Ontario Energy Board | Commission de l'énergie de l'Ontario

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BY EMAIL

February 9, 2026

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Lakeland Power Distribution Ltd.
Application for 2026 Electricity Distribution Rates
OEB File Number: EB-2025-0024

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 2.

Yours truly,

Kelli Benincasa

Kelli Benincasa
Analyst, Incentive Rate-setting

Encl.

ONTARIO ENERGY BOARD

OEB Staff Submission

Lakeland Power Distribution Ltd.

2026 Electricity Distribution Rates Application

EB-2025-0024

February 9, 2026

Introduction

Lakeland Power Distribution Ltd. (Lakeland Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 9, 2025, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2026. Lakeland Power also applied for two Z-factor rate riders, one to recover the costs resulting from a severe ice storm on March 29-30, 2025, and the other for the Centennial MS Substation Transformer failure on June 13, 2024, resulting from a lightning storm.

Consistent with Chapter 3 of the Filing Requirements,[1] Lakeland Power applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year.[2] The stretch factor assigned to Lakeland Power is 0.15%,[3] resulting in a rate adjustment of 3.55% based on the Price Cap adjustment formula. OEB staff has no concerns with Lakeland Power's proposed Price Cap adjustment.

In addition to its Price Cap adjustment, Lakeland Power has also requested: (i) an update to its Retail Transmission Service Rates; (ii) disposition of its Group 1 deferral and variance account (DVA) debit balance (as of December 31, 2024, including projected carrying charges to April 30, 2026) totaling $152,936; (iii) an update to its Low Voltage Service Rates; and (iv) to transfer the full 50/50 credit amount of $4,877 shared tax savings adjustment owed to customers to Account 1595 for future disposition as the adjustment did not generate rate riders to the fourth decimal place. OEB staff does not have any objections to, or have any concerns with, these requests made by Lakeland Power.

OEB staff makes detailed submissions on the following issues:

- Z-factor claim – lightning storm event
- Z-factor claim – ice storm event
- Account 1595 (2021) – disposition and rate rider treatment

[1] Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 19, 2025
[2] OEB Letter, 2026 Inflation Parameters, issued June 11, 2025
[3] Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025 p. 23, Table 5

Z-factor Claim – Lightning Storm Event

Summary of Lightning Storm Z-factor Claim Recommendations

OEB staff acknowledges that Lakeland Power incurred significant costs as a result of the lightning storm. These costs were largely beyond Lakeland Power's costs funded through distribution rates paid by ratepayers. Nevertheless, OEB staff has questions about the inclusion of regular, internal labour costs in this claim and requests further clarity from Lakeland Power on how the $300,000 rental payment cap was derived.

Background

Lakeland Power states that on June 13, 2024, a critical 27.6 kV substation, the Centennial MS Substation Transformer (Centennial MS) failed during a severe lightning storm, affecting 2,500 (17%) of its customers, mainly in the Bracebridge area. The unit was taken out of service and tested on June 14, 2024, at which time it failed both the winding insulation resistance and turns ratio tests, confirming the need for a complete re-wind of the coils.[4] As the unit was newly installed in 2009, and had a remaining expected life of 24 years, Lakeland Power decided to have the unit repaired and rent a temporary replacement transformer for the duration of the repairs. The estimate for completion of the full repair and return of the transformer to in-service is Fall 2026.

Lakeland Power requests cost recovery for the installation and rental of the temporary transformer, consulting and expert fees, and a full payment for repairs made by the transformer repair vendor.[5] The amount requested totals to $1,492,013.[6] Of this amount, $698,210 are operating costs and $793,803 are capital costs.

Lakeland Power provided a breakdown of the operating, maintenance and administration (OM&A) and capital costs as follows:

Table 1: Lightning Storm Event – Z-factor Costs

Centennial MS Z-factor Cost	Operating $	Capital $	Total $
Costs to Sept. 30, 2025 (original submission)			
Install of temporary transformer	$68,408	$0	$68,408
Transformer rental	$507,000	$0	$507,000

[4] EB-2025-0024, Manager's Summary, p. 30
[5] *Ibid.,* p. 30 and response of SEC interrogatory 2
[6] The original Z-factor claim filed by Lakeland Power only covered costs incurred as of September 30, 2025. In response to interrogatory SEC 2(a), Lakeland Power updated its estimated costs from October 2025 to the expected full completion date (scheduled for Fall 2026).

Consulting fees / reports	$9,341	$1,870	$11,211
Transformer re-build costs	$0	$243,593	$243,593
Sub-Total	**$584,748**	**$245,463**	**$830,211**
Carrying charges	$23,462	$7,893	$31,355
Sub-Total incl. carrying charges	**$608,210**	**$253,356**	**$861,566**
Costs from Oct. 2025 to Fall 2026			
Install of transformer	$0	$64,347	$64,347
Transformer rental	$90,000	$0	$90,000
Consulting fees / reports	$0	$0	$0
Transformer re-build costs	$0	$476,100	$476,100
Sub-Total	**$90,000**	**$540,447**	**$630,447**
Total Z-Factor Claim Costs	**$698,210**	**$793,803**	**$1,492,013**

Lakeland Power proposes to recover the requested amount from ratepayers via two separate fixed rate riders: (i) for operating costs over a 24-month period for residential, commercial and large customers (however, the rate rider would be for a 48-month period for Sentinel and Unmetered Scattered Load customers), and (ii) a capital costs revenue requirement rate rider effective until Lakeland Power's next rebasing rate order. Lakeland Power requests an effective date of May 1, 2026 for all rate riders.

Table 2: Relief Requested

Category	Recovery Period	Total
Operating Costs	24 months*	$698,210
Capital Costs	Until Rebasing	$58,760

**Except Sentinel and Unmetered Scattered Load customers, which would be over 48 months*

Z-factors provide funding to cover costs of unforeseen events outside of a distributor's management control.[7] The OEB has previously indicated that for Z-factor treatment to apply, generally, the cost to the distributor must be material and its causation clear.[8] It is under this basis for which Lakeland Power is requesting Z-factor funding for the incremental OM&A costs, revenue requirement associated with capital expenditures,

[7] EB-2007-0673, *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors,* July 14, 2008, p. 34
[8] *Ibid.*, p. 34

and carrying charges on total costs incurred for the failed Centennial MS.

In order for amounts to be recoverable by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:[9]

- 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 OEB-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 amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

Lakeland Power states that all costs included in the Z-factor claim were directly related to the Centennial MS transformer failure that occurred on June 13, 2024, as a lightning storm passed over the Bracebridge area. Lakeland Power indicates that lightning strikes occurred between 7:09 pm and 7:23 pm in the Bracebridge area. Lakeland Power further notes that its SCADA data shows that Centennial MS feeders tripped at 7:20 pm, the same time that Hydro One Networks Inc.'s (Hydro One) feeder into Bracebridge also tripped. Up until that point, Centennial MS and the distribution system were functional.[10]

When Hydro One's feeder and Lakeland Power's distribution system were re-energized at 9:15 pm, Lakeland Power found that the Centennial MS transformer had failed catastrophically with damage to the winding. Lakeland Power argues that the storm was likely the cause of the failure, all costs submitted in its claim are a direct result of that failure,[11] and that the amounts sought for recovery are outside the base upon which its rates are derived.[12]

Lakeland Power states that it employs several practices to help extend the life of substation transformers and infrastructure inside the station. Strategies include both proactive and reactive measures as listed below:

[9] Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, issued July 14, 2008, Appendix, p. V
[10] Response to SEC Interrogatory 5
[11] EB-2025-0024, Appendix Z-1, p. 4
[12] EB-2025-0024, Appendix Z-1, p. 6

- Monthly on-site inspections carried out by qualified Lakeland Power operations staff
- Oil samples are taken, and dissolved gas analysis is conducted annually
- Regular full-station maintenance by a service provider which includes, but is not limited to, winding resistance tests, insulation resistance tests, lightning arrester tests, and inspection and cleaning of critical components[13]

Since the unit's failure, Lakeland Power notes that it has undertaken a review of its own policies and procedures regarding substation management, alongside an examination of the recent maintenance history for Centennial MS. This internal assessment revealed that Centennial MS had undergone a full isolation and maintenance cycle in 2022, just two years prior to the failure. During this maintenance event, transformer test results were favourable, showing no indication of any issues or deteriorating conditions that might have led to its failure.

Lakeland Power argues that these findings demonstrate that the cause of the transformer failure is not attributable to a lack of maintenance or oversight. Rather, all necessary maintenance protocols and industry standards were observed, and the equipment was maintained properly in accordance with best practices. Lakeland Power submits that its adherence to these procedures provides assurance that the failure was not the result of neglect, but rather an unforeseeable incident.[14]

Submission

In response to interrogatories, Lakeland Power states that Centennial MS underwent full isolation, maintenance and testing in 2022, including insulation resistance, winding resistance, and performed turns ratio checks. The same test was performed after the unit's failure and was the basis for determining that the unit had suffered failure.[15] OEB staff notes that the 2022 maintenance report identified that three lightning arresters failed insulation resistance testing, and the report recommended replacing all of Feeder 3's lightning arresters immediately. The report also notes that the 3 lightening arresters were swapped with temporary replacements. OEB staff invites Lakeland Power to confirm how long these temporary units were in use and whether the lightening arresters were replaced as per the recommendation of the maintenance report by K.P.C. Power Electrical (KPC).

Subject to this confirmation, OEB staff is of the view that the transformer failure is likely due to the lightning storm and that costs related to the Centennial MS failure should be

[13] EB-2025-0024, Appendix Z-1, pp. 6-7
[14] EB-2025-0024, Appendix Z-1, p. 6
[15] Response to SEC Interrogatory 4

eligible for Z-factor recovery.

Materiality

The OEB has previously indicated that the materiality threshold for a Z-factor applicable to a distributor with a distribution revenue requirement less than or equal to $10 million is $50,000.[16] The materiality threshold applicable to Lakeland Power is $50,000.

Lakeland Power states that the Z-factor claim for the Centennial MS failure exceeds this materiality threshold. Lakeland Power further notes that the event had a significant influence on its operations as its most critical transformer required emergency replacement.

Submission

The amount requested as a result of the Centennial MS failure is $1,492,013, which satisfies the $50,000 threshold. OEB staff submits that Lakeland Power's Z-factor claim meets the materiality threshold.

Prudence

Following the lightning storm event, Lakeland Power had the unit taken out of service and tested within 12 hours. At that time, Centennial MS failed both the winding insultation resistance test and turns ratio test, confirming the need for a complete re-wind of the coils. Lakeland Power states that given the young age of the transformer, it did not have a replacement transformer available for this unit.

Following the initial assessment, Lakeland Power had to determine whether to replace or repair its damaged transformer. Lakeland Power notes that it was required to source a replacement in a very short timeframe[17] and decided that it would be prohibitively expensive to replace the transformer given the cost of a new transformer (with estimates ranging from $1.2 million to $2+ million), coupled with the rental cost for a temporary replacement transformer covering a lead time of 52-104 weeks. Lakeland Power also highlights that the costs associated with acquiring transformers have risen sharply in recent years due to global supply chain disruptions, manufacturing shortfalls, and increased demand and prolonged lead times.[18]

Lakeland Power had decided to repair its damaged unit, due to the age and expected remaining life of the unit, and selected Surplec as the transformer repair vendor.

[16] *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, September 17, 2008, Appendix B: Amended Filing Guidelines, p. VIII
[17] EB-2025-0024, Appendix Z-1, p. 7
[18] *Ibid.,* p. 7

Surplec offered a complete rewind for $634,000 with an original lead time of 10 months, which was later extended to the Fall of 2026. In response to interrogatories, Lakeland Power confirmed the estimated repair cost and provided an expected full completion date of Fall 2026.

As the unit is being repaired, Lakeland Power sourced a temporary replacement transformer to rent from its service provider for $33,000 a month. Lakeland Power states that given the urgency of the situation, the removal of the failed transformer and installation of the rental unit were planned and initiated on June 19, 2024.[19] Lakeland Power notes that it considered whether the temporary unit was suitable as a longer-term solution but found that due to the rental unit's smaller capacity and lack of On-Load Tap Changer (which can immediately correct significant voltage fluctuations from Hydro One supply), it determined that the rental unit was not suitable for the long-term.[20]

Lakeland Power states that it did consider buying the temporary transformer from its provider, but the provider initially refused to sell the transformer. Reluctant to rely on the repair vendor to return the repaired transformer in the stated time, while being aware of supply chain issues, Lakeland Power decided to push for the purchase of the temporary unit to mitigate risk. The transformer was ultimately purchased by Bracebridge Generation, an affiliate of Lakeland Power,[21] on February 27, 2025.[22] Bracebridge Generation rented the unit to Lakeland Power at a cost of $30,000 / month to avoid making it a stranded asset for the distributor once the damaged unit was returned to service.[23]

In response to interrogatories, Lakeland Power states that the rental agreement with Bracebridge Generation was capped at a total of $300,000, which was reached with Lakeland Power's payment in December 2025.[24] Lakeland Power is continuing to use the unit until the damaged transformer is repaired and installed, which is expected in Fall 2026.

Submission - Capital Costs

As part of Lakeland Power's detailed description of events and remediation efforts, it confirmed the total repair costs offered by Surplec to be $634,000.[25] In response to interrogatories, Lakeland Power also confirmed the capital costs of $793,803 for the Centennial MS Z-Factor, including carrying charges, and notes that the majority of the

[19] *Ibid.*, p. 7
[20] EB-2025-0024, Appendix Z-1, p. 8
[21] *Ibid.*, p. 8
[22] Response to OEB Staff Interrogatory 12(c)
[23] EB-2025-0024, Appendix Z-1, p. 8
[24] Response to OEB Staff Interrogatory 12(a)
[25] Response to OEB Staff Interrogatory 9(c)

costs will have been incurred by May 1, 2026.[26] These capital costs consist of repair costs, consulting fees / report, and installation of the repaired unit, as well as transportation costs.

OEB staff takes no issue with Lakeland Power's eligibility to recover repair costs that will be capitalized as part of its Z-factor request and associated capitalized costs. While OEB staff notes that it would be preferable to assess capital costs for a Z-factor claim following the full payment of costs, OEB staff supports Lakeland Power's updated total capital claim of $793,803 due to the circumstances in this case. OEB staff notes that a Z-factor claim should be made for costs incurred within 12 months of an event. However, given the nature and unique timelines of this Z-factor, OEB staff believes that Lakeland Power's request warrants an exemption to that rule due to the lengthy repair timeline.

OEB staff submits that the decision to repair the damaged transformer was prudent due to the age and remaining useful life of the unit, as well as the costs associated with purchasing a new transformer.

Submission - Operating Costs

Installation of Temporary Transformer

Lakeland Power claims total OM&A costs of $698,210 for the Centennial MS failure – with most of these costs attributed to rental fees for the temporary transformer, consulting fees, and installation of the temporary transformer. OEB staff notes that of the $68,408 incurred for the installation of the temporary transformer by KPC, $6,074 are internal labour costs.[27] OEB staff is unclear as to whether this internal labour cost is incremental and outside of base rates and invites Lakeland Power to comment on this in its reply submission. If regular internal labour cost was included in this Z-factor claim, OEB staff submits that this amount should be disallowed, even though this amount is immaterial.

Rental of Temporary Transformer

In response to interrogatories, Lakeland Power confirmed that it initially rented the replacement transformer month-to-month due to the uncertainty associated with the timing of the repair.[28] Following the establishment of the timeline for the repair, Lakeland Power began negotiations on long-term rental rates. At this point, the option to purchase the transformer arose.[29] While Lakeland Power negotiated the purchase of

[26] Response to OEB Staff Interrogatory 6(e)
[27] Response to OEB Staff Interrogatory 10(a)
[28] Response to OEB Staff Interrogatory 12(b)
[29] *Ibid.,* p. 24

the temporary unit for a cost of $375,000, Lakeland Power ultimately determined to have its affiliate, Bracebridge Generation, purchase the transformer.

Lakeland Power also states that Bracebridge Generation capped the total rental fee for this temporary transformer at $300,000, which was reached in December 2025.[30] This results in an effective average monthly rental fee of $15,000 (March 2025 to the estimated return to service date of October 2026).[31] Lakeland Power notes that when it initially started renting the transformer from Bracebridge Generation in March 2025, the original damaged transformer was expected to be back in service by early 2026. However, in July 2025, when Surplec extended the in-service date to Fall 2026, the rental cap of $300,000 was agreed to.[32] The composition of the rental payments between KPC and Bracebridge Generation included in this claim is as follows:

Table 3: Transformer Rent Payments

Transformer Rental payments	$
K.P.C. Power Electrical	297,000
Bracebridge Generation	300,000
Total	**597,000**

Lakeland Power states that there is no active market for transformer rental and therefore the rental fee of $33,000 paid to KPC is the most direct and relevant example[33] against which to compare its affiliate rental fees.

OEB staff submits that Lakeland Power's decision to rent the temporary transformer from KPC was prudent as the situation required immediate action and supply was limited. However, as the $300,000 rental cap was only identified by Lakeland Power in its response to interrogatories, OEB staff is unclear as to how the cap amount was derived. OEB staff invites Lakeland Power to provide further discussion in its reply as to how this amount was derived.

In response to interrogatories, Lakeland Power provided a cost-benefit analysis that shows a moderate cost advantage of $56,578 in favour of renting the temporary transformer versus its outright purchase.[34] While OEB staff acknowledges that this arrangement is moderately favorable financially to a purchase of the unit, OEB staff notes that the purchase price paid by Bracebridge Generation has been mostly

[30] Response to OEB Staff Interrogatory 12(a)
[31] Response to OEB Staff Interrogatory 13(a)
[32] *Ibid*., p. 26
[33] Response to OEB Staff Interrogatory 12(b)
[34] In response to OEB Staff Interrogatory 13(b), Lakeland Power provides a quantitative analysis that shows a purchase cost of $371,476 (including a salvage benefit of $30,000) versus a rental fee of $314,898 (including carrying charges).

recovered through rental fees from Lakeland Power. OEB staff questions whether it would have been more prudent for Lakeland Power to purchase the unit outright. An emergency like the one experienced by Lakeland Power highlights the need for readily available backup equipment, even if the specifications are not ideal. OEB staff further notes that a 'capital spares' program is a standard practice where distributors have inventory set aside for unplanned needs (e.g., storm-related damage to distribution infrastructure).

Nevertheless, subject to further clarification regarding the internal labour costs included within the claim, OEB staff supports Lakeland Power's Z-factor claim, including the OM&A costs. OEB staff also supports a cost recovery over a 24-month period for the residential, commercial and large customers, and a cost recovery over a 48-month period for Sentinel and Unmetered Scattered Load customers in order to mitigate the rate impact.

Z-factor Claim – Ice Storm Event

Summary of Ice Storm Z-factor Claim Recommendations

OEB staff acknowledges that Lakeland Power incurred significant costs for its ice storm restoration efforts, which were largely beyond Lakeland Power's costs funded through distribution rates paid by ratepayers. OEB staff does not dispute the severity of the storm, or Lakeland Power's efforts to repair its infrastructure and restore service to customers in a timely manner. However, OEB staff submits some of the capitalized costs associated with pole replacements ($41,103) are included in Lakeland Power's pole replacement program and, thus, should be disallowed from the Z-factor claim. OEB staff further submits that internal labour costs ($117,829) should be excluded as these costs are already embedded within rates.

Background

Lakeland Power is requesting cost recovery for damages incurred during an ice storm event that took place on March 29 and 30, 2025. Lakeland Power seeks recovery of $1,302,255, including carrying charges calculated to April 30, 2026, in the amount of $37,987 (i.e., a total claim of $1,340,242).

Of Lakeland Power's 14,900 customers, 8,967 (60%) were affected by the ice storm. Lakeland Power indicates that the majority of customers had power restored within one week due to the swift action it had taken to secure additional resources. Lakeland Power restored 90% of affected customers by April 3, 2025. The last restoration of power to affected customers took place on April 18, 2025, and it was to seasonal island

customers.

Lakeland Power proposes that the $1,340,242 be allocated across all rate classes, and to recover this amount via two rate riders: (i) a fixed rate rider for operating costs spanning one year, and (ii) a fixed rate rider for the revenue requirement of capital costs effective until its next rebasing rate order. The total cost consists of $882,679 in OM&A and $33,870 in revenue requirement based on $457,564 in capital costs.

Table 4: Relief Requested

Category	Recovery period	Total
Operating costs	1 year	$882,679
Capital Expenditures revenue requirement	Until rebasing	$33,870

As part of its pre-filed evidence, Lakeland Power provides a breakdown of the capital and OM&A costs from the ice storm, as shown below:

Table 5: 2025 Ice Storm Event Cost Summary

Category	Operating	Capital	Total
Incremental Labour / Material costs	$268,930	$184,051	$452,981
3rd Party contractors	$588,730	$260,544	$849,274
Total	**$857,660**	**$444,595**	**$1,302,255**
Carrying charges	$25,018	$12,969	$37,987
Total Z-Factor Claim Costs	**$882,679**	**$457,564**	**$1,340,242**

Lakeland Power provided detailed cost breakdowns for both its internal as well as third party costs in Tables 6 and 7 below:

Table 6: Internal Cost Breakdown

Labour / Material	Operating	Capital	Total
Labour	$217,058	$40,804	$257,862
Materials	$49,996	$143,247	$193,242
Meals	$1,877	$0	$1,877
Total	**$268,930**	**$184,051**	**$452,981**

Table 7: Third Party Contractor Cost Breakdown

Third Party Contractor	Operating	Capital	Total
LDC Mutual Aid	$205,998	$47,375	$253,373
Anixter Power Solutions Canada inc.	$5,387	$0	$5,387
CC Underground Utilities Inc.	$0	$24,947	$24,947
Davey Tree Expert Co	$29,862	$0	$29,862
Fowler Construction Co	$121	$0	$121
K-line Maintenance & Construction	$323,504	$144,776	$468,280
P. Medley & Sons Ltd	$1,163	$0	$1,163
Reid Utility Services Inc.	$20,950	$43,446	$64,396
Wes Finch & Sons Excavating Ltd	$1,744	$0	$1,744
Total	**$588,730**	**$260,544**	**$849,274**

This recovery is sought under the OEB's policy for Z-factor treatment for events or causes that are outside of the distributor's ability to predict or control. The claimed amount consists of incremental OM&A costs, the revenue requirement associated with capital expenditures, and carrying charges on the costs incurred for the ice storm.

Causation

Lakeland Power states that the costs included in its Z-factor request are directly attributable to the restoration of service following the ice storm event. Lakeland Power notes that third party contractor work was exclusively related to ice storm restoration efforts and such contractor work ceased as soon as Lakeland Power's internal staff were able to resume full responsibility for restoration activities.[35]

Lakeland Power further notes that that all costs included in its claim are outside the base upon which rates were derived and that none of the assets replaced were included in its 2025 Distribution System Plan, nor were they scheduled for renewal. Lakeland Power states that all capital and operating costs claimed were unplanned and not part of any approved budget or forecasts.[36]

Operating Costs

Lakeland Power claims a total OM&A cost of $882,679 related to the ice storm event. In response to interrogatories,[37] Lakeland Power provided a breakdown that shows the cost components underpinning the total OM&A costs of the Z-factor claim, which

[35] EB-2025-0024, Appendix Z-2, p. 7
[36] EB-2025-0024, Appendix Z-2, p. 8
[37] Response to OEB Staff Interrogatories 17 and 18, VECC Interrogatory 8

includes: labour (regular and overtime), local distribution companies (LDC) mutual aid costs, contracted services, and other OM&A costs.

Labour

Lakeland Power notes that its Z-factor claim includes both regular internal labour costs of $117,829, as well as overtime paid to non-union employees and management in the amount of $28,811, see Table 8 below.[38]

Table 8: Internal Labour Costs

Department	Number of Eligible Employees	Regular Hours Worked	Total Regular Time Payments	Overtime Hours Worked	Total Overtime Payments
Management	2	0	0	146	23,906
Other Non-Union Employees	4	244	7,360	120	4905
Sub-Total Non-Union	6	244	7,360	266	28,811
Union Employees	13	1,524	110,469	915	111,223
Operations	0	0	0	0	0
Other	0	0	0	0	0
Sub-Total Union	13	1,524	110,469	915	111,223
Total Z-Factor Labour Costs	**19**	**1,768**	**117,829**	**1,181**	**140,033**

Submission

OEB staff submits that internal regular hours worked by internal staff should be excluded from this claim as they are already included in base rates. Lakeland Power argues that regular hours spent during the ice storm were incremental to its base budget amount. OEB staff is of the view that while overtime for unionized staff should be included, as it is truly incremental, regular hours worked by unionized and non-unionized staff in the amount $117,829 of should be excluded from this Z-factor claim.[39]

[38] Response to OEB Staff Interrogatory 18(a)
[39] OEB staff notes Canadian Niagara Power Inc., EB-2023-0009 and Sioux Lookout Hydro Inc. Z-factor

In regards to management and non-unionized overtime in the amount of $23,906 and $4,905 (a total of $28,811), respectively, OEB staff is of the view that these costs were incurred due to the ice storm event. Lakeland Power notes that it is within the CEO's discretion to grant overtime to management in extenuating circumstances, as per Lakeland Power's Human Resources Manual.[40] OEB staff submits that the ice storm event constitutes such a circumstance. OEB staff takes no issues with the inclusion of management and non-unionized staff's overtime in this Z-factor claim and notes that the OEB has previously approved management overtime in Sioux Lookout Hydro Inc.'s 2022 Z-factor claim[41] and Halton Hills Hydro Inc.[42] 2015 Z-factor claim. OEB staff views the circumstances in the case of Lakeland Power to be similar to those of Sioux Lookout Hydro Inc. and Halton Hills Hydro Inc.

OEB staff submits that the remainder of the OM&A costs incurred as a result of the ice storm event qualify for Z-factor treatment in accordance with the OEB's policy and practice. OEB staff acknowledges that the labour and other aspects of the OM&A costs paid were supported by invoices and receipts as part of Lakeland Power's responses to interrogatories.

Capital Costs

Lakeland Power states that all costs included in its Z-factor claim are outside base rates and that none of the assets replaced were included in Lakeland Power's 2025 Distribution System Plan, nor were they scheduled for renewal.[43] In response to interrogatories,[44] Lakeland Power specified that the capital costs of $444,595 are allocated as follows:

Table 9: Ice Storm Capitalized Cost (excluding carrying charges)

Asset / Equipment	Quantity	Repaired or Replaced	Estimated Net Asset Value	Useful Life
Poles	48	Replaced	435,913	45
Transformers	6	Replaced	8,682	40
Total	**54**		**444,595**	

claims, EB-2021-0057 are examples of past Z-factor claims that did not include internal labour costs.
[40] Response to OEB Staff Interrogatory 18(b)
[41] EB-2021-0057, Decision and Rate Order, issued March 3, 2021
[42] EB-2014-0211 Decision and Order, issued December 11, 2014 and corrected December 12, 2014
[43] EB-2025-0024, Appendix Z-2, pp. 7-8
[44] Response to OEB Staff Interrogatory 14

Poles

Lakeland Power states that the number of poles replaced in each year will be determined through its annual capital planning process and informed by condition assessments, safety and reliability considerations, and approved budgets.[45] Lakeland Power further states that poles classified as 'Poor' and 'Very Poor' are not assigned fixed annual quantities. However, these poles are prioritized due to their increased susceptibility to deterioration from environmental and weather conditions, and are the major portion of the annual total replacement.[46] Of the 48 poles that were replaced due to the ice storm event, OEB staff notes that three poles were denoted as being in 'Poor' condition and over 70 years old (see table below). A further 16 poles were in 'Fair' condition and had an average age of 62 years.

Table 10: Poles in Poor Condition

Damaged Pole Height	Year	Age	Condition	Replaced Pole Height	Replacement
40	1955	70	Poor	40	Like-for-Like
40	1955	70	Poor	40	Like-for-Like
40	1953	72	Poor	40	Like-for-Like

Submission

As noted by Lakeland Power in its response to an interrogatory, poles that are in 'Poor' condition are prioritized for replacement due to their susceptibility to weather. OEB staff is of the view that it is highly likely that the three poles in 'Poor' condition would have been replaced within this IRM term, and if not, they should have been. Lakeland Power notes that the estimated average (from 2020-2025) installed cost for a pole is $13,701.[47] As a result, OEB staff submits that the OEB should disallow $41,103 for the three poles noted as being in 'Poor' condition. OEB staff is of the view that the cost for these three poles was already embedded within Lakeland Power's base rates. OEB staff notes that similar reductions have been made by the OEB in previous Z-factor proceedings – such as Elexicon Energy Inc.'s 2023 Z-factor claim,[48] Canadian Niagara Power Inc.'s 2024 Z-factor claim,[49] and E.L.K Energy Inc.'s 2024 Z-factor claim[50]. In each of these proceedings, the OEB did not allow cost recovery for poles that were

[45] Response to VECC Interrogatory 9(f)
[46] *Ibid.*
[47] Response to VECC Interrogatory 9(d)
[48] EB-2022-0317, Decision and Order, p. 9
[49] EB-2023-0009, Decision and Order, p. 19
[50] EB-2023-0013, Decision and Order, p. 13

deemed to have been in ‘Poor’ condition.

Transformers

OEB staff notes that the six damaged transformers were in ‘Good’ or ‘Very Good’ condition and is, therefore, of the view that the remaining capital costs incurred as a result of the ice storm qualify for Z-factor treatment.

Emergency Response Plan

Lakeland Power states that it relies on its Emergency Response Plan (ERP), which outlines the processes for responding to power disruption outside of routine operations. The ERP incorporates protocols, such as continuous weather monitoring and the issuance of readiness alerts to internal staff, ensuring the proactive mobilization of all responders and resources. Lakeland Power states that despite these strategies, it could not have anticipated or foreseen the damage caused by the ice storm.

Submission

OEB staff takes no issue with Lakeland Power’s application of its ERP. OEB staff submits that Lakeland Power could not have reasonably designed or managed its distribution system to avoid the damage and outages resulting from the ice storm. With the exceptions to the OM&A and capital costs noted above, OEB staff is satisfied that these amounts are outside of the rate base.

Materiality

The materiality threshold applicable to Lakeland Power is $50,000. Lakeland Power states that the cost of the ice storm event ($1,302,255) exceeds the materiality threshold of $50,000. The application states that the ice storm had a significant influence on operations and required a sustained effort from Lakeland Power crews and third-party contractors for over a week to restore power to impacted customers.

Submission

OEB staff submits that Lakeland Power’s Z-factor claim of $1,302,255 excluding carrying charges, meets the materiality criteria.

Prudence

Lakeland Power states that the initial storm restoration effort took well over a week, with extended cleanup continuing into June 2025. The ice storm event impacted 8,967 (60%) customers of Lakeland Power’s customer base, mostly in the Bracebridge area. Power restoration efforts proceeded immediately after the ice storm, with crews and system

operators working 16-hour days to restore power.[51] Lakeland Power states that it restored service to 90% of affected customers by April 3, 2025.[52]

Lakeland Power highlights that it notified internal staff of the impending ice storm prior to the event and mobilized staff during the 'first wave' of the ice storm. Lakeland Power then notified the Ontario Mutual Assistance Group (OnMAG)[53] and met with other LDCs on March 29, 2025. Lakeland Power states that during this meeting, every responding LDC declined to provide assistance due to the possibility of a 'second wave' of the storm impacting their own networks. As a result, Lakeland Power began contacting local contractors and secured assistance from K-Line Contracting & Maintenance (K-Line). Lakeland Power notes that, without K-Line's immediate response, many customers would have remained without power for several additional days.[54]

The 'second wave' of the ice storm event, as noted by Lakeland Power, was significantly more severe than the first. Crews began work on the morning of March 30, 2025, reporting that damage was well beyond expectations. To address the concerns that Lakeland Power's current workforce was insufficient, Lakeland Power contacted other LDCs and was able to secure additional support from Burlington Hydro Inc., Enova Power Corp., North Bay Hydro Distribution Limited, and Oakville Hydro Electricity Distribution Inc.

Lakeland Power states that the repair work and system rebuild were conducted on a 'like-for-like' basis whenever feasible and that it utilized materials from existing inventory and minimized emergency procurement costs. Work was also systematically prioritized and coordinated to ensure efficient restoration efforts and prompt power restoration.[55]

Submission

OEB staff notes that Lakeland Power called upon available internal and external resources to address the ice storm outages and undertook efforts to join mutual assistance programs following the events of the 'first wave' of the storm. OEB staff also recognizes that Lakeland Power acted promptly and restored power within a reasonable period. Based on the evidence provided, OEB staff submits that Lakeland Power has met the prudence criteria.

[51] EB-2025-0024, Appendix Z-2, p. 9
[52] EB-2025-0024, Appendix Z-2, p. 6
[53] OnMAG is a single point of contact for utilities to request and offer mutual assistance resources when damaging events occur within a member's service territory. It is subscription-based and member led.
[54] *Ibid.,* pp. 9-10
[55] *Ibid.*, p. 10

Account 1595 (2021) – Disposition and Rate Rider Treatment

Lakeland Power proposes to dispose of Account 1595 (2021) in accordance with the OEB's direction from its 2025 Cost of Service decision[56]. In its decision, the OEB directed Lakeland Power to bring forward, in its 2026 IRM application, the disposition of the $345,659 under-recovered 2021 Global Adjustment (GA) amount, plus carrying charges, to Class B Non-RPP customers only, and to dispose of the remaining residual balance of Account 1595 (2021) through the general Group 1 DVA rider.

Lakeland Power proposes to recover $400,973 from Class B Non-RPP customers over a one-year period. This amount reflects the previously approved $345,659 under-recovery related to the 2021 GA rate calculation error, plus updated carrying charges calculated to April 30, 2026. Lakeland Power also proposes to dispose of the remaining $79,343 balance through the general Group 1 DVA rider as approved in its 2025 Cost of Service decision. The allocator for the Class B Non-RPP amount is based on 2024 metered Class B Non-RPP kWh. Lakeland Power notes that earlier Class A billing corrections were addressed separately and are not included in this disposition request.

Submission

OEB staff compiled total bill impacts by class based on the Rate Generator Models filed by Lakeland Power on October 9, 2025 and January 23, 2026[57]:

Table 11: Total Bill Impacts by Class

RATE CLASSES / CATEGORIES (eg: Residential TOU, Residential Retailer)	Total Bill Impact (Pre-Filed Version)		Total Bill Impact (Janaury 23, 2026 Version)	
Total Bill	$	%	$	%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	$ 13.57	9.83%	$ 12.84	8.94%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	$ 30.66	9.32%	$ 28.64	8.24%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	$ 701.43	4.10%	$ 747.25	4.39%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	$ 4.77	10.00%	$ 4.44	9.13%
SENTINEL LIGHTING SERVICE CLASSIFICATION - RPP	$ 2.09	9.60%	$ 1.97	9.10%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	$ 238.48	6.73%	$ 251.01	7.10%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	$ 17.64	8.32%	$ 18.50	8.75%

OEB staff supports Lakeland Power's proposed disposition of the $400,973 Class B Non-RPP amount recorded in Account 1595 (2021), calculated using 2024 Non-RPP Class B kWh allocators. However, OEB staff submits that the recovery of this amount should occur over a two-year period rather than one year to mitigate the rate impact for affected customers. The overall 2026 total bill impacts for most rate classes remains significantly higher due to the cumulative effect of Z-factor adjustments, Group 1 DVA dispositions, Account 1595 (2021) disposition, Price Cap adjustment, and other

[56] EB-2024-0039, Final Decision and Order, June 3, 2025
[57] The October 9, 2025 Rate Generator Model was the version included in Lakeland Power's application / evidence, while the January 23, 2026 version was filed in response to interrogatories and reflected various updates (e.g., updated Uniform Transmission Rates and prescribed accounting interest rates).

mechanistic updates as compared to the bill impact in an IRM application without additional adjustments. OEB staff is of the view that extending the disposition period is a reasonable and prudent means of smoothing the concentrated impact on Class B Non-RPP ratepayers.

OEB staff notes a similar approach was taken in Fort Frances Power Corporation's (Fort Frances) 2013 IRM proceeding.[58] In that case, the OEB approved a two-year disposition period for Group 1 DVA balances even though Fort Frances confirmed that a one-year disposition would not produce bill impacts over 10%. The decision explained that although the OEB's policy sets a one-year disposition period as the default, the OEB may approve a longer period to mitigate rate impacts or address other applicable considerations. The OEB accepted Fort Frances' evidence that, despite staying below the 10% threshold, a one-year disposition would create a significant revenue decline for the GS>50 kW class and therefore determined that a two-year period was appropriate for rate stability. OEB staff submits that Lakeland Power's situation is comparable as the Account 1595 (2021) impact is highly concentrated within Class B Non-RPP ratepayers, who face significant total bill increases in 2026. As a result, a two-year disposition period would appropriately balance cost causality with rate impact.

OEB staff supports continuing to dispose of the $79,343 residual Account 1595 (2021) balance through the general Group 1 DVA rider to all customers, consistent with the OEB's approval in Lakeland Power's 2025 Cost of Service decision. OEB staff notes that earlier Class A billing corrections were addressed separately and are not included in this disposition request.

~All of which is respectfully submitted~

[58] EB-2012-0083