EB-2022-0024-

PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

May 4, 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-2022-0024 Elexicon Energy Inc. 2023 ICM
Final Submissions of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the final submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

Shelley Grice

Digitally signed by Shelley Grice
DN: C=CA, E=shell.grice@rogers.com, OU=VECC, CN=Shelley Grice
Reason: I am the author of this document
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John Lawford

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EB-2022-0024
Elexicon Energy Inc.

Application for electricity distribution rates and other charges effective January 1,2023

Final Submissions of VECC May 4, 2023

Elexicon Energy Inc. (Elexicon) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on July 28, 2022, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to its electricity distribution rates to be effective January 1, 2023. On November 1, 2022, the OEB bifurcated the application.

On November 1, 2022, the OEB bifurcated the application into two phases. The OEB issued a Partial Decision and Order deciding on Phase 1, IRM elements of this application, on December 8, 2022. The OEB determined that it would consider the incremental capital module (ICM) requests as part of Phase 2.

In Phase 2, the OEB will decide on incremental capital module (ICM) requests that total close to $ 70 million:[1]

(i) ICM funding of **$36,739,433** for the Whitby Smart Grid project (WSG) including a proportionate share of Advanced Distribution Management System (ADMS) and SCADA costs in the Whitby Rate Zone (WRZ) to be in service in 2025,

(ii) ICM funding of **$6,431,567** for a proportionate share of the ADMS and SCADA costs of the WSG Project in the Veridian Rate Zone (VRZ) to be in service in 2025, and

(iii) ICM funding of **$26,657,000** for an expansion project called the Sustainable Brooklin Project (Sustainable Brooklin) in the WRZ and an exemption for the Brooklin Line from Section 3.2 of the Distribution

[1] $69,828,000

System Code (DSC) with an expected in-service date of 2025, updated from an original in-service date of 2023.

On April 1, 2019, Whitby Hydro and Veridian amalgamated and formed Elexicon.[2] Elexicon was granted a 10-year deferred rebasing period to 2029 and maintains two separate rate zones (WRZ and VRZ) until rates are rebased.

Elexicon is requesting interim approval in 2023 for 2025 ICM rate riders[3] for two distinct projects[4]; the WSG and Sustainable Brooklin. The WSG project has costs in both rate zones.

The forecasted cost of the two projects is very significant compared to the base capital forecast in 2025. The forecasted cost of the Whitby Smart Grid Project is $43,171 million or 88% of Elexicon's base capital forecast for 2025. The forecasted cost of the Sustainable Brooklin Project is $26.657 million or 54% of Elexicon's base capital forecast for 2025.[5] Both projects have a Class 4 estimate which carries significant uncertainty and customer risk around the accuracy of these costs.

Bill Impacts

The corresponding customer bill impacts are very substantial. For residential customers, the monthly bill impact in 2025 of the two projects plus the impact of Elexicon's 2023 Z-factor application is 31.6% (for Sub-Total A Distribution).[6] This places a momentous financial burden on low-income customers which VECC does not support given the risks and lack of benefits for low-income customers.

On a total bill basis, the increase is $15.11 per month or 12%. With energy savings of 3% added, the increase is reduced to $12.22.[7] VECC submits the OEB should consider the bill impacts prior to energy savings, as these savings have not been proven.

[2] EB-2018-0236
[3] EE AIC P.14
[4] EE AIC P.6
[5] EE AIC P.
[6] J2.6
[7] J2.6

The forecast monthly increase of $5.73 per month for WSG and $3.26 per month for Sustainable Brooklin totals $8.99.[8] These increases are speculative and could end up being substantially higher if the project costs end up on the high end of the Class 4 estimates. As discussed under each ICM project below the risk/cost compared to benefits for each project does not justify these increases.

Exception to the OEB ICM Policy

Typically, a distributor applying for incremental capital funding for 2025 would be expected to apply for OEB approval as part of its 2025 Incentive Rate-Setting Mechanism (IRM) application.

Elexicon is seeking an exception to the OEB's ICM policy and is seeking approval of illustrative rate riders on an interim basis in 2023 that will be updated in 2025, for the most up to date inflation factor and billing determinants.[9] There is no provision in the ICM Policy for interim approval of illustrative ICM riders for a future year.

VECC submits the OEB should not grant an exception to the ICM policy and should not approve the interim rate riders. There is significant uncertainty around what the final costs will be, and the benefits of each project and the value to customers is unclear. Approving rate riders on an interim basis based on Class 4 estimates is not appropriate and not in the best interests of rate payers. Doing so would set an undesirable precedent.

The OEB's approval of advance rate riders in 2021 for a project in-service date of 2022 for PUC's Sault Ste. Marie Smart Grid (SSG) project was under different circumstances, and the project costs were based on a fixed price contract.

Summary

VECC submits that the Board should not approve ICM funding for the WSG and Sustainable Brooklin projects for the following reasons:

[8] J2.9
[9] EE AIC P. 14

- The OEB should not allow an exception to ICM Policy. Proposed illustrative rate riders on an interim basis is not appropriate;
- An exemption to the DSC is not appropriate;
- There is an inordinately high rate impact;
- There is high cost uncertainty at this time;
- The projects are a disproportionate amount of capital spending increasing the risk to ratepayers;
- There has been no reprioritization of capital spending to accommodate the projects;
- There has been inadequate customer engagement especially given the inordinately large amount of capital spending on projects which have substantial risk of underachieving the desired results;
- The rapid pace of the WSG has not been justified;
- Residential customers are paying 68% of the WSG costs but will receive only 33% of the projected benefits;
- There is a high risk the WSG project will not produce tangible and measurable benefits;
- There is no proposal for the sharing of risk;
- WRZ customers are being asked to fund the Sustainable Brooklin project but will not receive any benefits;
- Conditions should be applied to the WSG project, similar to PUC's SSG, if it is approved by the OEB.

The Projects

A) Whitby Smart Grid Project

The WSG Project involves the deployment of a combination of smart grid technologies across Elexicon's distribution system in the WRZ and VRZ including:

- Advanced Distribution Management System (ADMS);
- Volt/VAR Optimization (VVO) and the associated conservation voltage reduction (CVR); and
- Distribution Automation (DA), a key component of fault location isolating and service restoration (FLISR) and reliability.

The forecast capital expenditures of the WSG total $43.171 million net of $4.041 million in NRCan funding for the ADMS portion of the WSG:

Table 1: WSG Forecast Capital ($)[10]

WSG Components	CAPEX ($'000)
ADMS (software, communications, infarstructure, active demand management program design)	8,082
VVO and FLISR Field Hardware	39,130
TOTAL Capital Expenditure	**47,212**
NRCan Funding (ADMS only)	4,041
TOTAL Capital Expenditure (Excluding NRCan Funding)	**43,171**

Consistent with the OEB's Decision[11] in the amalgamation of Whitby Hydro and Veridian, Elexicon submitted its consolidated Distribution System Plan (DSP) on April 21, 2021 for the 2021 bridge year and 2022-2026 forecast period. The same month as the DSP was filed (April 2021) Elexicon registered for NRCan funding for an $8.1 million ADMS project.[12] There was no mention of the $47 million WSG project in the DSP[13] [14]or an ADMS project with the increased scope of work and

[10] Appendix B-1 P.
[11] In that decision the OEB ordered that the merged entity shall file a consolidated Distribution System Plan (DSP) within 24 months of the closing date of the proposed transaction

[12] SEC-22
[13] Tech Conf Transcript Vol 1 P. 180
[14] Or the Sustainable Brooklin Project

accelerated pace proposed in the WSG. While the DSP did include an ADMS project, the scope was much smaller than what is now proposed.

Elexicon's 2021 DSP refers to a balanced approach for IT Asset Management over the plan including innovation and grid modernization, with average annual spending of $3.64 million for the 2020-2026 period compared to an average of $2.42 million that was spent over the 2014 to 2019 period.[15] Elexicon identifies its planned procurement of the ADMS system as an example of this balanced approach.[16]

The ADMS project in the DSP includes $1.3 million in funding for two phases:[17] Phase 1 ($800,000) for the purchase and implementation of the ADMS in 2021 with a new enterprise OMS to replace the two legacy systems; [18] and $500,000 in 2022 for Phase 2 to implement limited ADMS functionality to help streamline or improve current utility processes. Out of six material IT projects, Elexcion ranked the ADMS Purchase and Implementation[19] fifth in terms of priority.[20]

In the DSP Elexicon states the ADMS project "contemplates a gradual expansion of functionalities from a foundational platform featuring core functionalities required in the near term, but also capable of being expanded to include more advanced features that Elexicon anticipates requiring in the medium term."[21] When new functions are needed in the ADMS, Elexicon indicates new upgrades will be added on a per-use basis or when requirements are identified.[22]

The significant increase in scope and cost for the ADMS project, and the proposed WSG concept as a whole follows the OEB's Decision on PUC's SSG application issued April 29, 2021.[23]

VECC is not opposed to utility investments into grid modernization and innovation and the need for the grid to change over time to adapt to new technologies

[15] DSP Program Business Case Document P3 – Information Technology P.1
[16] DSP P.150
[17] DSP Program Business Case Document P3 – Information Technology P.30
[18] w/functioning outage management system to provide interfacing with GIS, SCADA, AMI and outage communications, replacing the legacy Whitby Hydro and Veridian outage systems.[18]
[19] Project #2021-4040
[20] DSP Program Business Case Document P3 – Information Technology P.19
[21] DSP P.149-150
[22] DSP Program Business Case Document P3 – Information Technology P.15
[23] EB-2020-0249

provided the LDC can demonstrate they are cost-effective and provide value to customers, particularly low-income customers. To the extent that there are identifiable benefits, VECC is also concerned that the costs and risk are appropriately allocated among customers, rate classes and utility shareholders,

VECC acknowledges that many distributors in Ontario have and are implementing many of the components of Elexicon's WSG including VVO and DA.[24] VECC submits such projects cannot be justified on the basis that other LDCs are doing them – but must be justified on a utility by utility basis, weighing the costs, benefits, risks and other spending priorities, particularly in the case of small utilities. Smaller utilities are undertaking disproportionately large "modernization" investments and thereby placing inordinate risk upon these utility's ratepayers.

Elexicon references consistency of the ICM projects with the OEB's January 2023 Framework for Energy Innovation (FEI) which provides:

"The OEB expects distributors to modify their planning and operations to prepare for DER impacts on their systems, including integrating these resources cost-effectively, while maintaining reliable service for their customers. Distributors are also expected to consider DER solutions as NWAs when assessing options for meeting system needs."[25]

In VECC's view, the OEB's FEI expects prudent planning of a distribution system and not an automatic rapid deployment of new technologies across the entire distribution system. In our submission the Board must also weigh the financial risks that ambitious and "leading edge" projects encumber ratepayers with and develop ways to share that risk, as was done with PUC's SSG.

Elexicon's proposal is that the first tranche of the WSG project will enable the DER integration of the Sustainable Brooklin project[26], however the pace of DER in Sustainable Brooklin is not currently known. Elexicon confirmed it has not done any studies of how many homes are going to actually have electric vehicles (EV)

[24] JT2.3
[25] EE AIG P.19
[26] Appendix B-1 P.7

and solar on the roof,[27] and Elexicon does not currently have a forecast of solar, batteries and EVs.[28]

Customer Engagement

Elexicon relies in part on the Customer Engagement results for the 2022-2026 DSP to inform the WSG.[29] Elexicon presented customers with eight potential objectives; asking customers to identify how Elexicon should focus its investments. The results indicate that the primary concern of customers is "improving the grid's resilience to major weather events" and placed some emphasis on "minimizing the impact of power outages." Elexicon indicates the technologies embedded in the WSG address these customers' concerns. VECC submits Elexicon is taking a big leap in linking these customer results to the WSG given the context of the customer survey. No explicit survey or customer engagement was undertaken which explained the proposed investments and outlined the potential benefits and risks of such a large undertaking.

Customers made their top two selections above to the question posed[30] in the context of the following statement which describes a nearly flat budget until 2029 and the need for tough trade-offs in spending, which is very different than Elexicon's WSG proposal that accelerates the pace of smart grid investments without trade-offs in spending:[31]

"Elexicon's top spending priority is always to keep its power system and operations safe. With its budget staying nearly flat through 2029, Elexicon will face tough trade-offs when selecting among other investment priorities."

In response to the question have you undertaken any customer consultation with low-income customers regarding the ICM proposal, including the costs of potential bill impacts, Elexicon responded that it did not go specifically out to talk to low-income customers or directly present the bill impacts to specific customers to get their feedback.[32] The monthly increase for residential customers for the WSG is

[27] Transcript Volume 1 P.154
[28] Tech Conf Transcript Volume 1 P.22
[29] Appendix B P.28
[30] Please choose two of the following objectives that you think Elexicon should focus its efforts on, in addition to keeping the system safe and accommodating new growth in the coming years.
[31] Appendix B-7 P.10
[32] Transcript Volume 2 P.56-57

$5.73 per month[33] or 17%[34], which is highly speculative and could increase if the final project costs are higher than the current estimate. Unlike PUC SSG, the WSG is not structured as a fixed price contract and customers are not protected from cost increase. An increase of this magnitude or potentially higher places a financial burden on low-income customers.

VECC submits Elexicon's customer engagement on the WSG has not been adequate to support a monthly rate increase of this magnitude. Customers were not given an opportunity to provide input on the proposed increase or consider Elexicon's other slower paced options with lower or no monthly bill impacts.[35]

Costs

The estimated cost of the WSG is very significant relative to the size of Elexicon.[36] Elexicon has not put forward any tough trade-offs in capital spending over the 202-2025 DSP period. In fact, the opposite is true. Elexicon proposes to spend more during the 2022 to 2026 period on capital than was contemplated in the DSP all of which will have an impact in 2029 when Elexion seeks to add these costs and ICM costs to rate base. VECC calculates Elexicon proposes to spend approximately $35 million more on capital over the 2023 to 2026 period than what was presented in the 2021 DSP. [37]

Table 2: Comparison of Capex: DSP vs. EB-2022-0024

Ref	2023	2024	2025	2026	Total
DSP Table 5.2-2	$35.83	$36.03	$32.67	$35.26	$139.79
J1.1	$40.57	$39.03	$49.17	$45.88	$174.65
Variance					**$34.86**

Elexicon has not adequately demonstrated that the WSG ICM is a higher priority than other projects, particularly given its ADMS project was not rated a top IT priority in its DSP. VECC does not support the rapid deployment of grid

[33] J2.9
[34] JT2.6 ($5.74/$33.35) DX Part A
[35] Appendix B P.41
[36] 88% of base capital in 2025
[37] DSP 5.1 Introduction p. 19 Table 5.2-2: Historical and Forecast CAPEX

modernization that Elexicon is now proposing compared to the gradual implementation of functionality contemplated in the DSP.

VECC has the following additional concerns regarding the WSG.

Cost Risk

1. There is a considerable budget risk related to the WSG.

The current cost estimate for the WSG is Class 4. Class 4 estimates as defined by AACE presume typical accuracy ranges of -30% on the low side and +50% on the high side.[38] This equates to $30.220 million on the low end and $64.757 million on the high end.[39]

A review of the project actuals will be performed at Elexicon's next Cost of Service application scheduled for 2029, and any true-up will be approved by the OEB.[40] The cost uncertainty poses substantial risk for customers who even under the current estimates are being asked to absorb a significant rate increase.

Elexicon takes note of an OEB precedent in EB-2020-0249 related to the OEB's approval of PUC's SSG project. The two projects are structured very differently. The SSG project was approved on the basis of a fixed price. The engineering, procurement, and construction (EPC) estimated contract cost of $27.745 million was structured as a "maximum price limit" project, and 25% of SSG's project costs were funded by NRCan. The cost estimate for the WSG is Class 4 and very uncertain. NRCan funding for the WSG project represents only 8.6% of the project estimate and is connected to the ADMS portion of the project only.

The PUC SSG project has had its challenges. The project was scheduled to be in-service by December 31, 2022, but PUC now forecasts the physical installation of the SSG project will be largely complete by March 31, 2023 and substantial completion will not occur until November 1, 2023. The impact of the delayed expenditure and one year extension resulted in the loss of NRCan funding of $754,115.[41] We also note that in the event the PUC project has required a

[38] Appendix B-1 P. 11
[39] J2.8
[40] JT2.2
[41] EB-2022-0059 CCC-17 9a)

number “innovative” regulatory mechanisms, such as an SSG Project Recovery Mechanism, issues related ensuring valid mechanisms to measure actual VVO savings, mechanisms to share the risk of project outcomes (VVO-ROE linkages) in addition to meeting a list of OEB ordered commitments [42]

Due to the delay in completion of the project, PUC revised its 2022 SSG Project cost estimate to $24.5 million. To maintain the capital limit set for the project PUC reduced the DA scope of the project. Feeder FLISR automation will now be applied to only 16 circuits (33%) and the balance of 32 circuits will not include FLISR automation as originally planned.[43]

Although PUC customers were protected from budget risk, the reduced DA scope of work impacts the reliability benefit, now forecast to be approximately 55% of what was originally forecast.[44] The reliability benefit was not part of the economic evaluation of the SSG project, but it is included in the net customer benefit in the Elexicon WSG project. Further, the anticipated energy savings of 2.70% that may be achieved through the implementation of the SSG have not been proven. In the case of PUC it is not anticipated that they will be able to start measuring savings at the time of Substantial Completion in Q4 2023 – a considerable time after the initial expectations.[45]

<u>Benefit Risk</u>

2. Customer benefits are sensitive to the cost of power and the projected percentage of energy savings, which impacts the project economics.

WSG netted all the estimated sources of savings and costs against the incremental revenue requirement (full year) of the WSG Project.

Elexicon’s anticipated annual net benefits to customers of $673,000[46], updated to $433,000 is very sensitive to the cost of power and cost of the project.

[42] EB-2022-0059 Decision and Order, April 6, 2023
[43] EB-2022-0059 Staff-26 (a)
[44] EB-2022-0059 CCC-17 (b)
[45] EB-2022-0059 Staff Submission P.2
[46] Appendix B P. 11

A cost of power of $97,778,000 compared to $112,198,000 reduces the annual net benefits to zero.[47] For the +50% Range of the Class 4 cost estimate of $64.757 million, with a revised revenue requirement of $6.716 million, the net annual benefit to customers is -$1,806,000.[48] For the -30% Range cost estimate of $30.220 million, the revised revenue of $3.134 million results in a net benefit to customers of $1.776 million.

The amount of savings is also dependent on Elexicon's success in achieving an anticipated 3.0% reduction in energy consumption from VVO. Elexicon assumes the upper limit of 3.0%, of its 2.5% to 3.0% range,[49] for projected energy savings from the WSG attributed to CVR associated with the VVO component of the Whitby Smart Grid Project. Elexicon did not perform any sensitivity analysis with respect to customer benefits.[50] This analysis would have been beneficial. As we have noted above and as articulated in the recent PUC decision there are still questions as to how to accurately and properly perform VVO saving measurement.[51]

Table 3 prepared by VECC shows if the lower limit of 2.5% is used for projected energy savings, the annual net benefits to customers is negative (-$128,000). A $0 net benefit results if 2.614% in projected energy savings is assumed.

Table 3: WSG Net Benefits (with changes in projected energy savings assumptions)

Customer Annual Benefit Summary ($ thousands)		
Cost of Power WRZ		112,198
Projected % Energy Savings from WSG		2.5%
Total Purchased Power Savings from WSG	A	2,805
ICM Additional Revenue	B	4,477
Additional OM&A Expenses	C	324
Operating Efficiencies from WSG	D	48
ub-Total of Savings	E = A-B-C+D	-1,948
Projected VoLL Benefit from Reliability (F)	F	1,820
Annual Net Benefit to WSG Customers	**G=E+F**	**-128**

Customer Annual Benefit Summary ($ thousands)		
Cost of Power WRZ		112,198
Projected % Energy Savings from WSG		2.614%
Total Purchased Power Savings from WSG	A	2,933
ICM Additional Revenue	B	4,477
Additional OM&A Expenses	C	324
Operating Efficiencies from WSG	D	48
ub-Total of Savings	E = A-B-C+D	-1,820
Projected VoLL Benefit from Reliability (F)	F	1,820
Annual Net Benefit to WSG Customers	**G=E+F**	**0**

[47] J2.7
[48] J2.8
[49] Appendix B-1 P.9
[50] VECC-2 (c)
[51] The Settlement Agreement approved by the Board in EB-2022-0059 includes an agreement that PUC "*retain one or more independent third parties to undertake a review of the VVO savings from the SSG Project, to be filed as part of commitment 9 and in PUC's next rebasing,…"*

PUC assumed 2.70% of projected energy savings from the SSG project. A net benefit of $96,000 results if 2.70% is used for the WSG project instead of 3.0%.

PUC is required to report on the Sensitivity Analysis of Net Benefits Calculations based on projected savings of 2.7%, 0%, and 5.4%. The three scenarios, respectively, represent the targeted, low and high VVO savings set out in the SSG VVO Linkage to ROE Accounting Order. PUC will not be able to start measuring savings until the time of Substantial Completion of the SSG project on November 1, 2023.

VECC submits that the project should not be approved on the basis that there are significant cost risks and risks to achieving the estimated benefits.

3. Residential customers are expected to pay 68% of the WSG costs but are estimated to receive only 33% of the benefits.[52]

- Energy Savings Benefit

Based on Elexicon's 3% projected energy savings assumption, Elexicon calculates a forecast aggregate customer bill reduction of $3.366 million annually.[53]

Of this reduction, the estimated energy savings for a typical residential customer is $2.90 per month[54]or $34.80 per year. VECC calculates annual estimated savings of $1.512 million on aggregate for residential customers based on 43,441 residential customers which is the customer count used to calculate the reliability benefits.[55] Residential customers will receive approximately 45% of the energy savings.

Annual Customer Benefit	Total	Residential Customers	%
Energy Savings	$3,366	$1,512	45%

The actual net benefit to customers can also vary dependent on energy

[52] Elexicon calculates annual energy savings of $3.366 million and reliability benefits of $1.820 million
[53] JT1.22
[54] J2.9
[55] VECC-2 (a) same # customers as used in reliability benefit calculation

consumption. The $2.90 per month savings calculated by Elexicon for a typical residential customer is based on a monthly consumption of 750 kWh. Many customers, and often low-income customers consume less than 750 kWh. Many low-income customers will save less than the $2.90 projected by Elexicon as a result of the WSG.

- Reliability Benefits

As result of the implementation of fault location and distribution automation, Elexion anticipates residential customers will receive a reliability benefit of $183,970,[56] which represents 10% of the total reliability benefit.

Customer	Reliability Benefit	%
Residential	$183,970	10.1%
GS<1 MW	$1,472,952	80.9%
GS>1 MW	$162,952	9.0%
Total	**$1,819,874**	**100.0%**

Combining the annual benefits of energy savings and reliability, VECC calculates that residential customers will receive 33% of the potential customer benefits but will pay 68% of the costs. Of the $4,477,270 in incremental revenue requirement for the WSG, residential customers will pay $3,060,894.[57]

Annual Customer Benefit	Total	Residential Customers	%
Energy Savings	$3,366	$1,512	45%
Reliability Benefit	$1,820	$184	10%
Total	**$5,186**	**$1,696**	**33%**
Less Rev/Costs	$4,753		
Net Benfits	**$433**		

VECC submits the proposed cost allocation is not appropriate. If the OEB decides to approve the WSG ICM, the costs allocated to residential customers should be better aligned with customer benefits.

[56] VECC-2 (a)
[57] JT1.15

4. Conditions

VECC submits that if, in the alternative, the OEB approves the WSG ICM, similar conditions that the OEB applied to PUC's SSG project should be put in place:[58]

Specifically,

- Elexicon shall provide a detailed report as part of its next rebasing application, which compares the WSG project costs, and benefits as implemented to what was forecast in this application;

- Elexicon shall file all available information on the proposed Project performance metrics that it intends to track, along with proposed targets, in its next rebasing application. This shall include an appropriate metric and targets to symmetrically link the VVO performance of the Project to Elexicon's allowable ROE for this project.

- Elexicon PUC Distribution shall post on its public website a report, within 18 months of Project completion, and with annual updates for 10 years thereafter which shows the actual benefits of the SSG Project, broken down by customer class.

- Elexicon to retain one or more independent third parties to undertake a review of the VVO savings from the SSG Project, to be filed as part of Elexicon's next rebasing.

In order to maintain the NRCan funding, the OEB could decide to approve only the ADMS portion of the project and not the VVO and DA components in order to address pacing concerns resulting in lower bill impacts. The ADMS capital costs applied to the WRZ do not exceed the OEB calculated Materiality Threshold. However, the ADMS capital costs applied to the VRZ do exceed the OEB calculated Materiality Threshold and Elexicon would be eligible to recover a Revenue Requirement of $704,696. The ADMS capital expenditures associated with the

[58] OEB panel Question #7

VRZ Revenue Requirement is approximately $2.953 million.[59] Elexicon would have to fund the ADMS for the WRZ from current rates.

VECC's concerns regarding this approach is that the ADMS component has a Class 5 estimate.[60] Class 5 estimates are -20% to -50% on the low side, and +30% to +100% on the high side. There is a cost risk that the final cost of the project will be significantly higher.

Conclusions

Elexicon proposes to modernize its grid by 2025. VECC does not support approval of the project based on the pacing, resulting bill impacts, lack of reprioritization of capital projects, a Class 4 estimate, and unverified savings from PUC's SSG. In VECC's view, Elexicon has not adequately demonstrated an urgent need for rapid deployment of smart grid technologies across Elexicon's entire service territory by 2025.

In addition, there is currently too much uncertainty and risk with respect to DER implementation, project cost, and actual energy and reliability benefits. VECC supports a more gradual implementation of the ADMS, VVO and DA functionalities, consistent with the approach in the current DSP, which will result in lower rate impacts for customers, while still being consistent with the objectives of the OEB's FEI.

With respect to ADMS implementation, Elexicon's current DSP states "In subsequent years, as technology continues to disrupt the electricity distribution industry, more advanced functionalities will be added incrementally that is available in an ADMS as needs and their solutions arise.[61] The addition of VVO and DA capabilities in the future, in the context of the energy landscape when Elexicon prepares its next DSP 2026, is in the best interest of ratepayers.

[59] J2.5 (b)
[60] SEC-3
[61] DSP Program Business Case Document P3 – Information Technology P.30

B) The Sustainable Brooklin Project

The Sustainable Brooklin Project (sustainable Brooklin) in the WRZ, involves the construction of two new 27.6 kV feeders (the Brooklin Line) connecting the North Brooklin development to available capacity at Whitby TS.

The estimated total capital cost of the Brooklin Line is $26.657 million. Elexicon seeks an exemption for the Brooklin Line from Section 3.2 of the Distribution System Code (DSC) which would otherwise require Elexicon to collect a capital contribution from the local developers towards the cost of constructing and operating the Brooklin Line, and ICM funding of $26.657 million. In exchange, the developers that will benefit from the Brooklin Line will be required to commit to building new residential homes that are DER and EV "Ready".

The Sustainable Brooklin concept was conceived by Elexicon and the Brooklin Landowners Group Inc. (BLG) Developers. Elexicon believes the fairness principle justifies this quid pro quo treatment to exempt the BLG from paying a capital contribution to construct the Sustainable Brooklin project.[62] Some of the developers represented by BLG, being first-movers in North Brooklin, are required to pay all the costs of the Brooklin Line. If the DSC exemption is not granted BLG Developers are concerned that construction of both the Brooklin Line and new homes in North Brooklin area will be delayed several years while the Developers raise financing.[63] Unforecasted customers connected after 5 years can avoid any contributions due to the limitations found in Section 3.2.27 of the DSC.

The intent of Section 3.2 of the DSC is to protect existing customers from excessive costs related to distribution system expansion. The provisions of this section mirror similar regulatory rules the Board applies to the natural gas sector. The basis of both policies are to set out an economic analysis which determines whether customers, including developers, are required to contribute monies so that expansion projects meet an established economic threshold. In the electricity sector where the utility is often owned in whole or part by the municipal government, the DSC also serves to protect ratepayers from

[62] Appendix B-2 P.4
[63] Appendix B P. 44

entanglement with municipal (or other government) objectives. An exemption to Section 3.2 of the DSC removes this customer protection.

VECC accepts the magnitude of the capital contribution but under this quid pro quo proposal, customers in the WRZ are expected to pay the total costs of constructing the Brooklin Line, but they will not receive any benefits. Customers in North Brooklin are the recipients of the quid pro quo proposal whether they want it or not. For WRZ customers to retrofit their homes for DER and EV would be very expensive. The evidence shows to retrofit a home costs 300% more than BLG's estimate of $2,260 to build a home DER/EV ready.[64] Elexicon's ICM proposal raises significant fairness issues for WRZ customers.

The core feature of the Sustainable Brooklin project is new homes built in North Brooklin will be DER/EV ready at an estimated incremental cost per home of $2,260.[65] Over the course of 20 years, the BLG Developers estimate construction of 10,000 to 11,200 homes to this standard, translating into an estimated cost of $23 million to install Standard Rough-Ins in 10,000 homes.

Elexicon views Sustainable Brooklin as a win-win solution for developers and ratepayers,[66] yet the BLG Developers is the only party that really wins. Elexicon positions the BLG Developers' capital investment as leveraging private sector capital to facilitate DER and EV[67] but in reality the BLG Developers will pass on the costs to build DER/EV Ready homes to the homebuyer in the price of the house.[68] Similarly, if the OEB does not approve the DSC exemption, the BLG Developers will pass along the capital contribution costs to the homebuyer. The BLG Developers will always recoup their costs. In contrast, WRZ customers will have to pay $3.26 per month (10% increase)[69] to fund the Brooklin Line to the benefit of these same developers.

The key winners are the BLG Developers who would otherwise have to finance the captial contribution for the line extension prior to recouping it in the sale price of the houses. The new homeowner can also be considered winners as their house

[64] JT1.8; $2,260 X 3 = $6,780
[65] Source of estimate is BLG
[66] EE AIC P.12
[67] Appendix B P.10
[68] OH Transcript Volume 1 P. 67
[69] JT2.6 (Part A Distribution)

prices will not include the cost of the capital contribution for the line extension. However, for those new homeowners that do not intend to take advantage of the DER/EV ready features these savings are offset by the additional cost included in their purchases price to make their homes DER/EV ready.

At the Technical Conference, BLG identified that there were five soon to be six developers out of 30 that have site plan approval now.[70] Sustainable Brooklin was scheduled to be in service at the end of 2023. The in-service date has been adjusted to Q2 2025. VECC submits, if the OEB does not approve the DSC exemption, the later in-service date allows more time for additional developers to achieve draft site plan approval and share the contribution costs.

In addition to the significant fairness issues for WRZ customers discussed above, VECC has the following concerns regarding the structure of the quid-pro-quo proposal:

1. ***The scope of work to build EV ready homes in North Brooklin is below current practice. There is no wiring and there is no plug provided.***

EV Ready parking is defined as a parking stall that has an adjacent <u>energized outlet</u> (i.e. an electrical junction box or a receptacle) where an EV supply equipment (EVSE – i.e. an EV charger) can be installed in the future.[71]

The BLG Developers proposal for EV Ready homes does not meet this definition. The BLG Developers do not propose to provide an energized outlet that would readily allow for an EV charger purchased by a homebuyer to be plugged in.

Mr. Thompson states "the installation that we're referring to here is, fundamentally, pipes, boxes, and space. There is no wiring and there is no plug."[72] The homebuyer would have to install the plug and energize the plug.

This is important because if the BLG Developers are not providing a convenient form of EV charging infrastructure (i.e. an energized plug) which is current practice, and homebuyers have to incur additional costs to install the wiring and plugs to make their homes EV Ready, uptake will be impacted. The Electric Vehicle

[70] Tech Conf Transcript Volume 2 P.148
[71] K2.6 P.14
[72] Oral Hearing Transcriot Volume 2 P.53

Charging Infrastructure Costing Study states "access to convenient forms of charging will increasingly become the most important factor determining EV adoption."[73]

The City of Toronto's Green Standard provides for convenient charging: "For each dwelling unit with a residential[74] parking space, provide an energized outlet or full Electric Vehicle Supply Equipment (EVSE) capable of providing Level 2 charging."[75]

Standard Rough-In as proposed by the BLG Developers does not mean EV Ready in the above context. This is reflected in the Developers proposed costs of $2,260 to install Standard Rough-Ins for not just EV, but rooftop solar and battery storage too. The Electric Vehicle Charging Infrastructure Costing Study concludes that parking can be made EV Ready for the townhouse and single-family subdivision archetypes, at a cost of approximately $2000 or less per dwelling unit with onsite parking.[76] The Developers Standard Rough-In cost estimate per home would be appropriately higher if wires were being installed and outlets were being energized.

In VECC's view, the quid-pro-quo proposal with respect to EV/DER Ready homes has little appeal to new homeowners given that the BLG Developers will not be providing homebuyers with a convenient form of EV charging or solar installation plug-in. Elexicon indicates it seeks to lower barriers to entry for customers wishing to install DER and EV infrastructure in their newly purchased homes.[77] VECC submits Elexicon's approach is doing little to remove barriers to adoption as the proposed rough-ins require an electrical retrofit to be paid for by the homebuyer.

Condition of Approval

Elexicon requests that the OEB's approval include a condition that should the developer fail to deliver on the construction of DER/EV Ready homes or buildings, that developer or property owner will be required to pay a capital contribution of

[73] K2.3 P.12
[74] Not more than 4 storeys including single family dwellings
[75] K2.1 P.15
[76] K2.4 P.6
[77] Appendix b P. 10

$2,260 per home or building before Elexicon supplies power. The quid-pro-quo proposal covers 20 years so this condition would need to be in place for 20 years.

In VECC's view this requirement will be administratively burdensome for a long period of time and it is not sufficiently clear how Elexicon will monitor the installation of EV and DER infrastructure, determine which homes are deficient and enforce the condition on not just the BLG developers but other developers in North Brooklin. Currently there are no binding agreements. The role of the OEB in enforcing this condition is not clear.

The EV Ready Requirements for Municipalities document states "EV Ready requirements, require a live box to be installed at the time of construction, and that can be relatively easily verified via building inspections."[78] BLG is not proposing to install a live box which will make verification more difficult.

Elexicon explored an alternative option to the Sustainable Brooklin project that instead of an exemption from Section 3.2 form the DSC, the customer connection horizon and the customer revenue horizon is extended under Appendix B of the DSC.[79]

Elexicon dismissed this option because it could result in BLG not constructing DER and EV roughed in homes without the exemption. BLG confirmed some builders may choose choose to move forward and put the rough-ins in themselves, if this exemption wasn't granted.[80] VECC believes developers will be incented over time through the market and development guidelines to install DER/EVs. (See #2)

Elexicon's perspective is "that the extension of the connection horizon window beyond 5 years, to 15 or 20 years, introduces significant administrative complexities with the process of managing capital contributions from unforecasted customers that are tied to the Brooklin Line. Over the course of 15 or 20 years, with the expectation of dozens of additional customers connecting to the Brooklin Line, the efforts to manage this process would be onerous, administratively complex, and substantively increases the chances for error. The associated complexity is not supported by Elexicon as a reasonable alternative."[81]

[78] K2.5 P. 29
[79] Appendix B-2 P. 18
[80] Tech Conf Transcript Volume 2 P68
[81] JT1.6

BLG plans to build 700 homes per year. In VECC's view, Elexicon's proposal to collect $2,260 per home that is not constructed as DER/EV Ready over 20 years will be equally, if not more complex, than extending the connection horizon.

Elexicon proposes that the $2,260 amount be escalated on an annual basis in accordance with the OEB's inflation parameters. If the OEB approves the Sustainable Brooklin project, VECC submits this is appropriate.[82]

2. EV Ready parking requirements for new developments is emerging as a leading practice.[83] In the absence of the quid pro quo, BLG will be incented to build DER and EV Ready homes anyway.

In 2018, the Ontario Building Code (OBC) brought in EV charging requirements via Regulation O.Reg. 139/17 that required every new single detached, semi-detached and row townhouse to be provided with a rough in for the installation of future Electric Vehicle Supply Equipment (EVSE). i.e. EV charging station. In May 2019, in response to developers' calling for the province of Ontario to remove EV Ready requirements in the OBC, all EV Ready requirements were removed.[84]

In the absence of EV charging requirements in the OBC and in order to achieve municipal, provincial and federal greenhouse gas (GHG) reduction and decarbonization goals, many municipalities in Ontario are developing their own Green Standards to secure EV Ready charging capabilities for new residential construction through municipal site plan approval.[85]

Elexicon's regulated service area includes Ajax, Pickering, Whitby, Belleville, Brock, Uxbridge, Scugog, Clarington, Port Hope, Gravenhurst, Village of Brooklin, hamlets of Ashburn and Myrtle.[86] [87]

[82] J2.10
[83] K2.6 P.14
[84] K2.3 P.15
[85] K2.
[86] EB-2022-0024 2023 Incentive Rate-Making Application, p.11
[87] Several municipalities have green development standards in place, including the following Towns and Citiies; Toronto, Richmond Hill, Brampton, Vaughan, Mississisauga, Halton Hills, Clarington and Pickering.K2.5

Ajax, Clarington, Pickering, and Whitby have developed or are in the process of developing Green Standards to further define EV and solar expectations in new development.

The Town of Whitby has a Green Standard that guides development in Whitby that is divided into two Development Review Checklists: Draft Plan of Subdivision and Site Plan applications. The Site Plan application checklist was reviewed by VECC at the Oral Hearing to show how the Checklists are applied. The Checklists are used as a component of the development review process to assess the level at which new development and redevelopment achieve the sustainable development standards in the Whitby Green Standard. [88]

Each Checklist includes four tiers. Tier 1 is mandatory and required through the planning approval process. Tiers 2 (good performance), 3 (better performance), and 4 (best performance) are voluntary. Each Tier beyond Tier 1 also requires the achievement of voluntary performance criteria.[89] One voluntary performance measure related to Solar Readiness exists for low-rise residential development, requiring that buildings are designed to accommodate connections to solar PV or solar thermal. Low-rise development refers to residential buildings not more than four storeys which includes single-family dwellings.[90]

Although there are no mandatory Tier 1 EV or solar requirements in Whitby at the present time, it's important to note that Whitby has signaled Tiers 2 to 4 could eventually be tied to financial and non-financial incentives; [91]with incentives provided in forms of monetary or non-monetary. Examples of incentives include:[92]

- Servicing Allocation
- Development Charge (DC) Full or Partial Exemptions ($);
- Recognition program, Sustainable Design Awards/Green Development Champion

[88] The Whitby Green Standard applies to new development applications submitted after September 2020 for Draft Plan of Subdivision and Site Plans
[89] K2.5 P.18
[90] K2.1 P.196 Town of Whitby Official Plan
[91] K2.5 P.17
[92] K2.5 P. 12 https://www.whitby.ca/en/work/whitby-green-standard.aspx

- Expedited approval process
- Community Improvement Plan ($)
- Tax Increment Equivalent Grants (TIEG)($)
- Stormwater Credit ($)
- External Grant Programs

The performance measures increase every four years. This means that in 2024, Tier 2 will advance and become the mandatory Tier 1.[93]

Elexicon describes Sustainable Brooklin as a first-of-its-kind project.[94] Given the evolution beyond the OBC to municipal Green Standards setting EV Ready and solar requirements in new developments, VECC would not describe the Sustainable Brooklin project as first-of-its-kind. The City of Toronto, which lies adjacent to Elexicon's service area, updated their Green Standards in 2022 for residential developments with a mandatory 100% EV Ready requirement. Governments are increasingly requiring 100% "EV Ready" residential parking in new developments.[95]

Elexicon and the Brooklin Developers have stated if the Developers must pay a capital contribution towards the Brooklin Line, they will not build DER/EV Ready properties,[96] even though BLG's estimate of $2,260 cost to build DER/EV Ready homes is a small fraction of the potential cost of a single-family dwelling. On a million dollar property it is less than 0.3%.

47% of Elexicon's customers responded that they were very likely or somewhat likely to purchase an EV.[97] It seems to VECC that in order for the Brooklin Developers to remain competitive in a GTA housing market with a demand for EV Ready homes that will only increase as time goes on, given evolving government policy the potential for incentives through the development process in Whitby, the Brooklin Developers will be motivated on their own to construct DER and EV Ready homes, regardless of the outcome of this proceeding. The Brooklin Developers could be disadvantaged in the market if they do not evolve to the new leading practice of EV Ready requirements for new developments, especially given

[93] K2.5 p. 12 https://www.whitby.ca/en/work/whitby-green-standard.aspx
[94] Appendix B page 12
[95] K2.3 P. 2
[96] CCMBC-10 (e)
[97] Appendix B P. 29

Toronto is 100% EV Ready. The OEB should not accept that the Developers will not build DER and EV Ready homes on their own over the next 20 years if the Sustainable Brooklin project and quid-pro-quo is not approved.

3. Deferral of Future Capacity Upgrades Projections not Realistic.

Elexicon retained METSCO to analyze the DER penetration rates that would be required in the North Brooklin area, in order to defer future capacity upgrades.

METSCO concluded that, in the best case scenario, i.e., one that assumes a DER consists of a 10kWh rooftop solar installation with battery storage, a 12% DER penetration rate is required to achieve a 1-year deferral; 39% for a 3-year deferral; and 53% for a 5-year deferral.[98]

2038 is the point at which the capacity is being exceeded and the 1, 3, and 5-year deferral is in relation to that capacity for the numbers of houses built in 2038.[99]

VECC submits further analysis is required before concluding the minimum amount of DERs required across new Brooklin development to defer over capacity for the one-year, three-year, and five-year periods. Metsco's analysis considered rooftop solar and batteries did not consider increased electric vehicle penetration.

BLG confirmed approximately one to two kilowatts of power can be generated on sunny days from solar for typical singles, semis and, in some, cases townhouses, assuming one side of the roof contains six typical solar panels.[100] The Solar Ready Guidelines referenced in the Whitby Smart Grid provide that the installation of 1.4 to 1.9 kWh of solar PV modules is possible with a minimum roof space requirement.[101] Given the BLG Developers are not installing wires and plugs, and customers will have to incur additional costs to make their homes Solar Ready prior to installing solar panels, VECC submits METSCO's assumptions with respect to solar penetration is unrealistic.

Elexicon does not currently have a forecast of DER penetration in North Brooklin.

[98] Appendix B-4 P.24 Table 15
[99] Oral Hearing Transcript Volume 2 Page 156
[100] JT2.13
[101] K2.4 P.16

Elexicon plans to design and implement DER Enabling Programs at an unknown cost. Elexicon indicates it will make a subsequent evaluation of whether spending on traditional infrastructure can be avoided or deferred in advance of anticipated system needs in the 2030s.

There is no clear evidence excess load deferral will be achieved in order to defer upstream capital investments needed for distribution system capacity. The OEB should not put any weight on the current analysis in determining approval of the Sustainable Brooklin project.

4. There is a Significant Budget Risk.

The current $26.6 million estimate for Sustainable Brooklin is a Class 4 estimate. Upon OEB approval of this ICM funding, Elexicon will go out to tender to establish final budget costs.[102] A Class 4 estimate could result in the final costs being significantly higher.

5. OEB Approval Counter to the Intent of the DCS and Could Set an Undesirable Precedent.

Section 3.2.4 of the DSC states:

> "The capital contribution that a distributor shall charge an embedded distributor or a customer other than a generator to construct an expansion shall be equal to that customer's share of the difference between the present value of the projected capital costs and on-going maintenance costs for the facilities and the present value of the projected revenue for distribution services provided by those facilities"

The intent behind this provision is that a distributors' existing customers should not subsidize the cost system expansions required to connecting new customers to their systems. In VECC' submission, the proposed exemption runs counter to this objective as the existing Whitby customers will be required to pay for the full costs of the extension without receiving any equivalent tangible benefits in return.

[102] Appendix B-2 P. 36

Furthermore, if an exemption to the DSC is granted, other requests for exemptions could follow resulting in undesirable outcomes for customers.

6. The OEB does not have the jurisdiction to approve such a proposal.

While we have made detailed arguments on the merits of the proposal which argue against approval, fundamentally VECC's position is that the Board lacks the jurisdiction to approve the exemption sought. While the Board, as promulgator of the DSC and can certainly amend it and allow for exemptions it must do so under the legal ambit from which the Code originates.

Section 70 of the OEB Act contains a number of specific provisions that may be included as part of an electricity distributor's licence and section 70.1 notes that codes are made under reference to the licence. All of which are limited to being within the objectives of the Board and purpose of the Electricity Act. These are:

1. To inform consumers and protect their interests with respect to prices and the adequacy, reliability and quality of electricity service.

2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.

4. To facilitate innovation in the electricity sector.

Under Section 104.5 the Board may also have the objectives

1. To facilitate the efficient development of, use of and access to electricity infrastructure to which this Part applies.

2. Any other objective that may be prescribed by the regulations in relation to the development of, use of and access to electricity infrastructure to which this Part applies or any specified class of such development, use or access. 2021, c. 2, Sched. 2, s. 7.

It is important that the Act use of the words “electricity sector” and “electricity infrastructure.” In our submission absent clear written direction (directive or law) from the Government of Ontario, the Board does not have the jurisdiction to be innovative or to facilitate the efficient development of any particular “electricity appliance”. And that is what an EV charger is – an electricity appliance.

Fundamentally, wiring a home for future EV use is no different than doing the same for air conditioning, electric dryers or a myriad of other electrical uses. And while the goal of electrification of the automobile sector may be complementary to federal or provincial net zero policies, it is still an appliance. If elected governments wish to provide incentives for the purchase of particular appliances they can (and have in the past). The Board has no current authority to participate in or approve schemes to provide incentives to purchase electric cars - or heat pumps or any other appliance. In the same way it has no business trying to discourage customers from installing air conditioning or buying energy inefficient lights. These are all behind the meter activities of consumers and are not within the jurisdiction of the Board.

The case with DER related activities is more complicated as these devices have the capability of integrating with the distribution infrastructure. Yet at the level of a residential home, they are also devices behind the meter. There is no provincial policy or laws, yet existing, to create a distributed energy housing stock. Development of such a policy, while possible, would be in any event fraught with issues with respect to safety and reliability and take considerable time to properly develop. Until such time as government promulgates such a policy that incorporates the building trades, our view is that residential solar panels, like EVs, are appliances to be purchased or not, at the will of consumers. The Board does not, in our respectful submission, have the jurisdiction to try to influence the market for energy appliances.

This is an ambitious “brave new world” proposal by a regulated monopoly, driven by a desire to use ‘innovation’ as a cloak for a special regulatory rate structure. The consequences of their actions are ultimately to burden the captured ratepayer, including those who can least afford to pay for this aspirational private forbearance scheme. Regulators exist to protect consumers from just such circumstances.

Conclusions

VECC submits Elexicon's requested exemption to the Distribution System Code is not appropriate, in the best interest of ratepayers or in the public interest.[103]

The OEB should not approve an exemption from Section 3.2 of the DSC or allow an exception to the OEB's ICM policy. The OEB should not approve illustrative rate riders in 2023 for 2025.

- The OEB does not have jurisdiction to approve the exemption;
- The Sustainable Brooklin project is unfair to WRZ customers. Existing WRZ customers will pay for Sustainable Brooklin but they will not receive any of the benefits. There is no reliable evidence at this point that traditional infrastructure can be avoided through DER penetration in North Brooklin;
- The evidence is not sufficient to approve ICM funding. The $26.6 million cost estimate is a Class 4 estimate. The costs and bill impacts are speculative at this point. There is a risk to WRZ customers that bill impacts could be significantly greater;
- There has been no direct customer engagement on the Sustainable Brooklin project. The customer engagement for the DSP, which does not reference Sustainable Brooklin, is not sufficient;
- BLG's proposal to install standard rough-ins and not electrified outlets is not the current practice and will discourage EV and solar adoption. The infrastructure in North Brooklin could become stranded assets;
- EV Ready parking requirements for new developments is emerging as a leading practice. VECC believes BLG Developers will opt to construct some DER/EV Ready homes on their own in the absence of the Sustainable Brooklin project in order to be competitive in the market and respond to evolving development approval guidelines; and
- OEB approval is counter to the intent of the DSC and could set an undesirable precedent.

[103] OEB Panel Question #3

Su stainable Brooklin is not a good deal for WRZ ratepayers.