

May 03, 2023

via RESS

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Suite 2700
Toronto, ON M4P 1E4
Email: Boardsec@oeb.ca

Dear Ms. Marconi:

**Re: EB-2022-0317 – Elexicon Energy Inc. (“Elexicon”) Z-Factor
Application (the “Application”): Updated Interrogatory Response OEB Staff-07
with 2022 Regulated ROE**

In its letter dated March 31st, 2023, Elexicon Energy Inc. ("Elexicon") committed to file its actual 2022 Return on Equity ("ROE") on the public record of this proceeding once it had been filed as part of Elexicon's Reporting and Record Keeping Requirements ("RRR"). RRR filings were due on May 1st, 2023.

With this letter, Elexicon is filing an update to OEB Staff's Interrogatory Staff-07 which provides its 2022 achieved regulated ROE and the basis of its derivation to complete the record in its Application.

This update has been filed through the OEB's web portal ("RESS").



Stephen Vetsis
Vice President Regulatory Affairs and Stakeholder Relations
Elexicon Energy Inc.

cc: John Vellone

Elexicon Energy Inc.

Answer to Interrogatory from

OEB Staff

Interrogatory STAFF-07 UPDATED:

Ref: (1) Application, page 7

(2) Chapter 3 of the OEB's Filing Requirements for Incentive Rate-Setting Applications, May 24, 2022

Preamble:

The OEB's 2023 Incentive Rate-setting Applications Filing Requirements state that, in order to be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates.

In the application, Elexicon Energy states that its achieved regulatory ROE for 2021 was 6.97%, which is 2.56% less than the 9.43% OEB-approved ROE. Elexicon Energy's forecast for its regulated 2022 ROE at this time is expected to be below the OEB Deemed ROE, and fall within the OEB's 300 basis points ROE dead band.

Question:

a) Please provide Elexicon Energy's 2022 achieved ROE on a regulated basis, also indicating whether it is based on audited or unaudited year-end actuals. Also, please provide the calculations showing the derivation of the 2022 actual ROE on a regulated basis.

Response:

In its letter dated March 31st, 2023, Elexicon Energy Inc. ("Elexicon") committed to file its actual 2022 ROE on the public record of this proceeding once it had been filed as part of Elexicon's Reporting and Record Keeping Requirements ("RRR") filing. For completeness of the record in this Z-Factor proceeding, Elexicon is filing the following update to this Interrogatory Response with its finalized 2022 achieved regulated ROE which is based on audited year-end actuals.

As shown in Table 1 below, Elexicon's 2022 achieved Regulated ROE as filed in its RRR 2.1.5.6 is 4.86%. Elexicon reaffirms that its 2022 achieved ROE did not exceed 300 basis points above Elexicon's deemed ROE.

As noted, Elexicon's achieved 2022 ROE is 4.86%, compared to deemed ROE of 9.43%. The major drivers resulting in the lower achieved ROE include external factors such as inflation, incremental business requirements (i.e. cybersecurity, enterprise risk management), higher deemed interest expense as a result of higher investment requirements in the grid and the distribution revenue credit back to customers due to the Assurance of Voluntary Compliance

(AVC) related to Elexicon's billing system. Absent the revenue credit to customers, Elexicon's achieved ROE would have been roughly 6.32%.

Table 1 – 2022 ROE Calculation

Detail	Amount (in '000)	Column
Regulated Net Income	18,097.1	A
Non-Rate Regulated Items	-610.7	B
Non-Recoverable Donations	366.6	C
Net interest/carrying charges from DVAs	-562.8	D
Unrealized Gain/Loss on interest rate swaps	-6481.7	E
Interest Adjustment for Deemed Debt	-3,787.9	F
ROE tax adjustment	1,812.8	G
Net Income for ROE purposes	8,833.3	H= (A+B+C+D+E+F+G)
Equity	181,782.9	I
Regulated ROE	4.86%	H/I
Opening Property plant and Equipment (PPE)	382,136.2	J
Closing PPE	398,704.3	K
Average PPE	390,420.2	L= (J+K)/2
Working Capital Allowance	64,036.9	M
Rate Base	454,457.2	N =L+M
Deemed Equity	181,782.9	I=N* 40%
Deemed Debt	272,674.3	O= N*60%
Approved Interest Rate	4.88%	P
Deemed Interest Expense	13,306.5	Q =O*P
Commodity Expenses	418,355.6	R
OM&A	46,016.7	S
Approved Working Capital Rate	13.79%	T
Working Capital Allowance	64,036.9	M = (R+S)*T