March 5, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4
Submitted via RESS

Dear Ms. Marconi:

Re: EB-2023-0014 – Phase II Elexicon Energy Inc. ("Elexicon") IRM Application Responses to Interrogatories ("IRs")

Pursuant to the OEB email dated February 20, 2024, please find enclosed Elexicon's Responses to the questions provided by OEB Staff.

All IRs will be filed through the OEB's web portal ("RESS").

Please contact Erin Stevens, Manager, Regulatory Applications and Accounting by phone at (289) 355 9390, or by e-mail at estevens@elexiconenergy.com, if you have any questions.

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

cc. John Vellone, BLG
cc. Erin Stevens, Elexicon Energy Inc.

RESPONSE - INTERROGATORY OEB STAFF-1

Reference:

Ref 1: Manager's Summary Appendix A p.3

Ref 2: RRR 2.1.5.6 ROE Complete Filing Guide, March 2016

Preamble:

In Reference 1, Elexicon Energy stated that for the purposes of the ESM, achieved regulatory net income will be calculated in the same manner as regulatory net income for the purposes of the RRR filings, and in accordance with the RRR 2.1.5.6, as it currently exists. Elexicon Energy further explained that under this methodology, Regulated Return on Equity (ROE), is calculated by dividing the current year's adjusted regulatory net income by the deemed equity.

Elexicon Energy proposed that the revenues and expenses which included (but are not limited to) the below-listed items will be excluded for regulatory purposes:

I. The settlement of any regulatory assets/liabilities including the lost revenue adjustment mechanism ("LRAM")
II. Changes in Taxes/PILs to which Account 1592 applies, which will be shared through that account rather than through earnings sharing.
III. Any revenue collected from Incremental Capital Module (ICM) rate riders.
IV. Donations

Page 3 of the Reference 2 states that:

A distributor shall report, in the form and manner determined by the Board, the regulatory return on equity earned in the preceding fiscal year. The reported return is to be calculated on the same basis as was used in establishing the distributor's base rates.

Page 4 of Reference 2 states the purpose of the ROE filing as follows:

- To provide a consistent methodology and standardized approach to calculating the achieved ROE as reported in the RRR and on the electricity distributor's Scorecard.
- To assess a distributor's ROE performance in the reporting year in order to determine whether a distributor's ROE falls within/outside of the 300 basis points dead band.
- To provide a mechanism for distributors to explain the drivers for over/underearning if applicable.

- Distributors must ensure the accuracy of the RRR 2.1.7 trial balance before completing the ROE filing.

Interrogatory:

a. Please confirm that the list of revenue and expense adjustment items proposed for the achieved ROE calculation is not a complete list, rather, it is an example of the items that should be excluded in the calculation of achieved ROE in Elexicon Energy's view.

b. Elexicon Energy states that the achieved ROE is calculated by dividing the current year's adjusted regulatory net income by the deemed equity. Please clarify the calculation of the "deemed equity" in the year it is to use the actual inputs (i.e. PP&E and working capital calculations) for the year.

c. Elexicon Energy proposed one adjustment item for the calculation of the achieved ROE: any revenue collected from ICM rate riders. Please explain how Elexicon Energy assesses ICM assets: whether Elexicon Energy is to adjust out the ICM assets from the PP&E values reported or the ICM assets are not included in the PP&E values for the purpose of the achieved ROE calculation. If not, please explain why not.

Response:

a. Elexicon confirms that the list of revenue and expense adjustment items proposed for the achieved ROE calculation is not a complete list, rather, it is an example of the items that should be excluded in the calculation of achieved ROE.

b. Elexicon's calculation of 'deemed equity' uses the same methodology it relies on when reporting annual regulated ROE as part of *Reporting and Record-keeping Requirements* (RRR). When reporting for RRR section 2.1.5.6 (Regulated Return on Equity) we rely on the ROE Complete Filing Guide (dated March 2016). The formula used is reproduced below:

Regulated Deemed Equity = Total Rate Base x 40%

Total Rate Base = Average Regulated PP&E + Total Working Capital Allowance

Total Working Capital Allowance = (Total Cost of Power + Operating Expenses) x Working Capital allowance % (13.79%)

c. Elexicon Energy assesses ICM assets as per the *Accounting Procedures Handbook Guidance* (dated March 2015). Per the guidance, the ICM assets are not included in the PP&E values. These assets are recorded in Account 1508, sub account for Incremental Capital Expenditures. Therefore, for the purpose of the achieved ROE calculation, ICM assets are not included in the PP&E values.

RESPONSE - INTERROGATORY OEB STAFF-2

Reference:

Ref 1: Manager's Summary Appendix A p. 2

Preamble:

Elexicon Energy proposed that the most recently approved ROE for both of the predecessor utilities be used to develop a weighted average deemed ROE for Elexicon Energy: Whitby and Veridian RZs.

	Veridian RZ	Whitby RZ	Elexicon
OEB-Approved Rate Base ($000's)	238,106	75,768	313,874
Weighting	75.86%	24.14%	100.00%
OEB-Approved ROE	9.36%	9.66%	9.43%

Interrogatory:

a. Please repopulate a table using the same format as in the table above using the actual rate bases for each of the rate zones for the most recent available year-end data. The table should show the OEB's approved ROE using the weighting of the two rate zones' actual rate bases.

b. Please compare the resulting OEB-approved ROE with the 9.43% which is based on Elexicon Energy's proposed method.

c. Please provide Elexicon Energy's thoughts (pros and cons) in using the most recent actual rate bases as weighting for the deemed ROE as compared to the approved rate base proportions as shown in Elexicon Energy's proposed method.

Response:

a. Elexicon relies on the OEB-approved rate base from the Whitby and Veridian Cost of Service Applications (EB-2009-0274, EB-2013-0174) and cannot compute actual rate base for each of the rate zones. Rate base is derived from three inputs: average regulated Property Plant & Equipment (PP&E), cost of power expenses, and operating expenses. While some of the PP&E is tracked by rate zone, there is a sub-set of items which are not. For example, General Plant assets such as information technology, facilities, fleet etc. Also, operating expenses are not tracked by rate zone. As these components cannot be separated by rate zone, Elexicon is unable to calculate the actual rate base per rate zone, as requested by OEB staff.

For typical reporting (e.g. RRR), Elexicon does not report on behalf of the predecessor utilities, Veridian and Whitby Hydro. This is consistent with the *Handbook to Electricity Distributor and Transmitter Consolidation* (dated January 2016), page 13, which states "The OEB remains of the view that having consolidating entities operate as one entity as soon as possible after the transaction is in the best interest of consumers."

b. See response to a, above.

c. See response to a, above.

RESPONSE - INTERROGATORY OEB STAFF-3

Reference:

Ref 1: Whitby RZ Cost of Service (COS) Draft Rate Order application (EB-2009-0274)

Ref 2: Veridian RZ Cost of Service (COS) Draft Rate Order application (EB-2013-0174)

Preamble:

Cost Of Capital

In Reference 1 Whitby RZ explained that the Parties accepted the proposed capital structure of 60% debt and 40% equity. Whitby RZ explained further that the Parties agreed to apply the 2011 cost of capital parameters set out in the Board's November 15, 2010, update, being 9.66% for ROE.

For greater certainty, the Parties also agreed that the cost of capital parameters in the proceeding would have no impact on any of Whitby Hydro's cost of capital parameters in future distribution rate proceedings.

Interrogatory:

a. Please provide any other adjustments that differ from the details made available during both Whitby and Veridian RZ the COS proceeding.

Response:

a. As noted in the application, Elexicon Energy Inc. is in a deferred rebasing period and does not have an approved ROE against which the earnings sharing could be determined (EB-2023-0014, 2024 IRM Distribution Rate Application, Appendix A, page 1, lines 26-27). To address this, Elexicon proposed that the most recently approved ROE for each of the predecessor utilities be used to develop a weighted average deemed ROE for Elexicon. This ROE would be weighted by the OEB-approved rate base amounts for each rate zone (from the most recent cost of service applications for each predecessor utility, EB-2009-0274 & EB-2013-0174).

Similarly, Elexicon, as a consolidated entity, does not have an approved working capital allowance. Elexicon developed a weighted average working capital allowance for the consolidated entity in the same manner as the ROE, noted above.

The calculation of these weighted-average quantities is based on the corresponding OEB-approved amounts at the last rebasing for each rate zone with no adjustments.