



Ontario  
Energy  
Board | Commission  
de l'énergie  
de l'Ontario

**BY EMAIL**

April 6, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Elexicon Energy Inc.  
Z-Factor Event Application  
OEB File Number: EB-2022-0317**

---

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Vithooshan Ganesanathan  
Advisor, Generation & Transmission

Encl.

c: All parties in EB-2022-0317



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Elexicon Energy Inc.**

**Z-Factor Event Application**

**EB-2022-0317**

**April 6, 2023**

## Background

Elexicon Energy Inc. (Elexicon Energy) filed a Z-factor event application (Application) with the Ontario Energy Board (OEB) on December 9, 2022, under section 78 of the *Ontario Energy Board Act* seeking approval for changes to its electricity distribution rates to be effective July 1, 2023. The Application seeks recovery of \$4,602,788 in expenditures associated with the restoration of electricity service to Elexicon Energy's customers following the May 21, 2022 derecho storm event.

OEB staff submits that Elexicon Energy incurred material costs to restore distribution electricity service as a result of the May 2022 derecho storm. However, OEB staff submits, while the claimed costs largely satisfy the causation and prudence criteria for Z-factor recovery based on the record filed in the Application, OEB staff recommends disallowance of some costs and expensing, rather than capitalizing, some other costs.

OEB staff has concerns with a portion of the pole replacement costs included in the Z-factor claim for replacement of damaged poles that were in Poor and Fair-Poor condition and, for the reasons discussed in this submission, proposes a total disallowance of \$495,447 pole replacement costs, representing an overall decrease of 10.8% to the Z-factor claim. OEB staff has not identified any issues with the claimed costs of \$395,889 related to the Uxbridge TS rebuild, but submits that costs related to the disposal of spilled oil and contaminated water should be expensed and not capitalized as proposed by Elexicon Energy.

## Derecho Storm

On May 21, 2022, a derecho storm swept through the province of Ontario, including large portions of Elexicon Energy's service territory. This storm caused extensive damage to Elexicon Energy's infrastructure, leading to prolonged power outages for over 95,000 Elexicon Energy customers in the communities of Ajax, Belleville, Bowmanville, Pickering, Uxbridge, and Whitby. Uxbridge was the most severely impacted service area with its main transformer station requiring a full rebuild as part of the restoration operation. Elexicon Energy declared a level 3 outage, representing any power interruption event affecting more than 25,000 customers with an expected restoration time exceeding 24 hours. By May 27, 2022, power had been restored to approximately 98.7% of customers, at which point Elexicon Energy declared its level 3 outage over. Elexicon Energy issued communications keeping its customers informed during the storm and the subsequent service restoration.<sup>1</sup>

Elexicon Energy stated that the storm was one of the most severe storms in Elexicon

---

<sup>1</sup> Application, pp. 11-12; Application, Appendix A-1a, p. 10

Energy's or its predecessor utilities'<sup>2</sup> history, with its impact spread over a wide portion of Elexicon Energy's service territory. Elexicon Energy stated that the harm caused by this extraordinary event was beyond its experience and expectations.

By way of a letter dated September 6, 2022, Elexicon Energy notified the OEB of its intention to file a Z-factor application.<sup>3</sup>

Elexicon Energy stated that it conducted its restoration efforts in a prudent manner by using materials available in its inventory where possible, rebuilding infrastructure only when necessary, using previously negotiated rates for material purchase and third-party contractor labour, and requesting support from local distributors.

#### Elexicon Energy Rates Zones: Veridian and Whitby

On December 20, 2018, the OEB approved the amalgamation between the former Veridian Connections Inc. and Whitby Hydro Electric Corporation.<sup>4</sup> The amalgamation came into effect on April 1, 2019 and includes a ten-year deferred rebasing period with the next rebasing scheduled for 2029. As part of the Mergers, Amalgamations, Acquisitions and Divestitures (MAADs) decision, the OEB approved Elexicon Energy's request to maintain its respective rate-setting methods for each of the Whitby Rate Zone (WRZ) and Veridian Rate Zone (VRZ) during the deferral period.<sup>5</sup> As allowed for in an OEB letter dated December 1, 2021,<sup>6</sup> Elexicon Energy has adopted the same Price Cap Incentive Rate-setting adjustment formula for both rate zones for 2023 rates, although the rates are calculated separately for the WRZ and VRZ rate zones.<sup>7</sup>

The rates for the WRZ were last rebased for the 2011 rate year,<sup>8</sup> while rates for the VRZ were last rebased for the 2014 rate year.<sup>9</sup>

#### Z-Factor Cost Recovery

Elexicon Energy proposed to recover a total amount of the \$4,602,788 storm restoration costs from ratepayers via two rate riders:

---

<sup>2</sup> On December 20, 2018, the OEB approved the amalgamation between the former Veridian Connections Inc. and Whitby Hydro Electric Corporation (EB-2018-0236, Decision and Order).

<sup>3</sup> Application, Appendix A-2, Notice of Intent to file Z-Factor Application

<sup>4</sup> EB-2018-0236, Decision and Order, December 20, 2018

<sup>5</sup> *Ibid*, p. 18

<sup>6</sup> OEB, letter dated December 1, 2021, re: Applications for 2023 Electricity Distribution Rates

<sup>7</sup> EB-2022-0024, Application, July 27, 2022, p. 10

<sup>8</sup> EB-2009-0274, Decision, December 20, 2010

<sup>9</sup> EB-2013-0174, Decision and Order, April 10, 2013

- I. **Capital cost recovery rate rider of \$4,379,603:** A fixed rate rider from July 1, 2023 to December 31, 2028<sup>10</sup>
- II. **Operating cost recovery rate rider of \$223,186:** A fixed rate rider over a one-year period from July 1, 2023 to June 30, 2024

Through an interrogatory response, Elexicon Energy updated the evidence to correct an error in the operating and capital costs that was included in the Z-factor claim from the pre-filed evidence.<sup>11</sup> Elexicon Energy stated that it incorrectly recorded an amount from a third party in the Veridian Rate Zone as an operating expense when it should have been recorded as a capital expense. Summaries of these updates in table format are provided in Tables 1 and 2 below.<sup>12</sup>

Table 1 below presents the proposed Z-factor event costs allocated between Elexicon Energy's two rate zones.

Table 1: Allocation of Z-Factor Event Costs by Rate Zone<sup>13</sup>

Rate Zone	Operating Cost (\$)	Capital Expenditures (\$)	Total (\$)
VRZ	181,277	3,557,220	3,738,496
WRZ	41,909	822,383	864,292
<b>Total</b>	<b>223,186</b>	<b>4,379,603</b>	<b>4,602,788</b>

Table 2 below summarizes the rate riders proposed by Elexicon Energy to recover the Z-factor event costs.

Table 2: Summary of Proposed Recovery Through Rate Riders<sup>14</sup>

Rate Zone	Cost Type	Rate Rider Type	Disposition Period	Recovered Annually (\$)
VRZ	Operating	Fixed	July 1, 2023 to June 30, 2024	181,277
VRZ	Capital Expenditure (Revenue Requirement)	Fixed	July 1, 2023 to December 31, 2028	304,984
WRZ	Operating	Fixed	July 1, 2023 to June 30, 2024	41,909

<sup>10</sup> Elexicon Energy is operating under a deferred rebasing period until December 31, 2028 which the OEB approved during the amalgamation between the former Veridian Connections Inc. and Whitby Hydro Electric Corporation (EB-2018-0236, Decision and Order).

<sup>11</sup> Staff-02

<sup>12</sup> Staff-02, Attachment 1 – Revised Tables 1-10

<sup>13</sup> Staff-02, Attachment 1 – Revised Tables 1-10, Table 2 Revised

<sup>14</sup> Staff-02, Attachment 1 – Revised Tables 1-10, Table 3 Revised & Table 4 Revised

WRZ	Capital Expenditures (Revenue Requirement)	Fixed	July 1, 2023 to December 31, 2028	73,766
			<b>Total</b>	<b>601,936</b>

In an interrogatory response, Elexicon Energy provided Table 3 summarizing the breakdown of costs for line and pole repair/replacement costs and Uxbridge Transformer Station (TS) rebuild costs related to the storm restoration.<sup>15</sup>

**Table 3: Storm Cost Breakdown<sup>16</sup>**

Cost Category	Capital Cost (\$)	O & M Cost (Regular- Time Labour) (\$)	O & M Cost (Recorded in Account 1572) (\$)	Total Cost (\$)
<b>Line and Pole Repair and Replacement</b>				
Elexicon Energy Labour (Regular)	449,512	58,828		<b>508,339</b>
Elexicon Energy Labour (Overtime)	484,940	-	54,565	<b>539,505</b>
Materials	987,574	-	71,370	<b>1,058,944</b>
LDC Mutual Aid Costs	-	-	-	-
Contracted Services - Line Services	1,594,664	-	43,790	<b>1,638,454</b>
Contracted Services - Excavation and Tree Removal	271,137	-	29,769	<b>300,907</b>
Vehicles	195,886	-	783	<b>196,669</b>
Meals	-	-	22,908	<b>22,908</b>
<b>Uxbridge TS Rebuild</b>				
Elexicon Energy Labour (Regular)	17,005	-	-	<b>17,005</b>
Elexicon Energy Labour (Overtime)	33,114	-	-	<b>33,114</b>
Materials	174,436	-	-	<b>174,436</b>
Contracted Services	162,838	-	-	<b>162,838</b>
Vehicles	8,497	-	-	<b>8,497</b>
Meals	-	-	-	-
<b>Other Storm Restoration Costs</b>				
Elexicon Energy Labour (Regular)	-	-	-	-
Elexicon Energy Labour (Overtime)	-	-	-	-
Materials	-	-	-	-
Contracted Services	-	-	-	-
Vehicles	-	-	-	-
Meals	-	-	-	-
<b>Total</b>	<b>4,379,603</b>	<b>58,828</b>	<b>223,186</b>	<b>4,661,615</b>

<sup>15</sup> Staff-02a, Table 3 - Storm Cost Breakdown

<sup>16</sup> *Ibid.*

In an interrogatory response, Elexicon Energy provided Table 4 that summarizes the annual budgeted and actual amounts for capital expenditures and OM&A related to storm restoration or other emergency response/maintenance from 2019 to 2022.<sup>17</sup>

Elexicon Energy noted that the budgets and actual amounts dating back to the rebasing of Elexicon Energy's predecessor utilities were not readily available. Elexicon Energy stated the separated budgeted amounts for Veridian Connections and Whitby Hydro are no longer relevant as Elexicon Energy now operates as a consolidated entity since the amalgamation.<sup>18</sup>

Table 4: Capital and OM&A budget and actuals since 2019

	2019		2020		2021		2022	
	Budget (\$)	Actual (\$)	Budget (\$)	Actual (\$)	Budget (\$)	Actual (\$)	Budget (\$)	Actual (\$)
Capital	-	-	-	314,308	-	377,253	-	404,401
Capital Z-Factor	-	-	-	-	-	-	-	4,379,603
Subtotal - Capital	-	-	-	314,308	-	377,253	-	4,784,004
Operating	2,007,090	2,027,666	1,796,606	1,620,668	2,009,305	1,647,300	1,829,524	1,816,403
Operating Z-Factor	-	-	-	-	-	-	-	223,186
Subtotal - Operating	2,007,090	2,027,666	1,796,606	1,620,668	2,009,305	1,647,300	1,829,524	2,039,589
<b>Total</b>	<b>2,007,090</b>	<b>2,027,666</b>	<b>1,796,606</b>	<b>1,934,976</b>	<b>2,009,305</b>	<b>2,024,553</b>	<b>1,829,524</b>	<b>6,823,593</b>

## Z-Factor Claim

Chapter 3 of the OEB's [Filing Requirements for Electricity Distribution Rate Applications](#) (Filing Requirements) defines Z-factor events as unforeseen events that are outside the control of a distributor's ability to manage.<sup>19</sup>

The Filing Requirements state that a distributor must submit evidence to substantiate that the costs incurred meet the following eligibility criteria of causation, materiality, and prudence:

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.

<sup>17</sup> Staff-01b

<sup>18</sup> *Ibid.*

<sup>19</sup> OEB's Filing Requirements For 2023 Rate Applications Chapter 3 Incentive Rate-Setting Applications, p. 21

Materiality – The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.

Prudence – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.<sup>20</sup>

## Causation

In the pre-filed evidence, Elexicon Energy stated that all amounts in the Z-factor claim are directly related to the derecho storm event. Elexicon Energy indicated that had the derecho storm not occurred, it would not have incurred the costs being requested for recovery. Elexicon Energy stated that the amounts sought for recovery are outside of Elexicon Energy's base rates.

Elexicon Energy indicated that Veridian Connection's and Whitby Hydro's base rates included \$744,435 and \$137,492, respectively, in operating costs for emergency restoration in their respective rebasing applications.<sup>21</sup> Elexicon Energy indicated that as the total incurred operating costs of \$2,039,589 is in excess of the combined emergency restoration budget of \$881,927 (i.e., sum of Veridian Connection's budget for emergency restoration of \$744,435 and Whitby Hydro's budget for emergency restoration of \$137,492), all the costs included in the Z-factor claim are incremental to the basis on which rates were set.<sup>22</sup>

Elexicon Energy explained that its strategy to reduce the impact of extreme weather events on its distribution system falls within two categories: 1) asset hardening, and 2) the Power Restoration Plan; a plan that outlines Elexicon Energy's power restoration efforts following a major event.

Asset hardening activities include proactively replacing poles, reinforcing and undergrounding around key infrastructure, vegetation management, and investing in smart grids/microgrids. The Power Restoration Plan executes readiness procedures that include continuous weather monitoring, and the issuance of readiness alerts to the key members of the Power Restoration Team.<sup>23</sup>

Elexicon Energy's 2021 Distribution System Plan (2021 DSP) included a pole renewal

---

<sup>20</sup> *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008, Appendix, p. 5*

<sup>21</sup> Staff-03a

<sup>22</sup> Staff-03a, Table 1

<sup>23</sup> Application, pp. 8-9



program that prioritizes the replacement of Poor and Very Poor condition poles for the 2021-2026 period. The 2021 DSP stated that 403 poles of Poor and Very Poor conditions were planned for a replacement for 2022.<sup>24</sup> The budget for the pole renewal program is represented in Elexicon Energy's system renewal program.

In an interrogatory response,<sup>25</sup> Elexicon Energy provided Table 5 below that outlines the condition of the poles that were replaced as a result of the storm restoration efforts. OEB staff notes that 12% of the poles replaced were in Poor or Fair-Poor condition, while 35% of the poles had no records.

**Table 5: Conditions of wood poles replaced**

Condition*	Quantity	Percentage
Fair	82	50%
Fair-Poor	7	4%
Good	5	3%
Poor	13	8%
No Record	58	35%
Total	165	100%

\*Asset Condition Assessment Health Index

85-100 Very Good  
70-85 Good  
50-70 Fair  
30-50 Poor  
0-30 Very poor

In an interrogatory response,<sup>26</sup> Elexicon Energy listed the costs of the major assets that were replaced during the storm event. Elexicon Energy noted that the cost for wood pole replacements was \$2,683,672 and the cost for the Uxbridge TS rebuild was \$395,889.

**Table 6: List of Major Asset Quantities Replaced due to the Storm<sup>27</sup>**

Description	Quantity	Total (\$)
Power Transformer	1	395,889
Wood Pole	165	2,683,672
O/H Conductors	25,156 m	432,507
Load Interrupter Switch	1	68,584
In-Line Switch	99	88,166

<sup>24</sup> EB-2021-0015, 2021-2026 Distribution System Plan Program Business Case Documents R3, Renewal Programs, Poles, p. 8

<sup>25</sup> Staff-04c

<sup>26</sup> VECC-03d, Table 1

<sup>27</sup> *Ibid.*

Description	Quantity	Total (\$)
U/G Conductors	1,033 m	58,776
Pad Mounted Transformer	4	73,096
Pole Mounted Transformer	24	470,761
O/H Secondary Conductor	2,452 m	80,718
S.C.A.D.A	1	27,434
	<b>Total Cost</b>	<b>4,379,603</b>

### OEB Staff Submission on Causation

OEB staff submits that Elexicon Energy has not substantiated that all amounts sought for recovery are directly related to the derecho storm and outside of Elexicon Energy's base rates.

OEB staff submits that the pole replacement costs associated with the Poor and Fair-Poor condition poles should be disallowed as these costs should have been accounted for in Elexicon Energy's pole renewal program outlined in the 2021 DSP. At a minimum, OEB staff proposes a 12% disallowance of replaced poles, representing a \$322,040 reduction, to remove the costs associated with the replacement of the Poor and Fair-Poor condition poles from the Z-factor claim.<sup>28</sup>

In addition, OEB staff submits that the poles with no records should also be accounted for in the reduction to the pole replacement cost. OEB staff proposes that the poles with no records on their asset condition be extrapolated using the distribution of the known pole conditions. OEB staff notes that this approach is a commonly seen in Asset Condition Assessment studies where a sample size is used.<sup>29</sup> Using this methodology, OEB staff calculates the total percentage of poles with Poor or Fair-Poor conditions to be 18.5%,<sup>30</sup> representing a \$495,447 reduction to the Z-factor claim.

While OEB staff recognizes that there would have been storm-related pole replacement costs, OEB submits that Elexicon Energy has not substantiated that all pole replacement costs are incremental to its regular pole renewal program, particularly since poles in poorer condition (and already due for replacement) would have higher probabilities of failing as a result of the storm or any adverse event that might not otherwise significantly affect Elexicon Energy's network performance. For example, poles with Poor and Fair-Poor condition might need to be replaced due to a strong local wind gust that would not qualify for Z-factor treatment. As a result, any costs related to

<sup>28</sup> 12% x \$2,683,672

<sup>29</sup> In other words, assuming that the distribution of asset conditions of poles whose condition is unknown is consistent with that for poles whose asset condition is known.

<sup>30</sup> 12%/(1-35%)

poles that would otherwise have been replaced in 2022 or shortly after under Elexicon Energy's regular renewal program or under the emergency budget should not be approved as part of the Z-factor claim, as the costs for normal replacement are already funded through Elexicon Energy's base electricity distribution rates.

## Materiality

In the pre-filed evidence, Elexicon Energy stated that the materiality threshold applicable to Elexicon is 0.5% of the distribution revenue requirement, which is the threshold applicable to distributors with a revenue requirement greater than \$10M and less than or equal to \$200 M.<sup>31</sup> Elexicon Energy calculated its distribution revenue requirement as the sum of the OEB-approved revenue requirements from Veridian (\$49,930,177)<sup>32</sup> and Whitby Hydro's (\$19,196,426)<sup>33</sup> last cost of service applications. These two revenue requirements sum to \$69,126,603 and 0.5% of this amounts to \$346,352.<sup>34</sup>

## OEB Staff Submission on Materiality

OEB staff considers that the proposed Z-factor claim, subject to comments and recommendations made elsewhere in this submission, satisfies the appropriate Z-factor materiality threshold.

However, OEB staff submit that the Z-factor materiality threshold proposed by Elexicon Energy is inappropriate given the utility's circumstances. Elexicon Energy is an amalgamation of the two predecessor utilities, Veridian Connections and Whitby Hydro. Elexicon Energy has not had its distribution rates rebased (through a cost of service application) since amalgamation in 2019. For the predecessor utilities, Veridian Connections rebased for 2014 rates<sup>35</sup> while Whitby Hydro rebased for 2011 rates.<sup>36</sup> 2022 was eight years past Veridian Connections' last rebasing while it has been eleven years since Whitby Hydro's last rebasing. The rate-setting history of Elexicon Energy and its predecessors departs significantly from the OEB's current standard rate-setting framework, consisting of a five-year incentive rate-term.<sup>37</sup>

This is important because of the cumulative and multiplicative impact of the Incentive

---

<sup>31</sup> *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, July 14, 2008, Appendix, p. 5

<sup>32</sup> EB-2013-0174, Decision and Order, April 10, 2013

<sup>33</sup> EB-2009-0274, Decision, December 20, 2010

<sup>34</sup> = 0.5% x \$69,126,603

<sup>35</sup> EB-2013-0174

<sup>36</sup> EB-2009-0274

<sup>37</sup> EB-2010-0379, *Draft Report of the Board on Empirical Research to Support Incentive Rate-setting for Ontario's Electricity Distributors*, September 13, 2013, *Report of the Board Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*, November 21, 2013, corrected December 4, 2013

Rate-setting Mechanism (IRM) rate adjustments and growth in demand (measured as a revenue-weighted average of growth in customers, kWh and kW) over the years since rebasing. While IRM and growth adjustments are relatively small each year, ranging between about 0.5% to 3% per year, their interaction and accumulation over time adds up, similar to interest compounding.

In an interrogatory response,<sup>38</sup> OEB staff posed an approach, based on the OEB's Capital Funding Options policy,<sup>39</sup> to adjust the revenue requirements based on Whitby Hydro's 2011 approved revenue requirement and Veridian Connections' 2014 approved revenue requirement to derive the implicit revenue requirements recovered in the two rate zones in 2022. While Elexicon Energy prefers its proposed approach, it confirmed the data and calculations in the spreadsheet model provided as an attachment to the interrogatory.

OEB staff submits that its proposed approach is preferred to Elexicon Energy's proposed approach, given Elexicon Energy's circumstances. OEB staff notes that Elexicon Energy's situation is unlike utilities that adhere to the normal five-year approach. Elexicon Energy's current approved rates in the two rate zones are materially higher in each of the rate zones than when the predecessor utilities last rebased, reflecting the cumulative impacts of IRM adjustments since Whitby Hydro rebased for 2011 rates and Veridian Connections rebased for 2014 rates, and Elexicon Energy is receiving revenues from a larger number of customers reflecting the cumulative growth in demand (customers, kWh and kW) since the rebasing years respectively in 2011 and 2014.

It is therefore not appropriate to go back to the OEB-approved revenue requirements from 2011 and 2014 to determine the Z-factor materiality. As calculated in the interrogatory Staff-13, OEB staff submits that using OEB staff's proposed approach, the Z-factor Materiality Threshold should be \$422,555, versus Elexicon Energy's proposal of \$345,633. This is a difference of 22% from Elexicon Energy's proposal, which shows how all of the IRM rate adjustments and demand growth cumulatively do make a difference.

OEB staff submits that Elexicon Energy's proposed Z-factor claim, in terms of revenue requirement, would still exceed OEB staff's proposed Z-factor Materiality Threshold. However, OEB staff submits that taking into account the cumulative impact of IRM rate

---

<sup>38</sup> Staff-13

<sup>39</sup> EB-2014-0219, *Report of the Board on New Policy Options for the Funding of Capital Investments: Supplemental Report*, January 22, 2016. The materiality threshold for Incremental Capital Module/Advanced Capital Module applications was altered to account for IRM price adjustments and demand growth since the applicant utility's last rebasing. OEB staff note that this approach can also be adapted for other circumstances, including for the Z-factor materiality threshold and forecasting expense budgets recovered through current rates, all else being equal.

adjustments and demand growth is important in situations such as Elexicon Energy's, where there has been an extended period since rebasing years. The OEB recognized this in the design of the ICM Materiality threshold,<sup>40</sup> and OEB staff submits that it is appropriate and important to also extend this concept in applications such as this for the purposes of inflating historical amounts from the last rebasing to reflect what is currently recovered or recoverable by current rates.

## Prudence

In the pre-filed evidence, Elexicon Energy stated that it carried out power restoration efforts in a prudent manner with regard to capital additions, labour, seeking support from other distributors, and assembling the Power Restoration Team virtually.

Immediately after issuing the Pre-Event Readiness warning<sup>41</sup> on May 21, 2022, the Power Restoration Team assembled virtually to be able to respond to the impending storm.

In the pre-filed evidence, Elexicon Energy stated that it utilized all available internal labour and third-party contractors to complete its restoration efforts. Internal labour costs that were incurred followed the collective agreements for Power Workers' Union and Elexicon Energy's overtime policy for non-union employees. Third-party contractor costs were based on pre-established rates. Elexicon Energy stated that it pulled primarily from its existing inventory/stores for replacements and supplemented with additional purchases of material based on pricing that was negotiated for Elexicon Energy's regular day-to-day purchases.

## Uxbridge Transformation Station

The single major asset that was damaged and required a rebuild as a result of the derecho storm was the Uxbridge TS. Elexicon Energy has claimed a capital cost of \$395,889 for the rebuild of the Uxbridge TS.<sup>42</sup> In response to an interrogatory, Elexicon Energy provided a break-down of the costs for the Uxbridge TS.<sup>43</sup> In addition, Elexicon Energy provided information on the age, condition, and financial data on the Uxbridge TS, as requested by OEB staff.<sup>44</sup>

In an interrogatory response Elexicon Energy provided the breakdown of the claimed \$395,889 in Table 7 below. In addition, Elexicon Energy provides some details of the

---

<sup>40</sup> EB-2014-0219, *Report of the Board on New Policy Options for the Funding of Capital Investments: Supplemental Report*, January 22, 2016, pp. 12-20

<sup>41</sup> Elexicon Energy's readiness warning alerts staff to the possible need for their assistance should conditions require it.

<sup>42</sup> Staff-11b

<sup>43</sup> *Ibid.*

<sup>44</sup> *Ibid.*

work required to rebuild the Uxbridge TS.<sup>45</sup>

Table 7: Breakdown of Labour and Material costs for Uxbridge TS Rebuild<sup>46</sup>

Description	Cost (\$)
Labour - regular	17,005
Labour - OT	33,114
Vehicles	8,497
Materials	155,756
Purchases	18,680
Contract services -Line	162,838
<b>Total UXB W Substation-Rebuild cost</b>	<b>395,889</b>

### Mutual Aid Assistance

Elexicon Energy requested support from Alectra Utilities, Toronto Hydro and Oshawa Power and Utilities Corporation, but none of those distributors were able to provide the support requested during the timeframes needed. Hydro One Networks Inc. requested Elexicon Energy's help in Hydro One's storm restoration activities, but Elexicon Energy was unable to provide assistance due to its own storm restoration priorities.

Elexicon Energy indicated that it first reached out to in house contractors and later accepted offers from additional proven utility contractors to support the restoration efforts.<sup>47</sup> OEB staff notes that during a level 3 outage,<sup>48</sup> Elexicon Energy's Power Restoration Plan requires appropriate resources within Elexicon Energy to be mobilized in conjunction with the appropriate mutual assistance plan (i.e., South Central Ontario LDC Mutual Assistance Plan or Canada Electricity Association's Ontario Mutual Assistance Group (OnMAG) to mobilize utilities).<sup>49</sup>

OnMAG is a single point of contact for utilities to request and offer mutual assistance resources when damaging events occur within a member's service territory.<sup>50</sup> Although Elexicon Energy is a member of the mutual assistance alliance,<sup>51</sup> Elexicon Energy stated that it did not seek support from OnMAG for the restoration efforts.<sup>52</sup> Elexicon Energy explained that a request to OnMAG was unlikely to provide any assistance

<sup>45</sup> Staff-11b, Table 1

<sup>46</sup> *Ibid.*

<sup>47</sup> Staff-16b

<sup>48</sup> Elexicon Energy defines a level 3 outage as any power interruption event that exceeds the threshold of 25,000 customers with an expected restoration time exceeding 24 hours.

<sup>49</sup> Staff-05, Attachment 1 – Elexicon's Power Restoration Plan, p. 5

<sup>50</sup> <https://www.electricity.ca/programs/onmag/>

<sup>51</sup> Staff-16a

<sup>52</sup> Staff-16c

because Elexicon Energy was unable to get assistance from local utilities (i.e., Alectra Utilities, Toronto Hydro and Oshawa Power & Utilities Corporation).<sup>53</sup>

## OEB Staff Submission on Prudence

### Uxbridge Transformation Station

OEB staff acknowledges that Uxbridge was the community served by Elexicon Energy that was most severely impacted by the derecho storm, taking into account the size of the community. As documented in the Application, Environment Canada later confirmed that an EF-2 tornado touched down in Uxbridge during the storm, with resulting major damage to the community, including Elexicon Energy's distribution network.<sup>54</sup>

While OEB staff consider the costs claimed for the Uxbridge TS rebuild to be reasonable, despite the age of the assets, OEB staff submits that the costs for the disposal of the oil and contaminated water (e.g., vacuum truck, associated labour) should be expensed rather than capitalized. However, OEB staff are unable to identify the exact quantum of these costs from the detail provided in the interrogatory response to Staff-11.

OEB staff submits that the record, as it currently stands, with respect to the Uxbridge TS rebuild is confusing and even inconsistent.

OEB staff requested information on the Gross Book Value (GBV), Net Book Value (NBV), depreciation expense, age, expected life, and asset condition of the Uxbridge TS. Elexicon Energy provided the financial and age information in the following table:<sup>55</sup>

Table 8: Uxbridge TS Financial Values

	Power Transformer	HV Structure	HV Switch	Building
Gross Book Value	\$25,000			
Net Book Value	\$11,000			
Annual Depreciation Expense	\$1,500			
Actual Age	47	47	47	47
Useful Life	40	40	40	60

It is not clear what components (in the above table) of the Uxbridge TS were damaged

<sup>53</sup> Staff-16b

<sup>54</sup> Application, p. 4, Appendix A-1, p. 1, Appendix A-1a, p. 3

<sup>55</sup> Staff-11c, Table 2

and repaired, and the GBV, NBV or depreciation expense by component were not provided. Further, if the Uxbridge TS entered service 47 years ago from 2022 (i.e., in 1975), with an expected life of 40 years (except for the building with 60 years), it is unclear how a GBV of \$25,000, a NBV of \$11,000, and an annual depreciation expense of \$1,500 for the Uxbridge TS (or for some of its components) have been determined.

If the GBV, NBV and age are all correct, and a single expected life of all assets is assumed, this would mean that the accumulated depreciation of \$14,000 (= \$25,000 - \$11,000) would mean an annual depreciation expense (over 46.5 years, taking into account the normal half-year rule for the year that the asset enters service) of \$301.08 (= \$14,000 / 46.5 years). In turn, this would mean a depreciation rate of 1.204% and an expected useful life of 83 years. The data in the table therefore appear to be inconsistent.

In response to an interrogatory, Elexicon Energy also provided the following information on the condition of the Uxbridge TS:<sup>56</sup>

Table 9: Asset Condition Assessment Report for Uxbridge TS

Uxbridge W Transformer	Fair
Station Building	Good
Station Battery Bank	Very Good
LV Switchgear	Fair

The components listed here are different from what is listed in Table 2 above.

Based on the information provided, it appears that the transformer equipment and switchgear were in fair condition but, at 47 years, beyond the normal expected life of 40 years. The 40-year expected life is not an absolute, and there is a distribution of when components will actually fail. With proper maintenance, and with conditions favourable to minimize stress, wear and tear, having the transformer station last longer than 40 years is not uncommon. However, there is an increased risk of failure with each passing year. OEB staff do not question that it was the occurrence of the derecho storm – including the EF2 tornado in Uxbridge – that resulted in the damage to the Uxbridge TS, but OEB staff also submits that the age and condition of the Uxbridge TS may also have been a factor in the damage suffered during the storm.

OEB staff notes that Elexicon Energy filed a DSP in its 2021 IRM application, as directed to by the OEB in the OEB's decision on the amalgamation of Veridian Connections and Whitby Hydro. While the Uxbridge TS (actually the Uxbridge West TS) is past the useful life of 40 years, it was not noted as being due for replacement due to

<sup>56</sup> Staff-11d, Table 3



its Fair condition. Certain other transformer stations of Elexicon Energy were identified for higher priority action, including the Uxbridge East TS.<sup>57</sup> With this information, OEB staff has not identified anything unreasonable or imprudent with respect to the claimed Z-factor costs for the Uxbridge TS rebuild.

However, OEB staff submits that not all of the costs should be capitalized as proposed by Elexicon Energy. In the response to Staff-11 a), Elexicon Energy described the work done to rebuild the transformer station. Elexicon Energy notes that falling equipment punctured the radiator, resulting in a spillage of about 4,000 litres of oil. The oil was all captured in the oil containment system, as it is intended to do. However, the oil and contaminated water had to be removed by a vacuum truck and the membrane of the oil containment system replaced. Article 410 of the Accounting Procedures Handbook states that<sup>58</sup>

“Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the **'repairs and maintenance'** of the item of property, plant and equipment.” [emphasis added]

OEB staff is unclear on the basis in which Elexicon Energy capitalized the costs to remove oil and contaminated water. However, OEB staff notes that even though the OEB generally requires utilities to adhere to International Financial Reporting Standards capitalization accounting requirements for regulatory purposes, the OEB can make its own determination of costs to be included in rate base.<sup>59</sup> In OEB staff's view, the removal of the oil and contaminated water, while necessary for environmental, health and safety reasons, is to remediate that system to what it was prior to the storm. This remediation of the site is really for the purpose of bringing it back to pre-storm conditions. As a result, OEB staff submits that the costs for the disposal of the oil and contaminated water (e.g., vacuum truck, associated labour) are similar to repair costs and should be expensed rather than capitalized. OEB staff submits that Elexicon Energy should identify the costs associated with the spill clean-up in sufficient detail in its reply submission.

---

<sup>57</sup> EB-2021-0015, Application, part 2 of 2, Appendix N: Distribution System Plan, pp. 1420-1425 of the PDF document

<sup>58</sup> Page 11, Article 410, Accounting Procedures Handbook, effective January 1, 2012

<sup>59</sup> *Ibid.*

### Mutual Aid Assistance

OEB staff submits that Elexicon Energy promptly secured assistance to restore power, given the circumstances. OEB staff appreciates that in a situation arising from extraordinary events, Elexicon Energy was able to restore power to its customers expeditiously.

### Summary of Z-factor Cost Claim Recommendations

OEB staff acknowledges that Elexicon Energy incurred significant costs for its storm restoration efforts, and which were largely beyond Elexicon Energy's costs funded through distribution rates paid by ratepayers. OEB staff do not dispute the occurrence of the storm, or Elexicon Energy's efforts to fix its infrastructure and restore service to customers on an expeditious manner. However, based on the record filed in this Application, OEB staff submits that two adjustments should be applied to the Z-factor claim: (1) a disallowance of \$495,447 to account for the pole replacements costs that should have been part of the pole renewal program budget and, (2) the portion of the Uxbridge TS rebuild cost allocated to the disposal of the oil and contaminated water should be expensed rather than capitalized. With the exception of these two adjustments, and based on the record in this application, OEB staff submits that the criteria for causation, materiality and prudence for the Z-factor claim are met.

### **Allocation and Rate Design**

Elexicon Energy proposed the operating costs of the Z-factor claim to be recovered through fixed rate riders, over a 12-month period.

For the recovery of Z-factor capital costs, Elexicon Energy stated that it evaluated two approaches:

1. A fixed rate rider recovering revenue requirement for all of the Z-factor capital costs in one-year
2. A fixed rate rider that recovers the revenue requirement of the Z-factor capital costs annually until rebasing in 2029

Elexicon Energy determined that option 2 was the most prudent approach because it yielded a lower monthly bill impact for its customers. For a residential customer in the VRZ rate zone, the bill impact is \$1.48 less per month under option 2 versus the bill impact under option 1, and similarly, a WRZ residential customer will experience a bill impact that is \$0.94 less per month. Elexicon Energy stated that spreading out the recovery of the Z-factor capital costs until re-basing minimizes customer bill impacts when compared to a 12-month recovery.

Elexicon Energy's proposed recovery allocated the Z-factor event costs to all electricity

distribution rate classes based on its last OEB-approved cost of service application.<sup>60</sup> Elexicon Energy calculated the monthly rate rider using the number of customers as of December 31, 2021 that were submitted in its 2021 Record-keeping and Reporting Requirements (RRR).

### **OEB Staff Submission on Allocation and Rate Design**

OEB staff submits that the allocation and rate design of Elexicon Energy's Z-factor claim are reasonable. OEB staff submits that spreading out the recovery of the capital-related revenue requirement of the Z-factor claim over a longer period reduces the monthly bill impact that ratepayers could afford. OEB staff notes that the rate riders and bill impacts may change if OEB staff's recommendations with respect to a disallowance and expensing of some costs are accepted.

### **The Challenge of Assessing Prudence of Costs and Ensuring that the Claimed Costs Are Outside of What is Funded Through Rates**

OEB staff notes that there have been challenges in analyzing the record of this proceeding, beginning with the availability and quality of information filed. The cost information was primarily in the two tables below (Tables 1 and 2 in the Application), with discussion. The details typically seen in similar applications<sup>61</sup> had to be explicitly requested through interrogatories. This has resulted in delays and limitations in the analysis to consider the claimed costs.

In response to parts b) and c) of Interrogatory Staff-1, Elexicon Energy was asked to provide historical information requested on capital and operating costs related to storm and emergency response/maintenance and on system renewal for Elexicon Energy and for the predecessor utilities, Whitby Hydro, and Veridian Connections, back to their last rebasing for, respectively, 2011 and 2014 rates. Elexicon Energy provided data for Elexicon Energy back to 2019, but did not provide information on the predecessor utilities, on the basis that:<sup>62</sup>

Elexicon Energy does not have the requested information readily available [and t]he separated budgeted amounts for Veridian Connections and Whitby Hydro are no longer relevant as Elexicon now operates as a consolidated entity since amalgamation.

OEB staff submits that costs information from the last Whitby Hydro and Veridian connections rebasing was available, and it would have been helpful to the OEB to see as part of the application. Amongst other things, this information is relevant to the

---

<sup>60</sup> EB-2009-0274, Decision, December 20, 2010; EB-2013-0174, Decision and Order, April 10, 2013

<sup>61</sup> Burlington Hydro Inc., EB-2022-0018, Canadian Niagara Power Inc., EB-2022-0019, Canadian Niagara Inc., EB-2020-0008

<sup>62</sup> Staff-1b-c

appropriate calculation of the materiality threshold.

In this proceeding, OEB staff requested what it considered relevant to understand the history and trends of Elexicon Energy and its predecessors on system renewal and on storm restoration costs, and thus understand the utility's management of its distribution system. Having this would, in OEB staff's view, have been helpful. Elexicon Energy provided information on its budgeted and actual capital and operating expenses related to storm restoration and other emergencies in response to interrogatory Staff-1 b). This is shown in the following table, and where OEB staff has added the year-over-year change for both budgeted and actual costs for operating expenses.

Table 10: Capital and OM&A Related to Storm Restoration and Other Emergency Response/Maintenance<sup>63</sup>

Year		2019	2020	2021	2022
<b>Capital</b>	Budgeted	\$0	\$0	\$0	\$0
	Annual % change				
	Actual		\$314,308	\$377,253	\$404,401
	Annual % change			20.0%	7.2%
	% Variance (Actual to Budget)				
<b>Capital Z-Factor</b>	Budgeted				\$0
	Annual % change				
	Actual				\$4,379,603
	Annual % change				
	% Variance (Actual to Budget)				
<b>Operating</b>	Budgeted	\$2,007,090	\$1,796,606	\$2,009,305	\$1,829,524
	Annual % change		-10.5%	11.8%	-8.9%
	Actual	\$2,027,666	\$1,620,668	\$1,647,300	\$2,039,589
	Annual % change		-20.1%	1.6%	23.8%
	% Variance (Actual to Budget)	1.0%	-9.8%	-18.0%	11.5%
<b>Operating – Z-Factor</b>	Budgeted				
	Annual % change				
	Actual				\$233,186
	Annual % change				
	% Variance (Actual to Budget)				

Source: Response to Staff-1: Table 1 – Capital and OM&A budget and actuals since 2019

It is understood that actual costs will show volatility over time, as the frequency and severity of storms and other emergencies are random, unpredictable, and

<sup>63</sup> Staff-1b

uncontrollable. However, the volatility of the budgeted amounts is surprising, as it appears to be unrelated to IRM rate adjustments and growth. In other words, it is unclear how and why Elexicon Energy is varying the budget expense in anticipation of unpredictable events in the next rate year. More explanation, and the pre-amalgamation historical information, as requested, would have assisted OEB staff in conducting its analysis.

OEB staff also submits that the historical data and information of Veridian Connections and Whitby Hydro should have been retained. Whitby Hydro and Veridian Connections would have Audited Financial Statements, and have filed Trial Balance, Scorecards, and RRR data in accordance with OEB requirements. This is in addition to the information filed in rate and other applications with the OEB, covering most if not all years since restructuring.

~All of which is respectfully submitted~