



Ontario
Energy
Board

Commission
de l'énergie
de l'Ontario

Ontario

DECISION AND ORDER

EB-2025-0024

LAKELAND POWER DISTRIBUTION LTD.

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

BEFORE: **Vinay Sharma**
Presiding Commissioner

Shahrzad Rahbar
Commissioner

Patrick Moran
Commissioner

July 30, 2026

1. OVERVIEW

The Ontario Energy Board (OEB) approved changes to the rates that Lakeland Power Distribution Ltd. (Lakeland Power) charges to distribute electricity to its customers, effective May 1, 2026, in a Partial Decision and Rate Order, dated March 31, 2026. This Decision and Order addresses Lakeland Power's request for approval of Z-factor funding related to a severe ice storm on March 29 and 30, 2025 and lightning storm event on June 13, 2024, filed as part of its incentive rate-setting mechanism (IRM) application.

For the reasons set out below, the OEB approves Lakeland Power's application for Z-factor treatment of some expenditures incurred as a result of the two unforeseen weather events (an ice storm and a lightning storm).

Summary of Findings

The OEB approves partial recovery of Lakeland Power's Z-factor claims related to the 2025 ice storm and the 2024 lightning storm.

For the ice storm Z-factor event the OEB approves recovery of a total of \$1,048,728 expenditures, before carrying charges, and disallows:

- a. The cost of regular working hours of internal staff of \$117,829 as this is provided for in base rates.
- b. The capital cost of \$41,103 for pole replacement as this is provided for in base rates.
- c. The \$94,595 of the unspent reactive capital embedded in the base rates.

For the lightning storm Z-factor event the OEB approves a total of \$1,260,315 excluding carrying charges and disallows \$200,000 of rental charges and \$344 for vehicle expense.

2. CONTEXT AND PROCESS

Lakeland Power filed its application on October 9, 2025 under section 78 of the *Ontario Energy Board Act, 1998* and in accordance with [Chapter 3 \(Incentive Rate-Setting Applications\)](#) of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements). The application was based on the Price Cap Incentive Rate-setting (Price Cap IR) option, with a five-year term.

Notice of the application was issued on October 28, 2025. Both the School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) requested intervenor status and cost eligibility. The OEB approved SEC and VECC as intervenors and granted cost eligibility for both.

The application was supported by pre-filed written evidence and a completed Rate Generator Model and, as required during the proceeding, Lakeland Power updated and clarified the evidence.

On March 31, 2026, the OEB issued a Partial Decision and Rate Order, deferring its determination on Lakeland Power's Z-factor claims. The OEB indicated that a decision regarding the Z-factor claims, and any requirement for mitigation, would be issued in due course.

The OEB issued its Decision on Confidentiality and Procedural Order No. 3 (Procedural Order No. 3) on April 29, 2026. As part of Procedural Order No. 3, the OEB made provision for further clarification from Lakeland Power on certain matters relating to the Z-factor claim for the lightning storm by requesting responses to two questions. Lakeland Power responded to the two questions on May 11, 2026.

3. Z-FACTOR CLAIM RELATING TO THE MARCH 2025 ICE STORM

On March 29 and 30, 2025, two waves of a severe ice storm swept through central Ontario, affecting Lakeland Power's service territory. 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 ice storm resulted in damage to parts of Lakeland Power's network and impacted 8,697 of its 14,900 customers (60% of its customer base).

Lakeland Power requested to recover \$1,340,242 (including carrying charges) in costs associated with the severe ice storm through a Z-factor claim – Table 3.1 provides a breakdown of the costs.

Lakeland Power proposed to recover Operating, Maintenance and Administration (OM&A) costs of \$882,679 through a fixed 12-month rate rider, effective May 1, 2026. Lakeland Power also proposed a fixed rate rider, which would be recovered until Lakeland Power's next rebasing rate order¹, for a revenue requirement of \$33,870 in capital costs. This amount is based on \$457,564 in capital costs (plus carrying charges) incurred.

Table 3.1: 2025 Ice Storm Event Cost Summary

Category	Operating	Capital	Total
Incremental Labour / Material Costs	\$268,930	\$184,051	\$452,981
Third Party Contractors	\$588,730	\$260,544	\$849,274
Total Z-factor Claim excluding carrying costs	\$857,660	\$444,595	\$1,302,255

In its Draft Rate Order, Lakeland Power shall recalculate carrying charges to August 31, 2026, based on the approved cost amounts, and shall update the carrying charges and total Z-factor claim costs accordingly, supported by detailed carrying charge calculations.

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

¹ Lakeland Power is scheduled to file its next rebasing application for 2030 rates.

clear.² For amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:

- Causation: Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
- Materiality: The amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
- Prudence: The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.³

OEB staff, SEC and VECC all agreed that Lakeland Power's Z-factor claim for the ice storm met the requirements for materiality and prudence. However, regarding the causation criterion, OEB staff, SEC and VECC submitted that certain costs included by Lakeland Power should be excluded from the Z-factor amount.

Causation

Lakeland Power stated that all costs in its Z-factor claim fall outside the base used to derive rates. None of the replaced assets were included in the 2025 Distribution System Plan or scheduled for renewal, and all capital and operating costs claimed were unplanned and outside approved budgets or forecasts.⁴

Lakeland Power noted it received limited advance notice from the Ontario Mutual Assistance Group based on Environment Canada forecasts, which allowed internal staff to prepare and ensure resources could be deployed quickly.⁵

Lakeland Power also stated that it employs several proactive and reactive practices to mitigate severe weather impacts, including:

- Encouraging customers to report hazardous trees near distribution assets
- Coordinating directly with emergency responders to address public safety and critical hazards

² EB-2007-0673, Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008, p. 34

³ *Ibid.*, Appendix: Filing Guidelines, p. V

⁴ Manager's Summary, Appendix Z-2, p. 8

⁵ *Ibid.*

- Maintaining communication with municipalities to support efficient operations and timely public updates
- Conducting regular infrastructure inspections and asset condition assessments
- Utilizing underground infrastructure where practical, noting that rocky terrain often limits feasibility
- Performing routine, standards-based tree trimming throughout the service area

Lakeland Power noted that its tree-trimming contracts are awarded on a three-year cycle, considering cost, contractor capability, and reputation. Work is inspected by zone, and any deficiencies are documented and corrected. All completed work has met Lakeland Power's specifications.⁶

Lakeland Power relies on its Emergency Response Plan to restore power following major incidents. The Emergency Response Plan defines the procedures and protocols for managing outages beyond normal operations and includes preparedness measures, such as ongoing weather surveillance and the distribution of readiness alerts to internal staff, which Lakeland Power notes allows for proactive deployment of all personnel and resources required for an effective response.⁷

Operating Costs

Lakeland Power is seeking approval for \$882,679 in OM&A costs related to the ice storm. In its interrogatory responses,⁸ Lakeland Power provided a detailed breakdown of the Z-factor OM&A costs, which include regular and overtime labour, mutual aid assistance from other local distribution companies, contracted services, and additional OM&A expenses.

Labour

Lakeland Power noted that its Z-factor claim includes both regular internal labour costs of \$117,829, as well as overtime paid to other non-union employees and management in the amount of \$28,811.⁹ As indicated in the table, Lakeland Power also paid \$111,223 for overtime compensation to unionized employees.

⁶ Manager's Summary, Appendix Z-2, p. 8

⁷ *Ibid.*, pp. 8-9

⁸ Response to OEB Staff Interrogatories 17 and 18, and VECC Interrogatory 8

⁹ Response to OEB Staff Interrogatory 18(a)

Table 3.2: Internal Labour Costs

Department	Number of Eligible Employees	Regular Hours Worked	Total Regular Time Payments \$	Overtime Hours Worked	Total Overtime Payments \$
Management	2	0	0	146	23,906
Other Non-Union Employees	4	244	7,360	120	4,905
Sub-Total Non-Union	6	244	7,360	266	28,811
Union Employees	13	1,524	110,469	915	111,223
Operations	0	0	0	0	0
Other	0	0	0	0	0
Sub-Total Union	13	1,524	110,469	915	111,223
Total Z-factor Labour Costs	19	1,768	117,829	1,181	140,033

OEB staff, SEC and VECC submitted that only overtime costs should be allowed for recovery as internal regular hours worked by internal staff are already included in base rates. As such, the amount of \$117,829, as outlined in the table above, should be denied by the OEB.

SEC submitted that Lakeland Power did not provide evidence to demonstrate that the regular labour costs were incremental, and that, but for the ice storm, the regular hours worked would not have been incurred. SEC also noted that Lakeland Power did not provide 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 have been completed due to the ice storm.¹⁰

In its reply submission, Lakeland Power disagreed with the suggestion that regular internal labour should be excluded from its Z-factor claim as the costs did not offset or eliminate any planned work. The ice storm disrupted normal operations for more than two months, and internal labour was necessarily redirected to emergency response. All capital, maintenance, reliability, safety, and regulatory work would still need to be

¹⁰ SEC Submission, p. 6

completed either over time or on an accelerated basis, and likely at higher cost through overtime or contractors. Lakeland Power noted that these incremental future costs are not part of the Z-factor claim, meaning recovery of regular internal labour, ultimately, benefits ratepayers.¹¹

Lakeland Power also submitted that OEB staff and SEC cited prior Z-factor proceedings¹² in which the distributors themselves chose not to claim internal labour. Those decisions, as argued by Lakeland Power, provide no precedent that such costs must be excluded. By contrast, Lakeland Power stated that the OEB has explicitly approved the recovery of regular internal labour for the same ice storm and other Z-factor claims filed by distributors, including Newmarket-Tay Power Distribution Ltd. (NT Power)¹³ and Elexicon Energy Inc. (Elexicon Energy).¹⁴

Lakeland Power noted that NT Power experienced far less severe impacts, yet the OEB still approved regular internal labour as incremental and prudent. Given the extensive damage in Lakeland Power's service area, internal labour on its own was insufficient. Lakeland Power submitted that it appropriately used all available staff and contractors, consistent with Elexicon Energy's approach.

Lakeland Power also submitted that denying recovery, simply because it relied on its internal workforce rather than outsourcing to contractors at higher overtime rates, would be unreasonable. Lakeland Power argued that such denial would incentivize utilities to engage external services in emergencies, even when internal staff are available, resulting in increased restoration costs and delaying response with no benefit to customers.¹⁵

Damaged Assets (Poles)

OEB staff, SEC and VECC each submitted that the OEB should reduce the amount of Lakeland Power's Z-factor claim to account for the cost of replacing three poles in 'Poor' condition. OEB staff and intervenors submitted that it was reasonable to expect or likely that the poles would have nevertheless been replaced as part of Lakeland Power's regular replacement term during the IRM term.

¹¹ Lakeland Power Reply Submission, pp. 12-13

¹² EB-2023-0009, Canadian Niagara Power Inc., Decision and Order, December 12, 2023; EB-2021-0057, Sioux Lookout Hydro Inc., Decision and Rate Order, March 3, 2022; EB-2014-0211, Halton Hills Hydro Inc., Decision and Order, December 12, 2014; and EB-2014-0162, Milton Hydro Distribution Inc., Decision and Rate Order, March 19, 2015

¹³ EB-2025-0021, Decision and Rate Order, December 11, 2025

¹⁴ EB-2022-0317, Decision and Order, June 15, 2023 (Elexicon Energy IRM Decision and Order)

¹⁵ Lakeland Power Reply Submission, p. 13

OEB staff submitted that the OEB should disallow \$41,103 for the three poles noted in 'Poor' condition by Lakeland Power, as each pole has an average cost (from 2020-2025) of \$13,701,¹⁶ for a total of \$41,103. OEB staff noted similar reductions were made in other Z-factor applications, such as Elexicon Energy's 2023 Z-factor claim,¹⁷ Canadian Niagara Power Inc.'s 2024 Z-factor claim,¹⁸ and E.L.K. Energy Inc.'s 2024 Z-factor claim.¹⁹

SEC and VECC both submitted the three poles in 'Poor' condition should reduce the capital amount requested by \$51,000, as the average cost of a pole replacement was \$17,000 in 2025.²⁰ Similar to OEB staff, SEC and VECC also noted that the OEB previously disallowed recovery of costs for assets – primarily poles – that would otherwise be expected to be replaced.²¹

In its reply submission, Lakeland Power argued that none of the poles damaged during the ice storm were planned to be replaced in the approved capital plan. Lakeland Power further submitted that while poles in 'Poor' or 'Very Poor' condition are a priority for replacement,²² there is no evidence to support OEB staff, SEC and VECC's submissions that the three poles²³ in question were planned for replacement during the IRM term.²⁴

SEC and VECC submitted that the entire capital portion of the Z-factor claim should be disallowed, see below for further details.

Damaged Assets (Transformers and Emergency Response Plan)

OEB staff submitted that the six damaged transformers were in 'Good' or 'Very Good' condition and that the remaining capital costs incurred because of the ice storm qualify for Z-factor treatment.²⁵ OEB staff also took no issue with Lakeland Power's use of its Emergency Response Plan and submitted that Lakeland Power could not reasonably

¹⁶ Response to VECC Interrogatory 9(d)

¹⁷ EB-2022-0317, Decision and Order, June 15, 2023, p. 9

¹⁸ EB-2023-0009, Decision and Order, December 12, 2023, p. 19

¹⁹ EB-2023-0013, Decision and Order, March 21, 2024, p. 13

²⁰ SEC Submission, p. 6 and VECC Submission, p. 7

²¹ See Decision and Rate Order (EB-2023-0013), March 21, 2024, pp 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

²² Response to VECC Interrogatory 9(f)

²³ Interrogatory Response VECC 9(a)

²⁴ Lakeland Power Reply Submission, p. 15

²⁵ OEB Staff Submission, p. 8

have been expected to design or operate its distribution system in a way that would have prevented the damage and outages caused by the ice storm.²⁶

Both SEC and VEC submitted that the entirety of the capital costs included in the Z-factor claim should not be approved for recovery. SEC and VECC submitted that Lakeland Power underspent its 2025 capital budget included in base rates by \$527,862, excluding the ice storm event. The underspend amount was subsequently updated by Lakeland Power in its reply submission from \$527,862 to \$552,000. In particular, VECC noted that Lakeland Power only spent \$155,405 of its approved \$250,000 budget for storm damage / trouble call reactive capital.²⁷ Lakeland Power included \$444,595 (without carrying charges) in 2025 capital costs in the Z-factor amount. SEC and VECC submitted that Lakeland Power should not be allowed to recover this amount as doing so would result in the utility over-collecting as the 2025 base capital amount included in rates, for which customers are currently paying, has not been spent. As a result, the capital costs cannot be considered incremental.²⁸

In its response to interrogatories, Lakeland Power stated that the underspending was not a permanent reduction in capital expenditures, but rather a deferral of spending driven by the Z-factor events. SEC disagreed in its submission that this provides a basis for not reducing the Z-factor amount.²⁹

First SEC submitted, by definition, storm damage and trouble call reactive capital spending cannot be deferred as this budget does not consist of discrete, deferrable projects. Instead, it exists to address emergency capital work arising from storms and other unforeseen events, such as an ice storm.³⁰

Second, SEC submitted that even if capital work in other areas was deferred, and Lakeland Power intends to overspend in future years, from a rate-setting perspective, these expenditures are not equivalent. A dollar spent in 2026 or 2027 does not offset a dollar not spent in 2025. Upon rebasing, customers would pay rates reflecting assets with a higher net book value, notwithstanding the earlier underspending.³¹

Lakeland Power submitted in reply that underspending does not imply that those funds are automatically available to offset the costs or damages associated with an unplanned or unforeseen event. Lakeland Power cited the OEB's findings in the Elexicon Energy

²⁶ OEB Staff Submission, p. 16

²⁷ *Ibid.*

²⁸ SEC Submission, p. 5 and VECC Submission, p. 5

²⁹ Lakeland Power Reply Submission, p. 15

³⁰ SEC Submission, p. 5

³¹ *Ibid.*

IRM Decision and Order in support of this principle.³² Specifically, Lakeland Power noted that in the Elexicon Energy proceeding, the OEB rejected an argument made by VECC that since storm restoration OM&A expenditures were below budget in the year of the Z-factor event, this amount should be disallowed. The OEB found it more appropriate to examine overall OM&A spending.³³ Furthermore, Lakeland Power stated that SEC and VECC did not demonstrate that the \$444,595 in 2025 ice storm Z-factor capital costs are anything other than incremental to Lakeland Power's budgeted and forecast revenue requirement, nor have they shown that such storm-related damages could reasonably be absorbed within the budgeted account category.³⁴

Lakeland Power noted that it intends to complete its full capital program over the IRM term. The 2025 underspend reflects a temporary deferral of two projects – the Isabella Street capacity upgrade and the SCADA smart switches initiative – of which both are scheduled to resume in 2026 alongside previously planned capital work and expenditures.³⁵ Lakeland Power stated there is a material delay between the incurrence of Z-factor event costs and recovery through rates.³⁶

In the alternative, SEC and VECC submitted that the capital costs associated with the ice storm Z-factor claim should be reduced by \$94,595 to reflect underspending in the reactive capital budget. Lakeland Power disagreed with this alternative argument, submitting that it had deliberately reduced its capital budget in 2025 to preserve its financial viability following the lightning storm Z-factor event in 2024. Lakeland Power argued that it would be patently unfair for the OEB to disallow recovery of underspending that was necessary to maintain Lakeland Power's financial viability. Although Lakeland Power was in an extremely precarious financial position, prudent management decisions ensured its continued financial viability.³⁷

Findings

Labour

The OEB approves Lakeland Power's recovery of labour and capital costs associated with contract labour and assistance from other utilities but for its own employees. The OEB finds only overtime labour costs of \$140,033 should be eligible for recovery, because the cost of the regular working hours of internal staff (\$117,829) are already accounted for in base rates as argued by SEC, VECC and OEB staff. Accordingly, the

³² EB-2022-0317, Decision and Order, June 15, 2023, p. 11

³³ Lakeland Power Reply Submission, p. 15

³⁴ *Ibid.*, p. 14

³⁵ *Ibid.*

³⁶ Response to OEB Staff Interrogatory 6(e)

³⁷ Lakeland Power Reply Submission, p. 15

OEB approves overtime expenditures of \$140,033 and disallows the claimed amount of \$117,829 related to regular labour costs.

In its reply submission, Lakeland Power argued that regular internal labour costs should be approved because these efforts did not displace or reduce any planned work for the year. However, Lakeland Power did not provide evidence demonstrating whether additional costs were incurred to complete the planned work that would otherwise have been carried out by internal staff absent the ice storm.

Lakeland Power also referenced decisions involving NT Power and Elexicon Energy, where recovery of regular internal labour costs was approved. However, in the NT Power case, the utility demonstrated that the internal costs were outside the base used to establish rates, and the utility had no capital expenditures in its Z-factor claim. In the case of Elexicon Energy, while the OEB found it appropriate to include recovery of regular internal labour hours based on consideration of Elexicon Energy's overall annual OM&A expenses, the OEB also stated:

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.³⁸

Lakeland Power has not provided evidence to support the claim that the regular internal labour hours claimed were truly incremental. Furthermore, the OEB does not accept the submission that the failure to allow recovery of those hours would incentivize applicants to engage external services in emergencies, even when internal staff are available, resulting in increased restoration costs and delaying response with no benefit to customers. Such an approach would raise a serious question of whether such expenditures were prudently incurred.

Damaged Assets (Poles)

The OEB agrees with submissions from VECC, SEC, and OEB staff to disallow the capital cost associated with replacing three poles identified by Lakeland Power as being in 'Poor' condition. The OEB accepts OEB staff's submission to use an average replacement cost of \$13,701 per pole for these assets, based on Lakeland Power's estimated average cost,³⁹ for a total disallowance of \$41,103. SEC proposed to use the 2025 cost estimate of \$17,000 for pole replacement based on other rate cases.

³⁸ EB-2022-0317, Decision and Order, June 15, 2023, p. 11

³⁹ Response to VECC Interrogatory 9(d)

However, those decisions do not sufficiently reflect the cost of pole replacement for the Lakeland Power service territory.

Lakeland Power argued that none of the poles damaged during the ice storm had been scheduled for replacement in its approved capital plan. It further submitted that, although poles in 'Poor' or 'Very Poor' condition are prioritized for replacement, there was no evidence to support the claim by OEB staff, SEC, and VECC that these three poles were planned for replacement during the IRM term.

However, the OEB finds that Lakeland Power should have addressed the condition of these poles proactively, particularly given that its capital budget for the year was underspent. The OEB emphasizes that it is the utility's responsibility to monitor infrastructure and take timely corrective action to ensure system reliability.

Damaged Assets (Transformers and Emergency Response Plan)

The OEB agrees with the SEC and VECC submissions that the reactive capital budget provided for in base rates should be subtracted from Lakeland Power's Z-factor claim. The evidence shows that Lakeland Power has underspent on its capital program. As highlighted by SEC in its submission, the reactive capital budget exists to address the emergency capital work arising from storms and unforeseen events, such as an ice storm. Accordingly, a total of \$94,595 representing unspent reactive capital component provided for in base rates is disallowed from the Z-factor capital expenditure claim.

Lakeland Power included a total capital expenditure of \$444,595 (before carrying charges) in its Z-factor claim. After adjusting for the disallowance of \$94,595 relating to reactive capital and \$41,103 relating to pole replacement, a net of \$308,897 (plus carrying charges) is approved as capital expenditures to be recovered in the Z-factor claim.

The OEB agrees with OEB staff that Lakeland Power's use of its Emergency Response Plan was appropriate and that the utility could not reasonably have been expected to design or operate its system in a manner that would have prevented the storm-related damage and outages.

The OEB disagrees with submissions from VECC and SEC that an underspend in the annual capital budget alone justifies disallowing costs related to the six damaged transformers, which were otherwise assessed to be in 'Good' or 'Very Good' condition. To the extent that the reactive capital budget embedded in rates was underspent, that amount has been disallowed for recovery, as set out above.

The OEB further finds Lakeland Power's overall financial position and cash management practices to be reasonable. Historically, the utility has achieved a Return

on Equity (ROE) within ± 300 basis points of its deemed ROE, with the exception of 2021 and 2024. In 2021, Lakeland Power reported an ROE of 12.06%, while in 2024 it reported an ROE of 4.51%.

Materiality

The materiality threshold applicable to Lakeland Power is \$50,000, which is the threshold applicable to distributors with a revenue requirement of less than \$10 million. Lakeland Power stated that the cost of \$1,302,255 (excluding carrying charges) due to the ice storm event exceeds the materiality threshold of \$50,000. The ice storm, as stated by Lakeland Power, had a significant impact on operations and required a sustained effort from internal crews and third-party contractors for over a week to restore power to impacted customers.⁴⁰

OEB staff, SEC and VECC submitted that Lakeland Power's Z-factor claim met the materiality criterion.

Findings

The OEB is satisfied that the Z-factor claim by Lakeland Power, after removing the amounts disallowed above, meets the materiality threshold.

Prudence

Lakeland Power stated that it notified internal staff of the impending ice storm prior to the event. During the first wave of the ice storm, internal staff, including relevant managers, were fully mobilized. Lakeland Power assessed the damage and deemed the damage severe enough to warrant external assistance. Lakeland Power was only able to retain assistance from K-Line Maintenance & Construction for the first wave of the storm as no other assistance was available.⁴¹

Lakeland Power notes in its application that the second wave of the ice storm, which began on the evening of March 29, 2025, was significantly more severe than the first wave. Crews began work in the morning of March 30, 2025 and reported back that damage was well beyond expectations, raising concerns that Lakeland Power's current workforce was insufficient.⁴² Lakeland Power was able to secure additional support from five other local distribution companies, most of which arrived on March 31, 2025.

Lakeland Power explained that its decision to incur costs associated with the restoration activities was guided by a commitment to delivering cost-effective, high-quality service

⁴⁰ Manager's Summary, Appendix Z-2, p. 9

⁴¹ Manager's Summary, Appendix Z-2, pp. 9-10

⁴² *Ibid.*

to its customers. Lakeland Power also noted that repair activities were appropriate, and system rebuilds were completed on a “like-for-like” basis wherever feasible.⁴³ For materials, Lakeland Power drew on existing inventory to reduce material expenses and limit emergency procurement. Work was also prioritized and coordinated in a structured manner to support efficient restoration activities and ensure power was restored as quickly as possible.⁴⁴

OEB staff, SEC and VECC each submitted that Lakeland Power’s Z-factor application met the prudence criterion. OEB staff acknowledged that Lakeland Power mobilized all available internal and external resources to respond to the ice storm outages and subsequently pursued participation in mutual assistance programs following the initial wave of the storm. OEB staff also acknowledged that Lakeland Power acted promptly and restored service within a reasonable timeframe.⁴⁵

Findings

The OEB is satisfied that the Z-factor claimed by Lakeland Power, after removing the amounts disallowed above, is comprised of costs that were prudently incurred. The OEB finds that Lakeland Power took all the necessary steps to address the emergency and mobilize available resources to respond to the ice storm-induced outages. It is appreciated that Lakeland Power made use of the mutual assistance program when needed and successfully restored service in a reasonable time.

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ OEB Staff Submission, p. 17

4. Z-FACTOR FOR A LIGHTNING STORM

On June 13, 2024, the Centennial MS substation transformer (Centennial MS) failed during a lightning storm in the Bracebridge area within Lakeland Power's service territory. The failure of the 27.6 kV substation impacted 2,500 of Lakeland Power's 14,900 customers (18% of its customer base).⁴⁶ The transformer was taken out of service and tested on June 14, 2024, 12 hours after the lightning storm event. At this time, the transformer failed both the winding insulation resistance test and the turns ratio test, which confirmed the need for a complete rewind of the coils. The unit had been installed in 2009 and had an expected useful life of 40 years.⁴⁷

Lakeland Power requested to recover \$1,492,013 (including carrying costs) in costs associated with the failure of the Centennial MS, through a Z-factor claim.⁴⁸ This amount includes costs associated with the rental of a temporary unit and the repair of the existing unit until Fall 2026.

Lakeland Power proposed to recover the OM&A amount of \$698,210 through a fixed 24-month rate rider, effective May 1, 2026. For Sentinel and Unmetered Scattered Load customers, a 48-month rate rider is proposed as the bill impacts for these two customer classes is just above 10% when a 24-month rate rider is used. Lakeland Power also proposed a fixed rate rider for the revenue requirement of \$58,760 in capital costs – based on \$793,803 in capital costs – effective until its next rebasing rate order.

Table 4.1: 2024 Lightning Storm Event Updated Cost Summary⁴⁹

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

⁴⁶ Lakeland Power Reply Submission, p. 2

⁴⁷ Manager's Summary, p. 29

⁴⁸ Lakeland Power Reply Submission, pp. 2-3

⁴⁹ Response to SEC Interrogatory 2(b)

Sub-Total incl. carrying charges	\$608,210	\$253,356	\$861,566
Costs from Oct. 2025 to Fall 2026			
Install of transformer	\$0	\$64,347	\$64,347
Transformer rental	\$90,000	\$0	\$90,000
Consulting fees / reports	\$0	\$0	\$0
Transformer re-build costs	\$0	\$476,100	\$476,100
Sub-Total	\$90,000	\$540,447	\$630,447
Total Z-factor Claim Costs	\$698,210	\$793,803	\$1,492,013

OEB staff, SEC and VECC all agreed that Lakeland Power's Z-factor claim for the lightning storm met the requirements for materiality and causation. However, in regard to the prudence criterion, each of OEB staff, SEC and VECC submitted that certain costs included by the utility – notably those associated with the rental transformer – should be excluded from the Z-factor amount approved by the OEB.

Causation

Summary of Lakeland Power's Evidence Regarding the Centennial MS Transformer Failure

Lakeland Power stated that all costs included in its Z-factor claim are directly attributable to the catastrophic failure of Centennial MS, which occurred on June 13, 2024 during a lightning storm affecting the Bracebridge area.⁵⁰

Lakeland Power reported that lightning strikes were recorded in the Bracebridge area between 7:09 p.m. and 7:23 p.m. on June 13, 2024. SCADA records indicate that Centennial MS feeders tripped at approximately 7:20 p.m., coinciding with a simultaneous trip of Hydro One Networks Inc.'s (Hydro One) feeder supplying Bracebridge. Until that point, both Centennial MS and Lakeland Power's distribution system were operating normally.⁵¹

Following the storm, Hydro One's feeder and Lakeland Power's distribution system were re-energized at approximately 9:15 p.m. Upon re-energization, Lakeland Power identified that Centennial MS had failed catastrophically, sustaining severe internal damage, including winding failure.

⁵⁰ Response to SEC Interrogatory 5

⁵¹ *Ibid.*

Lakeland Power stated that the proximity in time between the lightning activity, feeder trips, and subsequent discovery of the transformer failure strongly supports the conclusion that the storm was the precipitating cause of the failure.

Preventive Maintenance and Asset Management Practices

Lakeland Power stated that it employs both proactive and reactive measures, consistent with industry standards and prudent utility operation, to extend the life of its substation transformers and associated infrastructure. These practices include:

- Monthly on-site inspections conducted by qualified operations staff
- Annual oil sampling and dissolved gas analysis to assess transformer condition
- Regular full-station maintenance conducted by an external service provider, including, but not limited to:
 - Winding resistance testing
 - Insulation resistance testing
 - Lightning arrester testing
 - Inspection and cleaning of critical components⁵²

Maintenance History and Post-Failure Review

Following the transformer failure, Lakeland Power states it undertook an internal review of its substation management policies and procedures, as well as a detailed examination of the maintenance history of Centennial MS. This review confirmed that:

- Centennial MS underwent a full isolation and maintenance cycle in 2022, approximately two years prior to the failure
- Transformer testing conducted during that maintenance event produced favourable results, with no indications of deterioration, defects, or emerging failure modes.⁵³

Lakeland Power stated that this evidence demonstrates the transformer was in good condition prior to the storm and that there were no warning signs that would have allowed the failure to be anticipated or prevented. Lakeland Power concluded that the Centennial MS failure was not attributable to inadequate maintenance, asset neglect, or deficient oversight. Rather, the failure was the result of an unforeseeable lightning-related event, despite the utility's adherence to established maintenance protocols and industry best practices.⁵⁴ Based on this, Lakeland Power stated that the costs arising

⁵² Manager's Summary, Appendix Z-1, pp. 6-7

⁵³ Lakeland Power Reply Submission, p. 6

⁵⁴ Manager's Summary, Appendix Z-1, p. 6

from the failure meet the criteria for Z-factor recovery and should be approved by the OEB.

Causation and Cost Causality

Lakeland Power stated that the lightning storm represents an external, uncontrollable event and that the transformer failure was unexpected and unavoidable. Lakeland Power further stated that:

- All costs included in the Z-factor claim arose directly and solely from the transformer failure
- The costs are outside the base upon which Lakeland Power's approved rates were derived, satisfying the criteria for Z-factor treatment⁵⁵

In response to interrogatories, Lakeland Power noted that isolation, maintenance and testing in 2022, included insulation resistance testing, winding resistance testing, and turns ratio checks. The same test was performed after the unit's failure and was the basis for determining that the unit had suffered failure.⁵⁶ OEB staff noted in its submission that the 2022 maintenance report prepared by K.P.C. Power Electrical (KPC) identified that three lightning arrestors failed insulation resistance testing, and the report recommended replacing all of the feeder's three lightning arrestors immediately. The report also noted that the three lightning arrestors were swapped with temporary replacements. OEB staff invited Lakeland Power to confirm how long these temporary units were in use and whether the lightning arrestors were replaced as per the report's recommendation.⁵⁷ Subject to this confirmation, OEB staff submitted it was of the view that the transformer failure was likely due to the lightning storm and that costs related to the Centennial MS failure should be eligible for Z-factor recovery.

SEC and VECC also submitted that Lakeland Power's Z-factor claim for the lightning storm met the criterion for causation.

In its reply, Lakeland Power provided further context on the lightning arrestors. Lakeland Power stated that the three lightning arrestors that failed testing in 2022 were replaced with available spares. Although the spares were noted as being 'near end of life', they passed KPC's inspection and functional testing. In conversations after the issuance of the inspection report, KPC confirmed with Lakeland Power that the spare lightning arrestors, even though 'near end of life', were suitable to remain in-service. However, Lakeland Power confirmed that the three spare lightning arrestors were replaced with

⁵⁵ Manager's Summary, Appendix Z-1, p. 6

⁵⁶ Response to SEC Interrogatory 4

⁵⁷ OEB Staff Submission, p. 5

new lightning arrestors on February 24, 2026. Lakeland Power also noted that lightning arrestors are subject to long lead times for procurement and the spares were removed from service, inspected and returned to spare inventory for future use.⁵⁸

Findings

The OEB finds that there is sufficient evidence to conclude that the damage to the transformer was caused by the lightning strike on June 14, 2024 and approves \$1,260,315 excluding carrying charges for the Z-factor claim. The OEB has disallowed \$344 dollars of vehicle use and \$200,000 in rental fees paid by Lakeland Power to its affiliate for the rental of a replacement transformer for reasons explained later in this section.

Materiality

As previously noted, the materiality threshold applicable to Lakeland Power is \$50,000, which is the threshold applicable to distributors with a revenue requirement of less than \$10 million. Lakeland Power stated that the cost of \$1,492,013 (including carrying charges) due to the transformer failure exceeds the materiality threshold of \$50,000. Had the failure not occurred, Lakeland Power would not have incurred any of the costs that are being requested for recovery.⁵⁹

OEB staff, SEC and VECC submitted that Lakeland Power's Z-factor claim met the materiality criterion.

Findings

The OEB finds that the Z-factor claim by Lakeland Power is greater than the materiality threshold applicable to Lakeland Power.

Prudence

Following the lightning storm event, Lakeland Power removed the affected transformer from service and completed diagnostic testing within 12 hours. Testing of Centennial MS confirmed failure through both the winding insulation resistance test and the turns ratio test, establishing the need for a complete rewind of the transformer coils.

Lakeland Power indicated that, given the relatively young age of the transformer, it did not have a spare replacement unit available. Following the initial assessment, Lakeland Power evaluated whether to replace or repair the damaged transformer. Lakeland

⁵⁸ Lakeland Power Reply Submission, p. 6

⁵⁹ Manger's Summary, Appendix Z-1, p. 6

Power indicated that this analysis occurred under significant time pressure, as the utility was required to restore system reliability as quickly as possible.⁶⁰

Lakeland Power determined that outright replacement of the transformer would be prohibitively expensive. Cost estimates for a new transformer ranged from approximately \$1.2 million to over \$2 million, excluding the cost of renting a temporary unit during the anticipated lead time of 52 to 104 weeks. Lakeland Power further noted that transformer costs and lead times had increased substantially in recent years due to global supply chain disruptions, manufacturing constraints, increased demand, and prolonged production schedules.⁶¹

Based on these considerations, and taking into account the transformer's age and expected remaining service life, Lakeland Power determined that repair was the most prudent option. Surplec was selected as the repair vendor and offered a complete rewind of the transformer for an estimated cost of \$634,000, initially with a 10-month lead time. This timeline was subsequently extended, with full completion now expected in Fall 2026. In response to interrogatories, Lakeland Power confirmed both the estimated repair cost (updated from the original amount of \$861,566 to \$1,492,013) and the revised expected completion date.⁶²

While repairs were underway, Lakeland Power sourced a temporary replacement transformer from its service provider at a rental cost of \$33,000 per month. Due to the urgency of the situation, removal of the failed transformer and installation of the rental unit were planned and initiated on June 19, 2024.⁶³ Lakeland Power considered whether the rental transformer could serve as a longer-term solution. However, Lakeland Power determined that the unit was not suitable for permanent service as it had a smaller capacity and lacked an On-Load Tap Changer, which is required to immediately correct significant voltage fluctuations resulting from Hydro One supply conditions.⁶⁴

Lakeland Power also considered purchasing the temporary transformer, but did not. The transformer was purchased on February 27, 2025, by Bracebridge Generation, an affiliate of Lakeland Power, for \$375,000.⁶⁵ Bracebridge Generation subsequently rented the unit to Lakeland Power at a rate of \$30,000 per month. Lakeland Power

⁶⁰ Manager's Summary, Appendix Z-1, p. 7

⁶¹ *Ibid.*, p. 7

⁶² Response to Interrogatory SEC 2 and Appendix H, p. 148

⁶³ Manager's Summary, p. 31

⁶⁴ Manager's Summary, Appendix Z-1, p. 8

⁶⁵ *Ibid.*

indicated that this structure was implemented to avoid creating a stranded asset once the repaired transformer was returned to service.

In response to interrogatories, Lakeland Power confirmed that the rental agreement with Bracebridge Generation was capped at a total cost of \$300,000. This cap was reached with the payment made in December 2025.⁶⁶ Lakeland Power continues to operate the temporary transformer and expects to do so until the damaged transformer is fully repaired and reinstalled, which remains scheduled for Fall 2026.

OEB staff submitted that Lakeland Power's decision to rent a temporary transformer and repair the transformer was prudent. However, both VECC and SEC disagreed that the costs associated with the rental of the temporary transformer were prudent.

Capital Costs

OEB staff acknowledged that capital costs associated with a Z-factor claim are preferably assessed after full payment. In addition, Z-factor claims should be made for costs incurred within 12 months of the event. However, given the circumstances of the case, in particular the lengthy timelines associated with the repair of the unit, an exemption from that rule was warranted in this case and OEB staff supported Lakeland Power's total capital claim of \$793,803.

VECC and SEC did not provide submissions on the capital costs of \$793,803 included by Lakeland Power in the Z-factor claim. Instead, they argued that the Z-factor claim should reflect the cost of purchasing the transformer instead of paying rental fees, as described in further detail in the following section.

Operating Costs

i. Installation of Temporary Transformer

Lakeland Power claimed total OM&A costs of \$698,210⁶⁷ for the Centennial MS failure – with most of these costs attributed to rental fees for the temporary transformer, consulting fees, and installation of the temporary transformer. OEB staff noted that of the \$68,408 incurred for the installation of the temporary transformer by KPC, \$6,074 are internal labour costs.⁶⁸

OEB staff stated that it is unclear as to whether this internal labour cost is incremental and outside of base rates and invited Lakeland Power to comment on this in its reply

⁶⁶ Response to OEB Staff Interrogatory 12(a)

⁶⁷ Responses to Procedural Order No. 3 Questions, p. 5

⁶⁸ Response to OEB Staff Interrogatory 10(a)

submission. If regular internal labour cost was included in the Z-factor claim, OEB staff submitted that this amount should be disallowed, even though this amount is small.

In its reply submission, Lakeland Power noted that only the vehicle costs in the amount of \$344 may not be incremental and are already included in base rates. However, the remainder of costs, as stated by Lakeland Power, are incremental and fall outside of base rates, as per Table 4.2 below.⁶⁹

Table 4.2: Breakdown of \$6,704

Labour and Burdens – Overtime	\$2,318.35
Vehicle Allocation	\$344.20
Materials	\$444.51
Consulting – Lakeside Consulting	\$939.99
Transportation – P. Medley & Sons	\$2,027.88
Total	\$6,074.93

ii. Rental of Temporary Transformer

Lakeland Power initially rented the replacement transformer on a month-to-month basis due to uncertainty regarding the timing of the repair.⁷⁰ Once the repair timeline was established, Lakeland Power began negotiating long-term rental rates. During these discussions, the option to purchase the transformer was identified.⁷¹ Although Lakeland Power negotiated the purchase of the temporary unit for \$375,000, it was ultimately determined that the transformer would instead be purchased by its affiliate, Bracebridge Generation.

Lakeland Power noted that began renting the temporary transformer from Bracebridge Generation in March 2025, with the original damaged transformer expected to return to service by early 2026. However, in July 2025, Surplec revised the schedule extending the in-service date to Fall 2026. Lakeland Power and Bracebridge Generation agreed to implement a \$300,000 rental cap to limit ongoing costs associated with the extended

⁶⁹ Lakeland Power Reply Submission, p. 7

⁷⁰ Response to OEB Staff Interrogatory 12(b)

⁷¹ *Ibid.*, p. 24

return to service date.⁷² In its submission, OEB staff invited Lakeland Power to discuss in its reply how the \$300,000 rental cap fee was derived.

Lakeland Power stated that Bracebridge Generation capped the total rental fee for the temporary transformer at \$300,000, a threshold that was reached in December 2025.⁷³ In its reply, Lakeland Power noted that the cap on rental payments was implemented to ensure that Bracebridge Generation did not financially benefit from the rental. As a result, the capped amount corresponds to an effective average monthly rental cost of approximately \$15,000, calculated over the period from March 2025 to the estimated return-to-service date of October 2026.⁷⁴

The composition of the rental payments between KPC and Bracebridge Generation included in the Z-factor claim is as follows:

Table 4.3: Transformer Rent Payments

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

Lakeland Power stated that there is no active market for transformer rentals and, as a result, asserted that the \$33,000 rental fee paid to KPC represents the most direct and relevant benchmark⁷⁵ for evaluating its affiliate rental charges.

OEB staff submitted that Lakeland Power's decision to rent the temporary transformer from KPC was prudent as the situation required immediate action and supply was limited. OEB staff acknowledged that, from a purely financial perspective, the rental arrangement was moderately more favorable than a purchase. However, OEB staff also noted that the purchase price previously paid by Bracebridge Generation for the transformer had largely been recovered through rental revenues received from Lakeland Power and questioned whether it would have been more prudent for Lakeland Power to have purchased the transformer outright.⁷⁶

SEC and VECC stated that Lakeland Power should have purchased the transformer itself and not Bracebridge Generation. This would have reduced the cost to customers as they would have paid the annual capital-related revenue requirement for the

⁷² *Ibid.*

⁷³ Response to OEB Staff Interrogatory 12(a)

⁷⁴ Response to OEB Staff Interrogatory 13(a)

⁷⁵ Response to OEB Staff Interrogatory 12(b)

⁷⁶ OEB Staff Submission, pp. 9-10

purchase, and eliminated the rental fees paid to Bracebridge Generation of \$300,000. Lakeland Power would also be able to keep the transformer for emergency use or rent it, with the revenues returned to customers. VECC submitted that the cap on the rental fees further demonstrated the rental agreement with Bracebridge Generation was inappropriate.⁷⁷

SEC and VECC disagreed with Lakeland Power's assertion that the transformer has "no value" beyond scrap once decommissioned from the site and would be treated as a stranded asset.⁷⁸ Both intervenors had noted that the transformer may have continued future use to Lakeland Power, either as a spare in the event of an emergency or for rental by other utilities. The transformer would have a remaining useful life of 23 years after use by Lakeland Power. OEB staff and SEC further submitted that the establishment of a capital spares program is a standard industry practice, whereby distributors maintain inventory to address unplanned events, such as storm-related damage or other unforeseen disruptions to distribution infrastructure.⁷⁹

In its reply, Lakeland Power submitted that it is unclear how OEB staff and SEC could reasonably conclude that Lakeland Power would maintain suitable spare transformers in its yard, with each transformer costing approximately \$1.2 million at current prices, while those assets depreciate unused. Such assets would not be "used or useful" and therefore would not be included in rate base.⁸⁰

Lakeland Power further submitted that it does not operate a capital spares program funded through existing rates.⁸¹ While some of Ontario's largest electricity distributors may maintain capital spares inventories, no evidence has been provided demonstrating that this practice is standard or reasonable for smaller distributors, particularly with respect to high-cost equipment such as power transformers.

Lakeland Power also submitted that implementing a spares program that adequately covered each of its transformer types would require the procurement of three separate spare transformers. This would result in a spares investment of approximately \$3.6 million, representing an exceptionally high ratio relative to Lakeland Power's total rate base of \$32.6 million. The costs associated with such a program would extend well beyond initial capital expenditures and include the ongoing cost of capital, depreciation,

⁷⁷ *Ibid.*

⁷⁸ Response to Interrogatory SEC 13(b)

⁷⁹ *Ibid.*, p. 10 and SEC Submission, p. 3

⁸⁰ Lakeland Power Reply Submission, p. 11

⁸¹ EB-2024-0039, Lakeland Power, Decision and Order, June 3, 2025

routine maintenance, testing, and other activities necessary to ensure spares remain operational and ready for emergency deployment.⁸²

Lakeland Power noted that it determined that a comprehensive capital spares program would not provide good value for customers given the relatively low probability of transformer failure. Instead, Lakeland Power noted that it manages such risks through transformer rentals or targeted replacements on an as-needed basis and finds this to be significantly more cost-effective and better aligned with customer interests.⁸³ In its reply submission, Lakeland Power noted that with its ongoing financial challenges in 2024 and 2025, evidenced by its repeated breaches of debt service coverage and debt-to-capital covenants, it was not prudent for Lakeland Power to purchase the transformer. At the time, Lakeland Power was in regular discussions with its lenders and lacked the financial capacity to fund the purchase. Accordingly, the transformer was purchased by Lakeland Power's affiliate, Bracebridge Generation,⁸⁴ which had the necessary financial capacity and to otherwise limit the net costs associated with continued month-to-month rental from KPC.

Lakeland Power argued that in hindsight, the decision to rent rather than purchase was prudent. A \$375,000 capital expenditure in March 2025 would have materially impaired Lakeland Power's ability to respond to two major ice storms later that month, during which Lakeland Power relied on its line of credit to meet operational needs.⁸⁵

Lakeland Power submitted that the arguments advanced by SEC and VECC were premised on a series of unsupported assumptions, including that the temporary transformer retained value beyond scrap after its period of use and could be immediately re-purposed, and therefore its capital costs could be depreciated over an expected remaining service life. Lakeland Power argued that none of these assumptions are supported by the evidence.⁸⁶

Lakeland Power submitted that its evidence establishes that the temporary transformer had little to no market demand due to its voltage configuration, the absence of an On-Load Tap Changer, and its insufficient capacity. A transformer without an On-Load Tap Changer would give rise to power quality issues for customers. Moreover, utilities generally prefer to procure new transformers directly from manufacturers rather than acquiring older, repurposed units.⁸⁷ For these reasons, Lakeland Power concluded that

⁸² Lakeland Power Reply Submission, p. 11

⁸³ Lakeland Power Reply Submission, p. 12

⁸⁴ Response to Interrogatory OEB Staff 13(b)

⁸⁵ Response to Interrogatories OEB Staff 6 and 13

⁸⁶ Lakeland Power Reply Submission, p. 9

⁸⁷ Response to Interrogatory OEB Staff 13(b)

the temporary rental unit would have no value beyond scrap once it was decommissioned from the Centennial MS site.

Affiliate Relationship Code

SEC submitted that Lakeland Power's proposed Z-factor claim related to the temporary transformer rental is imprudent and in breach with the Affiliate Relationships Code (ARC), resulting in unnecessary and excessive costs to ratepayers.⁸⁸ SEC further submitted that under the proposed arrangement, ratepayers would pay approximately \$300,000 for the short-term use of a transformer over about 20 months, with the affiliate having purchased the asset for \$375,000. This rental expense represents roughly 80% of the transformer's purchase price, even though the transformer would retain a substantial remaining useful life of approximately 23 years,⁸⁹ more than half of its expected 40-year lifespan, after Lakeland Power's use ends.⁹⁰

SEC further stated that Lakeland Power is in breach of Section 2.3.4.1 of the ARC. This section of the ARC provides that where a reasonably competitive market does not exist, a "utility shall pay no more than the affiliate's fully allocated cost to provide [...] use of an asset."⁹¹ SEC also noted that the market for transformer rental is clearly not competitive, as demonstrated by Lakeland Power's own evidence of the difficulty it had in securing the initial transformer. If the market was competitive, SEC submitted that Lakeland Power would not have had to pay anything close to the annualized rental rate of approximately \$396,000 (\$33,000 per month) for a transformer with a purchase value of only \$375,000.⁹²

Lakeland Power disagreed with SEC, stating the intervenor's assertion that a reasonably competitive market did not exist was not supported by the evidence.⁹³ Lakeland Power noted that it was able to secure a temporary transformer from an arms-length third party (KPC) on short notice, showcasing there is an active and competitive market for transformer rentals.

Lakeland Power submitted that because a competitive market exists, Section 2.3.3.1 of the ARC is the applicable section for transfer pricing. The evidence shows that the market rate for the same transformer was \$33,000 per month, based on the KPC rental. Bracebridge Generation provided a rental rate that was lower than this benchmark by offering a \$30,000 monthly rate, subject to a \$300,000 cap, resulting in an effective rate

⁸⁸ SEC Submission, pp. 3-4

⁸⁹ Response to Interrogatory SEC 6(d)

⁹⁰ *Ibid.*

⁹¹ Affiliate Relationship Code for Electricity Distributors and Transmitters, section 2.3.4.1

⁹² SEC Submission, pp. 3-4

⁹³ Manager's Summary, Appendix Z-1, p. 8

of approximately \$15,000 per month. Lakeland Power argues that this rate is therefore well below the established market rate.⁹⁴

Lakeland Power further noted in its responses to the questions posed in Procedural Order No. 3 that any benefit arising from the purchase of the transformer and ownership is such that, once the transformer is no longer required by Lakeland Power, Bracebridge Generation would be willing to refund any amounts in excess of \$75,000, including carrying charges back to Lakeland Power, if the transformer can be sold.⁹⁵

Findings

The OEB approves the recovery of \$793,803 in capital costs associated with the transformer failure due to a lightning strike at Centennial MS. While capital costs claimed under Z-factor are typically assessed after full payment has been made, the OEB grants an exception in this case because of the extended repair timeline and the critical role of the rental transformers in maintaining service to customers

The OEB also approves recovery of \$5,730 (\$6,074, less \$344 for vehicle use) for the installation cost of the temporary transformer. The OEB approves the above cost on the basis that internal labour expense reported in Table 4.3 is for overtime only.

Cost of Rental of Temporary Transformer

The OEB approves a total of \$397,000 for recovery of the transformer rentals, the components of which are detailed below.

The OEB approves the full recovery of the \$297,000 rental costs of a temporary transformer from KPC at \$33,000 per month to enable the utility to restore and maintain service to customers following the failure of a critical piece of equipment as a result of the lightning storm.

The OEB approves \$100,000 (not \$300,000 as claimed) for recovery through rates for renting a replacement transformer from its affiliate Bracebridge Generation. Although the monthly rental fee of \$30,000, with a cap of \$300,000, is of the same order charged by KPC, the rental arrangement between Lakeland Power and its affiliate is problematic. First, the arrangement burdens ratepayers with 80% of the cost of an asset with a long life while using it for only 20 months. As SEC, VECC and OEB staff argued, this is unfair and amounts to a subsidy from ratepayers to Lakeland Power's affiliate, given that the affiliate will retain ownership of an asset with significant remaining value, with 80% of its

⁹⁴ Lakeland Power Reply Submission, p. 9

⁹⁵ Responses to Procedural Order No. 3 Questions, p. 3

cost proposed to be covered by ratepayers through the Z-factor claim. Second, Lakeland Power did not go to market, after the initial urgent rental from KPC, to explore other options. The OEB is not persuaded that the emergency rate negotiated with KPC constitutes a fair market price.

There is insufficient evidence demonstrating that the rental rates – \$33,000 per month from KPC and \$30,000 per month from Bracebridge Generation – were competitively obtained. While the urgency of the situation might have justified the initial sole-source arrangement with KPC, the OEB finds that Lakeland Power should have subsequently and promptly sought alternative suppliers or explored other options such as renting from other utilities, particularly given the extended repair timeline. It is reasonable to conclude that lower rental rates may have been available over such a prolonged period. The OEB finds it inappropriate to conclude that the initial rate of \$33,000 per month reflects market value.

SEC and VECC submitted that Lakeland Power should have purchased the transformer directly, which could have reduced costs to customers and potentially provided future operational value as a spare or rental asset. SEC submitted an estimated rental cost based on the principle of fully allocated cost, to represent all-in cost as if Lakeland Power had purchased the transformer itself. Based on this, SEC submitted that Lakeland Power should be allowed a rental recovery of \$61,866 for the 20-month period.

Lakeland Power stated that the transformer would not have been suitable for broader utility use or that it could have not been reasonably deployed for future emergencies or external rentals. Evidence suggests that the transformer was not of utility-grade standard. Lakeland Power submitted that the transformer would be of no value to it and thus amortized the entire cost over the two years. The OEB accepts Lakeland Power's submission that the temporary transformer was not suitable for long-term utility use due to its limited capacity and the absence of an On-Load Tap Changer. However, the transformer could have been useful as an emergency replacement or for renting to other utilities in similar emergencies. Arguably, therefore, the transformer would be of similar valuable use for Bracebridge Generation in the future.

Nonetheless, it could have been of use in future emergencies similar to the one experienced at Centennial MS.

The OEB finds it reasonable that there should be some risk premium beyond the all-in cost proposed by SEC included in the fully allocated cost of the transformer. Accordingly, the OEB finds that Lakeland Power should be allowed to recover \$100,000 for the 20 months of rent paid to its affiliate Bracebridge Generation to reflect the fully allocated cost appropriately.

Table 4.1 is reproduced below to illustrate the total Z-factor claim approved by the OEB.

Table 4.4: Reproduction of Table 4.1 with the OEB Approved Cost Summary

Centennial MS Z-factor Cost	Operating \$	Capital \$	Total \$
Costs from Jun. 14, 2024 to Sept. 30, 2025 (original submission)			
Install of temporary transformer	\$68,064	\$0	\$68,064
Transformer rental	\$397,000	\$0	\$397,000
Consulting fees / reports	\$9,341	\$1,870	\$11,211
Transformer re-build costs	\$0	\$243,593	\$243,593
Sub-Total (excluding carrying charges)	\$474,405	\$245,463	\$719,868
Costs from Oct. 1, 2025 to Aug. 31, 2026			
Install of transformer	\$0	\$64,347	\$64,347
Transformer rental	\$0	\$0	\$0
Consulting fees / reports	\$0	\$0	\$0
Transformer re-build costs	\$0	\$476,100	\$476,100
Sub-Total	\$0	\$540,447	\$540,447
Total Z-factor Claim Costs (excluding carrying charges)	\$474,405	\$785,910	\$1,260,315

In its Draft Rate Order, Lakeland Power shall recalculate carrying charges for the period from June 14, 2024 to August 31, 2026 based on the approved cost amounts, and shall update the carrying charges, subtotals including carrying charges, and total Z-factor claim costs accordingly, supported by detailed carrying charge calculations.

New Evidence Introduced

Lakeland Power submitted that SEC introduced new evidence in its written argument through the introduction of the SEC Model.⁹⁶ Lakeland Power stated that this conduct is a clear violation of the normal rules of procedure governing hearings before the OEB and seriously undermines Lakeland Power's right to a fair hearing.⁹⁷

⁹⁶ SEC's submission (p. 4) notes that the SEC Model shows the resulting calculation of the fully allocated cost of purchasing the transformer over the period of the rental.

⁹⁷ *Ibid.*, p. 10

Lakeland Power further submitted that it has had no opportunity whatsoever to test, interrogate, or respond to this evidence, including the assumptions embedded within the model. By introducing new evidentiary material at the argument stage, Lakeland Power argued that SEC deprived Lakeland Power of procedural fairness and the ability to meaningfully participate in the hearing. On this basis alone, Lakeland Power requested that the SEC Model and all conclusions derived from it must be struck from the record.⁹⁸

In the alternative, and without prejudice to the foregoing, should the OEB decline to strike the SEC Model from the record, Lakeland Power re-ran the model correcting, what it believed, were multiple errors made by SEC and applied the appropriate assumptions. These corrections included the treatment of the temporary transformer having only scrap value once it is replaced by the transformer currently being repaired by Surplec. Even after adopting SEC's modelling framework, when properly executed, the outcome remains unchanged. Renting the temporary transformer is the preferred option from the perspective of ratepayers. Under a purchase scenario, the total cost to ratepayers would be \$503,000, whereas the cost of renting the transformer would be only \$315,000 before tax.⁹⁹

2025 Return on Equity

Lakeland Power noted in its Procedural Order No. 3 responses, ROE was expected to be 6.2%. Lakeland Power's final ROE submitted for 2025 was 8.71%. However, included in Lakeland Power's audited results is an adjustment of \$369,057 related to the transformer costs incurred in 2024. These expenses in 2025 were moved to Account 1572, resulting in 2025 OM&A expenses being reduced by \$369,057. This resulted in a higher ROE. The achieved ROE when adjusted for this amount is reduced from 8.71% to 6.2%.¹⁰⁰

Findings

With the adjustment to the fully allocated cost set out above, the OEB finds that the SEC approach is reasonable. While SEC may not have assessed all assumptions and cost factors with the same depth as Lakeland Power, its analysis nevertheless demonstrates that there were more cost-effective options available. This is particularly relevant once it became apparent that the rental period would extend over a significant timeframe.

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*

¹⁰⁰ Responses to Procedural Order No. 3 Questions, pp. 10-11

With respect to Lakeland Power's submission regarding financial constraints, the OEB notes that utilities have flexibility in managing cash flow, which can influence compliance with credit covenants. Given that the transformer purchase price was \$375,000, and that Lakeland Power paid \$300,000 in rental costs to Bracebridge Generation within the same financial year, the OEB does not find the stated financial constraints to be a sufficient justification for not purchasing the transformer.

The OEB also notes that Lakeland Power's ROE for 2025 was 6.2%, which is below its approved ROE of 8.98%.

5. IMPLEMENTATION

Lakeland Power proposed rate riders and disposition periods for each respective Z-factor claim. With respect to the ice storm Z-factor, Lakeland Power proposed to recover amounts from ratepayers via two separate fixed rate riders – one for operating costs effective May 1, 2026 until April 30, 2027, and one for capital costs effective May 1, 2026 until rebasing.

With respect to the lighting storm Z-factor, Lakeland Power proposed to recover amounts from ratepayers via two separate fixed rate riders – one for operating costs over a 24-month period effective May 1, 2026 until April 30, 2028 (with the exception of the Sentinel and Unmetered Scattered Load rate classes), and one for capital costs effective May 1, 2026 until Lakeland Power's next rebasing rate order. For Sentinel and Unmetered Scattered Load customers, a 48-month rate rider is proposed as the bill impacts for these two customer classes is just above 10% when a 24-month rate rider is used.

For both Z-factor claims, SEC submitted that the disposition period for the OM&A rate riders should be extended to four years given the bill impacts and for consistency across all rate classes.¹⁰¹ SEC further submitted that for Lakeland Power rate classes with a variable component of either kWh or kW, the rate riders should reflect the fixed / variable split approved in Lakeland Power's last rebasing application. SEC stated that "[t]his 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."¹⁰²

VECC similarly submitted 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.¹⁰³

Lakeland Power disagreed with the submissions from SEC and VECC. Instead, Lakeland Power submitted that the proposed disposition period already accounts for bill impacts of affected customers and noted that the timely recovery of Z-factor costs is an

¹⁰¹ SEC Submission, p. 7

¹⁰² *Ibid.*

¹⁰³ VECC Submission, p. 7

imperative consideration given the ongoing risks to its financial viability and the intergenerational equity concerns created by a significantly longer disposition period.¹⁰⁴

With respect to the rate riders, Lakeland Power stated that fixed rate riders offer a predictable means for it to recover Z-factor costs, whereas variable rate riders would expose it to revenue uncertainty from weather and load volatility based on an outdated load forecast. This creates a risk of under-recovery of prudently incurred costs at a time when, as characterized by Lakeland Power, it is least able to bear such risk, contrary to the Z-factor mechanism's purpose of restoring financial viability following unforeseen events beyond management's control.¹⁰⁵

Findings

The OEB accepts Lakeland Power proposed recovery period for the Z-factor related rate riders, with an implementation date of September 1, 2026. Based on this implementation date, Lakeland Power shall recalculate the proposed rate riders as part of the Draft Rate Order filing.

Lakeland Power shall file a Draft Rate Order reflecting the OEB's findings in this Decision and Order.

¹⁰⁴ Lakeland Power Reply Submission, pp. 15-16

¹⁰⁵ Lakeland Power Reply Submission, p. 16

6. ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Lakeland Power Distribution Ltd. shall file with the OEB and forward to intervenors a Draft Rate Order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in this Decision and Order, no later than **August 10, 2026**.
Lakeland Power Distribution Ltd. shall also include customer rate impacts and detailed information in support of the calculation of final rates in the Draft Rate Order.
2. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB, and forward to Lakeland Power Distribution Ltd., no later than **August 18, 2026**.
3. Lakeland Power Distribution Ltd. shall file with the OEB and forward to intervenors, responses to any comments on its Draft Rate Order no later than **August 25, 2026**.

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-2025-0024** 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, Kelli Benincasa at Kelli.Benincasa@oeb.ca, and OEB Counsel, Raman Dhillon at Raman.Dhillon@oeb.ca.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, July 30, 2026

ONTARIO ENERGY BOARD

Ritchie Murray
Registrar