

November 19, 2021

Christine Long
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Long:

EB-2020-0015 – Elexicon Energy Inc. - 2022 Rates – Incremental Capital Module

Please find, attached, the Final Argument of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All Parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: EB-2021-0015 – ELEXICON ENERGY INC. – 2022 RATES - ICM FUNDING

Introduction:

On August 18, 2021, Elexicon Energy Inc. applied to the Ontario Energy Board (“OEB”) for approval of its distribution rates effective January 1, 2022. The rates for the Verizon Rate Zone (“VRZ”) are pursuant to the OEB’s Price Cap Incentive Index rate-setting methodology. The rates for the Whitby Rate Zone (“WRZ”) are pursuant to the OEB’s Annual Incentive Rate Index rate-setting methodology.

Elexicon is also seeking approval of Incremental Capital Module (“ICM”) funding projects in the VRZ. Those projects are the Seaton Transformer Station (“Seaton TS”) and the Bus Rapid Transit (“BRT”) Highway 2 project. Elexicon’s evidence is that the Seaton TS is required to serve the growing load in the Pickering area. The BRT project is required to relocate some of its existing overhead and underground infrastructure in Pickering to support the construction of a BRT project being driven by the Region of Durham and Durham Region Transit. The requested funding is:

- | | |
|--------------|-----------|
| 1. Seaton TS | \$40.762m |
| 2. BRT | \$3.379m |

The revenue requirement associated with these projects is \$3,769,644 which Elexicon would recover through ICM rate riders.¹

These are the submissions of the Consumers Council of Canada (“Council”) regarding Elexicon’s request for ICM funding.

Submissions:

When assessing the reasonableness of an LDC’s request for ICM funding the OEB considers materiality, need and prudence. With respect to the OEB’s criteria the Council submits that the Seaton TS meets each of those criteria.

With respect to materiality the OEB considers whether a project is within the maximum eligible incremental capital amount. Elexicon’s Maximum Eligible Incremental Capital amount is \$61,497,701. ² The \$40.762 is clearly within this amount. In addition, the OEB considers project-specific materiality. Minor expenditures when compared to the overall capital budget

¹ Elexicon Energy Inc. Evidence p. 38/42

² Appendix B, ICM p. 5

are not eligible for ICM treatment and must be absorbed within the total capital budget.³ The Council submits that a \$40 million project in the context of overall capital spending of \$80,295,947 is material.

With respect to need, Elexicon has provided sufficient evidence to support need. A key outcome of the Regional Planning Process for the GTA East planning region was the construction of a new transmission station, Seaton TS, to resolve capacity issues at Whitby TS which arise due to the development of the new Seaton subdivision. Elexicon provided the GTA East 2019-2024 cycle of Regional Infrastructure report dated February 29, 2020. Elexicon worked with Hydro One Networks Inc. during the Regional Planning Process and the benefits realized from the construction of the Seaton TS include cost savings when compared to alternatives⁴.

With respect to prudence the Council submits that Elexicon has provided sufficient evidence to demonstrate prudence:

- Elexicon's predecessor Veridian Connections Inc. developed the Seaton Transformer Station Supply Options Study and concluded that the best alternative was to build the TS at Site 2 (one of the three options considered)⁵
- Elexicon used a competitive procurement process for all major purchases on the Seaton TS project and worked in conjunction with another LDC in contracting with the major equipment suppliers.⁶
- Elexicon completed benchmarking analyses on the costs for the Seaton TS.⁷
- Elexicon has employed a stipulated price contract the General Contractor where the Contract is responsible for cost overruns.

From the Council's perspective it is not a question as to whether this project should be approved by the OEB, it is a question of when. Elexicon's evidence is that it expects to exceed the Limited 10-day Rating of the Whitby TS 27.6 kV system in 2023⁸. In addition, construction is not expected to begin until July 2022 and the station not in service until November 30, 2022⁹ which is following the summer peak period.

³ EB-2014-0219 Report of the OEB, ACM, dated September 18, 2014, pp. 16-17

⁴ Appendix B, pp. 7-8

⁵ OEB Staff -1

⁶ OEB Staff -3

⁷ OEB Staff -3

⁸ OEB Staff - 4

⁹ OEB Staff -12

The Council submits that the OEB should approve the Seaton TS. However, in order to ensure that Elexicon's customers are treated fairly, the ICM riders should be applied in 2023, the year in which the actual station is needed. To allow recovery in 2022 would be premature.

The Council does not support ICM funding for the BRT Project for two reasons. The first is that it is not material in the context of the overall budget. The cost of the project is \$5.3 million, but taking into account the contribution amount of \$1.9 million from the road authority and \$1.3 million in retirements (taking assets out of rate base) the actual project cost is approximately \$2.1 million¹⁰. The OEB has clearly determined that a certain degree of expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.¹¹

In addition, this project is similar to projects that Elexicon regularly undertakes each year and are typically funded through base rates. There is no reason why this project is any different than the road relocation projects that Elexicon has been undertaking over the past several years.

The Council notes that the Seaton TS is the type of project that the ICM policy was intended to fund. It is a large capital project that was not anticipated when base rates were last set. Road relocations are normal budget items that typically form part of the overall capital budget. Elexicon has clearly not established the need for ICM funding for the BRT project.

All of which is respectfully submitted.

¹⁰ SEC - 8

¹¹ ACM Report, p. 17