition (value A in Table 3 below), SEC's estimate is limited because it is based on a subset of pole condition data taken from interrogatory response to I-05-04. An estimate is only as effective as the data it is based on, so when estimating an unknown value, a larger data set will often result in more reliable outcomes. A more accurate figure for the share of poor condition poles is 5%,[38] which is a figure that Hydro One derives from its understanding of the condition of all of its poles (instead of a small subset).

[38] EB-2021-0110, Application and Evidence, Exhibit B-03-01, Section 3.2 – Figure 32 Specifies % of Poles in Poor Condition.

With respect to the share of poor-condition poles that are planned to be replaced between 2025 and 2027 (value B in Table 3 below), SEC's number is again flawed because it is not based on complete information. Based on the information provided in the rebasing application, SEC estimated that approximately 39% of poor condition poles would be replaced between 2025 and 2027. Hydro One had planned to replace 10,300 poles annually between 2023 and 2027.[39] But as discussed above, the planning estimates submitted in the application were reduced after the application was settled. Funding for System Renewal was reduced by 21.7% by the settlement. Therefore, it is appropriate to reduce the planned pole replacement work by at least a commensurate amount. This results in Hydro One's estimate that 30.6% of poles in poor condition were planned to be replaced or refurbished during the 2025 to 2027 period, as demonstrated in Table 3.

When these two numbers are multiplied—that is, the share of poor condition poles (value A) is multiplied by the share of poor condition poles that are planned to be replaced (value B)—the result, using Hydro One's estimates, is 1.5%. This figure is a more accurate reflection of the share of poor condition poles that were planned to be replaced between 2025 and 2027 than the other parties' estimates of this number.

[39] EB-2021-0110, Application and Evidence, Exhibit B-03-01, ISD D-SR-07, Table 1

Table 3 - Share of Poor Condition Poles Planned to be Replaced (2025-2027)

		SEC Submission [40]	Hydro One
Share of poles in poor condition	A	8.37%[41]	5%[42]
Share of poor condition poles that were planned for replacement from 2025-2027	B	39%	30.6% [43]
Share of all poles that are in poor condition and planned for replacement from 2025-2027	A*B	3.3%	1.5%

Relying on the estimated share of poor condition poles that were planned to be replaced, SEC argues that Hydro One's *entire z*-factor recovery should be reduced by that amount. In other words, SEC argues that it is appropriate to assume that poor condition poles and other assets in poor condition will be replaced at the same rate. However, it is not appropriate to extrapolate condition information from poles to all the other assets and there is no evidence on the record to support this inference. To the extent that the OEB is inclined to disallow some portion of Hydro One's z-factor recovery, it would be inappropriate to impose an across-the-board "haircut" on Hydro One's entire z-factor relief based solely on the information presented on the replacement of poles in poor condition.

[40] Although SEC calculates its estimate of the share of poles in poor condition separately for the three RZs, it uses the numbers it calculates for Hydro One Distribution as the basis for its proposed disallowance. For simplicity, Hydro One includes only SEC's estimate of poles in poor condition for Hydro One Distribution in this table. See SEC Submission, pp. 3-4.

[41] This estimate, derived from the share of poles Hydro One replaced after the Z-factor event, includes the number of replaced poles known to be in poor condition and those poles of unknown condition SEC assumes to be in poor condition. See SEC Submission, p. 3.

[42] EB-2021-0110, Application and Evidence, Exhibit B-03-01, Section 3.2 – Figure 32.

[43] Hydro One's proposed plan included 51,500 pole replacements over the rate term (EB-2021-0110, Exhibit B-03-01, ISD D-SR-07 p. 9). After applying the 21.7% capital reduction agreed to in settlement, this adjusted number of planned pole replacements is 40,325 from 2023-2027, 8,065 per year, or 24,195 over the 2025-2027 period.
Hydro One identified a population of 79,165 poles in poor condition in EB-2021-0110, Exhibit B-03-01, Section 3.2, p. 48.
Using these amounts, 30.6% is the share of poor condition poles that were planned for replacement from 2025-2027 (24,195/79,165=30.6%)

Table 4 - SEC's Proposed Asset Condition Disallowance

	Share of Poor Condition Poles Planned to be Replaced in 2025-2027	Capital Expenditures on Poles, Fixtures & Towers	Disallowance from Pole Replacement Costs	Net Capital Expenditures	Disallowance from Total z-factor Request
	(A)	(B)	(A*B)	(C)	(A*C)
SEC Submission	3.3%			$196.2M	$6.47M
Hydro One	1.5%	$92.2M[44]	$1.4M		

VECC's proposed disallowance of $12.6M for assets in poor condition makes many of the same errors as SEC's submission and should be rejected for that reason. Beginning with poor condition poles, VECC argues, like SEC, that Hydro One's z-factor recovery should be reduced by an amount proportionate to the amount of poor condition poles that would have been replaced. Like SEC, VECC tries to calculate the share of poles that are in poor condition using the data Hydro One provided in interrogatory response to I-05-04. For the same reasons discussed above, this approach to estimating the share of poor condition poles is flawed because it is based on a limited data set. Hydro One's figure is a more accurate reflection of the condition of its poles. Next, VECC assumes that every poor condition pole will be replaced "within 1 to 2 years," and based on that assumption, argues that Hydro One's recovery should be reduced by an amount commensurate to every pole VECC estimates in poor condition. For the reasons discussed above, the 100% replacement of poor condition poles assumption is incorrect. Hydro One did not plan to replace every pole in poor condition during its five-year rate term. Its base rates do not include the cost of replacing every pole in poor condition between 2023 and 2027. VECC's proposed poor-condition pole reduction is therefore inappropriate and not supported by the record.

In addition to its arguments relating to pole condition, VECC also argues that $240K should be disallowed to account for the repair of damaged transformers that were in poor or unknown condition. For the reasons explained above, Hydro One disagrees that this

[44] Exhibit A-06-01, Table 10.

disallowance for asset condition is appropriate. As explained in interrogatory response to I-05-12, it would be inappropriate to penalize Hydro One for the lack of detailed asset condition data for the transformers repaired following the storm. Hydro One does not track pole-top transformers' asset condition, as they are run to failure, and are managed as part of the overall larger pole asset.

Finally, VECC suggests that the OEB should further reduce Hydro One's z-factor relief by the number of defects Hydro One identified in its rebasing application relative to its 113,000km of overhead conductors. Relying on this argument, VECC suggests an additional disallowance of $5.34M, or 9.7% of the $54.9M spent related to overhead conductors and devices for Hydro One Distribution. This proposed reduction should not be imposed for many of the same reasons discussed above. In addition, with respect to overhead conductors in particular, Hydro One notes, as it did in its rebasing application, that:

> [D]ue to the relatively long service life and less complex repair of overhead conductor, replacement of large sections of conductor alone is not generally driven by condition. Rather, conductor is usually replaced as part of feeder renewal or line relocation projects, or as a result of line upgrades that require higher capacity conductor.[45]

As a result, unlike for poles, Hydro One did not have within the rebasing application a program specifically dedicated to replacing overhead conductors in poor condition.[46] VECC's argument overlooks these important differences in asset management, and instead treats conductors as if they were poor condition poles. VECC's proposed disallowance of overhead conductor repair costs should be rejected, as should all of VECC's proposed disallowances pertaining to asset condition.

2.1.1.3 INTERNAL LABOUR

SEC, CCC, and VECC argue that the capitalized regular labour hours of $29.7M should be excluded from the z-factor recovery because these employees would have been paid regardless of the storm. Further, SEC notes that capitalizing regular labour would result in double recovery, once through OM&A in base rates and again through the z-factor. The

[45] EB-2021-0110, Exhibit B-03-01, pp. 67-68
[46] Interrogatory response to I-04-08

parties making these submissions did not offer any evidence to substantiate their claims, and Hydro One disagrees with their positions regarding internal labour for the reasons detailed below.

Internal labour costs were prudent and necessary to ensure a timely and appropriate response to the storm, and it is appropriate to include them in the z-factor claim. Although SEC notes that some applicants have chosen not to seek recovery of the costs of regular labour hours after a z-factor event, Hydro One notes that other applicants have successfully sought recovery of those costs. Recently, the OEB approved Elexicon's request to recover capitalized regular labour costs in its 2022 z-factor application, finding these expenses to be incremental and prudently incurred.[47] Approximately 10% of Elexicon's requested recovery was attributable to regular labour hours.[48]

First, the record demonstrates that Hydro One has exceeded its capital funding levels in each year of the current rate term to date. Labour is a material component of capital execution. The fact that capital expenditures are above base-rate levels demonstrates that Hydro One's available labour resources have been fully allocated to delivering its capital work program. In addition, as stated in interrogatory response to I-05-03 part b), Hydro One has spent more OM&A than the total OEB approved OM&A in 2023 and 2024. While Hydro One does not expect to exceed its funded OM&A in 2025, it does expect to be on plan without the impact of the z-factor. Together, the expenditure trends in capital and OM&A relative to the OEB-approved budgets rebut SEC's argument that there is double recovery occurring as a result of the z-factor.

Second, the labour hours that were allocated to responding to the storm do not alleviate Hydro One's need to execute planned, urgent and in-flight capital and maintenance work necessary to address reliability, safety, regulatory commitments, and customer outcomes. To get this work done in the aftermath of the z-factor event, Hydro One must now rely on overtime, extended shifts, schedule compression, and incremental resourcing to complete its remaining work. These incremental cost pressures are a consequence of having to

[47] EB-2022-0317, Decision and Order, June 15, 2023
[48] EB-2022-0317, Interrogatory Responses to Staff-2, p. 5

catch-up on work that had to be paused during the z-factor event, and rebut the intervenors' unsubstantiated arguments that regular labour costs allocated to the z-factor are not incremental to what is funded in base rates.

If SEC, VECC and CCC put this internal labour recovery question directly to the utility in the IRs, Hydro One would have been able to produce detailed and specific evidence on the record to show the incrementality of the total labour hours in 2025, which are expected to be at plan, excluding the z-factor event. In the absence of that direct discovery question, the impacts of incrementality are evident in the interrogatory response to I-01-05 which identifies the plan versus actual year-to-date (YTD) expenditures for the Emergency Maintenance program. Table 1 of this interrogatory response shows that as of September 30, 2025, the YTD actuals for the program already exceeded the plan line by approximately $3.5M. Using a simple straight-line approach to trend this program to year-end based on the third quarter YTD results shows that the total program is expected to come in at $92.1M, approximately $26.5M over plan.

A similar impact is observed in the Distribution Lines Trouble Call and Storm Damage Response Program costs identified in the same interrogatory. As of September 30, 2025, there is a YTD variance in this program of $172.9M including the z-factor event ($187M). Trending this program to year-end using a straight-line approach based on third quarter YTD results (excluding the z-factor costs of $187M), shows that this program is expected to come in at $136M, approximately $20M over the forecast for 2025. In reality, the year-end results for the Distribution Lines Trouble Call and Storm Damage Response Program will be higher; the latest year-end forecast is $151M (excluding z-factor costs of $187M), which is approximately $35M over plan.

Together the cost pressures in these two programs (Emergency Maintenance and Distribution Lines Trouble Call and Storm Damage Response) combined with cumulative OM&A expenditures that exceed OEB-approved levels within the rate period, show that at a minimum, Hydro One can expect to incur $28.6M in incremental costs above what is included in base rates, which is commensurate with the internal labour costs that intervenors argued should be excluded from recovery. The OEB should consider the broader implications of the internal labour allocation to the z-factor event and recognize

the incremental cost pressures that Hydro One faces in its capital and maintenance work programs as being demonstrative of the wide-scale impacts of the z-factor event on the utility's work plans for 2025.

Excluding components of internal capital labour from recovery, while allowing full recovery of external labour amounts, would create an inappropriate and unintended cost signal. A recovery approach that excludes internal labour, while permitting external labour recovery, could inadvertently push utilities toward less efficient sourcing during future events. This outcome would be contrary to the interests of customers who benefit from the swiftest, safest, and most cost-effective restoration possible.

For these reasons, the internal labour hours included in this Application are prudent, incremental, and appropriately recoverable under the z-factor framework.

2.1.1.4 ASSET REMOVAL COSTS

In its z-factor application, Hydro One seeks recovery of $26.7M in asset removal costs, of which $25.5M is attributable to Hydro One Distribution and $1.2M is attributable to the Peterborough and Orillia RZs. The parties agree that the asset removal costs attributed to the Peterborough and Orillia RZs were incremental as a result of the storm and prudently incurred, and they do not challenge their recovery. With respect to Hydro One Distribution, both SEC and VECC argue that Hydro One's asset removal costs should be reduced on the basis that, in 2025, total asset removal costs exceeded the amounts in base rates by less than the asset removal costs incurred for the z-factor event. SEC and VECC have each proposed to reduce Hydro One Distribution's asset removal costs by $2.4M and $2.6M, respectively. Hydro One disagrees, and discusses below that Hydro One's capital envelope is not the appropriate source of funding for z-factor related costs and demonstrates that cumulatively, Hydro One has exceeded the asset removal costs included in base rates by more than the asset removal costs incurred for the z-factor event.

First, on a conceptual level, this argument is premised upon the notion that the appropriate source of funding for incremental z-factor costs is Hydro One's capital envelope. As discussed above, Hydro One firmly disputes the reasonableness of this view, and contends that it is counter to OEB policy. Z-factor events are, by definition, unforeseeable

and of a significant magnitude. The work associated with recovering from such an event is not included in the planning assumptions underpinning the rate application, nor are the costs resulting from a storm accounted for in the capital envelope. Consequently, any asset removal work completed as a result of the storm is incremental to planned asset removal work, regardless of what the year-to-date asset removal spend is relative to the planned-for budget. The proposed disallowance is inappropriate for this reason alone.

SEC and VECC's argument in favor of a disallowance of some portion of Hydro One Distribution's asset removal costs is unpersuasive for another reason. These parties focused solely on the amount Hydro One has spent on asset removal costs in 2025, without considering Hydro One's cumulative spend on asset removal costs over the relevant period. When Hydro One's asset removals from 2023, 2024 and 2025 are assessed cumulatively – as they should be, considering asset removals costs are a function of capital expenditures and Hydro One manages its capital expenditures plan based on a five-year funding envelope – it is clear that Hydro One has exceeded the amounts funded in rates for its Distribution asset removal costs by more than the z-factor amount.

As described in interrogatory response to I-02-13, within the current rate term, Hydro One Distribution's approved capital envelope includes $221.1M in asset removal costs over the 2023-2025 period. Based on year-to-date actuals to September 30, 2025, Hydro One forecasts total asset removal costs of $256.1M by year end, which exceeds the amounts embedded in base rates by approximately $35.0M. Hydro One's Application seeks recovery of $25.5M of asset removal costs for Hydro One Distribution due to the z-factor event. When these storm-related amounts are excluded, Hydro One projects to exceed its base-rate funding for asset removal costs by $9.5M, as shown in Table 5 below. This analysis confirms that 100% of the asset removal costs sought for recovery under this Application are incremental to base rates. Therefore, no portion of asset removal costs associated with the z-factor event should be disallowed on the grounds that they were already included in base rates.

Table 5 - Hydro One Distribution Asset Removal Costs

	Calculation	2025 – SEC Submission	2023-2025
OEB Approved	A	$77M	$221.1M
Forecast (as of Sept. 30, 2025)		$100.1M	$256.1M
Forecast Less Z-factor Asset Removal Costs	B	$74.6M	$230.6M
Delta (OEB Approved – Forecast Less Z-factor)	A-B	$2.4M	($9.5M)

In addition to the foregoing, CCC and SEC also argue that because asset removal costs include labour costs, a portion of the requested assets removal costs should be disallowed. Hydro One disagrees. As discussed in Section 2.1.1.3 of this reply, it is inappropriate to conclude that the internal labour hours spent on storm recovery were not incremental to the work funded by base rates. The labour hours that were allocated to responding to the storm do not alleviate Hydro One's need to execute planned, urgent and in-progress work necessary to address Hydro One's operational requirements. Hydro One submits that no reduction is warranted and should be allowed recovery of the full $26.7M in asset removals.

Finally, CCC argues that asset removal costs are appropriately categorized as OM&A costs, and because Hydro One has chosen to exclude OM&A costs from its z-factor application, it should not recover this expense. Hydro One disagrees for two reasons. First, Hydro One does not expense asset removal costs as OM&A. These costs are capital related, and included within Depreciation and Amortization in the audited financial statements and within financial reporting to the OEB. Asset removal costs consist of costs incurred to remove property, plant and equipment where no asset retirement obligations have been recorded on the balance sheet. But even if the OEB were to consider asset removal costs as OM&A expenses, that does not mean that Hydro One should not recover these expenses. Second, there is no rule against recovering OM&A costs through a z-factor application. In fact, typically the costs recovered through z-factor applications are

OM&A costs. The fact that Hydro One chose not to seek recovery of its OM&A expenses for administrative efficiency should not prevent it from being able to recover material and incremental costs that were prudently incurred because of the storm.

2.1.2 PRUDENCE: PROPOSED VEGETATION MANAGEMENT DISALLOWANCES ARE UNSUPPORTED BY THE RECORD

Hydro One has provided extensive evidence in this proceeding demonstrating the prudence of its response to the z-factor event. The record shows that Hydro One mobilized internal resources, contractors, and mutual aid partners in a timely and effective manner and executed restoration activities consistent with its established emergency procedures. Parties have not disputed the scale of the storm or the effectiveness of Hydro One's operational response. OEB staff submitted that Hydro One has met the criterion of prudence for its restoration efforts.[49] SEC explicitly "commends Hydro One for the effectiveness of its response"[50] and CCC states that it does not take issue with the prudence of Hydro One's expenditures.[51]

Notwithstanding these positions, SEC, VECC, and CCC argue that the extent of the storm damage may reflect inadequacies in Hydro One's vegetation management program, and SEC and VECC propose specific disallowances based on this conclusion. Hydro One disagrees; the damages resulting from this event are reflective of the unprecedented size and severity of the storm, not any shortcoming in Hydro One's vegetation management program. Hydro One has provided clear evidence demonstrating that its vegetation management practices are in alignment with its cycle-based program. In contrast, the disallowances proposed by SEC and VECC are speculative and without a factual basis in the evidence.[52]

As demonstrated in the pre-filed evidence and interrogatory responses, the March 2025 storm was unprecedented in both scale and intensity. Over 600,000 customers, or 42% of

[49] OEB staff submission, p. 25
[50] SEC submission, p. 1
[51] CCC submission, p. 4
[52] Although CCC "submits that had Hydro One pursued its Vegetation Management program as planned this may have had an impact on the storm damage and the associated costs," CCC proposes no specific disallowance amount. See CCC submission, p. 5.

all customers, were impacted, with the storm resulting in over 1.2M service interruptions. This storm was the most damaging weather event Hydro One has ever experienced.[53] In the interrogatory response to I-01-08, Hydro One provided a comparison of this event to other recent major weather events, demonstrating that this particular event was vastly more severe than other weather events (ranging anywhere from 37%[54] to 761%[55] more impactful than the comparator events).

[53] Exhibit A-06-01, p. 1, lines 6-7
[54] Interrogatory response to I-01-08 part b) Table 1, 37% more customer interruptions than the May 2022 Derecho
[55] Interrogatory response to I-01-08 part b) Table 1, 761% greater incremental SAIDI than the Dec 2022 Winter Storm

Table 6 - Comparison of the Z-factor Event to Recent Historical Major Events[56], [57]

Date	NOV 2020	DEC 2021	MAY 2022	DEC 2022	APR 2023	MAR 2025 (z-factor)[58]
Type of Event	**Wind Storm**	**Wind Storm**	**Derecho**	**Winter Storm**	**Freezing Rain**	**Ice Storm**
Customer Interruptions (in '000s)	572	761	890	525	359	1,220
Customer Hours of Interruption (in '000s)	7,043	8,908	24,141	5,701	5,966	49,008
SAIFI	0.4	0.5	0.6	0.4	0.2	0.8
SAIDI	5.0	6.2	17.0	3.8	4.1	32.7
Net Cost	$24.4M	$25.6M	$109.3M	$45.5M	$29.9M	$196.2M
Above Metrics Relative to MAR 2025 (z-factor)						
Incremental Z-factor Customer Interruptions (in '000s)	648	459	330	695	861	N/A
	113%	60%	37%	132%	240%	N/A
Incremental Z-factor Customer Hours of Interruption (in '000s)	41,965	40,100	24,867	43,307	43,042	N/A
	596%	450%	103%	760%	721%	N/A
Incremental Z-factor SAIFI	0.4	0.3	0.2	0.4	0.6	N/A
	100%	60%	33%	100%	300%	N/A
Incremental Z-factor SAIDI	27.7	26.5	15.7	28.9	28.6	N/A
	554%	427%	92%	761%	698%	N/A
Incremental Z-factor Net Cost	$171.8M	$170.6M	$86.9M	$150.7M	$166.3M	N/A
	704%	666%	80%	331%	556%	N/A

The March 2025 storm produced significant ice accretion over a sustained period, creating loading conditions well beyond those contemplated in normal system design or vegetation management cycles. Under such circumstances, even well-maintained and healthy

[56] 2020 – 2023 Figures per the Major Event Response Reports as filed on the Hydro One website: Net Costs are inclusive of all distribution rate zones
[57] Incremental Z-factor impacts are calculated as the difference between the Mar 2025 Z-factor and the respective recent historical major event, expressed as both an absolute value and percentage
[58] 2025 impacts spanning March 29 – April 14

vegetation is susceptible to limb failure and uprooting. In prior proceedings, the OEB has recognized the practical limitations of vegetation management in mitigating the effects of a significant storm. For example, in respect of Burlington Hydro's 2022 z-factor application, the OEB agreed with Burlington Hydro that its material underspend on vegetation management in prior years did not exacerbate the damage caused due to the severity of the storm. The damage caused by Burlington Hydro's May 2022 storm was significant, uprooting trees and bringing "down electrical poles and wires 10 metres away." The OEB was therefore "not convinced" that a lack of tree trimming was responsible for the damage caused by the severe storm and the restoration costs incurred.[59] The same conclusion can be drawn here. The severity of the March 2025 storm was such that proactive vegetation management is unlikely to have appreciably reduced the damage caused by this unprecedented storm.

The record demonstrates that the scale of the storm's impacts were driven by unprecedented and extraordinary weather conditions, not by deficiency in Hydro One's vegetation management practices. Further, in its interrogatory response to I-05-03, Hydro One notes that all impacted Rate Zones (Hydro One, Orillia RZ, and Peterborough RZ) have completed their first OCP cycle and approximately 60% of all right-of-ways have had a second cycle. In addition, 79% of all right-of-ways had planned maintenance completed within the last 4 years (well within the prescribed cycle length) prior to the z-factor event.

Despite this evidence, VECC and SEC propose blanket reductions of 5% and at least 10% respectively to Hydro One's z-factor capital amounts. These proposed reductions are unsubstantiated and without merit for several reasons.

Hydro One disagrees with the characterization that its decision to reprioritize investment with respect to its vegetation management strategy is reflective of underinvestment in that area. As noted, Hydro One has had to make difficult choices to manage to its envelope while meeting emerging needs and challenges. In the context of underspending in certain program to address incremental requirements, the OEB recognized in Burlington Hydro's

[59] EB-2022-0018, Decision and Order, p. 18

z-factor decision that "*reallocat[ing] money to other programs and activities [is] an acceptable management response during an incentive-ratemaking year.*"[60]

The OEB has explained in past z-factor decisions that in cases where there has been underspending in programs such as vegetation management, the OEB should not automatically disallow costs within the z-factor claim; instead, it is appropriate to take a more holistic approach to determine if the costs incurred were reasonable and prudent.[61,62] Exercising that view in other z-factor applications for Elexicon and Burlington Hydro in 2022 and 2023, respectively, the OEB rejected intervenors' arguments to impose reductions that were commensurate with the percentage of underspending in their vegetation management programs.

In this case, the context also supports a similar finding. Intervenors broadly agree that the costs incurred to respond to the event were prudent, and that Hydro One responded to the storm effectively.[63] The facts further show that the magnitude and severity of this storm were unprecedented in Hydro One's recent history, and that its vegetation management practices were in alignment with is cycle-based program before the storm hit. Lastly, the record also indicates that across both capital and OM&A plans, Hydro One has experienced incremental cost pressures exceeding budgeted funding to be recovered in rates, which has led to the need for reallocation and reprioritization of funds to manage within the approved funding envelopes. Against this holistic backdrop, it is unreasonable and unnecessarily punitive to reduce the z-factor capital amounts sought for recovery in this proceeding based on speculative arguments about the potential impact of reductions in vegetation management spending.

Hydro One also finds it inappropriate to distinguish the consideration the OEB's treatment of this issue in Burlington Hydro based on ROE performance as SEC alluded in its argument. In concluding that the shareholder did not benefit from underspending in Burlington Hydro's case, the OEB principally noted the OM&A for the year in question

[60] EB-2022-0018, Decision and Order, p. 18
[61] EB-2022-0018, Decision and Order, p. 18
[62] EB-2022-0018 and EB-2022-0317
[63] SEC Submission, p. 5; CCC Submission p. 4; VECC Submission, p. 6.

exceeded the budget, which is also true in Hydro One's case for 2023-2025. Unless there is clear evidence on the record that underspending in certain programs contributed to the event damage incurred and to earnings above deemed ROE, the utility's ROE performance is not relevant to the determination of z-factor recovery.

In addition, VECC and SEC's proposed percentage disallowances related to vegetation management are arbitrary and unsubstantiated by the facts in this proceeding. Both parties propose broad and speculative reductions based on the amount of vegetation management underspent in prior years from 2022 through to 2024/2025, which they argue (without evidence) may have contributed higher storm related costs than would otherwise have been incurred. Both parties also acknowledge that it is impossible to determine what portion, if any, of the storm damage could be attributed to vegetation related factors. Hydro One agrees with this part of the argument, and further submits that changes in vegetation factors outside of Hydro One's control such as changes in frequency of storms, diseased trees, or animal caused tree damage (for example) could have also contributed to the damage. However, in the absence of clear evidence justifying the proposed disallowance based on factors that are within the utility's control, Hydro One submits that the OEB should reject these arguments.

SEC points to the OCP study result confirming a direct relationship between tree defects and reliability performance.[64] Hydro One acknowledges that vegetation management impacts reliability, but submits that due to the storm's severity (including the significant ice accumulation that brought down mature trees, and flooding which hindered repairs efforts) vegetation management could not have significantly reduced the damage.

In the face of this admitted uncertainty, and considering the evidence Hydro One has provided demonstrating the severity of the storm, SEC and VECC's proposed disallowances are speculative, arbitrary, and unsupported and should therefore be rejected.

[64] SEC Submission, p. 6

2.1.3 ADDITIONAL DETAILS REQUESTED BY OEB STAFF

In their submissions, OEB staff requested that Hydro One provide the fixed asset percentage applied for asset removal costs, the asset cost base used, or the types of assets and associated work included in the calculation. In interrogatory response to I-01-01, Hydro One explains that asset removal costs are calculated as a fixed percentage of the asset costs based on the asset type and the type of work completed. Hydro One applies a fixed removal percentage of 12% for emergency restoration work. This is the same percentage applied for planned Distribution Lines capital replacement, as the types of assets replaced during emergency restoration work are typically the same as those replaced in planned Distribution Lines capital replacements.

The asset removal costs sought for recovery in this Application are equal to 12% of the gross asset cost based on $223.0M identified in Exhibit A-06-01, p.1.

OEB staff also requested that Hydro One provide the net values of assets replaced during the z-factor event that were previously planned for replacements, as well as an updated revenue requirement impact of capital expenditures and total relief sought by rate zone, assuming the net value of the assets will be excluded from recovery. This information is provided in Tables 7 and 8 below, notwithstanding Hydro One’s submissions in section 2.1.1.1 in this reply.

Table 7 - Net Value of Assets Planned for Replacement Identified in Interrogatory Response to I-01-02

	Hydro One Distribution		Peterborough RZ		Orillia RZ	
	Units	**Net Value[65]**	**Units**	**Net Value**	**Units**	**Net Value**
Poles	112	$14,098	2	$14,098	1	$14,098
Cross Arms	18	$3,051	-		-	
Transformers	2	$10,327	-			
Total		$1,654,548		$28,196		$14,098

Table 8 - Calculation of Recovery Sought Excluding Assets Planned for Replacement ($M)

	Hydro One Distribution	Peterborough RZ	Orillia RZ
Revenue Requirement Recovery Sought	64.29	4.01	1.11
Revenue Requirement Impact of Net Value of Assets Planned for Replacement	(0.29)	(0.01)	(0.00)
Revenue Requirement Excluding Net Value of Assets Planned for Replacement	64.00	4.00	1.11

2.1.4 RECOVERY PERIODS AND BILL IMPACTS

OEB staff was supportive of the proposed two-year recovery period for Hydro One Distribution, and five-year recovery period for the Peterborough and Orillia RZs. CCC and VECC had no issue with the proposed approach. SEC was also supportive of the recovery period; however, Hydro One notes that SEC provided comments indicating that if disallowances proposed in this proceeding are approved, the recovery periods may be shortened.[66]

[65] EB-2021-0110, 2023 Settlement Commitment Reporting, December 20, 2024, p. 45.
Net values are calculated based on actual unit costs for Pole Replacement, Line Transformers, and Cross Arms as outlined in Table 2 of the 2023 Distribution Capital Performance Report for Investments D-SR-06, D-SR-07, and D-SR-08. 2023 unit costs were inflated by 2% annually to calculate 2025 unit costs.
[66] SEC submission, p. 6

Even if some portion of the requested amount is disallowed, the recovery periods should not be shortened. The size of the z-factor recovery sought is not the only reason why Hydro One believes that the proposed recovery periods are appropriate. Rather, Hydro One has proposed recovery periods that align with the next assumed effective date of rates following each RZ's next rebasing period. As described in interrogatory response to I-01-07 (a), the proposed approach aligns with the capital nature of the costs sought for recovery in this Application, which are generally collected over the useful life of the asset. At Hydro One's next rebasing application, the net book value of these assets will be added to Hydro One's rate base, and the remaining balance of the assets will be recovered over their remaining useful life. As such, Hydro One submits that this approach with respect to the recovery period is appropriate, even if the OEB were to grant any disallowances in this Application.

Additionally, in their submission, SEC references distribution rate impacts of up to 8.6% in the Peterborough and Orillia RZs. Hydro One is not able to reconcile this rate impact at the reference quoted in SEC's submission with the information Hydro One has provided. As shown in Tables 24-25 of Exhibit A-06-01, the total bill impacts for the Peterborough and Orillia RZs attributed to the z-factor event range from 0.2% to 2.6%, depending on the rate class.

As such, the recovery periods, as proposed, are appropriate.

3.0 PROCEDURAL MATTERS

Hydro One submits that consistent with prior years, in order to allow for a reasonable time to implement the approved distribution rates and charges effective January 1, 2026, Hydro One would require the Final Tariff of Rates and Charges by December 16, 2025 or sooner. In the event the OEB is unable to issue a decision in time for a Final Tarriff of Rates and Charges by this date, Hydro One requests that current rates be declared interim and that any foregone revenue be recovered based on an effective date of January 1, 2026.

ATTACHMENTS

- Attachment 1: 2026 Retail Transmission Service Rates (Updated)
- Attachment 2: 2026 Sub-Transmission Rates (Updated)
- Attachment 3: Bill Impacts – Hydro One Distribution (Updated)
- Attachment 4: Chapleau DVA Continuity Schedule (Updated)

All of which is respectfully submitted on November 25, 2025.

By its counsel,

D. Coban

Daliana Coban

ATTACHMENT 1 - 2026 RETAIL TRANSMISSION SERVICE RATES (UPDATED)

This attachment has been filed separately in MS Excel format.

ATTACHMENT 2 - 2026 SUB-TRANSMISSION RATES (UPDATED)

This attachment has been filed separately in MS Excel format.

ATTACHMENT 3 - BILL IMPACTS – HYDRO ONE DISTRIBUTION (UPDATED)

This attachment has been filed separately in MS Excel format.

ATTACHMENT 4 - CHAPLEAU DVA CONTINUITY SCHEDULE (UPDATED)

This attachment has been filed separately in MS Excel format.