



Ontario
Energy
Board

Commission
de l'énergie
de l'Ontario

DECISION AND ORDER

EB-2025-0030

HYDRO ONE NETWORKS INC.

**Application for rates and other charges to be effective
January 1, 2026**

BEFORE: Vinay Sharma
Presiding Commissioner

Damien A. Côté
Commissioner

Patrick Moran
Commissioner

April 7, 2026

1 OVERVIEW

Hydro One has applied for approval of a Z-factor to recover costs incurred, beginning on March 29, 2025, to respond to damage caused by severe freezing rain and significant ice accumulation which significantly impacted Hydro One's distribution system resulting in widespread outages. For the reasons set out below, the request is denied.

2 CONTEXT AND PROCESS

Hydro One filed its application for 2026 distribution rates on August 29, 2025, under section 78 of the Ontario Energy Board Act, 1998 (the OEB Act). The application was based on the Custom Incentive Rate-setting (Custom IR) option with a five-year term. The application included a request for recovery of costs related to an ice storm impacting parts of the Hydro One, Peterborough and Orillia rate zones.

Notice of the application was issued on September 22, 2025. Consumers Council of Canada (CCC), Ontario Federation of Agriculture (OFA), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC) requested intervenor status. CCC, SEC and VECC requested cost eligibility. The OEB approved CCC, OFA, SEC and VECC as intervenors and cost eligibility for CCC, SEC and VECC.

The application was supported by pre-filed written evidence and customized Excel models, and as required during the proceeding, Hydro One updated and clarified the evidence.

On December 17, 2025, the OEB issued a Partial Decision and Order, deferring its determination on Hydro One's application for a Z-factor. The OEB indicated that a decision regarding the Z-factor claim would be issued in 2026.

On February 10, 2026, the OEB issued Procedural Order No. 2, requesting clarification regarding the impact of the Z-factor claim on Hydro One's Return on Equity (ROE), as well as Hydro One's updated 2025 ROE.

Hydro One filed its responses to the questions set out in Procedural Order No.2 on February 17, 2026, and requested confidential treatment of its responses. No submissions were filed by OEB staff or intervenors regarding the confidentiality request.

3 Z-FACTOR CLAIM

Starting on March 29, 2025, severe freezing rain and significant ice accumulation significantly impacted Hydro One's distribution system resulting in widespread outages. Hydro One recorded 1.2 million service interruptions and affected over 600,000 impacted customers, representing 42% of total Hydro One customers. The areas most severely affected by the Z-factor event were Hydro One's Southern, Eastern, and Central regions.¹

Hydro One seeks cost recovery of \$69.4 million which consists of incremental Asset Removal Costs of \$26.7 million, and Revenue Requirement Impact of Capital Expenditures of \$42.7 million. Hydro One requested that this amount be allocated across all rate classes via fixed rate riders for each rate zone, effective January 1, 2026. Hydro One proposed a two-year recovery period for Hydro One Distribution, and a five-year period for the Orillia and Peterborough Rate Zones. The total relief sought by rate zone is shown below:

Table 3.1: Total Relief Sought by Rate Zone (\$M)

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

Table 3.2 below provides a more detailed breakdown of Net Capital Expenditures:

¹ EB-2025-0030, Z-factor Application Summary, Exhibit A, Tab 6, Schedule 1

Table 3.2: Breakdown of Z-factor Costs (\$M)

	Internal Resources	Third-Party Contractors	Mutual Aid Partners	Total
Labour- Regular	29.7	50.0	7.3	86.9
Labour- Overtime	51.5	0.5	-	52.0
Materials	14.6	2.0	0.1	16.6
Fleet	12.8	15.9	1.4	30.2
Sub-contractor	-	0.7	-	0.7
Other	6.3	2.8	0.6	9.8
Total	114.9	71.9	9.4	196.2

As set out in the OEB's Filing Requirements for Electricity Distribution Rate Applications (Filing Requirements), for amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria²:

- 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 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.

² Chapter 3 Filing Requirements for Electricity Distribution Rate Applications– Chapter 3 Incentive Rate-Setting Applications, Section 3.2.9, June 19, 2025

OEB's filing requirements also stipulate that, in order for a claim for Z-factor cost recovery to be considered, the applicant utility's regulatory return on equity must not be more than 300 basis points above the approved return on equity (ROE) embedded in the utility's base distribution rates.³ Hydro One filed an interrogatory response⁴ documenting its forecast 2025 ROE as of September 2025, and later updated it in response to Procedural Order No.2. Hydro One confirmed that it was not earning more than 300 basis points above its allowed ROE of 9.36%.

Causation

Incremental Capital Expenditures - Assets

In response to an OEB staff interrogatory⁵, Hydro One confirmed it will write off damaged assets from its books as part of its year-end financial closing process. Therefore, the associated depreciation expenses will no longer be recognized throughout the assets' original useful life. In response to a VECC interrogatory⁶, Hydro One provided the damage resulting from the Z-factor event by rate zone, as shown in Table 3.3 below:

Table 3.3: Z-Factor Event Damage by Rate Zone

	Hydro One Distribution	Peterborough	Orillia	All Rate Zones
Broken Poles	2890	180	18	3088
Broken Cross Arms	3269	239	19	3527
Damaged Transformers	758	1	0	759
Transformer Spills	170	0	0	170

³ Ibid

⁴ Interrogatory Response I-02-08; Interrogatory Response I-04-03; Interrogatory Response I-05-09

⁵ Interrogatory Responses, I-1-3(e)

⁶ Interrogatory Responses, I-5-4(a)

In its responses to interrogatories, Hydro One confirmed that 112 poles, 18 cross arms, and 2 transformers⁷ it had already planned to replace (and had included in the Custom IR application⁸) were damaged in the Z-factor event.

OEB staff and CCC argued that Hydro One should not be allowed to recover the costs of those poles which were already scheduled for replacement. OEB staff and CCC submitted costs related to these assets should be removed from the Z-factor capital expenditures.

In reply, Hydro One disagreed with OEB staff and CCC, arguing their position did not consider Hydro One's overall capital expenditure envelope and the need to reprioritize investments within approved funding. The assets identified in the last rebasing application do not, by themselves, demonstrate any overlap between base-rate funding and the Z-factor relief being sought. Hydro One further stated OEB staff and CCC's argument could discourage utilities from pursuing prudent reprioritization efforts and strategies in managing to their OEB-approved envelopes. Hydro One also submitted that identifying assets for replacement in a rebasing application does not guarantee funding, nor does it mean costs are already covered in base rates. Moreover, Hydro One indicated that its capital funding context differs from other utilities referenced in OEB staff's proposed disallowance⁹, as those utilities could not demonstrate capital work exceeded base rate funding and none of them operate under a custom IR framework.

SEC and VECC submitted that Hydro One's capital costs sought for recovery in this Application should be reduced to exclude assets, identified in interrogatory responses¹⁰, as in poor condition because the costs associated with replacing these assets are currently funded in base rates and therefore are not incremental. SEC proposed disallowing \$6.5 million (3.3% of \$196.1 million net capital expenditures), while VECC suggested adding assets with missing condition data to the poor-condition category, proposing a total reduction of \$12.6 million.

In reply, Hydro One submitted that it is not appropriate to assume assets classified as in poor condition were planned or funded for replacement in the current rate term or implicitly funded through base rates. While asset condition data informs long-term planning and prioritization, it does not guarantee renewal within the approved rate period. Further, Hydro One stated that replacing poor-condition assets under the Z-factor does not mean costs were non-incremental, as base rate capital was fully utilized

⁷ Interrogatory Responses, I-1-2(c)

⁸ EB-2021-0110, DSP, Exhibit B-3-1

⁹ OEB staff submission, p. 23

¹⁰ Hydro ONE Interrogatory Response I-05-04

in 2023 and 2024 and exceeded due to demand and rising costs, requiring reprioritization. Therefore, Hydro One submitted that SEC and VECC's argument should be rejected.

Incremental Capital Expenditures – Internal Labour

In response to an Interrogatory¹¹, Hydro One indicated that there were 203,309 hours of regular labour, with capitalized costs of 29.7 million embedded in the capital expenditures. CCC, SEC, and VECC submitted that the \$29.7 million of internal labour costs should not be allowed for recovery as part of the Z-factor claim. As internal capitalized labour was already funded through approved rates, these costs are not incremental. OEB staff did not make submissions on capitalized internal labour.

In reply, Hydro One disagreed with CCC, SEC, and VECC's positions regarding internal labour. Hydro One submitted that the fact that capital expenditures are above base-rate levels demonstrates that Hydro One's available labour resources have been fully allocated to delivering its capital work program. Hydro One submitted that it also spent more OM&A than approved in 2023 and 2024 and expects to remain on plan in 2025 without Z-factor impacts. Further, Hydro One argued that it must rely on overtime, extended shifts, schedule compression and incremental resourcing to catch up on work that had to be paused during the Z-factor event, resulting in incremental costs.

Asset Removal Costs

In the application, Hydro One seeks recovery of \$26.7 million for asset removal costs. Hydro One stated the asset removal costs are expensed¹² and include labour, equipment, and other expenditures associated with dismantling, disconnecting and disposing of the asset, as well as site restoration where applicable. Hydro One calculates asset removal costs as a fixed percentage of the asset costs, based on the asset type and the type of work completed, and does not have a further categorization of these costs¹³.

In its submission, OEB staff did not object to expensing asset removal costs rather than capitalizing them but noted that additional information would assist in assessing the claim's magnitude.

¹¹ Hydro One Interrogatory Response I-5-13, Table 1

¹² Hydro One Interrogatory Response I-5-1(c)(d)

¹³ Hydro One Interrogatory Response I-1-1(a)

SEC submitted that \$2.4 million in Hydro One Distribution's asset removal costs are already included in base rates and should not be recovered, and further recommended that Hydro One provide additional information on its methodology so that a reasonable estimate of regular labour costs can be excluded. VECC similarly submitted that \$2.6 million in Hydro One Distribution's asset removal costs are included in base rates and should not be recovered. CCC argued that asset removal costs appear to be operating expenses already covered in existing rates and largely consist of regular employee labour rather than incremental costs, and therefore additional reductions are justified to reflect the inclusion of these costs.

In reply, Hydro One submitted that SEC and VECC's proposed disallowance is inappropriate since storm-related asset removal work was incremental to planned asset removal work, regardless of what the year-to-date asset removal spend is relative to the planned-for budget. Hydro One also disagreed with SEC and VECC's argument that labour costs in asset removal costs could justify disallowance; Hydro One submitted that storm-related labour did not reduce the need to complete planned and urgent work required to meet operational commitments. Finally, Hydro One disagreed with CCC's position that asset removal costs appear to be operating costs, stating these costs are capital-related and included within Depreciation and Amortization in the audited financial statements. Hydro One further argued that even if the OEB were to consider asset removal costs as operating costs, recovery would still be appropriate since there is no rule against recovering operating costs through a Z-factor application.

Findings

In 2022, the OEB approved Cost of Service base rates for Hydro One to be implemented in 2023 and adjusted on an annual basis through the years 2024-2027, based on Hydro One's custom incentive rate application and a subsequent settlement proposal that was accepted by the OEB. Under performance-based regulation, once a utility's rates have been set by the OEB, the utility is expected to operate and maintain its system and serve its customers based on the revenue it receives each year until the utility's next Cost of Service (base) rate application.

If a utility experiences an unforeseen event that impacts their financial sustainability, typically damaging storms such as the ice storm in this case, it can apply for cost recovery through a Z-Factor application.

Z-factors are intended to provide for unforeseen events outside the control of a distributor's management. The cost to the distributor must be material and its causation clear.¹⁴

For amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria¹⁵:

- 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 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

Hydro One has established that it incurred costs to repair and replace damaged assets because of the ice storm.

Materiality

As specified in Hydro One's most recent Custom IR proceeding¹⁶, its materiality threshold for Z-factor applications is \$3.0 million. The total relief sought in this Z-factor application corresponds to a revenue requirement amount of \$69.4 million. While there was disagreement amongst parties as to how much of the Z-factor claim should be allowed, all parties agreed that the Z-factor claim amount exceeded the materiality threshold.

However, the materiality threshold is only one aspect of the materiality criterion. The other aspect relates to whether the amounts have a significant influence on the operations of the distributor: impairing its ability to make the necessary investments, earn a reasonable return on its investments, and recover the cost to operate and

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

¹⁵ Chapter 3 Filing Requirements for Electricity Distribution Rate Applications– Chapter 3 Incentive Rate-Setting Applications, Section 3.2.9, June 19, 2025

¹⁶ EB-2021-0110, Exhibit A-04-04, Page 7

maintain its system through its rates revenue. Hydro One has not established that its ability to do so was impaired sufficiently to justify a Z-factor cost recovery.

Hydro One provided a forecast of its ROE for 2025 that indicated that it expected to exceed its approved return on equity. In response to OEB questions set out in Procedural Order No. 2, Hydro One confirmed that it was forecasting a return on equity that was higher than its approved ROE and that the Z-factor amount applied for would further increase its ROE.

Given that a utility's ROE is largely determined by its net revenue, among other factors, it is clear that Hydro One's ability to weather the impact of the ice storm, restore service and continue to provide service to its customers was not impaired to justify recovery of the Z-factor costs over and above what Hydro One is already recovering in rates.

Hydro One has demonstrated that it had the skill, the scale and the financial wherewithal to manage the impact of the ice storm within the revenue envelope derived from the rates it collects from its customers, as established in its 2023 Cost of Service rate application, without it having a significant influence on its distribution operation.

Prudence

In light of the findings on materiality above, it is not necessary to address the issue of prudence.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The application for Z-factor cost recovery is denied.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2025-0030** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Lizzie Zhang, at Lizzie.Zhang@oeb.ca, and OEB Counsel, Michael Millar, at Michael.Millar@oeb.ca.

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DATED at Toronto April 7, 2026

ONTARIO ENERGY BOARD

Ritchie Murray
Registrar