



BY EMAIL and RESS

Mark Rubenstein
mark@shepherdrubenstein.com
Dir. 647-483-0113

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

February 9, 2026
Our File: EB20250024

Attn: Ritchie Murray, Acting Registrar

Dear Mr. Murray:

Re: EB-2025-0024 – Lakeland Power Distribution Ltd. Z-Factor – SEC Submissions

We are counsel to the School Energy Coalition (“SEC”). These are SEC’s submissions on the application by Lakeland Power Distribution Ltd. (“Lakeland Power”) for a Z-factor claim for two separate events, a June 2024 failure of a Municipal Station (“MS”) substation transformer, and a March 2025 ice storm.

Overview

Lakeland Power’s application seeks incremental funding for two separate Z-factor events. The first is a June 2024 critical failure of its Centennial MS substation 27.6 kV transformer. The second is the impact of a March 2025 ice storm that caused extensive damage throughout Lakeland Power’s service territory. The combined impacts of the two Z-Factor claims are significant, reflecting distribution rate increases of 12% for GS<50 customers and 10.9% for GS>50 customers (the classes that contain schools).¹ Total distribution bill impacts for those classes are forecast to be 22.6% and 35% respectively.²

SEC agrees that both events generally meet the definition of a Z-factor claim. However, the evidence demonstrates that the amounts sought are inappropriate and should be reduced as outlined in detail in these submissions.

MS Substation Transformer Failure

On June 13, 2024, Lakeland Power’s Centennial MS substation transformer suffered a critical failure. Lakeland Power attributes the failure to a lightning storm that hit the area around the same time.³ While there is no direct evidence that the lightning storm caused the failure, it’s a reasonable and likely

¹ Interrogatory Response SEC-1

² Interrogatory Responses, Appendix L

³ Application, IRM Appendix Z-1, p.5

cause considering the previous condition of the transformer, the exact timing of failure, and the timing of the lightning storm reaching the specific area.⁴

Lakeland Power's Z-factor seeks approval for recovery of an updated amount of \$1,492,013 (made up of \$698,210 in OM&A costs and \$793,803 in capital costs), representing \$861,566 for costs through September 30, 2025, and the remaining amount for costs through fall 2026 when the transformer rebuild will be complete, expected to be in October.⁵

Category	Operating	Capital	Total
Costs to Sept 30th (original submission)			
Install of temporary transformer	\$68,408	\$0	\$68,408
Transformer rental	\$507,000	\$0	\$507,000
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'25 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

SEC accepts that the transformer failure meets the criteria for a z-factor event, as it was outside of the Lakeland Power's control and significantly impacted its operations, and that the costs for a temporary transformer and rebuild met the criteria for materiality, and causation. However, SEC disagrees with Lakeland Power that the costs are prudent, specifically a portion of the costs for the temporary transformer rental from its affiliate Bracebridge Generation.

Transformer Rental Imprudent As a result of the transformer failure, Lakeland Power was required to find a temporary transformer unit until it could rebuild the critically damaged one. It located a suitable temporary transformer and rented it from a provider at a cost of \$33,000 a month.⁶ To mitigate the impact of potential delays in the transformer repair, Lakeland Power began negotiating with the supplier to purchase the spare transformer for \$375,000. Ultimately, its affiliate Bracebridge Generation purchased the transformer in February 2025 and then rented the unit to Lakeland Power for \$30,000 a month.⁷ The total cost of the rented transformer from Bracebridge Generation to Lakeland Power has been capped at \$300,000.⁸

SEC submits that this aspect of the proposed Z-factor claim is imprudent and a breach of the *Affiliate Relationships Code* (ARC). It is clearly unreasonable for ratepayers to pay Lakeland Power's affiliate \$300,000 for use of a transformer for approximately 20 months when the affiliate paid only \$375,000

⁴ Interrogatory Response SEC-5

⁵ Interrogatory Responses, Appendix H, p.148; Interrogatory Response SEC-6(c)

⁶ Application, IRM Appendix Z-1, p.9-10

⁷ Interrogatory Response SEC-6 (a), (b); Application, IRM Appendix Z-1, p.9-10

⁸ Interrogatory Response SEC-6 (c)

for it. This represents 80% of the cost of the transformer, which has a remaining expected useful life, after use by Lakeland Power, of 23 years.⁹ Less than half of its 40 year expected life.¹⁰

In the face of this obvious problem, Lakeland Power has taken the position that the transformer will be a stranded asset once the existing transformer is recommissioned due to low demand for this type of transformer and because utilities prefer to buy new units.¹¹ SEC disagrees that the transformer has “no value” and that it will be stranded at the end of its use.¹² For the same reason that Lakeland Power needs the transformer, a spare in case of an emergency, other utilities, and even Lakeland Power itself, may want access to the transformer in the future. It is highly doubtful that Bracebridge Generation, after Lakeland Power is done using the transformer, is simply going to retire it for scrap. In fact, doing so would leave it worse off, considering the cost of the purchase.¹³

While Lakeland Power seems to argue ratepayers are better off with this arrangement, the evidence points to a different story. Lakeland Power had initially negotiated the \$375,000 purchase price for the transformer, but in its view, it would be more beneficial to its shareholder to have Bracebridge Generation make the purchase and rent the transformer from them.¹⁴ It may have believed this was reasonable since the forecast rental amount of \$30,000 a month was lower than the \$33,000 a month it had previously been charged.

SEC submits this is still an imprudent decision. Lakeland Power should have purchased the transformer itself, which would have reduced the cost to customers in the short-term, as customers would have paid the annual capital-related revenue requirement costs on an annual basis. This would have allowed Lakeland Power to either keep the transformer for emergency use later, which is still of value to its customers, or sell it (or even rent it) later, with the revenues returned to customers. It is simply not believable, or reasonable, to assume there would be no remaining value. Any of the after-the-fact comparisons of the differing costs of purchase versus rent Lakeland Power has provided in its interrogatory responses are of little use since they are premised on a write-off (paid by customers) if Lakeland Power had purchased the asset.

The \$300,000 cap is itself a tacit admission that the rental arrangement is inappropriate. Lakeland Power's evidence is that the agreement to cap the rental payment was reached in December 2025¹⁵, around the time it received the parties' interrogatories in this proceeding, which asked a number of detailed questions on this specific issue. This is notwithstanding that the fall 2026 repair timeline was known well before then; there was nothing specific in December 2025 that would have required such a change on its own.¹⁶

Affiliate Relationships Code

The arrangement is also in breach of the ARC. Section 2.3.4.1 of the ARC requires that where a reasonably competitive market does not exist, a “utility shall pay no more than the affiliate's fully

⁹ Interrogatory Response SEC-6(d)

¹⁰ Interrogatory Response SEC-6(d)

¹¹ Interrogatory Responses SEC-6(c); Staff-13(b)

¹² Interrogatory Response Staff-13(b)

¹³ Under the scenario where the value after the use by Lakeland Power is zero, the total cost of the transformer purchase is approximately \$371,000 for Bracebridge Generation based on purchase price of \$375,000, carrying costs of \$26,000 (See SEC-(h), and a forecast net salvage benefit of \$30,000 (See OEB Staff-13(b)).

¹⁴ Interrogatory Response OEB Staff 12(e)

¹⁵ Interrogatory Response Staff-12(a)

¹⁶ Application, p.30; IRM Appendix Z-1, p.4

allocated cost to provide[...]use of an asset.”¹⁷ The \$30,000 a month (or \$15,000 a month based on the \$300,000 cap) is far in excess of the fully allocated cost of the transformer.

The market for transformer rental is clearly not competitive. This is demonstrated by Lakeland Power's own evidence of the difficulty it had in securing the initial transformer, in which using its “wide-reaching relationships, no spare units were identified”, and it was not until its service provider was able to find one that it secured a unit, and even then the provider was later willing to sell it to them.¹⁸ Furthermore, if the market was in any way competitive, Lakeland Power would not have had to pay anything close to the annualized rental rate of \$396,000 (\$33,000 x 12) for a transformer whose sale value was only \$375,000.

Proposed Reduction

SEC submits that the OEB should only allow \$61,866 for the rental of the transformer from Bracebridge Generation (see Appendix A for the full calculations), which is the fully allocated cost over the 20-month period of the rental in accordance with the ARC. This would be the same amount as if Lakeland Power had purchased the transformer, which would have been the prudent action. This results in a reduction of \$238,134 from the requested amount.

Ice Storm

On March 29-30, 2025, the Lakeland Power's service territory was hit with a major ice storm causing significant damage, especially in Bracebridge. Lakeland Power seeks approval of a Z-factor claim for ice storm related recovery costs in the amount of \$1,302,255 before interest (\$857,660 in OM&A and \$444,595 of capital costs).¹⁹

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

SEC agrees that the ice storm was a Z-factor event, and that the claim meets the requirements for materiality and prudence. SEC does not agree that the entirety of the claim meets the requirements of causation, that is that the amounts are not just related to the Z-factor event, but they are “clearly outside of the base upon which rates were derived.”²⁰

Some of the costs incurred by Lakeland Power were already embedded in approved base rates, and are not outside the base upon which those rates were set, and thus not incremental. As the OEB has

¹⁷ [Affiliate Relationship Code for Electricity Distributors and Transmitters](#), section 2.3.4.1

¹⁸ Application, p.30; IRM Appendix Z-1, p.8

¹⁹ Application, IRM Appendix Z-2, p.11

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

said, the recoverable costs “must be truly outside of costs built-in base rates and reflect no more than the expense that would not have been incurred but for the unforeseen event”.²¹

Storm Damage/Recovery Budget

Lakeland Power's evidence is that, excluding the two Z-factor claims, it underspent its capital budget embedded in base rates by \$527,862.²² This includes having spent only \$155,405 of its approved \$250,000 budget for storm damage/trouble call reactive capital.²³

SEC submits that if Lakeland Power is able to recover any 2025 capital costs related to the ice storm, which total only \$444,595, it will over-collect, as it has not even spent its approved capital budget that customers are paying. Moreover, included in that underspend is \$94,595 of capital meant explicitly for storm damage. To allow Lakeland Power to recover any capital amounts is unfair to customers and contrary to the intent of the Z-factor, which is meant to allow recovery of incremental costs.

In response, Lakeland Power says that the underspending was not a reduction but a deferral of spending driven by the two Z-factor events.²⁴ SEC disagrees that this is a reason not to reduce the Z-factor amount. First, by definition the storm damage/trouble call reactive budget cannot be deferred spending. It is not made up of specific projects, but is a budget to deal with storm and other emergency capital work, such as an ice storm. Second, even if work was deferred in other areas and Lakeland Power plans to overspend in future years, from a rates perspective they are not the same thing. A dollar spent in 2026 or 2027 does not offset a dollar not spent in 2025, as customers will upon rebasing pay for an asset that has a higher net book value.

Furthermore, deferring capital, even beyond the rate term, after two major Z-factor events resulting in significant capital costs is entirely appropriate. Lakeland Power should determine if there are other costs that may not be as urgent to reduce the impact on customers.

While the underspending is larger than the ice storm capital budget, SEC is not proposing the balance be applied as a reduction to the capital costs related to the MS Transformer Failure. While capital costs may have been incurred in 2025, the actual transformer rebuild is not planned to be completed and in-service until 2026, and so for rate purposes is a 2026, not 2025, cost.

Regular Labour

As part of the Z-Factor claim for the Ice Storm, Lakeland Power seeks recovery of \$78,164 (OM&A) and \$39,665 (capital) for regular labour.²⁵ SEC submits that these costs are generally not recoverable as they are not incremental to the amounts funded through base rates. The OEB has been clear that Z-factor recovery is limited to costs that are incremental to the base upon which rates were set, and it has previously denied recovery of “non-incremental regular labour.”²⁶ Distributors have regularly, although not consistently, excluded regular labour hours from Z-Factor claims as they are funded through base rates.²⁷ These labour hours would have been incurred regardless of the Ice Storm; these

²¹ [Decision and Order \(EB-2022-0317\), June 15, 2023](#), p.1

²² Interrogatory Response Staff-6(e)

²³ Interrogatory Response Staff-6(e)

²⁴ Interrogatory Response Staff-6(e)

²⁵ Interrogatory Response VECC-8(a)

²⁶ See [Decision With Reasons, \(EB-2007-0514/595/572/551\) July 31, 2007](#), p.23

²⁷ See for example, [Decision and Order \(EB-2014-0162\), October 16, 2014](#), p.4, Table 1; [Decision and Order \(EB-2014-0211\), December 12, 2014](#), p.5, Table 1

employees would simply have been doing different work. This is different from Lakeland's claim for overtime costs²⁸, which SEC agrees are recoverable, as those would not have been incurred but for the storm, and are not funded through existing rates.

In anticipation of such an argument, Lakeland's position appears to be that the regular labour hours were incremental because the regular work still needs to be done, and that excluding the Z-Factor claims, Lakeland has overspent on OM&A.²⁹ However, Lakeland Power has provided no evidence to demonstrate that but for the Ice Storm, these costs would not have been incurred. It has provided no evidence that later in the year these employees were required to work overtime, or that incremental contractor labour was required to complete necessary annual work that could not be done because of the Ice Storm. Without such evidence, SEC cannot support recovery of amounts related to regular internal labour.

Damaged Poles

Notwithstanding SEC's submissions regarding the appropriateness of approving any capital amounts for the ice storm Z-factor claim, if recovery is to be allowed, it should be reduced by \$51,000 to reflect three poles that would have reasonably been replaced during the rate term regardless of the storm, and so should be considered embedded within base rates.

As part of Lakeland Power's regular capital plan funded through base rates, it forecast replacing between 80 and 132 poles depending on the year.³⁰ As part of its replacement program, poles in poor or very poor condition are prioritized for replacement.³¹ Three of the 48 replaced poles were in poor condition and so would likely have been replaced as part of the regular replacement program during the current rate term.³²

Based on the estimated average 2025 pole replacement cost of \$17,000, this reflects a reduction of \$51,000.³³

The OEB has consistently disallowed recovery of costs for assets, primarily poles, that would otherwise be expected to be replaced during a rate term.³⁴

Proposed Reduction

SEC submits the OEB should disallow recovery of the entire capital portion of the Z-Factor claim, as Lakeland Power underspent significantly on its 2025 capital budget included in base rates. At the very least, the OEB should disallow recovery of \$185,260 to reflect the underspending in the storm damage capital budget (\$94,595), replaced poles in poor condition that would have been replaced during the rate plan regardless (\$51,000), and capitalized regular labour costs that are not incremental (\$39,665).

Additionally, the OEB should disallow \$78,164 of OM&A costs related to regular labour costs that are not incremental.

²⁸ Interrogatory Response VECC-8(a)

²⁹ Interrogatory Response VECC-8(a); OEB Staff15(c)

³⁰ Interrogatory Response VECC-9(f)

³¹ Interrogatory Response VECC-9(f)

³² Interrogatory Response VECC-9(a)

³³ Interrogatory Response VECC-9(d)

³⁴ See [Decision and Rate Order \(EB-2023-0013\), March 21, 2024](#), p.13-14; [Decision and Order \(EB-2023-0317\), June 15, 2023](#), p.12; [Decision and Order \(EB-2023-0009\), December 12, 2023 \(Revised December 15, 2023\)](#), p.19



Recovery Rider and Disposition Period

SEC has concerns with both the disposition period and the method of recovery.

First, Lakeland Power has proposed to dispose of the OM&A portion of both Z-factor claims (the MS station transformer over 2 years, and the ice storm over 1 year), with capital portions of both, converted into a revenue requirement amount, being recovered annually until its next rebasing.³⁵ Considering the significant rate impacts driven by the OM&A portion of both Z-factor claims, SEC believes that Lakeland Power should extend the disposition period to four years, which matches the remainder of its rate term. This would result in greater fairness to customers, who were already facing a significant bill impact in 2026 resulting from the cessation of a Group 2 DVA credit rate rider.

Second, Lakeland Power proposes to recover the costs through fixed riders.³⁶ SEC disagrees with this approach. For rate classes with a variable component (either kWh or kW), the rate riders should reflect the fixed/variable split approved in Lakeland Power's last rebasing application. This is even more important for the capital costs, especially for the MS station transformer, where the assets replaced were being recovered on such a basis and the replacements should continue to be as well, as they are utilized based on consumption and demand.

Yours very truly,
Shepherd Rubenstein P.C.

Mark Rubenstein

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

³⁵ Application, IRM Appendix Z-1, p.11-12

³⁶ Application, IRM Appendix Z-1, p.11-12

Appendix A

Fully-Allocated Cost of Transformer Rental

Return on Rate Base	Year 1	Year 2	Notes
Capital Costs	\$375,000		Purchase Price
Depreciation	\$15,000		Remaining useful life of 25 years at time of purchase, see SEC-6(d)
Avg NPV	\$360,000	\$345,000	
ST Interest (3.91%)	\$563	\$540	
LT Interest (4.76%)	\$9,596	\$9,196	
ROE (9.00%)	\$12,960	\$12,420	
Return on Rate Base	\$23,119	\$22,156	CoC Rates same as those in OEB-Staff-13b
PILS			
Reg Table Income	\$12,960	\$12,420	
Add Back Depreciation Expense	\$15,000	\$15,000	
Deduct CCA (8%)	-\$30,000	-\$30,000	
Incremental Taxable Income	-\$2,040	-\$2,580	
PILs (26.5% Tax Rate)	-\$541	-\$684	
PILs Grossed-Up	-\$555	-\$702	
Revenue Requirement			
Return on Rate Base	\$23,119	\$22,156	
Depreciation Expense	\$15,000	\$15,000	
Gross-Up PILs	-\$555	-\$702	
Total Annual Fully-Allocated Cost	\$37,564	\$36,454	
Monthly Fully-Allocated Cost	\$3,130	\$3,038	
March 2025-February 2026	\$37,564		
March 2026-October 2026		\$24,302	
Total		\$61,866	