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## **DECISION AND ORDER - PHASE 2**

**EB-2022-0024**

### **ELEXICON ENERGY INC.**

**Application for rates and other charges to be effective January 1, 2023**

**BEFORE: Allison Duff**

Presiding Commissioner

**Michael Janigan**

Commissioner

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**July 6, 2023**



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# 1 OVERVIEW

In this Decision and Order, the Ontario Energy Board (OEB) approves partial funding of the Incremental Capital Module (ICM) requests included in the incentive rate-setting mechanism (IRM) application filed by Elexicon Energy Inc. (Elexicon Energy) for new rates effective January 1, 2023.

Elexicon Energy serves approximately 46,910 mostly residential and commercial electricity customers in its Whitby rate zone and 125,834 residential and commercial customers in its Veridian rate zone. The utility serves customers in Ajax, Pickering, Belleville, Brock, Uxbridge, Scugog, Clarington, Port Hope, Gravenhurst, Whitby, Brooklin, Ashburn and Myrtle.

Elexicon Energy is seeking OEB approval for capital funding through an ICM related to two capital projects. An ICM is a means by which a distributor can collect additional revenue from customers to fund capital expenditures in the years between cost of service applications based on established criteria. The two projects are as follows:

## 1. Whitby Smart Grid:

- \$36.7M for the Whitby rate zone and \$6.4M for costs allocated to the Veridian rate zone associated with a community-wide smart grid project. The expected in-service date is 2025 with \$4.04M in funding from Natural Resources Canada.

## 2. Sustainable Brooklin:

- \$26.7M for the construction of two 27.6kV feeders from the Whitby transmission station to connect a planned sub-division in North Brooklin with an expected in-service date in 2025. The request necessitates 22 exemptions from section 3.2 of the Distribution System Code, including an exemption from collecting a capital contribution from local developers towards the cost of the project.

Elexicon Energy filed two applications for rate increases and incremental funding in 2022. A residential customer in the Whitby rate zone would see a distribution rate increase of 31.63%<sup>1</sup> if the OEB were to approve the ICM funding requests, 2023 IRM application<sup>2</sup>, and incremental capital funding through the Z-factor application.<sup>3</sup>

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<sup>1</sup> Oral Hearing Transcript Vol. 1, pp. 179 - 180

<sup>2</sup> EB-2022-0024 Phase 1 proceeding

<sup>3</sup> EB-2022-0317

The OEB approves \$8.8M in ICM funding in 2025 for the proposed smart grid project. The OEB regards the project as one capital investment affecting both the Whitby and Veridian rate zones, not two mutually exclusive ICM requests. The OEB's funding approval is contingent on Natural Resources Canada funding of \$4.04M which in turn requires project completion by March 31, 2025.

The OEB does not approve the 22 requested exemptions to the Distribution System Code related to the Sustainable Brooklin ICM funding request. As a result, ICM funding of \$26.7M is denied. The OEB finds that the arrangements do not provide sufficient protection for existing customers when weighing the cost and benefit risks. This decision is not strictly based on nonconformance with the Distribution System Code but also based on an assessment of the business case benefits identified by Elexicon Energy.

The OEB acknowledges the innovative aspects of Elexicon Energy's application. The OEB also encourages energy use that is in line with the policies of the government. Innovation consistent with government policy should be advanced – but not at any cost.

## 2 THE PROCESS AND CONTEXT

On December 20, 2018, the OEB approved the amalgamation between the former Veridian Connections Inc. and Whitby Hydro Electric Corporation to form Elexicon Energy. Elexicon Energy was granted a ten-year deferred rebasing period from 2018 to 2028 for the Veridian rate zone and the Whitby rate zone. The elements of this application pertaining to both rate zones are based on the Price Cap Incentive Rate-setting (Price Cap IR) option.

Elexicon Energy is transitioning its Whitby rate zone from the Annual IR Index rate-setting method to the Price Cap IR option as part of this application as per the OEB letter issued December 1, 2021.<sup>4</sup> Elexicon Energy can apply for ICM funding for its Whitby rate zone due to changes in the OEB's policies to support consolidations. Elexicon Energy's last Distribution System Plan (DSP) was filed in 2021.

Elexicon Energy's application filed on July 28, 2022, was bifurcated into two phases on November 1, 2022. The OEB released its decision on Phase 1 (the incentive rate-setting elements of the application) on December 8, 2022. In Phase 2, the OEB is deciding on the ICM requests associated with the two capital projects involving three funding requests: (i) the cost of the Whitby Smart Grid project for the Whitby rate zone, (ii) the costs of the Whitby Smart Grid for the Veridian rate zone, and (iii) the Sustainable Brooklin project for the Whitby rate zone.

In addition to the current ICM requests, Elexicon Energy also requested incremental capital funding through a Z-factor request for costs incurred after a derecho storm in May of 2022. That request was adjudicated separately, with an OEB decision approving \$4.1M to be recovered from customers.<sup>5</sup>

The approved intervenors in this proceeding are the Brooklin Landowners Group Inc. (Brooklin Landowners), Consumers Council of Canada (CCC), Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), Distributed Resource Coalition (DRC), Environmental Defence, Power Workers' Union (PWU), Small Business Utility Alliance (SBUA), School Energy Coalition (SEC)<sup>6</sup> and Vulnerable Energy Consumers Coalition (VECC). Cost eligibility was granted to CCC, CCMBC, Environmental Defence, SBUA, SEC and VECC. Letters of Comment were received by the OEB and added to the public record.

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<sup>4</sup> OEB letter: Applications for 2023 Electricity Distribution Rates, issued December 1, 2021, p. 2

<sup>5</sup> EB-2022-0317, Decision and Order, issued June 15, 2023

<sup>6</sup> At page 2 of its letter of intervention, dated August 31, 2022, SEC states that "SEC notes that this intervention will not include participation related to the North Brooklin Line, or the DSC exemption."

The application was supported by pre-filed written evidence and completed incremental capital models. During the proceeding, Elexicon Energy responded to interrogatories and, where required, updated and clarified the evidence. The Brooklin Landowners requested and was granted permission to file written responses to supplement the written responses of Elexicon Energy. Those responses were filed on January 9, 2023. Elexicon Energy filed a letter on January 12, 2023, noting that it was unable to adopt this evidence as its own.

A Technical Conference was held on January 17 and 18, 2023 where both Elexicon Energy and the Brooklin Landowners provided witness panels. Elexicon Energy and the Brooklin Landowners filed their undertaking responses from the Technical Conference on January 24, 2023.

Elexicon Energy also responded to written questions from the panel on February 21, 2023. On March 23, 2023, Elexicon Energy filed updated evidence informing the OEB among other issues, that the expected in-service date for the Sustainable Brooklin project would be delayed until the second quarter of 2025.<sup>7</sup>

An oral hearing was held on March 31 and April 3, 2023. Elexicon Energy filed its Argument-in-Chief on March 12, 2021. Submissions on the application were filed by the Brooklin Landowners, CCC, CCMBC, DRC, Environmental Defence, PWU, SEC, VECC and OEB staff on May 5, 2023. On May 18, 2023, Elexicon Energy filed a reply submission.

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<sup>7</sup> Elexicon Energy also requested clarification regarding the OEB staff letter titled “Reminder of Distributor Discretion to extend Customer Connection Horizon for System Expansion” issued December 22, 2022

## 3 INCREMENTAL CAPITAL MODULE (ICM) POLICY

### 3.1 Background

The OEB's ICM policy<sup>8</sup> was established to address the treatment of a distributor's capital investment needs that arise during a Price Cap IR rate-setting plan and which are incremental to a calculated materiality threshold. An ICM is a means by which a distributor can collect additional revenue from customers to fund capital expenditures in the years between cost of service applications. The ICM is available for discretionary or non-discretionary projects and is not limited to extraordinary or unanticipated investments.

To qualify for funding under the ICM policy, a distributor must satisfy the eligibility criteria of materiality, need and prudence as outlined in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (ACM Report)*.<sup>9</sup>

Elexicon Energy addressed the ICM criteria in its submissions but noted that the overly technical adherence to the decade old ICM policy will pose a barrier to innovation.

### 3.2 Materiality

The materiality criterion has two steps. The first step requires that the ICM capital exceeds the ICM "materiality threshold formula"<sup>10</sup>, which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operations of the distributor. A second, project-specific, materiality test provides that minor expenditures, in comparison to the overall capital budget, should be considered ineligible for ICM treatment. Moreover, a certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.<sup>11</sup>

#### *Eligible Incremental Capital and Project-Specific Materiality Threshold*

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<sup>8</sup> The OEB's policy for the funding of incremental capital is set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (ACM Report) and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report* (Supplemental Report) (collectively referred to as the ICM policy).

<sup>9</sup> ACM Report, p. 17

<sup>10</sup> The ICM materiality threshold formula refers to the updated multi-year materiality threshold formula as defined on p. 19 of the Supplemental Report.

<sup>11</sup> ACM Report, p. 17

On March 27, 2023, Elexicon Energy updated its maximum eligible incremental capital amounts for both ICM projects going into service in 2025 as part of its evidence update.

For the Whitby rate zone, Elexicon Energy updated its forecast for the 2025 capital budget to \$75.2M, which includes the proposed Whitby Smart Grid and the Sustainable Brooklin projects. The OEB's ICM model calculated the defined materiality threshold for Elexicon Energy's Whitby rate zone at \$11.6M.<sup>12</sup> As a result, the maximum available eligible incremental capital amount is \$63.6M, which is calculated as the difference between the forecasted 2025 capital budget and the OEB-defined materiality threshold.<sup>13</sup>

For the Veridian rate zone, Elexicon Energy updated its forecast for the 2025 capital budget to \$40.6MM, which includes the cost of the Whitby Smart Grid that is allocated to the Veridian rate zone. The ICM model calculated a materiality threshold of \$24.4M for the Veridian rate zone.<sup>14</sup> As a result, the maximum available eligible incremental capital amount is \$16.2M.<sup>15</sup>

No party took issue with Elexicon Energy meeting the materiality criteria for the Whitby Smart Grid project or the Sustainable Brooklin projects in 2025. In its submission, OEB staff noted that an absolute threshold for the 2025 rate year cannot be established as the final input parameters are not available.

### 3.3 Need

To qualify for ICM funding for a particular project, a distributor must demonstrate that there is a need for incremental funding. The OEB's ACM Report requires a three-fold test to demonstrate need:

1. The Means Test
2. The amounts must be based on discrete projects and should be directly related to the claimed driver.
3. The amounts must be clearly outside of the base upon which the rates were derived.<sup>16</sup>

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<sup>12</sup> ICM model Whitby rate zone for the Whitby Smart Grid\_JT1.15\_20230327

<sup>13</sup> \$63.629 = \$75.239 – \$11.610

<sup>14</sup> Elexicon Energy Argument-in-Chief, Table 7

<sup>15</sup> \$16.197 = \$40.546 – \$24.349

<sup>16</sup> ACM Report, p. 17



For the Means Test, if a distributor's most recently available regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then funding for any incremental capital project would not be allowed.<sup>17</sup>

Elexicon Energy deemed ROE of 9.43% is based on a combined OEB-approved ROE of its legacy service areas. Elexicon Energy's achieved 2022 ROE is 4.86%.

Elexicon Energy stated that its ICM funding requests are discrete, directly related to claimed drivers and outside its annual capital programs on which rates are derived.

No party took issue with Elexicon Energy meeting the Means Test to be eligible for ICM funding. Submissions regarding the two other factors required to demonstrate need will be addressed in the project-specific sections in this Decision.

### **3.4 Prudence**

A distributor needs to establish that the proposed incremental capital amount is prudent. To satisfy the prudence test, a distributor must demonstrate that its decision to incur the incremental capital represents the most cost-effective option for its customers (though, not necessarily the least initial cost option).<sup>18</sup>

Submissions regarding prudence, as it relates to the Whitby Smart Grid project, are addressed in sections 4.1 and 4.2 of this Decision.

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<sup>17</sup>Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, Chapter 3, p. 24

<sup>18</sup> ACM Report, p. 17

## 4 THE WHITBY SMART GRID PROJECT

### 4.1 Summary and Benefits of the Proposed Whitby Smart Grid Project

The Whitby Smart Grid involves the deployment of a suite of technologies to modernize Elexicon Energy's distribution system. The Whitby Smart Grid includes an Advanced Distribution Management System (ADMS) and Supervisory Control and Data Acquisition (SCADA) software, plus the devices to be installed in the field such as poles, switches, and transformers, the benefits of which are summarized as follows:

- **ADMS:** provides increased operational awareness, reduced restoration time, and improved asset management of devices.<sup>19</sup>
- **SCADA:** is a category of software applications for controlling processes, which is the gathering of data in real time from remote locations to monitor and operate equipment. SCADA provides utilities with the information and tools to make and deploy data-driven decisions regarding their distribution system.
- **Voltage/VAR Optimization (VVO):** allows a distribution system to operate at the lower end of the acceptable voltage ranges to lower energy consumption. Elexicon Energy estimated that it will be able to reduce the voltage by 3% for all customers, resulting in a total annual cost of power savings of \$3.4M.<sup>20</sup>
- **Fault Location Isolating and Service Restoration (FLISR)/ Distribution Automation (DA):** allows for rapid isolation of 75% of sustained feeder outages and converts them to momentary outages. This would also reduce costs to locate and isolate faults and save approximately 1 hour per outage. Elexicon Energy estimated the annual savings from the improvements in reliability to be \$1.8M.<sup>21</sup> While the number of outages would not be reduced, the duration of the outage would be shorter.<sup>22</sup>

Elexicon Energy also noted that this project has anticipated benefits such as increased accommodation of Distributed Energy Resources (DER), management of residential-based energy storage, and connection of electric vehicles.

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<sup>19</sup> OEB Staff IR-10, October 18, 2022

<sup>20</sup> Oral Hearing Undertaking J2.8, April 12, 2023

<sup>21</sup> Oral Hearing Undertaking J2.7, April 12, 2023

<sup>22</sup> Technical Conference Transcript Vol. 2, p. 92, lines 1-3

*Customer Net Benefits*

The actual net benefit to customers can vary and is dependent on numerous factors, including energy consumption and electricity prices. Elexicon Energy stated that when testing the sensitivity of a net benefit analysis to the forecasted capital cost of the Whitby Smart Grid project, it forecast that the project is expected to deliver a net present value of net benefits over its 27-year average useful life of \$39.8M.<sup>23</sup> Also, the cost in the net present value analysis is based on a Class 4 cost estimate (-30% to +50%). This could result in a change in the projected net benefit of \$39.8M, producing results ranging from \$53.54M to \$13.2M.<sup>24</sup> The VVO savings is based on 3% energy savings on Whitby rate zone's cost of power. The reliability savings is based on the unit cost savings from a study by Lawrence Berkley National Laboratory and multiplied against expected reliability reductions. Elexicon Energy assumed a zero net benefit until the entire system is installed.

*Project Costs*

The total proposed cost for the Whitby Smart Grid project is estimated at \$47.2M. Elexicon Energy has been granted \$4.04M of Natural Resources Canada (NRCan) funding that is related to the funding of the ADMS element of this project. The total cost can be broken down as follows:<sup>25</sup>

	<b>Total Capital Expenditures \$M</b>	<b>Whitby RZ \$M</b>	<b>Veridian RZ \$M</b>	<b>NRCan \$M</b>
ADMS, including SCADA <sup>26</sup>	12.8	2.3	6.4	4.0
Field Hardware	34.4	34.4	0.0	0.0
<b>Total Capital Expenditures</b>	<b>47.2</b>	<b>36.7</b>	<b>6.4</b>	<b>4.0</b>

*Contribution Agreement with NRCan*

Elexicon Energy entered into a Contribution Agreement with NRCan to qualify for funding for the ADMS portion of the Whitby Smart Grid in August of 2022. The estimated NRCan contribution is \$4.04M. The Contribution Agreement obligates

<sup>23</sup> Elexicon Energy Argument-in-Chief, p. 27

<sup>24</sup> Elexicon Energy Argument-in-Chief, p. 5

<sup>25</sup> Interrogatory Response OEB staff-10(a)

<sup>26</sup> These amounts include ADMS and SCADA

Elexicon Energy to complete the ADMS portion of the Whitby Smart Grid by March 31, 2025.

Elexicon Energy is requesting incremental funding of \$43.2M<sup>27</sup> on an interim basis for the Whitby Smart Grid through the ICM mechanism. This amount is based on the net of the total project cost and the NRCan contribution, which is a net capital cost of \$36.7M for the Whitby rate zone and \$6.4M for the Veridian rate zone.<sup>28</sup>

### *Bill Impact Mitigation and True-Ups*

For the Whitby rate zone, the proposed ICM funding request for the project would result in an estimated monthly bill increase for residential customers of \$5.73 per month.<sup>29</sup> This impact is based on illustrative rate riders, which would be approved on an interim basis. In response to oral hearing undertakings, Elexicon Energy provided an illustrative bill mitigation proposal to address the cumulative bill impact from their proposal to put both ICM projects in-service in the same year. Elexicon Energy suggested increasing its ICM-related rates and customer bills across all rate classes in a phased manner over three years. Elexicon Energy suggested collecting one-third of the total ICM project's revenue requirement in 2025, two-thirds of the total ICM revenue requirement in 2026, and the full amount of the total ICM revenue requirement in 2027.

The amounts of total revenue requirements that are not collected in 2025 and 2026 would be recorded in each project ICM revenue deferral account (ICM Deferred Revenue) and Elexicon Energy suggested to apply to recover the ICM Deferred Revenue in its rebasing application as part of the ICM project true-up.

For the Veridian rate zone, the proposed bill impact would be \$0.70 per month for residential customers.

### *ICM/ACM Policy and Timing*

Elexicon Energy submitted its ICM request for the Whitby Smart Grid well in advance of the expected in-service date of 2025. In its application, Elexicon Energy noted that the advanced funding request is a result of (i) the long lead time required to construct the Whitby Smart Grid, including significant lead time for material orders which have been exacerbated by the supply chain constraints of recent years; and (ii) the need for cost recovery certainty prior to significant investments being made. Elexicon Energy

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<sup>27</sup> Any difference compared to the table is due to rounding

<sup>28</sup> Interrogatory Response OEB staff-10

<sup>29</sup> Oral Hearing Undertaking J2.9

proposed that the OEB approve its ICM request based on illustrative rate riders on an interim basis, which will be updated for the year the assets will go into service.

To address the ICM policy's prudence criteria, Elexicon Energy considered three options before coming to the determination to proceed with the Whitby Smart Grid project and provided a discussion of each option.

- **Option 1:** complete the Whitby Smart Grid project by 2025 following OEB approval
- **Option 2:** develop the Whitby Smart Grid by 2028 using Elexicon Energy's existing capital expenditure allocation
- **Option 3:** not proceed with the Whitby Smart Grid project

Elexicon Energy rejected Option 2 because the NRCan funding was secured related to the ADMS portion of the Whitby Smart Grid, which expires in 2025<sup>30</sup>. In addition, Elexicon Energy's opinion was that this investment was too large to be accommodated within Elexicon Energy's existing capital envelope and would have unacceptable impacts on other necessary capital investments. Elexicon Energy stated that Option 3 could result in a future decline in reliability performance in years to come as the DER penetration growth would make it more difficult for Elexicon Energy to operate the grid under two-way power flow and thus maintain the status quo level of reliability.

## 4.2 Summary of Submissions

Various issues were raised by the parties and OEB staff for the Whitby Smart Grid project, including the timing of the application given that the Whitby Smart Grid project is expected to go into service in 2025.

### *Position of the Parties*

Regarding the timing of the application, the Brooklin Landowners, DRC and Environment Defence supported the Whitby Smart Grid project for 2025. However, DRC submitted that certain conditions should be part of an approval, including a requirement to address an information gap relevant to DERs. SEC and OEB staff indicated that they support innovation and endorsed the ADMS portion of the smart grid. Both argued that the field equipment for the project should be phased in over time. SEC indicated that rates should be effective as of January 1, 2024, while OEB staff supported funding the ADMS and the SCADA portion for both rate zones effective January 1, 2025. CCMBC,

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<sup>30</sup> Application, Appendix B-1, Whitby Smart Grid Business Case, Table 22

CCC, VECC and PWU argued that the OEB should not approve the project since Elexicon Energy had not reasonably justified its ICM request.

The Brooklin Landowners, DRC and Environment Defence supported the Whitby Smart Grid project for the following reasons:

- lower customer energy bills through VVO savings
- benefits in increased reliability, although the value is difficult to quantify<sup>31</sup>
- avoided carbon emissions over 20 years<sup>32</sup>
- efficiently facilitating the integration and connection of existing and proposed DERs to achieve long-term customer and grid efficiencies<sup>33</sup>
- potential avoidance of transmission and/or distribution infrastructure
- it represents an effective early response to the challenges of energy transition<sup>34</sup>

OEB staff and SEC generally supported the Whitby Smart Grid but noted that prudent capital spending requires a phased approach. OEB staff supported ICM funding for the ADMS and SCADA portions of the Whitby Smart Grid, while SEC supported only ADMS funding. The reasons are as follows:

- rational investment balances the need to improve systems with the impacts of the spending on customers and utility<sup>35</sup>
- benefits will be realized incrementally as the field hardware is installed across the distribution system<sup>36</sup>
- NRCan funding is for the ADMS system only
- the installation of the ADMS and SCADA system are the backbone of the smart grid<sup>37</sup> to enable further modernization or a “grid of the future”
- concerns with completing the work as one large project over a compressed period
- a portion of the project overlaps with the 2021 DSP
- the OEB could apply the ACM policy including the +/- 30% dead band or approve the ADMS project for a 2024 ICM with rate riders effective January 1, 2024

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<sup>31</sup> Environmental Defence Submission, p. 2

<sup>32</sup> Ibid, p. 3 – Environmental Defence noted that the Whitby Smart Grid project will save 202,977 TCO<sub>2e</sub> in carbon emissions over 20 years.

<sup>33</sup> DRC Submission, p. 3

<sup>34</sup> Ibid, p. 6

<sup>35</sup> SEC Submission, p. 5

<sup>36</sup> OEB staff Submission, p. 21

<sup>37</sup> OEB staff Submission, p. 15

For the remainder of the Whitby Smart Grid project, the \$34.4M cost for field hardware, OEB staff and SEC argued for a paced approach for the following reasons:

- as Elexicon Energy's last DSP was filed in 2021, the potential overlap and prioritization between the DSP and the field hardware aspects of the VVO and FLISR should be examined<sup>38</sup>
- benefits should be realized incrementally as field hardware is installed across the distribution system, as VVO and FLISR field equipment replaces aging equipment and feeders with poor reliability<sup>39</sup>
- no studies have been conducted on DER penetration in the franchise area.<sup>40</sup>
- the rate impacts are definite and significant, while the benefits are uncertain
- with a Class 4 cost estimate, final project costs are uncertain<sup>41</sup>

CCC, CCMBC, PWU and VECC did not support any ICM funding for the Whitby Smart Grid for the following reasons:

- residential customer would pay 68% of the cost but only receive 33% of the projected benefits<sup>42</sup>
- both cost and benefits are highly uncertain at this time<sup>43</sup> and there is uncertainty whether the project will produce tangible and measurable benefits<sup>44</sup>
- if approved, the project would result in high bill impacts for residential and small commercial customers and Elexicon Energy has not demonstrated the need for ratepayer funding<sup>45</sup>
- capital expenditures are disproportionate to Elexicon Energy's rate base and represent a high risk to ratepayers<sup>46</sup>
- Elexicon Energy failed to reprioritize any other capital expenditures to accommodate this project<sup>47</sup>
- Elexicon Energy had not adequately demonstrated that the Whitby Smart Grid is a higher priority than other projects outlined in its DSP<sup>48</sup>
- a failure to justify the need for ICM funding relief<sup>49</sup>

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<sup>38</sup> OEB staff Submission, p. 25, SEC Submission p. 23

<sup>39</sup> OEB staff submission p. 19, SEC Submission, p. 23

<sup>40</sup> SEC Submission, p. 21

<sup>41</sup> SEC Submission, p. 18

<sup>42</sup> VECC Submission, p. 4

<sup>43</sup> CCC Submission, p. 2 and VECC Submissions, p. 4

<sup>44</sup> VECC Submission, p. 4

<sup>45</sup> CCMBC Submission, p. 1

<sup>46</sup> OEB staff submission, p. 14 and VECC Submission, p. 4

<sup>47</sup> VECC Submission, p. 4

<sup>48</sup> VECC Submission, p. 9 and CCC p. 11

<sup>49</sup> PWU Submission, p. 1

In response to OEB staff and intervenor submissions, Elexicon Energy submitted the following:

- the Whitby Smart Grid represents an important “no regrets”<sup>50</sup> action that is needed now to avoid a forecasted material upstream capacity investment in 2030
- rate mitigation can be used to address the rate impact concerns by spreading the rate increase over 2025, 2026 and 2027
- confirmation that if the ADMS portion is complete, NRCan funding would not be at risk
- the project is a good example of utility innovation aligned with OEB and Government policy objectives and expectations, while responding to the call for distribution sector resiliency, responsiveness and cost-effectiveness
- uncertainty in costs and benefits are exaggerated and should be dismissed
- the OEB commonly accepts advanced approvals based on Class 4 estimates
- pacing the construction of the Whitby Smart Grid will not only delay customer benefits, but take an extraordinary amount of time
- the cost of power is unlikely to decrease and a 3% estimate savings is similar to savings achieved in other projects
- delaying the implementation of the Whitby Smart Grid until 2028 would delay the adoption of new DERs
- is it unable to defer or modify other investments in its DSP when comparing its existing capital plan with the Whitby Smart Grid due to the needs of its system and there is little overlap

### 4.3 Findings

The OEB approves \$8.8M in ICM funding in 2025 for the ADMS and SCADA aspects of the proposed Whitby Smart Grid project. This is a partial funding approval compared to the \$43.2M requested. The ICM funding is approved as one project for Elexicon, not considered mutually exclusive to the Whitby and Veridian rate zones.

The OEB finds that Elexicon Energy meets the ICM criteria of materiality, need and prudence for the ADMS and SCADA aspects of the proposed project. The ICM model calculated a materiality threshold for Elexicon Energy’s rate zones at \$11.6M for the Whitby and \$24.4M for the Veridian rate zones. Based on the updated 2025 capital budget forecasts, this results in maximum eligible incremental capital amounts of \$63.6M and \$16.2M respectively which exceeds the approved ICM funding. The OEB finds that the project is needed to modernize the merged distribution systems through

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<sup>50</sup> Elexicon Energy Reply Submission, p. 5



further enablement of control systems, to help restore power after outages and prepare for DER penetration. The OEB agrees that the project, as described by Elexicon Energy, is discrete, outside the base upon which rates were derived and will have a significant influence on the future operations of the distributor as a merged entity. The OEB finds that prudence has been established for the ADMS and SCADA elements in terms of utility need and the reasonableness of the costs to be incurred.

The OEB denies the ICM funding request for the field hardware, such as wood poles, pole mount transformers, and overhead load switches of the proposed Whitby Smart Grid project in 2025. The OEB does not find it prudent to approve the investment of this incremental field hardware at this time. Elexicon Energy may consider phasing-in these components after the ADMS is complete in 2025, which OEB staff referred to as the backbone of the smart grid project. Elexicon Energy should consider the timing of the hardware investment and prioritization in the context of its annual capital expenditure budgets once the ADMS and SCADA aspects are complete and in service. This may enable Elexicon Energy to consider variations to Option 2.

The OEB finds that the additional investment is out of proportion for a utility of this size. The \$34.4M capital cost for field hardware exceeds the entire 2025 capital budget of \$32.7M in the 2021 DSP, a budget that did not include this project. Further, this cost estimate of \$34.4M raises concern of a significant financial burden for customers which is compounded by the risk of a further 50% cost increase that is comprehended by a Class 4 estimate.

The OEB is not persuaded by the cost benefit analysis. The proposed 3% energy savings benefit is subject to verification. The OEB does not have the necessary confidence to embed this 3% benefit in the NPV analysis that would be sufficient to approve ICM funding. As one sensitivity analysis indicated, an energy savings of 2.6% or lower shows that the project could yield no net benefits. The OEB notes that phasing-in the other components of the Whitby Smart Grid would allow Elexicon to reconsider the foundation of its forecasts in its cost benefit analysis.

The OEB is approving an exception to the ICM funding policy and practice in 2023 to enable \$8.8M in funding to start April 1, 2025. The OEB considered the long lead times for the project and the request for cost recovery certainty. The OEB also considered that Elexicon Energy began work on the project in 2022 and NRCan funding installments have been received to date.

The OEB does not find it appropriate to consider the funding request as an ACM as proposed by OEB staff. The OEB finds that ACM and ICM funding are substantially different, as an ACM should be proposed with a cost of service application supported by

a current DSP. Further, the OEB believes that such a change is not a fit with the application filed.

The approved NRCan funding is integral to the OEB's consideration of the ICM request. The OEB finds it appropriate to require the receipt of the entire \$4.04M in NRCan funding and a March 31, 2025 completion date as conditions of approval for the implementation of the ICM rate riders. Elexicon Energy's management is responsible for ensuring the scope and timing of the ADMS meets NRCan's Schedule A requirements<sup>51</sup> to enable both OEB and NRCan funding mechanisms.

The OEB approves the proposed cost allocation to both the Whitby and Veridian rate zones based on total customer numbers, given the community system-wide benefits of ADMS and SCADA to Elexicon Energy service area. The OEB directs Elexicon Energy to file a draft rate order with the proposed Whitby and Veridian rate riders calculated to reflect the findings in this Decision. The OEB does not find the need for illustrative rate riders for 2025 approved on an interim basis as proposed. Elexicon Energy will use the cost estimates provided in evidence and the currently known parameters for final rate rider calculations. Any increase in actual costs above the current cost estimates may be considered when Elexicon Energy rebases its rates in 2028.

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<sup>51</sup> Interrogatory Response OEB staff-9, Attachment 1

## 5 SUSTAINABLE BROOKLIN

### 5.1 Summary of the Proposed Sustainable Brooklin Project

The Sustainable Brooklin project involves the construction of two 27.6kV feeders over a distance of approximately 10 kilometers from the Whitby transmission station to a connection point from which to connect a planned sub-division in North Brooklin. The two feeders would be constructed on two separate pole lines. Each pole line has the capacity to accommodate two additional feeders, for a total of three feeders. Elexicon Energy's application includes a request for an exemption from section 3.2 of the Distribution System Code (DSC)<sup>52</sup>, which requires collecting a capital contribution from the local developers towards the cost of constructing and operating the Sustainable Brooklin line.

Capital contributions would need to be paid by members of the Brooklin Landowners Group Inc. (Brooklin Landowners) which are first movers in the development of the North Brooklin Community. The Brooklin Landowners is an umbrella development company that comprises of 13 developers representing 30 of the 90 individual landowners in North Brooklin and owners of 60 of the 123 parcels of land in this community.<sup>53</sup>

Elexicon Energy requested 22 exemptions from the DSC including the requirement of capital contributions from the customer, which is the Brooklin Landowners for the project. In exchange for capital contributions, the developers would build DER-ready homes that include rough-ins for solar panels and battery systems as well as for electric vehicle chargers. The estimated cost for the rough-ins to accommodate DERs and electric vehicles in the new community is \$2,260 per home. Over a twenty-year horizon, it is estimated that approximately 10,000 homes will be built and that the total cost of the rough-in to the builders would be approximately \$23M.

Instead of collecting a capital contribution as per the DSC, Elexicon Energy requests funding of the Sustainable Brooklin expansion project through an ICM and states that the DSC exemption and the ICM funding request are inextricably linked.

#### *Project Costs and Project Design*

The incremental capital funding request is for \$26.7M and represents the cost of the two feeders from the Whitby transmission station to a connection point from which to

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<sup>52</sup> The Distribution System Code sets the minimum conditions that a distributor must meet in carrying out its obligations to distribute electricity under its licence.

<sup>53</sup> Brooklin Landowners Submission, p. 3

connect the planned sub-division in North Brooklin. Elexicon Energy seeks to recover these costs from all Whitby rate zone ratepayers.

As noted by the Brooklin Landowners, the next phase of the system expansion required to serve the North Brooklin development, would distribute electricity along primary streets in the community of North Brooklin.

The subject of the DSC exemption request, and consequently the ICM funding request, is only for the Sustainable Brooklin Line that needs to be constructed in entirety, at one time. The next phase of the project was not defined in the proceeding as it could be scaled and constructed over time and could also be subject to capital contributions as per the DSC.

### *Distribution System Code*

The Brooklin Landowners noted that Elexicon Energy advised them that the construction of the Brooklin Line constitutes an “expansion” of its existing system and would, accordingly, trigger a capital contribution as per the DSC to be collected from the new customer requesting the line. Section 3.2 of the DSC sets out the rules for the distributor to determine the customer contribution amount for the expansion of the distribution system.

Under the DSC, a customer must make a capital contribution if the present value of the cost of the expansion and ongoing maintenance exceeds the present value of the projected incremental distribution revenue that will be generated by the load connected to the expansion.<sup>54</sup> In addition, a customer who paid a capital contribution would be entitled to receive a rebate if a customer whose load was not included in a distributor’s original economic evaluation requests to connect to the same expansion facilities during the applicable connection horizon.<sup>55</sup>

### *Quid pro Quo*

Elexicon Energy stated in its application that it was requesting the exemption as a “quid pro quo” for Brooklin Landowners “incurring incremental costs to build Standard Rough-Ins” in anticipation of the potential future installation of rooftop solar, battery storage, and EV chargers.<sup>56</sup> The specific intention is to save homeowners the cost of such rough-ins should they decide to invest in a DER, yielding more future DER installations

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<sup>54</sup> DSC; ss. 3.2.4. Note that if a distributor must construct an expansion “in order to be able to connect a specific customer or group of customers”, ss. 3.2.1 obliges them to “perform an initial economic evaluation...as described in Appendix B” to the Distribution System Code.

<sup>55</sup> DSC; ss. 3.2.27 and where applicable under ss. 3.2.27A to 3.2.27F.

<sup>56</sup> “The estimated cost to the Brooklin Developers to install the Standard Rough-In is approximately \$23M.” Application; Appendix B-2; p. 4 of 37.

compared to the “business as usual” case.

The Brooklin Landowners noted that Elexicon Energy should not be required to collect a capital contribution from them if the OEB approves the request for ICM funding for the Brooklin Line. The Brooklin Landowners indicated that they would be prepared to enter into binding agreements with Elexicon Energy that reflect their DER and EV-enablement commitment.

## 5.2 Summary of Submissions

Elexicon Energy’s submitted that its request for approval of the ICM funding for the Brooklin Line is inextricably linked with the requested DSC exemption. Elexicon Energy argued that the Sustainable Brooklin project is a highly innovative and unique opportunity to facilitate the development of DER and EV-ready community at the construction phase. Elexicon Energy noted that this project will lower barriers and costs for North Brooklin customers to procure residential DERs and EVs by avoiding costly future retrofits. Elexicon Energy also noted that greater penetration of DERs and EVs has the potential to create system benefits as well as customer-specific benefits.

Elexicon Energy noted that its proposed ICM request and the record of this proceeding meet the OEB’s policy requirements and the policy mandate of the Ontario Government.

The Brooklin Landowners, DRC and Environmental Defence agreed and support the proposal.

Environmental Defence provided an alternative to the quid pro quo proposal as discussed below. DRC noted that Elexicon Energy’s proposal fails to ensure that developers will suffer a financial penalty if they do not provide the required installations under the quid pro quo and may inadvertently incentivize developers not to complete the rough-ins since cost may exceed the proposed penalty amounts. DRC submitted that the OEB should approve the application subject to a number of conditions.

The Brooklin Landowners also submitted that approval of the DSC exemption redresses its fairness concerns and the disproportionate allocation of cost responsibilities to first movers, which represent the first ‘customer’ under the DSC. The Brooklin Landowners also argued that the Brooklin Line serves a transmission function and that some costs are system costs. While Elexicon Energy agreed with Brooklin Landowners that the project is in the public interest and that the fairness principle justifies a quid pro quo treatment, Elexicon Energy disagreed with the assertion that the Brooklin Line serves a transmission function or that there are any system costs involved.

SEC took no position on this project.

OEB staff, CCC, CCMBC, PWU and VECC submitted that the funding request should be denied for the following reasons:

- the request is contrary to the beneficiary pays principle that is stated in the DSC<sup>57</sup>
- the most likely beneficiaries of the exemption will be the developers and the DER and EV-ready homeowners who end up installing DERs and/or EV chargers<sup>58</sup>
- the DSC does not contemplate the use of ratepayer funds to subsidize the construction of rough-ins in new homes<sup>59</sup>
- the evidence does not support a reasonable expectation of quantifiable or tangible benefits to ratepayers<sup>60, 61, 62</sup>. The benefits that Elexicon Energy describes are potential avoided costs that are not certain to materialize<sup>63</sup>
- evaluated against a \$26.6M cost to ratepayers, the cost outweighs the benefits, and the comparison is distorted by the timeframe used to calculate the net present value benefits<sup>64</sup>
- the project cost and bill impacts are speculative<sup>65</sup>
- cross-subsidization of new customers by existing customers<sup>66</sup>
- the proposal to install only rough-ins and not electrified outlets is not current practice and will discourage EV and solar adoption<sup>67</sup>
- Brooklin Landowners will opt to construct some DER/EV Ready homes on their own in the absence of the Sustainable Brooklin project to be competitive in the market and respond to evolving development approval guidelines<sup>68</sup>
- OEB approval is counter to the intent of the DSC and could set an undesirable precedent<sup>69</sup>
- the OEB does not have jurisdiction to facilitate the efficient development of any particular electricity appliance or the behind the meter activities of consumers<sup>70</sup>

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<sup>57</sup> OEB staff Submission, p. 2

<sup>58</sup> OEB staff Submission, p. 8

<sup>59</sup> PWU Submission, paragraph 12

<sup>60</sup> OEB staff Submission, p. 2

<sup>61</sup> VECC Submission, p. 29

<sup>62</sup> CCC Submission, p. 8

<sup>63</sup> PWU Submission, paragraph 18

<sup>64</sup> PUW Submission, paragraph 27

<sup>65</sup> Ibid, p. 29

<sup>66</sup> PWU Submission, pp. 5-10 and CCMBC Submission, pp. 7-8

<sup>67</sup> Ibid, p. 29

<sup>68</sup> VECC Submission, p. 29 and CCC submission, p. 8

<sup>69</sup> VECC Submission, p. 29

<sup>70</sup> VECC Submission, pp. 28-29

and if the OEB were to approve this ICM it would compromise its principles and damage its authority<sup>71</sup>

OEB staff also argued that if the project was to be funded through an ICM without the approval of the DSC exemption, the funding request for the Sustainable Brooklin project does not meet the criteria of materiality and need as described in the ACM Report.<sup>72</sup>

Elexicon Energy replied to the parties' submissions as follows:

- OEB staff takes an overly narrow read of the evidence that fails to do justice to this innovative proposal
- Elexicon Energy understands the beneficiary pays principle but argued that OEB staff did not address the following benefits of the Sustainable Brooklin project:
  - Facilitation of innovation of the electricity sector through the creation of DER and EV-ready communities
  - Deferral of electricity infrastructure
  - Alleviation of fairness principle raised by the Brooklin Landowners
  - Reduction of GHG emissions through the facilitation of DER uptake
  - Support of Ontario's commitment to get 1.5M homes built over the next ten years
- Beneficiary of incremental DER capacity facilitated through this project will be much broader than the developers or the local property owners
- OEB staff failed to recognize the benefits that accrue to Whitby ratepayers associated with significant load growth in the North Brooklin area, such as the results of the economies of scale leading to a reduction in monthly fixed charges
- The Brooklin Landowners will not make these homes DER and EV-ready absent a quid pro quo and the installations of rough-ins after the fact would be burdensome and disruptive to homeowners
- The evidence does not support the assertion that EV ready parking requirements for new developments are emerging as a leading practice in the Town of Whitby. When asserting that there is a trend moving towards additional requirements for EV ready parking or solar ready homes, VECC ignored the fact that the 2018 Ontario Building Code requirements were revoked in 2019.
- The Sustainable Brooklin project is aligned with the OEB's objective under the *Ontario Energy Board Act, 1998* to "promote economic efficiency and cost-effectiveness in generation, transmission, distribution, sale and demand management of electricity and facilitate the maintenance of a financially viable

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<sup>71</sup> CCMBC Submission, p. 9

<sup>72</sup> OEB staff Submission, p. 2

electricity industry.”<sup>73</sup> The OEB has through conservation frameworks overseen and facilitated rate recovery of various incentive programs.

### *Alternate Proposals*

While SEC did not take a position on the Sustainable Brooklin project, SEC noted that in the event the OEB approves this project, or some variation on it, all new customers connecting downstream of that line should be granted similar incentive/subsidies for comparable upgrades to their new buildings. Such upgrades would include solar, electric vehicle chargers, storage and any other improvements beyond applicable codes. SEC noted that these incentives should be used, as with the Sustainable Brooklin proposal, to offset their capital contributions dollar for dollar.

Elexicon Energy agreed in principle but noted another, more administratively efficient alternative, which would be to simply not require any contributions from unforecasted non-residential loads and have the line entirely funded by ratepayers.<sup>74</sup>

Instead of the quid pro quo proposal, Environmental Defence proposed that Elexicon Energy use financial incentives to address concerns raised by the Brooklin Landowners including:

- Extending the customer attachment and customer revenue horizon from 5 to 10 years and from 25 to 40 years, respectively
- Relieving first contributor from fronting the full capital contribution by instead collecting those costs developer-by-developer until the customer attachment forecast underpinning the capital contribution has been met. By continuing to require payment until the connection forecast has been met, instead of a date-based cut-off, the risks are reduced. This approach would: (a) greatly reduce the financing required from the first movers, (b) eliminate free ridership caused by the normal five-year rebate cut-off, and (c) eliminate the complication of administering rebates to a large number of developers over time.
- Dispense with or reduce the expansion deposit required in DSC section 3.2.20

Elexicon Energy disagreed with Environmental Defence’s proposal and noted that this proposal would shift the financial risk in the connection process onto utilities and ratepayers, including the risk for overbuilt or stranded assets.

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<sup>73</sup> Elexicon Energy Reply Submission, p. 25

<sup>74</sup> Elexicon Energy Reply Submission, p.22



Ellexicon Energy also argued that it would be providing discriminatory service if it offers different connection horizons to similar situated consumers as its licence requires a non-discriminatory access to its distribution system.

### 5.3 Findings

The OEB denies the 22 DSC exemptions requested.<sup>75</sup> As a result, the ICM funding request of \$26.7M is denied. The OEB finds that the arrangements do not provide sufficient protections for existing customers when weighing the cost and benefit risks.

In carrying out its statutory responsibilities, the OEB considers the promotion of electricity conservation and demand management in a manner consistent with the policies of the government. The OEB's objectives also include the facilitation of innovation – but not at any cost. Innovations must be considered at the same time as the objectives and responsibilities of the OEB in protecting the public interest in ensuring reasonable rates that reflect the benefits obtained by them. The fact that a project is innovative cannot automatically override the OEB's responsibility to protect the public with respect to price, adequacy, reliability and quality of service when evaluating it for approval.

The DSC has evolved in tandem with the needs of distributors and their customers. There has been extensive consultation in this evolution. The OEB has recognized the beneficiary pays principle in the consideration of amendments to the DSC in past proceedings.<sup>76</sup> In this Decision, the OEB is of the view that there are insufficient reasons to override that principle. The principle that beneficiaries pay for the costs of their benefits is important and relevant to this proceeding.

The core issue is “who will pay” for connecting this planned sub-division, notwithstanding that existing customers who would pay for the costs are not the primary beneficiaries. Under the proposal, each existing residential customer would pay \$3.26 per month obviating the necessity of developers paying the \$26.7M contribution in aid of construction while installing rough ins for future homeowners. The OEB must consider who will benefit and what will be the ultimate price tag. In particular, the OEB as an economic regulator must balance the rate impact with the benefits. Quid pro quo requires evidence of equivalence. It is imperative that the “quid” is the equivalent of the “quo”. The OEB finds that it is not.

SEC submits that regulatory fairness requires that similar DER and EV incentives are provided to all customers downstream of the two feeder lines, including the planned 15-

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<sup>75</sup> Sections 3.2.1, 3.2.2, 3.2.3, 3.2.4, 3.2.6, 3.2.7, 3.2.8, 3.2.12, 3.2.14, 3.2.16, 3.2.18, 3.2.20, 3.2.21, 3.2.22, 3.2.23, 3.2.24, 3.2.25, 3.2.26, 3.2.27 and 3.2.30

<sup>76</sup> EB-2016-0003 Notice of Proposal to Amend a Code (DSC or TSC), p. 3

20 schools that SEC would represent. The OEB finds that there is insufficient evidence that such fairness will be provided in Elexicon Energy's proposal.

The OEB is of the view that the interests of existing customers were not sufficiently considered when the quid pro quo evolved. The concerns expressed by ratepayer groups in this proceeding dealt with the fact that the burden of funding this project fell unfairly on existing customers.

The OEB acknowledges that Whitby's Town Council supported this funding request. However, based on a review of the presentations provided to them, it appears that the Town Council did not have the benefit of all the evidence available to the OEB in this proceeding including the size of the potential rate increase on the distribution component of the electricity bill for their constituents.

The OEB is concerned that any approval of exemptions that create an imbalance among stakeholders will have an undesirable precedential impact that would reverberate across the province and affect all distribution customer interests in Ontario.

The decision not to approve the ICM funding request is not strictly based on nonconformance with the DSC but also based on the following assessment of business case benefits identified by Elexicon Energy.<sup>77</sup>

#### *Facilitating innovation and DER/EV uptake*

The OEB encourages collaboration with its customers and the building industry. In particular, the OEB recognizes the opportunity for leveraging private capital to accomplish goals that can benefit the utility, its customers and the public interest. However, the end result of the Sustainable Brooklin project does not meet the objectives sought. The primary benefits that are attributed to the project are at best preparatory. The project proposes rough-ins that require further investment and do not produce DER and EV ready homes.

#### *Opportunity to defer infrastructure investments*

Elexicon Energy agrees that it would take 20 years to install \$23M of rough ins in 10,000 homes. In addition, those homeowners must invest additional capital to generate any DER benefits which in turn, could enable deferred infrastructure (i.e. a transmission station). One scenario forecasts a deferral of infrastructure in 2038, 15 years from

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<sup>77</sup> Evidence, pp. 43-52

now<sup>78</sup>. The OEB finds that such benefits are premised on timelines and assumptions that are too speculative and as such, not sufficient to warrant approval.

#### *Fairness issues raised*

While the OEB agrees that there may be issues of the fairness of cost attribution to first movers with incremental electricity demands, such considerations of fairness must also extend to existing customers. In this proceeding the benefits appear to be heavily weighted in favour of the first movers when compared to existing customers. In particular, existing customers will not receive any rough ins and the OEB finds the benefits associated with the deferral of infrastructure are too speculative.

#### *Facilitating GHG emission reductions*

A result that involves the rough-ins and capital investment, presumably by homeowners, to make homes DER/EV ready would undoubtedly enable GHG emission reductions. However, the societal benefits of such GHG emission reductions that might be achieved must consider the cost effectiveness and the allocation of the cost commitment.

As set out in this Decision, the case has not been made to align the benefits of the Sustainable Brooklin project with the OEB's statutory objectives to protect the interests of consumers while promoting economic efficiency and cost effectiveness.

## **5.4 Connection Horizon**

On December 22, 2022, the OEB staff issued a letter to remind licensed electricity distributors that under the DSC they have discretion, on a case-by-case basis, to extend the customer connection horizon that is used in distribution system expansions beyond the default five years as set out under the DSC.<sup>79</sup>

In its reply submission, Elexicon Energy raised concerns with this letter. Elexicon Energy submitted that there is a contradiction between the letter and the *Ontario Energy Board Act, 1998* as well as prior OEB staff guidance.

OEB staff submitted that this issue does not need to be decided in this proceeding, but if the OEB decides to consider this issue further, OEB staff would stand by its views expressed in the December 2022 letter.<sup>80</sup>

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<sup>78</sup> Oral Hearing Transcript Volume 2, p. 156

<sup>79</sup> OEB Staff Letter "Reminder of Distributor Discretion to Extend Customer Connection Horizon for System Expansions", issued December 22, 2022

<sup>80</sup> OEB Staff Submission, p. 55

Elexicon Energy disagreed with OEB staff's view and submitted that if the OEB denies the DSC exemption for the Sustainable Brooklin project, the application of the 5-year customer connection horizon becomes an immediate and live issue. Elexicon Energy requested that the OEB provide further clarity.<sup>81</sup>

CCMBC<sup>82</sup> and Environmental Defence proposed to extend the customer connection horizon and customer revenue horizon from 5 to 10 years and from 25 to 40 years respectively, to reduce the upfront costs for developers. Environmental Defence disagreed that the adjustments to the capital contribution calculation parameters would be a breach to section 26 of the *Electricity Act, 1998*. It noted that adjusting these parameters to address fairness and to obtain other benefits is not "discrimination".<sup>83</sup>

Elexicon Energy replied that extending the connection horizon will not address the issue of requiring a significant capital contribution.<sup>84</sup>

## 5.5 Findings

The OEB agrees with OEB staff that the customer connection horizon and revenue horizon issues do not need to be resolved in this Decision. The structure of the application is such that no end-use customers attach, and no revenues are associated with the Sustainable Brooklin project. This ICM funding request is limited to the two 27.6kV feeder lines that run from the transmission station to the boundary of a planned subdivision.

Further, the OEB acknowledges Elexicon Energy's reply submission that an extension of the connection horizon would not address the issue of requiring a significant capital contribution in these circumstances. A substantial capital contribution would be required from developers in all scenarios considered.

Finally, the OEB is reluctant to set out guidance that purports to bind a future panel or a delegated authority.

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<sup>81</sup> Elexicon Energy Reply Submission, p. 55

<sup>82</sup> CCMBC Submission, p. 10

<sup>83</sup> Environmental Defence, pp. 4-6

<sup>84</sup> Elexicon Energy Reply Submission, p. 55

## 6 ACCOUNTING ORDER

### 6.1 Background

Elexicon Energy provided a draft Accounting Order to reflect the ICM sub accounts required, including those related to the NRCan funding. The draft also included sample journal entries for when the asset is placed in service and at rebasing.

OEB staff submitted that it supported the establishment of the sub accounts under Account 1508 if all or part of the ICM funding request is approved.

### 6.2 Findings

The OEB approves an Accounting Order, which establishes the following three ICM sub accounts:

- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Contributed Capital
- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Carrying Charges
- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Amortization

The approved Accounting Order incorporates the April 1, 2025 effective date and is attached as Schedule A to this Decision.

## 7 IMPLEMENTATION

Elexicon Energy shall file a draft rate order including ICM models for the Veridian and Whitby rate zones to reflect the findings in this Decision, calculate rate riders to be approved on a final basis and provide illustrative bill impacts to be realized in the 2025 rate year.

The rate riders will be effective and implemented April 1, 2025. Despite this mid-year implementation date, the OEB finds that the rate rider calculation should be based on a 12-month period. The parameters used for the calculation of the ICM rates riders should reflect the currently known parameters, such as the approved 2023 rates, 2022 billing determinants and the most up-to-date inflation factor. When Elexicon Energy files its 2025 rate application, it shall include the approved ICM rate riders on the proposed 2025 tariff sheet.

CCC, CCMBC, Environmental Defence, SBUA, SEC and VECC are eligible to apply for cost awards in this proceeding. The OEB has made provisions in this Decision for intervenors to file their cost claims. The OEB will issue its cost awards decision after the steps outlined in the following Order section are completed.

## 8 ORDER

### THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Elexicon Energy Inc. shall file with the OEB and forward to intervenors and OEB staff a Draft Rate Order by **July 17, 2023**.
2. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB and forward them to Elexicon Energy Inc. by **July 24, 2023**.
3. Elexicon Energy Inc. shall file with the OEB and forward to intervenors, responses to any comments on its Draft Rate Order by **July 31, 2023**.

### Cost Awards

1. Each cost eligible intervenor shall submit its cost claim to the OEB and forward it to Elexicon Energy Inc. **by August 7, 2023**.
2. Elexicon Energy Inc. shall file with the OEB and forward to intervenors any objections to the claimed costs by **August 17, 2023**.
3. Intervenors shall file with the OEB and forward to Elexicon Energy Inc. any responses to any objections for cost claims by **August 24, 2023**.
4. Elexicon Energy Inc. shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2022-0024** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.

- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact [registrar@oeb.ca](mailto:registrar@oeb.ca) for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Birgit Armstrong at [Birgit.Armstrong@oeb.ca](mailto:Birgit.Armstrong@oeb.ca), and OEB Counsel, Lawren Murray at [Lawren.Murray@oeb.ca](mailto:Lawren.Murray@oeb.ca).

**DATED** at Toronto July 6, 2023

**ONTARIO ENERGY BOARD**

Nancy Marconi  
Registrar



**SCHEDULE A**  
**TO DECISION AND ORDER**  
**ACCOUNTING ORDER**  
**ELEXICON ENERGY INC.**  
**EB-2022-0024**  
**JULY 6, 2023**

**Elexicon Energy Inc.**  
**Accounting Order**  
**Account 1508, Sub-account Deferred Revenue – Contributed Capital**

Elexicon shall establish three new sub-accounts for each of the Whitby and Veridian rate zones to record amounts associated with capital contributions received for the Whitby Smart Grid Project. These three new sub-accounts will capture capital contributions, associated carrying charges and amortization, as described below. The sub-accounts will be effective April 1, 2025,

**1) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Contributed Capital**

This sub-account shall be used to record amounts received in contributed capital for the Project.

**2) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Carrying Charges**

This sub-account shall be used to record carrying charges on *Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Contributed Capital*.

Carrying charges shall be calculated using simple interest applied to the opening balances in the account. The interest rate shall be the rate prescribed by the OEB.

**3) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Amortization**

This sub-account shall be used to record the amortization associated with the capital contribution amounts recorded in *Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Contributed Capital*.

The following outlines the accounting entries in the year the Project assets are placed into service:

<b><u>USoA#</u></b>	<b><u>Description</u></b>
Dr: 1110	Account Receivable
Cr: 1508	Other Regulatory Assets, Sub-account Deferred Revenue Contributed Capital

*To record the amount received in contributed capital for the Project.*

Dr: 1525	Miscellaneous Deferred Debits
Cr: 1508	Other Regulatory Assets - Sub-account Deferred Revenue Carrying Charges

*To record carrying charges on the contributed capital received for the Project.*

Dr: 1508      Other Regulatory Assets, Sub-account Deferred Revenue Contributed  
Capital

Cr: 1508      Other Regulatory Assets, Sub-account Deferred Revenue Amortization  
*To record the amortization associated with contributed capital for the Project.*

The following outlines the entries upon approval of the ICM included with Elexicon's next Cost of Service rebasing application:

**USoA#**      **Description**

Dr: 1508      Other Regulatory Assets, Sub-account Deferred Revenue Carrying  
Charges

Cr: 1525      Miscellaneous Deferred Debits

*To reverse carrying charges, which would be included in a revenue requirement true-up, as approved.*

Dr: 1508      Other Regulatory Assets, Sub-account Deferred Revenue Contributed  
Capital

Cr: 2440      Deferred Revenues

*To transfer contributed capital for the Project to deferred revenue.*

Dr: 1508      Other Regulatory Assets, Sub-account Deferred Revenue Amortization

Cr: 4245      Government and Other Assistance Directly Credited to Income

*To transfer the amortization of deferred revenue to income.*