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April 6, 2023

VIA E-MAIL

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi:

**Re: EB-2022-0317 Elexicon Energy Inc. Z-factor Application
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)**

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

Yours truly,

John Lawford

Counsel for VECC

Copy to: Cynthia Chan, Chief Financial Officer

EB-2022-0317

Elexicon Energy Inc.

**Application for changes to electricity distribution rates
in the Veridian Rate Zone and the Whitby Rate Zone,
effective July 1, 2023**

Final Submissions of VECC April 6, 2023

Elexicon Energy Inc. (Elexicon) applied to the Ontario Energy Board (OEB) for approval to recover from its customers the costs to restore electricity service following a storm that occurred on May 21, 2022. The application was filed on December 9, 2022, under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B).

Z-factor Claim

Elexicon is seeking recovery of \$4,602,788 in expenditures associated with the restoration of electricity service to its customers following the May 21, 2022 storm.

This is Elexicon's first Z-factor claim. The former Veridian Connections had a Z-factor claim of \$718,555 relating to the 2013 Ice Storm that was previously approved by the OEB.¹

Elexicon's total Z-factor claim was updated for the correction identified in response to OEB Staff interrogatory #2. During Elexicon's 2022 financial audit it was determined that an amount of \$81,924.07 from a third party was incorrectly recorded as an Operating Expense when it should have been Capital in the Veridian Rate Zone.

Elexicon updated its operating and capital expenditures as follows:

Category	Operating \$	Capital \$	Total \$
Incremental Labour/Material/Vehicle Costs	\$ 149,626	\$ 2,350,964	\$ 2,500,590
3rd Party Contractors	\$ 73,559	\$ 2,028,639	\$ 2,102,198
Total	\$ 223,186	\$ 4,379,603	\$ 4,602,788

¹ VECC-1 (a)

As per the 2022 Chapter 3 Filing Requirements, distributors under a Price Cap IR or Annual IR Index rate-setting plan may request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage, referred to as a claim for a "Z-factor" event.² A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence, as follows:

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

VECC acknowledges that the May 21, 2023 storm was a significant event and the claimed costs satisfy the materiality threshold for Z-factor recovery, however as discussed below, VECC recommends the disallowance of some OM&A and Capital costs.

Materiality

Elexicon's puts forward a materiality threshold of \$346,352; equal to 0.5% of its distribution revenue requirement of \$69,126,603 which is the sum of revenue requirement approved in Veridian Connections and Whitby Hydro's last cost of service applications in 2014 and 2011, respectively.³

Given that the Derecho storm occurred in 2022, OEB staff calculated a 2022 adjusted revenue requirement for the Whitby Hydro rate zone of \$25,135,345 and a 2022 adjusted revenue requirement of \$59,375,681 for the Veridian Connections rate zone, taking into account the cumulative and multiplicative effect of accounting for price cap adjustments and growth, since rebasing for each of the Whitby Hydro and Veridian Connections rate zones. Elexicon confirmed the accuracy of the calculation.⁴ Summing together gives a revenue requirement of \$84,511,026, which reflects an increase of \$15, 384,423 per year or 22%. 0.5% of \$84,511,026 gives a 2022 Z-factor materiality threshold of \$422,555.

VECC supports OEB Staff's calculation of the materiality threshold as it appropriately accounts for the cumulative impact of IRM rate adjustments and demand growth and the extended period between rebasing years.

² Filing Requirements For Electricity Distribution Rate Applications- 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 24, 2022

³ VRZ \$49,930,177 + WRZ \$19,196,426 = \$69,126,603

⁴ Staff-13

VECC submits Elexicon's proposed Z-factor claim exceeds both Elexicon's materiality threshold and OEB staff's proposed materiality threshold.

Causation

Elexicon was formed in 2019 as a result of the amalgamation of two utilities: Veridian Connections and Whitby Hydro. Elexicon has not had its distribution rates rebased, on a cost of service basis, since amalgamation in 2019.

Veridian Connection's base rates included \$744,435 in operating costs for emergency restoration at the time of the last rebasing in 2014. Whitby Hydro's base rates included \$137,492 in operating costs for emergency restoration at the time of the last rebasing in 2011.⁵ The combined emergency restoration budget is \$881,927.

For the same reasons as OEB Staff suggests that it is not appropriate to go back to the OEB-approved revenue requirements from 2011 and 2014 to determine the Z-factor materiality because the approved rates in the two rate zones are materially higher, VECC submits it is not appropriate to use the operating costs for emergency restoration included in base distribution rates from 2011 and 2014 to determine if the Z-factor OM&A costs are incremental. Rather, actual costs compared to budgeted amounts for storm restoration in 2022 is more appropriate and better reflects the uniqueness of Elexicon's rate setting. The OEB's current rate setting framework is five years, whereas it's been eight years since Veridian rebased and eleven years since Whitby Hydro's last rebasing.

Elexicon has underspent on its storm restoration OM&A budget in each of the four years (2019-2022) leading up to and including the year of the storm, on average, by approximately 6.9%.

OM&A Related to Storm Restoration or Other Emergency Response/Maintenance

	2019	2020	2021	2022	Total
Budget	\$2,007,090	\$1,796,606	\$2,009,305	\$1,829,424	\$7,642,425
Actual	\$2,027,666	\$1,620,668	\$1,647,300	\$1,816,403	\$7,112,037
	\$20,576	-\$175,938	-\$362,005	-\$13,021	
Variance \$					-\$530,388
Variance %					-6.9%

In 2022, Elexicon underspent by \$13,021. VECC submits the OEB should disallow this amount in OM&A on the basis that it is not incremental to the base budget amount for 2022.

⁵ Staff-1 (a) & (b)

Ellexicon has also underspent its planned Vegetation Management budget in each of the four years (2019-2022) leading up to and including the year of the storm, on average, by approximately 23.4%. In 2022, Ellexicon underspent by \$296,797.

Vegetation Management Spending

	2019	2020	2021	2022	Total
Budget	\$1,328,402	\$1,400,730	\$1,577,532	\$1,471,506	\$5,778,170
Actual	\$895,949	\$1,034,939	\$1,320,894	\$1,174,709	\$4,426,491
	-\$432,453	-\$365,791	-\$256,638	-\$296,797	
Variance \$					-\$1,351,679
Variance %					-23.4%

VECC submits the OEB needs to consider Ellexicon's underspending on its own storm budget in conjunction with its underspending on vegetation management which mitigates against storm damage.

Ellexicon indicates it employs vegetation management as an asset hardening measure that reduces the likelihood of tree contacts during high winds or from snow/ice accumulation.⁶ VECC submits had Ellexicon spent its allocated vegetation management budget and done more tree trimming and other vegetation management work in the preceding years, it's almost certain that there would be less damage and less costs resulting from the 2022 storm and some of the storm costs could have been avoided in the first place. VECC submits it is reasonable to assume the avoided costs are not zero.

In considering the above, VECC submits the OEB should disallow 23.4% of the capital storm costs related to poles (\$2,683, 672) and O/H Conductors (\$432,507), commensurate with the percentage of underspending on vegetation management.⁷ VECC's total proposed capital disallowance is \$729,186.

Ellexicon underspent on its capital budget in 2022 by \$7,622,782 million which includes the impact of the \$4,379,603 in capital additions due to the 2022 storm.⁸ Given these times of economic uncertainty and high inflation, the impact on low income customers resulting from any rate increases is significant. VECC submits its proposal to reduce the OM&A and capital storm costs is appropriate for the reasons above, noting that underspending on capital in 2022 more than covers VECC's proposal.

⁶ Manager's Summary Page 8

⁷ VECC-3 (d)

⁸ VECC-3 €

Summary

VECC proposes a disallowance of \$13, 021 and \$728,186 in OM&A and capital, respectively, related to the 2022 storm.

Elexicon did not provide a breakdown of historical spending on this basis of VRZ and WRZ as requested. VECC submits the above disallowances should be allocated to each rate zone based on the original proportion of OM&A and capital costs allocated to each rate zone.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees.

All of which is respectfully submitted this 6th day of April 2023.