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**File No. 98736.12**

February 25, 2026

**BY EMAIL & RESS**

Mr. Ritchie Murray  
Ontario Energy Board  
2300 Yonge Street, 27th floor  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Mr. Murray:

**Re: Lakeland Power Distribution Ltd. Application for 2026 Electricity Distribution Rates  
(EB-2025-0024)  
Reply Argument**

We are counsel to Lakeland Power in the above captioned matter. Please find enclosed an electronic copy of the Reply Argument.

Yours truly,

**BORDEN LADNER GERVAIS LLP**

A handwritten signature in black ink that reads 'Colm Boyle' in a cursive script.

Colm Boyle

CB/JV

**ONTARIO ENERGY BOARD**

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

**AND IN THE MATTER OF** an application by Lakeland Power Distribution Ltd. for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2026.

**LAKELAND POWER DISTRIBUTION LTD.**  
**REPLY ARGUMENT**

**FILED: February 25, 2026**

Board File No. EB-2025-0024

**LAKELAND POWER DISTRIBUTION LTD.**

**REPLY ARGUMENT**

1. On February 9, 2026, the Vulnerable Energy Consumers Coalition (“**VECC**”), the School Energy Coalition (“**SEC**”) and Ontario Energy Board (“**OEB**”) Staff filed submissions on the application by Lakeland Power Distribution Ltd. (“**Lakeland**”) for an incentive rate-setting mechanism (“**IRM**”), disposition of various deferral and variance accounts (“**DVAs**”) and two Z-Factors. Accordingly, Lakeland is filing this reply argument in response to those submissions.

**1. Z-FACTOR FACTUAL BACKGROUND**

2. Lakeland experienced two severe Z-Factor storm events in close succession. The majority of these costs have been incurred already, and almost all will be incurred before recovery begins via these Z-Factor claims. As detailed below, Lakeland does not have the financial resources to sustain two successive and significant Z-Factor events without incremental funding.<sup>1</sup> Lakeland agrees with the factual summary set out in OEB Staff’s submission but wishes to reiterate key facts.
3. On June 13, 2024, the Centennial MS Substation sustained a lightning strike that critically damaged the transformer and rendered it inoperable, necessitating repair or replacement (“**Centennial Z-Factor**”).<sup>2</sup> This resulted in a power outage impacting 2,500 customers, which is approximately 18% of all Lakeland customers. The cover page from a local news outlet is provided as Appendix A.<sup>3</sup>
4. Lakeland elected to repair the transformer and initially rented an emergency temporary transformer from an unaffiliated third party to restore service on June 19, 2024. For reasons discussed further below, Lakeland’s generation affiliate purchased the emergency temporary transformer on February 28, 2025 and Lakeland rented the transformer from its affiliate since this date. The latest expected timing for full repair of the damaged transformer and full return to service is Fall 2026.<sup>4</sup>
5. Lakeland initially applied to recover Centennial Z-Factor costs estimated through October 2025, reflecting the OEB’s Chapter 3 Filing Guidelines’ requirement that applicants demonstrate that the claimed costs were incurred within a 12-month period. In response to interrogatory SEC-2, Lakeland updated the Centennial Z-Factor costs to expected full completion of the matter in fall 2026 in order to avoid the need for a second Z-Factor application in 2026. OEB Staff supports this approach.<sup>5</sup>

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<sup>1</sup> IR Response OEB Staff-6.

<sup>2</sup> The Centennial MS Substation had been fully inspected only 2 years prior and the transformer would not have failed if the lightning storm did not occur: IR Responses SEC-4 & SEC-5.

<sup>3</sup> Application, IRM Appendix Z-2, at pg. 2.

<sup>4</sup> Application at pgs. 29-30.

<sup>5</sup> OEB Staff Submission at pg. 8.

Category	Operating	Capital	Total
<b>Costs to Sept 30th (original submission)</b>			
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
<b>Sub-Total</b>	<b>\$584,748</b>	<b>\$245,463</b>	<b>\$830,211</b>
Carrying charges	\$23,462	\$7,893	\$31,355
<b>Sub-Total incl. carrying charges</b>	<b>\$608,210</b>	<b>\$253,356</b>	<b>\$861,566</b>
<b>Costs from Oct'25 to fall 2026</b>			
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
<b>Sub-Total</b>	<b>\$90,000</b>	<b>\$540,447</b>	<b>\$630,447</b>
<b>Total Z-Factor Claim Costs</b>	<b>\$698,210</b>	<b>\$793,803</b>	<b>\$1,492,013</b>

6. On March 29 and March 30, 2025, two waves of a major ice storms caused widespread damages and prolonged power outages primarily caused by substantial ice accumulation (“**Ice Storm Z-Factor**”). The storm caused significant accumulation of ice on electrical infrastructure and vegetation, causing widespread damage and prolonged power outages. On March 30, 2025, the District of Muskoka declared a state of emergency across the region. The two-day ice storm was one of the most destructive storm events that Lakeland has experienced in its history and the harm caused was beyond Lakeland’s expectations,<sup>6</sup> as shown in the pictures included in Appendix B of this reply and the application.<sup>7</sup>
7. The ice storm heavily affected Bracebridge, Lakeland’s largest municipal territory, accounting for 7,564 of 8,967, or 84%, of customers affected. The impact to the Bracebridge area was widespread and devastating, with overall cleanup within the municipality continuing months after the storm’s end. Due to tireless work from employees and contractors, Lakeland restored service to 90% of its customers by April 3rd, only 127 hours from the beginning of the ice storm.<sup>8</sup> The costs claimed for the Ice Storm Z-Factor are as follows:

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

8. In total, Lakeland is seeking at total Z-Factor claim of \$2,832,255 in capital and OM&A costs consisting of: (i) a total of \$1,492,013 in incurred and forecasted costs in relation to the

<sup>6</sup> Application, Appendix Z-2, pg. 6.

<sup>7</sup> Application, Appendix Z-2, pgs. 2, 21-23.

<sup>8</sup> Application, Appendix Z-2, pg. 6.

Centennial Z-Factor; and (ii) a total of \$1,340,242 in incurred costs in relation to the Ice Storm Z-Factor. Lakeland Power's return on equity for 2025 is expected to be 6.2% before accounting for any Z-Factor extraordinary costs, and (-2.6%) if all Z-Factor costs are considered.<sup>9</sup>

## **2. LAKELAND'S COMPROMISED FINANCIAL VIABILITY**

9. Cash-flow constraints were a significant, material, and ongoing concern for Lakeland throughout both Z-Factor events. Cash-flow concerns arose primarily from the magnitude of costs over a short period, timing mismatch between the incurrence of costs associated with multiple Z-Factor events and the recovery of those substantial incremental costs several years later.
10. The submissions of VECC and SEC fail to address the need to maintain Lakeland's financial viability and rest on the flawed assumption that Lakeland has unlimited financial capacity to cash-flow the costs of both Z-Factor events while continuing normal capital programs and operations. That assumption is unreasonable. Financial viability must be a key factor informing the OEB's decision in the circumstances when assessing the Z-Factor claims.
11. Lakeland experienced significant financial constraints throughout 2024 and 2025 responding to the Z-Factors. Following the Centennial Z-Factor in 2024, there was considerable uncertainty through the latter part of 2024 and into early 2025 regarding the magnitude of the associated costs and their financial impact. Lakeland's financial challenges were only compounded by the second Ice Storm Z-Factor in March 2025.
12. Between December 2024 and September 2025, Lakeland breached its debt service coverage bank covenant four (4) separate times and breached its debt-to-capital covenant twice. While Lakeland's bank was willing to provide temporary waivers of these violations, Lakeland did not have the financial capability to purchase outright an extra transformer in early 2025 as was alleged by several parties. This is the reason Bracebridge Generation, which did have the capacity to purchase the transformer, stepped into the picture.
13. Lakeland Power was operating near the upper end of its borrowing capacity. The decision to rent the transformer and delay cash outlay was made in this context.<sup>10</sup>
14. As reflected in the interrogatory responses, Lakeland began drawing on its line of credit in March 2025 to cash-flow operations and continued to do so throughout the remainder of the year.<sup>11</sup> By the first quarter of 2025, Lakeland's already constrained financial position, marked by covenant breaches and delayed recovery of Z-Factor costs, raised substantial concerns regarding its ongoing financial viability, especially if exposed to additional unforeseen financial shocks.
15. Against the backdrop of bank covenant breaches, Lakeland undertook emergency contingency financial planning, cash conservation and deferral measures to reduce expenditures,

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<sup>9</sup> IR Response OEB Staff-6 and OEB Staff-15(c).

<sup>10</sup> IR Response OEB Staff-13(b).

<sup>11</sup> IR Response OEB Staff-6 & OEB Staff-13.

particularly capital spending, to maintain financial viability.<sup>12</sup> Although the full costs were not immediately known, Lakeland was aware that the combined impacts of the Centennial Z-Factor and Ice Storm Z-Factor would result in millions of dollars of incremental costs.

16. Absent those measures, additional borrowing would have been required at a time when the utility was already in breach of its debt covenants. Continuing to operate on a business-as-usual basis while faced with two extraordinary events of this magnitude was not wise or prudent. If Lakeland had not reduced spending in 2025 by delaying capital spend it would have been in a significant overdraft position and been left seriously at risk if there had been any additional unexpected events.<sup>13</sup>
17. In the first quarter of 2026, Lakeland secured a temporary increase to its debt-to-capital covenant, enabling it to increase capital spending and address the capital underspend from 2025.

### **3. Z-FACTOR POLICY**

18. The OEB states Z-Factor applications are intended to address the situation where a utility experiences an unforeseen event beyond the control of management, which are typically damaging storms, that impacts their financial sustainability.<sup>14</sup>
19. To qualify, the OEB states utilities must demonstrate that the additional costs they are requesting to recover are significant and that, without them, the ability to provide a reliable power service to their customers would be compromised. Costs must be over and above what the utility is currently collecting through their rates, and the utility must prove that it took the most cost-effective steps to prepare for such an incident in advance.<sup>15</sup>
20. LPDL submits that its two Z-Factor claims clearly fall within the intent of the Z-Factor policy, as the catastrophic storm events were not reasonably foreseeable or capable of being planned or budgeted for, and the resulting impacts are genuinely incremental to costs already being recovered in rates as part of ongoing business risk.
21. The response to OEB Staff-7 outlines the cost-effective steps Lakeland took to prepare for emergencies, however the Z-Factor events in this application were well outside of what Lakeland could have reasonably expected. OEB Staff agrees that Lakeland could not have reasonably designed or managed its distribution system to avoid the damage and outages from the ice storm and did not take issue with how Lakeland applied its emergency response plan.<sup>16</sup>
22. Although VECC and SEC acknowledge that both the Centennial and Ice Storm Z-Factor claims generally meet the legal test, they nevertheless press for substantial reductions that disregard the severe financial strain imposed by two back-to-back catastrophic events on a small utility that would have been operating at the edge of financial viability had it not implemented cash

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<sup>12</sup> IR Response OEB Staff-6(e).

<sup>13</sup> IR Response OEB Staff-6(e).

<sup>14</sup> OEB Z-Factor Fact Sheet, March 24, 2024; Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008, pg. 35.

<sup>15</sup> OEB Z-Factor Fact Sheet, March 24, 2024.

<sup>16</sup> OEB Staff Submission at pg. 16.

conservation measures. SEC and VECC seek to reduce the Z-Factor claims, respectively, by 29% (\$824,862) and 23% (\$654,759). For the reasons outlined below, Lakeland does not agree that the reductions proposed by SEC and VECC to the Z-Factor claims are appropriate.

#### 4. **CENTENNIAL Z-FACTOR**

##### 4.1 **Causation**

23. VECC and SEC accept the Centennial Z-Factor meets the criteria for causation.<sup>17</sup> Lakeland agrees.
24. OEB Staff identified a 2022 maintenance report in relation to the Centennial MS regarding three lightning arresters that failed resistance testing. OEB Staff invited Lakeland to confirm how long temporary lightning arresters were in use and whether they were replaced.<sup>18</sup>
25. OEB Staff is correct that K.P.C. found 3 feeder lightning arrestors that failed testing in July 2022,<sup>19</sup> however these lightning arrestors were immediately replaced with available spares.<sup>20</sup> While the spare lightning arrestors were identified by KPC as being “near the end of their lives”,<sup>21</sup> these spare lightning arrestors were then tested and passed KPC inspection and functional testing.<sup>22</sup>
26. Conversations after the issuance of the report occurred between previous (and since left/retired) Lakeland employees and K.P.C. These conversations determined that while the wording in the 2022 maintenance report was strong, there was absolutely no concern from K.P.C. with having the spare lightning arrestors in service for a few years. K.P.C. agreed that based on the favourable inspection and functional testing results the units were suitable to remain in-service. Since the employees involved in these conversations are no longer with Lakeland, Lakeland called K.P.C on February 25, 2026 to confirm this information.
27. The spare lightning arrestors were replaced with new units on February 24, 2026. Lightning arrestors are electrical equipment subject to long lead times for procurement. The spare lightning arrestors were removed from service, inspected and returned to Lakeland’s spare inventory for future use.

##### 4.2 **Materiality**

28. VECC, SEC and OEB Staff agreed that the Centennial Z-Factor meets the materiality element of the Z-Factor test.<sup>23</sup> Lakeland agrees.

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<sup>17</sup> SEC Submission at pg. 2; VECC Submission at pg. 3.

<sup>18</sup> OEB Staff Submission at pg. 5.

<sup>19</sup> IR Responses PDF pages 185, 197 & 205.

<sup>20</sup> IR Responses PDF page 205.

<sup>21</sup> IR Responses PDF page 206.

<sup>22</sup> IR Responses PDF page 206.

<sup>23</sup> SEC Submission at pg. 2; VECC Submission at pg. 3; OEB Staff Submission at pg. 6.

### **4.3 Prudence**

#### **4.3.1 Transformer Repair Costs (Capital)**

29. OEB Staff takes no issue with Lakeland’s eligibility to recover \$793,803 in capital repair costs, consulting fees / reports, transportation costs, and installation costs with respect to the Centennial Z-Factor. Lakeland agrees with OEB Staff that the decision to repair the damaged transformer was prudent due to the age and remaining useful life of the unit, and especially when considering the costs associated with purchasing a new transformer.<sup>24</sup>

#### **4.3.2 Internal Labour (OM&A)**

30. OEB Staff submits that if \$6,074 in regular internal labour costs were included in the Centennial Z-Factor, this amount should be disallowed even though it is immaterial.

31. Further review of this immaterial amount by Lakeland revealed that the \$6,074 identified by OEB Staff does not pertain solely to internal installation costs associated with the temporary transformer as stated in the response to OEB Staff-10(a). The detailed breakdown of this amount is as follows:

<b>Breakdown of \$6074</b>	
Labour and burdens - overtime	2,318.35
Vehicle allocation	344.20
Materials	444.51
Consulting - Lakeside Consulting	939.99
Transportation - P Medley & Sons	<u>2,027.88</u>
Total	<u>6,074.93</u>

32. Lakeland acknowledges that vehicle costs may not be incremental and are already included in base rates. The remainder of the costs (overtime, materials, 3<sup>rd</sup> party consulting and 3<sup>rd</sup> party transportation) are truly incremental and fall outside base rates.

#### **4.3.3 Temporary Transformer Rental (OM&A)**

33. While OEB Staff questions whether it would have been more prudent for Lakeland to purchase the unit outright, OEB Staff ultimately supports the OM&A costs associated with the Centennial Z-Factor, including the rental of the temporary transformer, subject to the internal labour costs discussed above. OEB Staff also requested that Lakeland explain how the \$300,000 rental cap was derived. Lakeland agrees with OEB Staff and wishes to provide additional context to assuage OEB Staff’s concerns.

34. Immediately following the lightning strike, Lakeland contacted a number of other utilities and organizations in an effort to locate a suitable spare or rental transformer; however, it was only an arms-length third party vendor, K.P.C., with a rental transformer that was technically

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<sup>24</sup> OEB Staff Submission at pg. 8.

feasible and capable of responding to the emergency within a reasonable timeframe.<sup>25</sup> Lakeland therefore began renting the transformer from K.P.C. on a month-by-month basis.<sup>26</sup>

35. Following the procurement and installation of the rental transformer from K.P.C., Lakeland turned its attention to longer-term solutions and contacted multiple vendors offering new equipment and repair services. In October 2024, Lakeland received a number of new transformer quotes that were substantially higher than the expected costs for a repair of the damaged transformer.<sup>27</sup> It became quickly apparent that the repair option was preferred.
36. A firm repair quotation for the damaged transformer can only be obtained following the completion of a multi-step process. First, the transformer repair vendors often need to speak with the original manufacturer regarding detailed specifications before providing a preliminary quote and schedule. Second, once a preferred repair vendor has been identified, the transformer is then shipped to the vendor for a full dismantle and root cause analysis. This is a required step to obtain a firm quote from any repair vendor.
37. After evaluating the vendors, Lakeland transported the damaged transformer to Surplec in Québec in December 2024. The inspection results were provided on January 22, 2025. Thereafter, and between January 22 and March 2025, a Lakeland consultant attended Surplec's facility, reviewed its capabilities, and consulted with its personnel in order to satisfy Lakeland that Surplec was suitable to perform the repair.
38. Surplec provided a formal written repair quote to Lakeland on March 11<sup>th</sup> 2025. There were discussions between Lakeland and Surplec in early February where Surplec informally indicated the repair cost and timelines of 10 months. Given the potential timeline, it was at this point that K.P.C. was engaged regarding the purchase of the rental transformer.
39. It was not prudent for Lakeland to purchase the transformer at any time, given its ongoing financial viability challenges throughout 2024 and 2025, as evidenced by repeated breaches of its debt service coverage and debt-to-capital bank covenants. As a consequence, Lakeland was in regular communication with its lenders and at that time Lakeland didn't have the financial capacity to purchase a spare transformer. Accordingly, the decision was made to purchase the transformer through Lakeland's affiliate, Bracebridge Generation.
40. The only reason that Bracebridge Generation stepped in was because it did have the financial capacity to purchase the transformer and to otherwise limit the net costs associated with the K.P.C. month-to-month transformer rental. This is when Lakeland began renting the transformer purchased by its affiliate, Bracebridge Generation.<sup>28</sup> The rental period was expected to be 10 months (March to December inclusive) according to the best information available from Surplec.

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<sup>25</sup> IRM Appendix Z-1, pg. 8.

<sup>26</sup> IRM Appendix Z-1, pg. 9.

<sup>27</sup> IR Response OEB Staff-9.

<sup>28</sup> IR Response OEB Staff-13(b).

41. In July 2025, Surplec revised the timeline for the transformer repair to “fall 2026”.<sup>29</sup> Ultimately, Bracebridge Generation agreed to cap the rental payments so as to ensure it did not financially benefit from the rental with Lakeland.<sup>30</sup> This is a significant benefit to Lakeland ratepayers as the average effective monthly rental price from Bracebridge Generation is expected to be only \$15,000 when compared with the market rate of \$33,000 paid to K.P.C. for the exact same transformer.<sup>31</sup> While Lakeland has no indications this is the case, this arrangement also protects ratepayers in the event Surplec encounters further delays repairing the transformer.
42. With the benefit of hindsight, renting the transformer from an affiliate proved to be a prudent decision, as incurring a \$375,000 capital expenditure in early March 2025 would have materially impaired Lakeland’s ability to respond to the two waves of a major ice storms later that month. In fact, in March 2025, Lakeland had to resort to its line of credit to finance its operational needs.<sup>32</sup>
43. Lakeland conducted both quantitative and qualitative analyses demonstrating that renting the temporary transformer was the superior option compared to purchasing.<sup>33</sup> In Lakeland’s view, management’s decision-making was prudent based on the facts known and circumstances existing at the relevant time when decisions was made, especially given the serious risk to its financial viability.
44. SEC submits that it was imprudent for Lakeland to rent the temporary transformer from its affiliate and argues that the OEB should limit recovery to \$61,866 of the \$300,000 rental cost, based on a fully allocated cost calculation of purchasing the transformer filed by SEC in an appendix to its argument (“**SEC Model**”).<sup>34</sup> VECC similarly argues that the OEB should approve a Z-Factor that reflects Lakeland purchasing the transformer.<sup>35</sup> Lakeland does not agree.
45. Lakeland disagrees for the following reasons.
46. First, SEC assumes Lakeland had the financial capacity to purchase the transformer in March 2025. As above, this is not true.
47. Second, SEC and VECC’s arguments are premised on an assumption that the temporary transformer retains value beyond scrap after its use and could be immediately repurposed so that its capital costs could be depreciated over its expected remaining service life. None of these assumptions are supported by the evidence.
48. Lakeland’s evidence is that the temporary transformer had very little demand due to the voltage configuration, lack of an on-load tap changer, and insufficient capacity. A transformer without a tap changer will result in power quality issues for customers. In any event, utilities prefer to

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<sup>29</sup> IR Response OEB Staff-13(a).

<sup>30</sup> IR Response OEB Staff-12(a).

<sup>31</sup> IR Response OEB Staff-12(b) and 13(a); SEC-6(c).

<sup>32</sup> IR Response OEB Staff-6 & OEB Staff-13.

<sup>33</sup> IR Response OEB Staff-13(b).

<sup>34</sup> SEC Submission at pgs. 2-3.

<sup>35</sup> VECC Submission at pg. 4.

buy new transformers from manufacturers.<sup>36</sup> It is for these reasons that Lakeland’s expert engineers determined the temporary rental unit to be of no value beyond scrap once decommissioned from the Centennial site.

49. SEC and VECC, by contrast, have offered no similar expertise and have filed no evidence to support for their bald assertion that the transformer would retain value beyond scrap after it is used.
50. Third, SEC argues that Lakeland breached section 2.3.4.1 of the Affiliate Relationships Code (“ARC”) that requires that Lakeland pay no more than the fully allocated cost of the rental transformer.<sup>37</sup> Section 2.3.4.1 of ARC only applies “where it can be established that a reasonably competitive market does not exist”. SEC asserts that the market for transformer rental is “clearly not competitive”. Lakeland disagrees with this mischaracterization of the evidence. The evidence is that Lakeland was able to identify a transformer rental from an arm’s length third party - K.P.C. – that was both technically feasible and capable of responding to the emergency within a reasonable timeframe.<sup>38</sup> There is an active and competitive market for transformer rentals, as evidenced by Lakeland’s ability to get a spare and suitable transformer from a third party on a rush and emergency basis. On this basis, Section 2.3.3.1 of ARC is the applicable section for transfer pricing, and the actual market rate for this exact transformer was \$33,000 per month (as evidenced by the K.P.C. rental) which Bracebridge generation beat with a \$30,000 monthly rental rate and the \$300,000 cap resulting in a \$15,000 per month effective rate which is far less than the benchmarked market rate.<sup>39</sup>
51. Fourth, SEC has introduced net new evidence for the very first time in argument with the introduction of the SEC Model. This is a clear violation of the normal rules of procedure for hearings before the OEB, which severely undermines Lakeland’s right to a fair hearing. Lakeland has had absolutely no opportunity to test this “evidence” or the assumptions that went into this modelling. SEC is represented by sophisticated legal counsel that is perfectly capable of requesting a right to file evidence in this application. SEC chose not to do so, and in so doing has violated Lakeland’s ability to have a fair hearing. On this basis, Lakeland submits that the SEC Model and the conclusions derived from it must be struck from the record in this proceeding.
52. Fifth, and in the alternative, should the OEB not strike the SEC Model from the record, Lakeland has re-run the SEC Model fixing errors made by SEC in the model and using the correct assumptions, including that the temporary transformer has only scrap value once it is replaced by the transformer being repaired by Surplec. This analysis is provided in Appendix C. The result remains unchanged: renting the temporary transformer is the superior option. The total cost to ratepayers for purchasing the transformer would be \$503,000 versus only \$315,000 for rental of the transformer (before tax).<sup>40</sup>

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<sup>36</sup> IR Response OEB Staff-13(b).

<sup>37</sup> SEC Submission at pgs. 3-4.

<sup>38</sup> IRM Appendix Z-1, pg. 8.

<sup>39</sup> IR Response OEB Staff-12(b) and 13(a); SEC-6(c).

<sup>40</sup> IR Response OEB Staff-13(b).

53. Finally, if the submissions of SEC and VECC are accepted, ratepayers will unfairly receive the full benefit of the rental transformer at a monthly rate of \$3.1k (less than 10% of the established market rate) and Lakeland shareholders will be left with paying for a stranded asset being the remaining value of the purchased and scrap transformer. SEC and VECC's proposal represents nothing more than opportunistic attempt by ratepayer groups to avoid funding the entire cost of the temporary transformer. This is not just or reasonable. Lakeland submits that the OEB should not limit recovery of transformer rental costs in the manner suggested by SEC or VECC. Contrary to their assertions, there is no evidence of imprudence associated with what Lakeland has done.

#### **4.3.4 Capital Spares Program (Capital)**

54. SEC and OEB Staff suggest that, as a matter of standard practice, Lakeland should maintain a capital spares program for backup transformers, with SEC suggesting that the temporary transformer could be retained as a spare following its decommissioning at the Centennial MS for potential use in a future emergency.<sup>41</sup>

55. Lakeland does not agree.

56. It is entirely unclear how OEB Staff and SEC believe that Lakeland, which had a 2025 rate base of \$32.6M, could possibly have suitable spare transformers (using recent pricing, at a cost of approximately \$1.2 million each) sitting and depreciating in its yard. These assets would not be included in rate base because they would be neither used nor useful.

57. Lakeland does not have a capital spares program funded through existing rates.<sup>42</sup> While it may be common for some of Ontario's largest distributors to maintain capital spares, no examples were provided demonstrating that such a program is standard practice for smaller distributors on costly equipment like transformers.

58. In this case, for the reasons explained in evidence, the temporary transformer has no use to Lakeland once it is decommissioned. In addition to the reasons provided in paragraph 48 above, future demand growth will render the temporary unit unsuitable for Centennial MS even as a spare. In fact, in the summer of 2025 Lakeland had capacity issues with the temporary transformer that required management. Similarly, Lakeland is planning the construction of a new transformer in Bracebridge at another location (for capacity upgrade reasons) but the temporary transformer is not suitable for capacity and specification reasons.<sup>43</sup>

59. For Lakeland to maintain a spares program that provided coverage for each of its types of transformers would require three (3) spare transformers, resulting in a very high ratio of spares (approx. \$3.6 million) to rate base (\$32.6 million) at significant cost. The costs of such a program for Lakeland would include not only the upfront capital investment, cost of capital, depreciation, but also ongoing maintenance and testing to ensure spares are operational and ready for emergency deployment.

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<sup>41</sup> SEC Submission at pg. 3; OEB Submission at pg. 10.

<sup>42</sup> EB-2024-0039 Decision and Order.

<sup>43</sup> IR Response OEB Staff-13(b).

60. Historically, Lakeland has determined that a full spares program would not represent good value for customers given the low probability of transformer failure, and that addressing failures through rental or replacement on an as-needed basis is significantly more cost-effective.

## 5. ICE STORM Z-FACTOR

### 5.1 Materiality and Prudence

61. VECC, SEC and OEB Staff agreed that the Ice Storm Z-Factor meets the materiality and prudence elements of the Z-Factor test.<sup>44</sup> Lakeland agrees.

### 5.2 Causation

#### 5.2.1 Regular Internal Labour (OM&A)

62. SEC, VECC and OEB Staff submit that internal regular hours worked by internal staff in the amount of \$117,829 should be excluded from the Ice Storm Z-Factor claim as they are already included in base rates.<sup>45</sup> OEB Staff supports the recovery of the remainder of the OM&A costs incurred as a result of the ice storm.<sup>46</sup> SEC and VECC do not dispute the remainder of the OM&A costs.

63. Lakeland disagrees that regular labour hours should be excluded as these costs did not offset or mitigate the need for Lakeland to do planned and necessary work within existing rates. This ice storm disrupted regular work for over 2 months. Internal labour costs were necessarily incurred to support a timely storm response and are appropriately included in the Ice Storm Z-Factor claim. Lakeland staff must still complete the same capital and maintenance work required to meet reliability, safety, and regulatory obligations.

64. To the extent that this work was deferred as a result of responding to the Z-Factor events, Lakeland submits that it will need to be completed either over time or on an accelerated basis, likely at a cost premium (including overtime or the use of external contractors) relative to what was contemplated in existing rates. These incremental costs are not included in the present Z-Factor claim and will ultimately need to be managed by Lakeland. Accordingly, the recovery of internal labour costs at regular rates for work performed in response to the Z-Factor events results in a financial benefit to ratepayers.

65. OEB Staff cites Decision and Order EB-2023-0009 (Canadian Niagara Power Inc.) and Decision and Rate Order EB-2021-0057 (Sioux Lookout Hydro Inc.) for the proposition that past Z-Factor claims that did not include internal labour costs. SEC cites Decision and Order EB-2014-0211 (Halton Hills Hydro Inc.) and Decision and Order EB-2014-0162 (Milton Hydro Distribution Inc.). None of these decisions are of any assistance in this case. **In all of these cases** the distributor elected to not seek recovery of regular internal labour as part of its

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<sup>44</sup> OEB Staff Submission at pgs. 16-17; SEC Submission at pg. 4; VECC Submission at pg. 5.

<sup>45</sup> OEB Staff Submission at pg. 13; SEC Submission at pg. 5; VECC Submission at pg. 6.

<sup>46</sup> OEB Staff Submission at pg. 14.

Z-Factor claim.<sup>47</sup> The costs that an individual distributor chooses to include or exclude in its Z-Factor application do not establish precedent for the OEB.

66. By contrast, the OEB has already approved recovery of regular internal labour costs for this ice storm various other Z-Factors. In EB-2025-0021, Newmarket-Tay Power Distribution Ltd. (“**Newmarket-Tay Power**”) was impacted by the exact same ice storm as Lakeland on March 29, 2025. In that proceeding, VECC identically argued that regular labour hours should be excluded from the Z-Factor claim. The OEB rejected this argument and approved both regular and overtime hours in the calculation of the Z-Factor.<sup>48</sup> Another instance in which the OEB approved the recovery of regular internal labour costs is the Z-Factor claim filed by Elexicon Energy Inc. (“**Elexicon**”) in EB-2022-0317.<sup>49</sup> The OEB found these costs to be incremental and prudently incurred.
67. OEB Staff and SEC, in failing to raise these other, clearly relevant examples, are misleading the commissioners in their submissions. They also fail to explain why Lakeland should be treated differently than Elexicon or Newmarket-Tay Power.
68. Lakeland notes that the impacts experienced by Newmarket-Tay Power were much less severe than those in Lakeland’s service territory, which is reflected in Lakeland’s Z-Factor claim being nearly 10 times higher than Newmarket-Tay Power. Analyzing the ratio of internal labour to third party contractor costs would not be informative in Lakeland’s case as the damage was so extensive that it could not reasonably respond to the ice storm with internal labour alone. Similar to Elexicon, Lakeland prudently utilized all available internal labour and third-party contractors to complete its restoration efforts.<sup>50</sup>
69. Finally, and identical to the reasoning provided by Newmarket-Tay Power EB-2025-0021, it would not be reasonable or fair to be denied recovery of regular internal labour because Lakeland prudently chose to use internal labour where possible, instead of a third-party contractor at overtime rates. Such an approach would inherently encourage distributors to seek outside services in emergency situations, even when staff are available, which not only increases restoration times but drives up ratepayer costs with absolutely no customer benefit.<sup>51</sup> Disallowance is especially unfair in the context of emergency conditions where Lakeland is required to make operational and financial decisions under significant time constraints and operational pressure.

### 5.2.2 2025 Capital Budget

70. Both SEC and VECC argue that capital amounts claimed in the Ice Storm Z-Factor are not incremental and not outside the base upon which rates were set. SEC and VECC request that

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<sup>47</sup> EB-2023-0009, Application at pg. 31, August 17, 2023; EB-2021-0057, IR Response OEB Staff-9(a); EB-2014-0211, OEB Staff IR Responses pg. 10 and OEB Staff Submission at pg. 3; EB-2014-0162, OEB Staff IR Responses at pg. 6.

<sup>48</sup> Decision and Rate Order EB-2025-0021, December 11, 2025, at pg. 21.

<sup>49</sup> Decision and Order EB-2022-0317, June 15, 2023.

<sup>50</sup> Decision and Order EB-2022-0317, June 15, 2023, pg. 17.

<sup>51</sup> Decision and Rate Order EB-2025-0021 at pg. 19.

the OEB deny the \$444,595 in 2025 ice-storm Z-Factor capital on the basis that Lakeland underspent its approved 2025 capital budget by \$527,862.<sup>52</sup> Lakeland does not agree.

71. Lakeland has since revisited the response to OEB Staff-6(e) regarding the quantum of the underspent its total 2025 capital budget. Lakeland advises the OEB that the underspending amount should be revised from \$527,862 to \$552,000.
72. Lakeland submits that it would have been financially reckless, and likely not even feasible from a financing perspective, to continue with planned 2025 capital expenditures unabated in the face of two unexpected Z-Factor events. Lakeland management reduced 2025 capital spend to ensure the financial viability of the company. Lakeland does not have the financial resources to weather two successive Z-Factor events without mitigation plans.
73. Underspending does not mean those savings are automatically applied to the damages of an unplanned or unforeseen event, as described in Decision and Order EB-2022-0317.<sup>53</sup>

Furthermore, the occurrence of a Z-factor event does not mean that the results of management efficiency and cost reductions in the IRM are automatically to be applied to the damages from an unplanned or unforeseen event. However, it also does not mean that all damages claimed for the event are automatically compensable by way of a Z-factor adjustment to rates. The OEB must assess whether the damages were truly incremental to budgeted or projected revenue requirement expenses or whether such damages could be reasonably expected to be absorbed within the budgeted account category.

74. SEC and VECC failed to show how the \$444,595 in 2025 ice-storm Z-Factor capital costs were not truly incremental to budgeted or projected revenue requirement or whether such damages could be reasonably expected to be absorbed within the budgeted account category.
75. Lakeland intends to complete its full capital program over the IRM term. The 2025 capital underspend is attributable primarily to the deferral of two projects: the Isabella Street capacity upgrade and the SCADA smart switches initiative. Both projects are scheduled to resume in 2026, together with other previously planned capital projects and expenditures.<sup>54</sup> Indeed, it was only 11 months ago that both SEC and VECC agreed in Lakeland's cost of service that planned 2025 capital expenditures, which include both of these projects, were appropriate.<sup>55</sup>
76. There is a material delay between when costs are incurred for a Z-Factor event and when a distributor can begin to recover those costs through rates. As stated in the response to OEB Staff-6(e), the reduction in 2025 capital was a deferral of spending to future years to accommodate this Z-Factor funding delay, and not a cancellation of projects or a permanent reduction of spend.

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<sup>52</sup> VECC Submission at pg. 5. SEC Submission at pg. 5.

<sup>53</sup> Decision and Order EB-2022-0317 at pg. 11.

<sup>54</sup> IR Response OEB Staff-6(e).

<sup>55</sup> Partial Decision and Order EB-2024-0039.

77. In the alternative, VECC and SEC argue that the capital costs associated with Ice Storm Z-Factor claim should be reduced by \$94,595 to reflect underspending in the reactive capital budget. Lakeland does not agree with this reduction.
78. A similar argument was rejected in Elexicon's case in EB-2022-0317. VECC argued that Elexicon's storm restoration OM&A expenditures were \$13,021 below budget in the year the Z-factor event occurred and requested that this amount be disallowed.<sup>56</sup> The OEB rejected this argument and found it more appropriate to examine total OM&A spending. On this basis, the OEB was satisfied that Elexicon was managing its operations on an overall basis at or close to its budget, and no reduction will be made to the sought-after Z-factor operating expenses.<sup>57</sup>
79. Lakeland deliberately reduced its capital budget in 2025 to preserve its financial viability following the Centennial Z-factor event in 2024. It would be patently unfair for the OEB to disallow recovery of underspending that was necessary to maintain Lakeland's financial viability. Although Lakeland was in an extremely precarious financial position, prudent management decisions ensured its continued financial viability.
80. In any event, Lakeland intends to complete its full capital program over the IRM term. On an aggregate basis over the IRM term, and similar to Elexicon, Lakeland intends to manage its capital on an overall basis at or close to its budget. Thus, a reduction on the basis of underspending in 2025 in the reactive capital budget is not appropriate or reasonable.

### **5.2.3 Pole Replacements**

81. SEC, VECC and OEB Staff argue that three poles in 'poor' conditions would have been replaced during the IRM term, and if not, they should have been. SEC and VECC propose a \$51,000 reduction whereas OEB Staff proposes a reduction of \$41,103 based on a different per pole unit rate.
82. Lakeland submits that its response to VECC-9 confirms that none of the poles damaged during the Ice Storm Z-Factor event had been identified for replacement in Lakeland's approved capital plan. While poles in poor or very poor condition are prioritized for replacement,<sup>58</sup> there is no evidence to support SEC, VECC and OEB Staff's submissions that the three particular poles at issue<sup>59</sup> were planned for replacement during the IRM term.

### **5.3 Disposition Period**

83. SEC and VECC submit that the disposition period should be extended to four years for both Z-Factor claims. Lakeland does not agree.
84. The disposition period proposed in the application is appropriate as this already accounts for bill impacts to affected rate classes in accordance with OEB policy. The OEB has approved

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<sup>56</sup> EB-2022-0317, VECC Submission, April 6, 2023, at pg. 3.

<sup>57</sup> Decision and Order EB-2022-0317, June 15, 2023, at pg. 13.

<sup>58</sup> IR Response VECC-9(f).

<sup>59</sup> IR Response VECC-9(a).

recovery of Z-Factor claims over a 12 month period.<sup>60</sup> Moreover, the timely recovery of the Z-Factor costs is an imperative consideration given the ongoing risks to Lakeland's financial viability and the intergenerational equity concerns created by a significantly longer disposition period.

#### **5.4 Rate Riders**

85. SEC proposes that rate classes with a variable component (either kWh or Kw), the rate riders should reflect the fixed/variable split approved in Lakeland's last rebasing. SEC does not agree that Z-Factor costs should be recovered through fixed rate riders. Lakeland does not agree this is appropriate for the recovery of Z-Factor costs.
86. Fixed rate riders provide a fair and predictable mechanism for Lakeland to recover all Z-factor costs. By contrast, variable rate riders would inappropriately expose Lakeland to revenue uncertainty arising from factors such as weather and load volatility, based on a load forecast that has not been updated for this Application. This creates a risk of under-recovery of prudently incurred Z-factor costs at a time when Lakeland is least able to absorb such risk. In Lakeland's submission, this outcome is inconsistent with the purpose of the Z-factor mechanism, which is intended to restore a utility's financial viability for unforeseen events beyond the control of management.

#### **6. ACCOUNT 1595 (2021) – DISPOSITION AND RATE RIDER TREATMENT**

87. OEB Staff submits that recovery of the amounts recorded in Account 1595 (2021) should occur over a two-year period rather than a one-year period to mitigate rate impacts. Lakeland submits that none of the bill impacts to affected rate classes exceed 10% and rate mitigation is not required. This is not an appropriate circumstance to depart from a one-year disposition period.
88. The Fort Francis case cited by OEB Staff is not applicable here. Fort Francis requested the disposition over two years instead of one year to address the negative distribution rate for some non-RPP customers and resulting disruption to distribution revenue from the GS>50 kW rate class. Lakeland does not see how this scenario is analogous to its circumstances.

All of which is respectfully submitted this 25<sup>th</sup> day of February, 2025.



Colm Boyle  
Counsel to Lakeland Power Distribution Ltd.

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<sup>60</sup> Decision and Rate Order EB-2025-0021, December 11, 2025; Decision and Order EB-2022-0317, June 15, 2023, at pg. 21.

## Appendix A



# Hydro crews dispatched as thousands still without power

By Cheryl Browne

Published: June 14, 2024 at 8:37AM EDT



The CTV Barrie transmission tower is struck by lightning on Thurs. June 13, 2024 (Chris Garry/CTV News Barrie).

From Minden to Melancthon to Bradford and Bracebridge, the brutal storm that passed through central Ontario took a giant swipe at trees, roads and homes.

Social media pictures show the trail of destruction the wind and lightning wrought Thursday night.

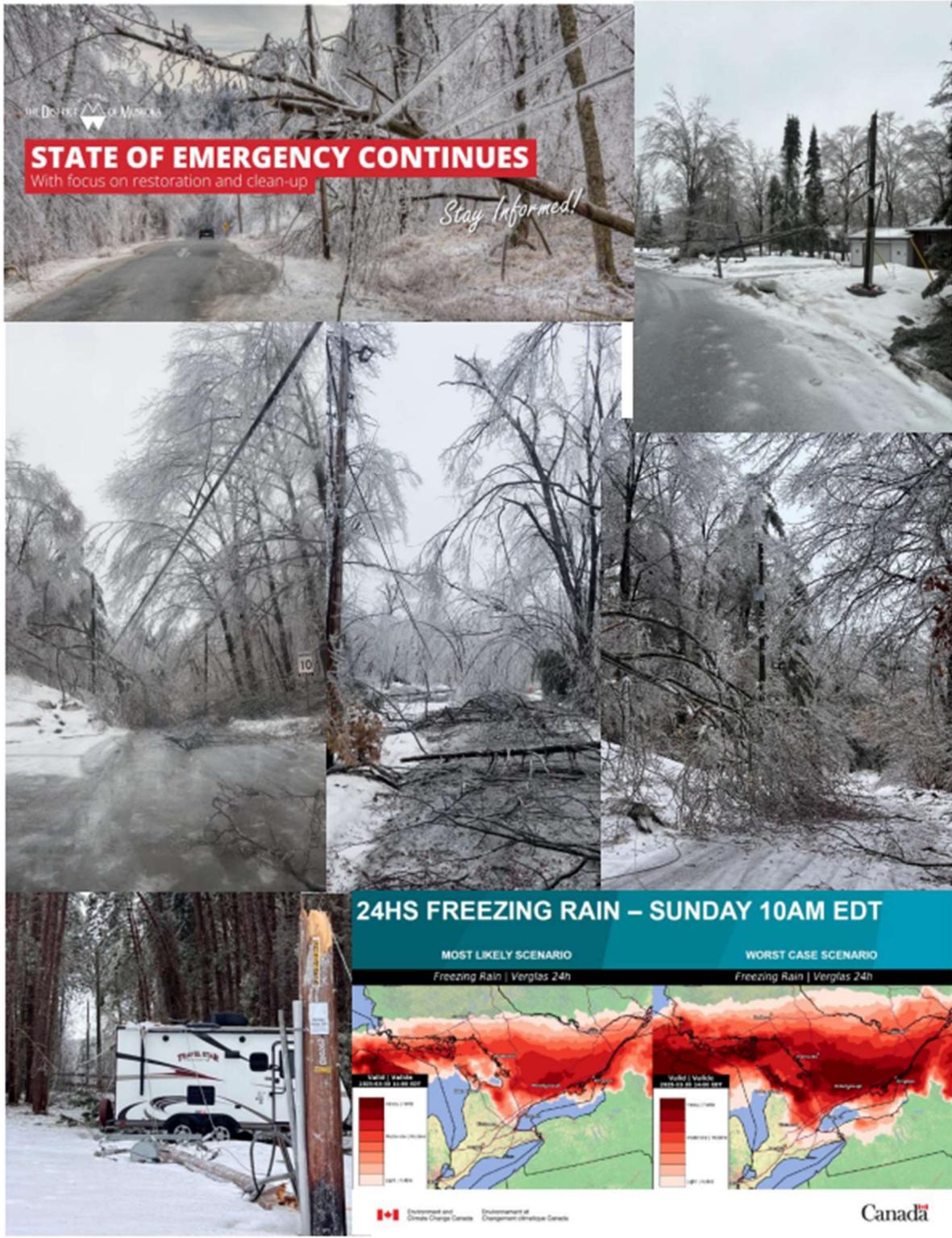
Thousands of businesses and residents are still without power, and hydro crews estimate it could be hours before most of it is restored.

Fallen trees on roads and buildings will hamper prompt restoration before damage estimates start ringing phones at insurance agencies.

Early Friday morning, outages on power suppliers' websites listed towns, villages, and cities, the number of outages, and the expected times of repair.

## Appendix B

### Pictures from the Bracebridge area following the Ice Storm



## Appendix C

<b>Z Factor Capital Costs: Revenue Requirement</b>	<b>Year 1</b>	<b>Year 2</b>
Total Capital Expenditure	\$ 375,000	
Full Year Depreciation / Amortization Expense	\$ 187,500	\$ 187,500
CCA	\$ 30,000	\$ 30,000

**Total**

**Assumptions**

EUL of Assets	2
CCA Rate (Class 47)	8%
Half-Year Rule	No Half-Year Rule per ICM/ACM Policy
AIPP	2024-2027 Phase Out (suspension of half-year rule for CCA)

<b>Return on Rate Base</b>		
Incremental Capital	\$ 375,000	\$ -
Depreciation Expense (Full Year)	\$ 187,500	\$ 187,500
Incremental Capital in Rate Base	\$ 187,500	\$ -
Deemed Short Term Interest 4%	3.91% \$ 293	\$ -
Deemed Long Term Interest 56%	4.76% \$ 4,998	\$ -
Deemed Return on Equity 40%	9.00% \$ 6,750	\$ -
<b>Return on Rate Base - Total</b>	<b>\$ 12,041</b>	<b>\$ -</b>

<b>Grossed Up Taxes / PILs</b>		
Regulatory Taxable Income	\$ 6,750	\$ -
Add Back Amortization Expense	\$ 187,500	\$ 187,500
Deduct CCA	\$ 30,000	\$ 30,000
Incremental Taxable Income	\$ 164,250	\$ 157,500
Income Tax / PILs Before Gross-Up @ 26.5%	\$ 43,526	\$ 41,738
Income Tax / PILs Grossed Up	\$ 59,219	\$ 56,786

<b>Incremental Revenue Requirement</b>		
Return on Rate Base - Total	\$ 12,041	\$ -
Amortization Expense - Total	\$ 187,500	\$ 187,500
Grossed Up Taxes / PILs - Total	\$ 59,219	\$ 56,786
<b>Eligible Incremental Revenue Requirement(s)</b>	<b>\$ 258,761</b>	<b>\$ 244,286</b>

**\$ 503,046**