EB-2025-0024

Lakeland Power Distribution Ltd.

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

VECC Submissions February 9, 2026

Lakeland Power Distribution Ltd. (Lakeland Power) filed an incentive rate-setting mechanism 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 approval of two Z-factor claims and fixed rate riders. VECC's submissions relate to Lakeland Power's two Z-factor claims.

Total Z-factor Amounts

Lakeland Power seeks approval of $1,492,013 for Z-factor #1 and $1,340,242 for Z-factor #2 as shown in the Table below.

Lakeland Power updated its amounts for Z-factor #1 to reflect updated information, eliminating the need for a subsequent Z-factor claim to be submitted in 2026.

Z-factor		**Date**	**Damage**	**Cost Timeline**	**Capital**	**Operating**	**Total**
1	Lightning Storm	June 13,2024	Centennial MS Transformer	To Sept 30, 2025	$253,356	$608,210	$861,566
				Oct 2025 to Fall 2026	540,447	90,000	$630,447
	Sub-total						$1,492,013[1]
2	Ice Storm	March 29, 2025	Widespread	2025	$457,564	$882,679	$1,340,242
	Total						**$2,832,255**

The total Z-factor amount of $2.82 million for the two claims is significant resulting in combined rate riders of $5.58 per month[2] for Residential customers.[3] The total distribution bill impact for Residential customers is 20.2%.[4]

[1] Includes Carrying Charges
[2] $1.72 + $3.86
[3] SEC-1
[4] IRR Appendix L

Eligibility Criteria

As per the 2025 Chapter 3 Filing Requirements, distributors under a Price Cap IR or Annual IR Index rate-setting plan may request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage, referred to as a claim for a "Z-factor" event. A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence, as follows:

Criteria	Description
Causation	Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
Materiality	The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
Prudence	The amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Additionally, the OEB's Chapter 3 Filing Requirements state: "To be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates."

Lakeland Power's achieved ROE for 2024 and 2025 does not exceed 300 basis points above the deemed ROE embedded in its base rates.[5]

Z-factor #1: Lightning Storm

During a lightning storm on June 13, 2024, the Centennial 27.6kV MS substation transformer in the Bracebridge area failed. At the time of the failure the transformer was 15 years old.[6] Lakeland Power indicates the lightning storm was the likely cause of the failure as it occurred at the same time as the lightning storm.[7] It is Lakeland Power's position that Centennial MS would not have failed on that day if the lightning storm did not occur.[8]

[5] IRM Appendix Z-1 – Page 10; Staff-6 (e)
[6] installed new in 2009 with an expected life of 40 years
[7] IRM Appendix Z-1 p. 4
[8] SEC-4

The materiality threshold applicable to Lakeland Power is $50,000.[9] VECC submits Lakeland Power has met the Causation and Materiality criteria with respect to the costs of the failed transformer that include repairing the damaged transformer, and installation and rental of a temporary transformer. Lakeland Power has demonstrated that the event was unforeseen and beyond Lakeland Power's control; it significantly impacted operations; and the amounts are incremental and directly related to the Z-factor event. However, with respect to prudence, VECC submits that Lakeland Power's decision to rent a transformer from its affiliate Bracebridge Generation was imprudent.

VECC summarizes the actions following the transformer failure as follows:

- Lakeland Power did not have a replacement transformer readily identified and available.[10]
- An emergency temporary replacement unit was sourced by Lakeland Power's service provider K.P.C. Power Electrical (KPC) and installed by KPC on June 19, 2024, at a cost of $68,408. [11]
- The lowest cost for the Transformer rebuild was from Surplec who offered a complete rewind for $634,000.[12]
- Lakeland Power paid a rental fee to KPC of $33,000 per month for the temporary transformer for 9 months to the end of February 2025 for a total of $297,000.[13]
- The temporary transformer was purchased by Bracebridge Generation, Lakeland Power's affiliate, on February 27, 2025 for $375,000[14], who then rented it to Lakeland Power.
- Lakeland Power paid a rental fee to Bracebridge Generation of $30,000 per month for 7 months from March 2025 to the end of September 2025 for a total of $210,000.
- The total transformer rental fees paid to KPC and Bracebridge Generation to the end of September 2025 total $507,000.[15]
- Lakeland Power updated its Z-factor in January 2026 as part of the interrogatory responses and has capped the rental fees to Bracebridge Generation for the use of the transformer at $300,000; $210,000 for the 9-month period June 2024 to the end of September 2025 and $90,000 which was reached with the December 2025 payment.

VECC submits it is not reasonable to expect customers to pay $300,000 to Lakeland Power's affiliate Bracebridge Generation for the use of a transformer for 20 months that the affiliate paid only $375,000 for. Lakeland Power paid $297,000 in rental fees to KPC while it considered its options and after again pushing KPC to sell the transformer Lakeland Power finally negotiated a purchase price of $375,000 for the temporary transformer. Lakeland Power noted at the time that the purchase of the transformer would result in a modest saving vs. continuing to rent based on Surplec meeting their 10-month lead time, and the financial risk of extended

[9] IRM Appendix Z-1 p.7
[10] Appendix Z-1 p.7
[11] Staff-10 (a)
[12] IRM Appendix Z-1 p.9
[13] Staff-12 (c)
[14] SEC-6 (a) & (b)
[15] IRR Appendix H

monthly rental payments (if there were any delays by Surplec in repairing the transformer) was now mitigated.[16] Soon after the purchase Surplec advised Lakeland Power of a delay and the expected timeline for the expected repair was extended to Fall 2026.

Clearly, the decision to purchase the temporary transformer was the right one to mitigate future rental costs, however, Lakeland Power should have purchased the transformer, not Bracebridge Generation, who is also a customer of KPC.[17] This would have eliminated the rental fees in operating costs beyond February 2025 and customers would have paid the annual capital-related revenue requirement for the transformer. Lakeland Power would then have the option of selling or keeping the transformer as a spare during future emergency situations. VECC does not agree with Lakeland Power's position that the temporary transformer has no remaining value beyond scrap once decommissioned from the Centennial site.[18] The temporary transformer was 15 years old when initially purchased and will have been in service as a replacement for Lakeland Power for two years, for a total of 17 years. The remaining useful life is 23 years based on an expected service life of 40 years. There is a possibility that utilities with a failed repairable transformer would rent the transformer on a temporary basis from Lakeland Power, especially given the challenges and costs related to prolonged lead times for new transformers.[19] It's unlikely that Lakeland Power would have to treat the transformer as a stranded asset. Even though the extension of the repair timelines to Fall 2026 was known shortly after the transformer was purchased[20], the recent $300,000 cap on the rent through interrogatory responses, demonstrates that the rental arrangement with Bracebridge Generation was inappropriate.

VECC submits the OEB should approve a Z-factor that reflects Lakeland Power purchasing the transformer instead of paying rental fees to Bracebridge Generation for the use of the transformer for 20 months.

[16] IRM Appendix Z-1 p.
[17] IRM Appendix Z-1 p.
[18] Staff-13 (b)
[19] IRM Appendix Z-1 p. 7
[20] IRM Appendix Z-1 p.10

Z-factor #2: Ice Storm

On March 29 and March 30, 2025, Lakeland Power experienced two waves of an ice storm which significantly impacted its service territory, especially Bracebridge which accounts for 7,564 of 8,967 or 84% of customers affected.[21]

Lakeland Power seeks approval of a Z-factor claim for ice storm related recovery costs in the amount of $1,340,242: $857,660 in operating costs; $444,595 in capital costs; and $37,978 in carrying charges.

Z-factor Cost Category	**Operating**	**Capital**	**Total**
Internal Labour/Material	$268,930	$184,051	$452,981
3rd Party Contractors	$588,730	$260,544	$849,274
Sub-total	**$857,660**	**$444,595**	**$1,302,255**
Carrying Charges	$25,018	$12,969	$37,987
Total Z-factor Claim	**$882,679**	**$457,564**	**$1,340,242**

VECC agrees Lakeland Power has met the OEB's Materiality and Prudence criteria with respect to the Z-factor claim. Lakeland Power restored service to 90% of its customers by April 3rd, 127 hours from the beginning of the event.[22]

With respect to the Causation criterion, VECC submits that Lakeland Power has included costs that are not incremental and outside of base rates and thus, should be excluded from the Z-factor amount approved by the OEB.

2025 Budget including Reactive Capital

Lakeland Power rebased for 2025 rates. Lakeland Power underspent its total 2025 capital budget by $527,862 excluding capital spend in relation to the two Z-Factor events. The storm damage/trouble call reactive capital included in the 2025 Budget was $250,000 and the total spend in 2025, excluding the Ice Storm event is $155,405, a variance of $94,595.[23]

Lakeland Power has included $444,595 in 2025 capital costs in the Z-factor amount. VECC submits Lakeland Power should not be able to recover this amount as doing so would mean that Lakeland Power is over-collecting. Lakeland Power has not spent the 2025 base capital amount in rates for which customers are already paying. Given this underspend, the Z-factor capital costs cannot be considered incremental.

[21] IRM p.31
[22] IRM Appendix Z-2 p.6
[23] Staff 6-e

Regular Labour

With respect to internal labour, Lakeland Power's Z-factor claim includes regular and overtime costs as follows:[24]

Internal Labour	Hours	$
Regular	1,768	$117,829
Overtime	937	$140,033

In VECC's view only overtime costs should be eligible for recovery as they are clearly incremental to base rates as these labour hours would not have been incurred but for the ice storm.

In a recent OEB Z-factor Decision, the OEB allowed the inclusion of both the regular and overtime hours in the calculation of the Z-Factor on the basis that the utility used a minimal amount (3%) of third-party contractor costs and excluded capital.[25] Lakeland Power's Z-factor includes capital costs and 65% ($849,274) of the costs are attributable to Third-party contractors.

On this basis and given that distributors mostly exclude regular hours from Z-factor claims, VECC submits that the OEB should disallow $78,164 related to operating regular hours. Should the OEB not support the exclusion of the full capital budget in the Z-factor claim, VECC submits an additional amount of $39,665 related to capital regular hours should be excluded for a total disallowance of $117,829 for regular hours.

Damaged Assets

Lakeland Power indicates that damage from the ice storm includes 48 broken poles and 6 damaged transformers.[26]

Of those 48 poles, three are in poor condition.[27] As part of its capital plan over the term 2025 to 2029, Lakeland Power forecasts to replace 521 poles, with 105 in 2025. Lakeland Power indicates the replacement of poles classified as poor and very poor condition are always prioritized due to their increased susceptibility to deterioration from environmental and weather conditions and are the major portion of the annual total replacement poles. [28]
It's reasonable to expect that the three poles in poor condition would be replaced as part of the annual pole replacement program during the 2025 to 2029 period.

[24] VECC-8 (a)
[25] OEB Decision EB-2025-0021 Newmarket-Tay Power Distribution Ltd. p.21 December 11, 2025 p.21
[26] IRM Appendix Z-2 p.30
[27] VECC-9 (a)
[28] VECC-9 (f)

VECC submits that if the OEB determines that Lakeland Power is eligible to recover its capital costs, VECC submits this amount should be reduced to account for the replacement of these poles as part of the regular capital budget. Based on the 2025 estimate of $17,000 to replace a pole, the proposed reduction totals $51,000.[29] The OEB has previously disallowed the recovery of damaged assets on this basis.

In summary, VECC submits the OEB should disallow the recovery of the entire capital amount in the Z-factor claim ($444,595) as Lakeland underspent by more than this on its 2025 capital budget included in base rates. Should the OEB not fully support the above capital disallowance, VECC submits the OEB should at a minimum disallow the recovery of $94,595 in underspending specifically related to the reactive capital budget, $51,000 related to the replacement of poles in poor condition that would have likely been replaced during the rate plan as part of the annual pole replacement program and $39,665 related to capital regular hours that are not incremental. These reductions total $185,260.

In addition, the OEB should exclude the $78,164 related to operating regular hours.

Disposition Period

Lakeland Power proposes to recover its Z-factor amounts from rate payers via two separate fixed rate riders – one for operating costs, and one for capital costs effective May 1, 2026 until rebasing. With respect to the transformer failure Z-factor, the recovery period for operating costs is 2 years with the exception of the sentinel and USL rate classes which has been extended to 48 months to reduce the rate impact which exceeded 10%. With respect to the Ice storm Z-factor, the recovery period for operating costs is 1 year.

VECC submits that given the customer rate impacts and for consistency across rate classes, the OEB should approve an extension to the fixed rate riders for operating costs for both Z-factors to 48 months which aligns with the remaining years of the rate term.

[29] VECC-9 (d)