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November 17, 2021

VIA E-MAIL

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: EB-2021-0015 Elexicon Energy Inc. 2022 ICM
Submissions of Vulnerable Energy Consumers Coalition (VECC)**

Please find enclosed the submissions of VECC. We have also directed a copy of the same to the Applicant.

Yours truly,

John Lawford

Counsel for VECC

Copy to: Steve Zebrowski Manager, Regulatory Policy

EB-2021-0015

Elexicon Energy Inc.

Application for electricity distribution rates effective January 1, 2022

VECC Submissions November 19, 2021

Elexicon Energy Inc. (Elexicon) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 18, 2021 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2022.

In this application, Elexicon has applied for an Incremental Capital Module (ICM) for two discrete projects:

1. Seaton Municipal Transformer Station (Seaton TS) – a new 230/27.6 kV transformer station required to serve the growing load in the Pickering area; and
2. Bus Rapid Transit (BRT) Highway 2 – Elexicon 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.

Both of these projects are in the Veridian Rate Zone (VRZ). VECC's submissions relate to Elexicon's ICM request.

The gross and net capital expenditures associated with both the Seaton TS and BRT Highway 2 projects total \$46,061,000 million and \$44,141 million, respectively.¹

Project Description	Gross Capital Expenditure	Contributions	Net Capital Expenditure
Seaton TS	\$ 40,762,000	\$ -	\$ 40,762,000
BRT Highway 2	\$ 5,299,000	\$ 1,920,000	\$ 3,379,000
Total VRZ Incremental Capital	\$ 46,061,000	\$ 1,920,000	\$ 44,141,000

Incremental Capital Module

Elexicon seeks incremental revenue requirement recovery of \$3,769,644, associated with the Seaton TS and BRT Highway 2 projects through rate riders effective January 1, 2022.

In OEB Staff-9, Elexicon revised the useful life of the Seaton TS – Station Building from 25 years to 50 years to align with the Kinectrics report. In addition, Elexicon updated cost estimates in related to the land purchase and removed certain asset components from transformer costs and moved them into other accounts to better reflect their depreciation. The outcome is a

¹ Appendix B- Incremental Capital Module Page 6

decrease in total revenue requirement for both ICM projects from \$3,769,644 to \$3,683,510 resulting in lower rate riders for customers.

The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold. Elexicon filed its first consolidated² DSP on April 1, 2021. In the DSP, Elexicon referenced its plan to file an ICM in 2022 for the two projects.³ Elexicon identified the Seaton TS project as a potential ICM requirement at the time of the MAADs application.⁴ The BRT Highway 2 project was not identified at this time.

The ICM is available for discretionary and non-discretionary projects. Elexicon classifies the two projects as non-discretionary. The Seaton TS is required to serve the growing load in the Pickering area and the BRT Highway 2 project is being driven by Third Party Infrastructure Development Requirements the Region of Durham, and Durham Region Transit. VECC agrees the two projects are non-discretionary.

The OEB's ICM framework indicates the requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of: 1) materiality; 2) need; and 3) prudence.

1. Materiality

There are two materiality tests related to ICM applications.

The first test is the ICM materiality threshold formula, which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. The test states: "Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount" and "must clearly have a significant influence on the operation of the distributor, otherwise they should be dealt with at rebasing."⁵

Elexicon calculates close to \$61.5 million as the maximum eligible incremental capital to be funded through an ICM. VECC takes no issue with Elexicon's calculation of the materiality threshold and submits the two projects are well within the total eligible capital amount.

Eligible Incremental Capital (2022)	Capital Expenditures
2022 DSP Capital Forecast (VRZ)	80,295,947
Less: Materiality Threshold	18,798,246
Maximum Eligible Incremental Capital	\$ 61,497,701

² Merger of Veridian Connections Inc. Whitby Hydro Electric Corporation.

³ Appendix B Page 1

⁴ Appendix B— Incremental Capital Module Page 1

⁵ Filing Requirements For Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications - Chapter 3 Incentive Rate-Setting Applications June 24, 2021 Page 27

The second test is the project-specific materiality test as follows:

Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the Board-defined threshold calculation is expected to be absorbed within the total capital budget.

The Seaton TS and the BRT Highway 2 projects represent approximately 48%⁶ and 4%⁷ of the 2022 forecast capital budget, respectively. The Seaton TS project is clearly eligible for ICM treatment but for the reasons discussed below, VECC submits the BRT Highway 2 project funding should be incorporated into the 2022 capital budget.

Capital Budget Analysis

Table 1 below shows the gross historical spending on road relocation work over the period 2014 to 2019, pre COVID-19. The average annual gross capital spend is \$5.82 million.⁸ 2019 and 2020 actuals are \$3.64 million and \$4.75 million, respectively. In 2022, Elexicon forecasts to spend \$5.54 million on road relocation work plus an additional \$5.3 million for the Region of Durham BRT Highway 2 ICM project.

Table 1: Historical Capital Spending on Road Relocation Work

Projects	2014	2015	2016	2017	2018	2019	Total 2014-2019	Average 2014-2019	2022 Test Year
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS			MIFRS
SYSTEM ACCESS									
A1 - Road Relocation	5.81	11.87	5.86	2.90	4.80	3.64	34.89	5.82	5.54
BRT Road Relocation	0.00	0.00	0.00	0.00	0.00		0.00	0.00	5.30
Contributions								3.41	7.25
Net Expenditures								2.41	3.59

The data shows that Elexicon has historically been able to fund similar and larger road relocation projects through base rates.

The average net historical expenditures (excluding capital contributions) over the 2014 to 2019 period for road relocation work is \$2.41 million.⁹ The net capital in 2022 is \$3.6 million. In response to SEC-8, Elexicon calculates \$1.335 million in retirements as a result of the BRT Highway 2 ICM project. VECC submits this amount will be removed from rate base in 2022 making the net capital addition to rate base in 2022 of \$2.265 million. VECC submits this amount represent approximately 2.6%¹⁰ of the 2022 forecast capital budget and does not pass

⁶ \$40.76 M/\$85.004 M = 48%

⁷ \$3.379 M/\$85.004 M = 3.98%

⁸ Appendix 2-AA

⁹ DSP Appendix A – A1 Road Relocation Table 1

¹⁰ \$2.65 M/\$85.004 M = 2.66%

the project-specific materiality test. Elexicon should be expected to fund this amount within the total 2022 capital budget. VECC's submits the OEB should not approve ICM treatment for the BRT Highway 2 project.

The following sections discuss the need and prudence eligibility criteria for the Seaton TS project. VECC concludes that the Seaton TS project satisfies these two criteria.

2. Need

The distributor must pass the Means Test (as defined in the ACM Report). The ACM Report indicated that need must be established by meeting the following criteria:

- passing the Means Test
- the amounts must be based on discrete projects, and should be directly related to the claimed driver
- the amounts must be clearly outside of the base upon which the rates were derived.¹¹

The ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed ROE embedded in the distributor's rates.

Elexicon's 2020 achieved ROE¹² was 6.80%, 2.63% below the deemed ROE of 9.43%. As Elexicon's regulated return does not exceed 300 basis points above the deemed ROE, VECC submits Elexicon meets the Means Test.¹³

Seaton TS is a new 230/27.6 kV transformer station required to serve the growing load in the Pickering area. Seaton TS is required to resolve capacity issues at Whitby TS which would arise due to the development of the new Seaton subdivision. Construction of Seaton TS was a key outcome of the Regional Planning Process for the GTA East planning region. The purpose of the Seaton TS is to increase transformation capacity in the Pickering-Ajax-Whitby sub-region to address forecasted load growth of approximately 2.9% annually. The need for the Seaton TS is fully described in the GTA East 2019-2024 cycle of Regional Infrastructure Planning report dated February 29, 2020 (the RIP), which was filed as an attachment to the DSP.

Building Seaton TS allows Elexicon to exclusively operate and own the designated TS for the area. HONI will extend an existing 230-kV transmission line to Seaton TS.

VECC agrees with Elexicon's evidence that the Seaton TS project is a discrete capital project that exceeds the materiality level for the VRZ and is unrelated to any recurring annual capital

¹¹ Filing Requirements For Electricity Distribution Rate Applications - 2021 Edition for 2022 Rate Applications - Chapter 3 Incentive Rate-Setting Applications June 24, 2021 Page 27-28

¹² as filed in RRR 2.1.5.6

¹³ Appendix B— Incremental Capital Module Page 9

projects. VECC also agrees this project is significant relative to Elexicon's overall capital expenditures planned for 2022 and is not funded through existing rates.¹⁴

VECC submits the Seaton TS project satisfies the need eligibility criteria.

3. Prudence

The amounts to be incurred must be prudent. 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.

For the following reasons VECC submits the development of the Seaton TS project satisfies the prudence eligibility criteria:

- Elexicon provided business cases for Seaton TS which includes comparisons of the potential alternatives for each project and demonstrate that Elexicon elected to proceed with the most cost-effective option.
- The IESO conducted its own assessment of the alternatives available to address the transformation capacity need in the Pickering-Ajax-Whitby Sub-Region. The new TS was also evaluated using eight different alternatives to determine the most cost-effective solution.
- The quantifiable benefits realized from Seaton include cost savings for both HONI and Elexicon when compared to the alternatives.
- A competitive procurement process was used for all major purchases on the Seaton TS project including: Class Environmental Assessment process consultation, project engineering, major equipment purchasing (power transformers, switchgear, instrument transformers) as well as for selection of the general contractor. In all cases, multiple quotes were requested from the market and vendors were required to demonstrate relevant experience. Selection of Hydro One for transmission connection work was mandatory.
- Elexicon worked collaboratively with Halton Hills Hydro, who was constructing a TS on approximately the same project timing allowing both distributors to obtain better pricing for major components through coordinated, but separate, sourcing processes.
- The Seaton Transformer Station Supply Options Study developed by Veridian assumed that all of the new load would be supplied by a new standalone transformer station constructed by HONI or Veridian. It concluded that the best alternative was for Veridian to build its own Seaton TS at Site 2.¹⁵
- Elexicon completed benchmarking of the costs for the Seaton TS project. The initial project budget was based on data from several recent (at the time of project initiation in 2016) similar Ontario LDC projects.¹⁶

¹⁴ Appendix B— Incremental Capital Module Page 9

¹⁵ OEB Staff-1

¹⁶ OEB Staff-3

With respect to status of the project, the environmental assessment study for the complete Seaton project including the transmission supply line from Hydro One and for the station site has been completed.¹⁷ Construction activities commenced on October 25, 2021. Elexicon expects that the project will be placed in-service by November 2022.¹⁸ The in-service date of Seaton TS was delayed from 2021 to 2022 as the City of Pickering Site Plan Approval and Building Permit approvals were slower than anticipated and the process to secure the land from the landowner, the Province of Ontario, took longer than expected.¹⁹

VECC submits the OEB should approve the Seaton Ts for ICM treatment.

Timing of ICM Rate Riders

Currently, the Whitby TS T1/T2 27.6kV has been bearing the burden of developments around the Seaton region. The 2016 IRRP forecasted that the Whitby TS 27.6kV LTR would be exceeded by 2018. However, Elexicon now indicates the actual loading of Whitby TS 27.6kV in 2019 was less than half of its LTR. Furthermore, as of 2019, the large influx of customers from the Seaton Area has still not yet occurred as originally forecasted. As a result, Elexicon now expects to exceed the Limited 10-day Rating (“LTR”) of the Whitby TS 27.6 kV system in 2023 and it can only continue connecting additional loads until 2023.²⁰

Given the Whitby TS will exceed its Limited 10-day Rating (“LTR”) by 2023, VECC submits the ICM riders should be applied in 2023, the year the Seaton TS is needed. Applying the rate riders in 2022 is premature. This approach is in the best interest of customers.

¹⁷ OEB Staff - 15(a)

¹⁸ OEB Staff-5 (d)

¹⁹ OEB Staff-5 (b)

²⁰ OEB Staff-4