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BY EMAIL

March 19, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Elexicon Energy Inc. (Elexicon Energy).
Application for 2024 Electricity Distribution Rates
OEB File Number: EB-2023-0014**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Oluwole (Wolly) Bibiresanmi
Advisor, Incentive Rate-Setting Mechanism

Encl.

cc: All parties in EB-2023-0014



ONTARIO ENERGY BOARD

OEB Staff Submission

Elexicon Energy Inc.

Application for 2024 Electricity Distribution Rates - Phase II

EB-2023-0014

March 19, 2024

Background

Elexicon Energy Inc. (Elexicon Energy) is the electricity distributor arising out of the amalgamation of Veridian Connections Inc. and Whitby Hydro Electric Corporation. In the Mergers, Amalgamations, Acquisitions, and Divestitures (MAADs) application seeking approval of the consolidation, the applicants selected a ten-year deferred rebasing period with an earnings sharing mechanism (ESM) applicable for years six through to ten of the deferral period. The OEB approved the amalgamation, with an effective date of April 1, 2019.¹

Pursuant to the Elexicon Energy MAADs Decision and Order², Elexicon Energy filed its ESM proposal as part of its 2022 Incentive Rate-setting Mechanism (IRM) application but did not seek ESM approval in that proceeding.³ In response to interrogatories⁴ during the proceeding, Elexicon Energy amended its application by requesting that the OEB approve Elexicon Energy's general ESM framework. Elexicon Energy deferred approval of the underlying details and methodology for calculating the return on equity (ROE) for the newly consolidated entity under the ESM proposal until the 2024-2028 period.⁵

In its decision on the 2022 IRM application, dated December 16, 2021, the OEB found that Elexicon Energy had complied with the requirement in the MAADs decision and directed Elexicon Energy to file the ESM proposal as part of its 2024 rates application.⁶

2024 IRM Application – Phase I

In Phase One of the 2024 IRM application, Elexicon Energy requested, among other things, the approval of its ESM proposal. However, in its decision, the OEB deferred the approval of the ESM proposal to a second phase.

2024 IRM Application – Phase II

ESM Proposal

As part of the ESM plan, Elexicon Energy will share any excess earnings with customers on a 50:50 basis for all earnings that are more than 300 basis points above Elexicon Energy's deemed ROE, beginning in 2024 until the time of Elexicon Energy's next rebasing.

¹ EB-2018-0236, Decision and Order, December 20, 2018

² *Ibid.*

³ Manager's Summary, p. 8

⁴ EB-2021-0015, Responses to Interrogatories, November 8, 2021, p. 2

⁵ EB-2021-0015, Decision and Order, December 16, 2021

⁶ EB-2021-0015, Decision and Order, December 16, 2021, p. 16

As a recently consolidated utility, Elexicon Energy has yet to rebase and therefore does not have an approved ROE against which the earning sharing can be determined. To address this issue, Elexicon Energy proposed that its most recently approved ROE for each of its rate zones (RZ), will be used to develop a weighted average deemed ROE for Elexicon Energy.⁷

Elexicon Energy noted that the calculation in Table 1 below for the weighted deemed ROE is consistent with how Elexicon Energy has been reporting its deemed ROE in its Reporting and Record-Keeping Requirements (RRR) filings since consolidation.⁸

Table 1: Calculation of Elexicon Energy Weighted Deemed ROE⁹

Description	Veridian RZ	Whitby RZ	Elexicon Energy
OEB-Approved Rate Base (\$000's)	\$238,106	\$75,768	\$313,874
Weightings	75.86%	24.14%	100%
OEB-Approved ROE	9.36%	9.66%	9.43%

Elexicon Energy's ESM proposal uses a weighted average deemed ROE of 9.43%, based on the deemed ROEs of the amalgamated predecessor utilities. In its methodology, Elexicon Energy proposed to calculate the achieved regulated ROE of the year by dividing the current year's adjusted regulatory net income by the deemed equity using the actual inputs for the year. The ROE would be weighted by the OEB-approved rate base amounts, from the most recent OEB-approved rebasing applications, for each of its predecessor utilities.¹⁰

Elexicon Energy illustrated its ESM proposal by explaining that it will report 50% of the post-consolidation over-earnings, if any, in year six (2024) in the deferral account of the IRM application to be filed in year seven (2025). However, the rate riders will commence in year eight (2026) rates.

Elexicon Energy noted that revenues and expenses not otherwise included for regulatory purposes will be excluded. Elexicon Energy proposed that the exemptions would include, but not be limited to:¹¹

⁷ Manager's Summary, Appendix A

⁸ *Ibid.*

⁹ Manager's Summary, p. 2

¹⁰ *Ibid.*

¹¹ Manager's Summary, p. 3

- Settlement of any regulatory assets/liabilities including the lost revenue adjustment mechanism
- Changes in taxes/payments in lieu of which Account 1592 applies, which will be shared through that account rather than through earnings sharing
- Any revenue collected from any incremental capital module recovery rate riders
- Donations

In its response to OEB staff interrogatories, Elexicon Energy confirmed that the list of revenue and expenses proposed for the calculation of the achieved ROE is not complete but was used as an example of items that should be excluded from the calculation of the achieved ROE.¹² Additionally, Elexicon Energy confirmed that it will comply with the [RRR 2.1.5.6. ROE Complete Filing Guide](#)¹³

Accounting Order - Account 2435 (Accrued Rate-Payer Benefit)

Elexicon Energy also requested the approval of a deferral account to track any potential over-earning until its next rebasing application and provided the draft accounting order for the proposed account.

Elexicon Energy proposed the following accounting entries for the deferral account to record the 50% sharing with customers and interest accrued:

Debit	Account 4395 Rate-Payer Benefit including Interest.
Credit	Account 2435 Accrued Rate-Payer Benefit.

Elexicon Energy noted that the assessment of earnings will commence as soon as the year six (2024) audited results are available and will continue to be reviewed and computed on an annual basis until the time of Elexicon Energy's next rebasing.

OEB Staff Submission

OEB staff makes the following submissions on the issues:

ESM Proposal

OEB staff agrees with Elexicon Energy's approach in using a weighted average in deriving the OEB's approved ROE for earnings sharing. Elexicon Energy proposed to use a weighted average in deriving the OEB's approved ROE for earnings sharing in its

¹² EB-2023-0014, Responses to OEB Staff Interrogatories, Staff-1a, p. 2

¹³ EB-2023-0014, Responses to OEB Staff Interrogatories, Staff-1b, p. 2

ESM plan. In response to an OEB staff interrogatory¹⁴, Elexicon Energy disclosed that, as a consolidated entity without an approved working capital allowance, it developed a weighted average working capital allowance based on the most recent cost of service applications for the Veridian and Whitby RZs¹⁵. Elexicon Energy also confirmed that it relies on the formula in the OEB's RRR 2.1.5.6. ROE Complete Filing Guide to calculate the "deemed equity".¹⁶

Elexicon Energy confirmed that revenue and expense adjustment items, not otherwise included for regulatory purposes in deriving the achieved ROE calculation, will be excluded. OEB staff supports the proposal of adjusting regulatory earnings for items that are typically excluded in reported regulatory net income and believes the approach proposed by Elexicon Energy is consistent with the OEB's current established regulated ROE methodology under the OEB's RRRs.

Elexicon Energy proposed that revenues and costs between the Veridian RZ and Whitby RZ will be distributed based on the proportion of the distribution revenue¹⁷ collected from each RZ in the given year, over twelve months commencing January 1, 2026. OEB staff submits that distributing revenues and costs between the two RZs, in the proportion of the distribution of revenue collected from each RZ, in the given year, appears to be equitable to ratepayers in the respective RZs. As such, OEB staff supports Elexicon Energy's proposal.

OEB staff notes that a similar ESM proposal has been considered and approved by the OEB. In Alectra Utilities Corporation's (Alectra Utilities) 2020 rate application¹⁸, a proposal for an ESM plan was filed. The ESM plan filed by Alectra Utilities sought approval of an ESM plan in which earnings above 300 basis points would be divided on a 50:50 basis between Alectra Utilities and its ratepayers. The proposal stated that as Alectra Utilities was a consolidated utility that had yet to rebase, it would apply the weighted average OEB-approved ROE for each predecessor utility (weighted by the OEB-approved rate base amounts from the most recent rebasing application for each predecessor utility). Alectra Utilities, similarly, proposed that the ratepayers' share of excess earnings would be credited to a newly proposed variance account, for clearance at subsequent applicable annual IRM application filing.

In its Partial Decision in that proceeding, the OEB approved Alectra Utilities' ESM proposal as filed, stating that the proposal was consistent with the OEB's MAADs policy.¹⁹ Given the similarities of the ESM proposal filed by Elexicon Energy in this proceeding, and the OEB's determination on Alectra Utilities' ESM proposal, OEB staff

¹⁴ EB-2023-0014, Responses to OEB Staff Interrogatories, Staff-3a, p. 1

¹⁵ EB-2009-0274 & EB-2013-0174

¹⁶ EB-2023-0014, Responses to OEB Staff Interrogatories, Staff-1b, p. 2

¹⁷ Manager's Summary, Appendix A, p. 3

¹⁸ EB-2019-0018

¹⁹ EB-2019-0018, Partial Decision and Interim Rate Order, December 12, 2019

supports Elexicon Energy's ESM proposal. OEB staff also notes that the ESM proposal appears to be consistent with the MAADs policy.

Accounting Order - Account 2435 (Accrued Rate-Payer Benefit)

OEB staff does not take issue with Elexicon Energy's proposal to record 50% of excess earnings in Account 2435 – Accrued Rate-Payer Benefit as it is consistent with the MAADs policy and previous precedent established by the OEB. In the Brantford Power Inc. (Brantford Power) and Energy+ Inc. (Energy+) amalgamation application²⁰, among other things, it was proposed that ESM earnings would be reported in Account 1508 – Other Regulatory Asset – Sub-account Earnings Sharing Variance.²¹ However, OEB staff objected to the use of Account 1508.

Instead, OEB staff submitted that Account 2435 would be a more appropriate account to use pursuant to Article 220 of the OEB's Accounting Procedures Handbook, as Account 2435 is to record the amounts over the ROE that will be returned to ratepayers as part of the profit-sharing mechanism incorporated in the incentive regulation plan. Brantford Power and Energy+ accepted this submission, as did the OEB in its decision. In its findings, the OEB agreed that Account 2435 should be used to record earnings above 300 basis points to be shared with customers.²² As Elexicon Energy proposed that the same Account 2435 will be used in the manner as was established in the Brantford Power and Energy+ amalgamation proceeding, OEB staff does not take issue with the proposal made by Elexicon Energy.

~All of which is respectfully submitted~

²⁰ EB-2021-0280

²¹ EB-2021-0280, Undertaking Responses, February 2, 2022, JT1.12

²² EB-2021-0280, Decision and Order, March 17, 2022, pp. 12-13