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BY EMAIL

October 21, 2025

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

**Re: Ontario Energy Board (OEB) Staff Submission
Elexicon Energy Inc. (Elexicon Energy)
Application for 2026 Electricity Distribution Rates
OEB File Number: EB-2025-0046**

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

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Elexicon Energy Inc.

2026 Electricity Distribution Rate Application

EB-2025-0046

October 21, 2025

Introduction

Elexicon Energy Inc. (Elexicon Energy) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on July 15, 2025, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2026.

Consistent with Chapter 3 of the Filing Requirements,¹ Elexicon Energy applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year.² The stretch factor assigned to Elexicon Energy is 0.30%,³ resulting in a rate adjustment of 3.40% based on the Price Cap adjustment formula. OEB staff has no concerns with Elexicon Energy's proposed Price Cap adjustment.

Elexicon Energy has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the cost of transmission charged by the Independent Electricity System Operator (IESO) and its host distributor, Hydro One Networks Inc. (Hydro One). OEB staff has no concerns with Elexicon Energy's requested adjustments to its RTSRs.

OEB staff has updated Elexicon Energy's 2026 Rate Generator Model, for each rate zone, to reflect the preliminary Uniform Transmission Rates (UTRs) and proposed Hydro One Sub-Transmission Rates, as communicated by the OEB on October 9, 2025.⁴ Further, OEB staff has also updated the time-of-use pricing and Ontario Electricity Rebate in the 2026 Rate Generator Model for each rate zone to reflect the updates values set on October 17, 2025.

For the Veridian Rate Zone, Elexicon Energy proposes transferring the full 50/50, \$2,849 shared tax savings adjustment, to Account 1595 for future disposition as the adjustment did not generate riders to four decimal places. In the Whitby Rate Zone, Elexicon Energy seeks approval to refund \$50,172, as calculated in the 2026 Rate Generator Model, effective January 1, 2026, via a fixed monthly rate rider for residential customers and volumetric riders for all other classes over a one-year period. OEB staff has no concerns regarding the proposed shared tax savings adjustments.

Elexicon Energy requests approval of 2026 rate riders to recover amounts eligible under

¹ Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 19, 2025

² OEB Letter, 2026 Inflation Parameters, issued June 11, 2025

³ Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025 p. 23, Table 5.

⁴ EB-2025-0232, 2026 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, October 9, 2025

the previously approved Prospective Lost Revenue Adjustment Mechanism Variance Account.⁵ OEB staff has no concerns with the proposed request. Elexicon Energy is also requesting the disposition of its Group 1 Deferral and Variance Account (DVA) debit balances as of December 31, 2024, including projected carrying charges to December 31, 2025, totaling \$4,234,514 for the Veridian Rate Zone. OEB staff has no concerns with this request. Elexicon Energy is not seeking disposition of Group 1 DVAs for the Whitby Rate Zone.

OEB staff submits that while both Incremental Capital Module (ICM) requests largely satisfy the need, materiality, and prudence criteria for ICM funding requests, OEB staff is of the opinion that the Sandy Beach Station upgrade constitute an end-of-life asset replacement that is typical of the operations a utility is responsible for, and as such, some portion of the funding should reasonably be available within Elexicon Energy's existing revenue requirement to fund the project. As a result, OEB staff recommends a disallowance for a portion of the incremental revenue requirement being requested for the Sandby Beach Station project.

In this document, OEB staff makes detailed submissions on the following requests:

- Disposition of Group 2 DVA balances
- Incremental Capital Module funding

⁵ EB-2022-0024, Decision and Rate Order, December 8, 2022

Group 2 Deferral and Variance Accounts

In its application, Elexicon Energy requests disposition of certain Group 2 DVA balances for the Veridian Rate Zone and Whitby Rate Zone. These balances have accumulated over extended periods due to deferred rebasing and have not been disposed of since 2014 for the Veridian Rate Zone and 2018 for Whitby Rate Zone. Elexicon Energy does not request the disposal of the following Group 2 DVAs in this application:

- Account 1511 Cloud Computing Implementation Costs
- Account 1592 sub-account CCA Changes

Elexicon Energy states that the prudence of the costs incurred should be assessed on all related implementation expenses at the same time (i.e., its next rebasing application) when Account 1511 Cloud Computing Implementation Costs are disposed. Further, Elexicon Energy notes that this also requires a review of tax loss carry-forward balances in the rebasing application when Account 1592 sub-account CCA Changes is to be disposed.

OEB staff supports the disposition of both Account 1511 – Cloud Computing Implementation Costs and Account 1592 – PILs and Tax Variance (CCA Changes) as part of Elexicon Energy's next rebasing application. This will allow for a comprehensive review of the accounts in their entirety.

OEB staff has reviewed Elexicon Energy's request to dispose of Group 2 DVAs as part of this application. Based on the evidence and interrogatory responses provided, OEB staff supports the disposition of the following accounts, totaling \$354,868, over a one-year period beginning January 1, 2026:

- Account 1508 Other Regulatory Asset – Sub Account – IFRS Transition Costs
- Account 1508 Other Regulatory Asset – Sub Account – OEB Cost Assessments
- Account 1508 Other Regulatory Asset – Sub Account – LEAP EFA Funding
- Accounts 1518 and 1548 – Retail Cost Variance Account – Retail and Service Transaction Requests (STR)
- Account 1555 Smart Meter – Sub Account – Stranded Meters
- Account 1508 Other Regulatory Asset – Sub Account – Pole Attachment Revenue Variance

OEB staff has reviewed the proposed balances of the above DVAs and supports the disposition of these accounts as proposed. The balances are longstanding, have been appropriately recorded, and their disposition in this application will mitigate intergenerational inequity concerns while aligning with the OEB's guidance on deferred rebasing and account clearance.

OEB staff also supports Elexicon Energy's proposal to discontinue the accounts noted

below after their disposition as these accounts will have no further activities following their disposal in this application:

- Account 1508 Other Regulatory Asset – Sub Account – IFRS Transition Costs
- Account 1555 Smart Meter – Sub Account – Stranded Meters

OEB staff makes detailed submissions on the following DVAs in the section below:

- Account 1508 – Sub-account Collection of Accounts Variance – Veridian Rate Zone
- Account 1508 – Sub account Estimated Useful Lives Variance Account – Whitby Rate Zone
- Account 1575 – IFRS-CGAAP Transitional PP&E Amounts – Veridian Rate Zone
- Account 1508 – Sub account - Getting Ontario Connected Act (GOCA) Variance Account

Account 1508 – Sub-account Collection of Accounts Variance-Veridian Rate Zone

Elexicon Energy has requested disposition of the \$7,640,327 balance in this account, representing the lost revenue associated with the elimination of the Collection of Account charge. The requested balance comprises \$6,750,409 in principal balance for the period of 2019 to 2024 and \$889,918 in carrying charges from 2019 to 2025. The account was approved by the OEB in Elexicon Energy's 2020 IRM Decision and Order⁶, effective July 1, 2019, with an annual cap of \$1,143,711. The annual cap amount represents the revenue offset amount related to the collection charge that was approved in Elexicon Energy's 2014 cost of service application. This is the first time Elexicon Energy has requested disposition of this account.

OEB staff notes that the Collection of Account charge for all customers was permanently eliminated by the OEB in its March 2019 Notice of Amendments to Codes and a Rule⁷, effective July 1, 2019. Elexicon Energy's 2020 IRM Decision and Order states that "the OEB will approve an effective date of July 1, 2019, to coincide with the permanent elimination of the Collection of Account charge"⁸. Therefore, OEB staff submits that the 2019 principal debit balance of \$1,143,711 (annual cap) should be reduced by 50% reflecting only half of the annual cap for the July–December 2019 period that should be recorded in the account. The carrying charges should be recalculated based on the reduced amount.

OEB staff supports Elexicon Energy's proposal to continue the account until its next

⁶ EB-2019-0252

⁷ EB-2017-0183

⁸ EB-2019-0252, Decision and Order, p. 13

rebasing application.

Account 1508 – Sub Account – Estimated Useful Lives Variance Account – Whitby Rate Zone

Ellexicon Energy requests the disposition of the \$1,073,505 balance in this account with no carrying charges. Ellexicon Energy proposes continuing the account after this disposition due to the need to continue tracking ongoing depreciation variances until its next rebasing application.

OEB staff notes that due to its deferred rebasing, Ellexicon Energy has not yet filed its first rebasing application under Modified IFRS (MIFRS). As per Chapter 2 of the OEB's Filing Requirements⁹, distributors are required to provide full MIFRS disclosures at rebasing, including depreciation schedules and accounting policy changes.

OEB staff submits that disposition of the Account 1508 – Estimated Useful Lives Variance should occur as part of Ellexicon Energy's first rebasing application under MIFRS, when the impact of the change of the useful lives due to the implementation of IFRS can be reviewed and assessed in full.

Account 1575 – IFRS-CGAAP Transitional PP&E Amounts – Veridian Rate Zone

Ellexicon Energy requests the disposition of the \$5,346,309 balance in this account, comprising of a 2024 closing balance of \$5,015,299 for the years 2014-2024 and \$331,010 in return based on Weighted Average Cost of Capital. Ellexicon Energy proposes continuing the account after this disposition because of the need to track ongoing derecognition loss variances due to the transition to IFRS until its next rebasing application.

OEB staff notes that Ellexicon Energy has not yet filed its first rebasing application under MIFRS. As per Chapter 2 of the Filing Requirements¹⁰, distributors are required to provide full MIFRS disclosures at rebasing, including depreciation schedules and accounting policy changes.

OEB staff submits that disposition of the Account 1575 – IFRS-CGAAP Transitional PP&E Amounts should occur as part of Ellexicon Energy's next rebasing application, which is expected to be the first rebasing application under MIFRS. At that time, the balance and the continuity schedule of the account can be reviewed and assessed in full.

Account 1508 – Sub Account - Getting Ontario Connected Act (GOCA) Variance

⁹ Chapter 2 Filing Requirements for Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications, July 20, 2017, p. 7

¹⁰ *Ibid.*

Account

Elexicon Energy has requested disposition of Account 1508 sub-account GOCA, which tracks incremental locate costs arising from the implementation of Bill 93. The requested account balance is \$815,729 – comprised of a principal balance of \$765,924 for 2023 and 2024 and carrying charges of \$49,804 for 2023-2025.

OEB staff notes that Elexicon Energy has provided a breakdown of GOCA-related costs up to 2024 and proposes continuing the account until its next rebasing application. OEB staff further notes that locate costs, reflecting Bill 93 impacts, are expected to be forecasted and embedded in the distributor's first rebasing application after Bill 93.

The OEB's Decision and Order for GOCA states that:

"The OEB expects utilities to seek approval for disposition of balances in the account at rebasing unless unmanageable balances have accrued that may require disposition in an IRM year."¹¹

OEB staff submits that the requested balance in GOCA does not represent an unmanageable balance for Elexicon Energy and therefore the disposition should be postponed to Elexicon Energy's next rebasing application to align with the OEB's expectation established in its GOCA Decision and Order. Furthermore, one time disposition in the next rebasing application (including the costs for the rate term) would allow for a more holistic and transparent review of all locate-related costs and program impacts.

Incremental Capital Funding

Background

Elexicon Energy requests approval for ICM funding to support two investments in the Veridian Rate Zone that are not currently supported by existing distribution rates. The first request is for the rebuild of Sandy Beach Station, with an estimated cost of \$9.7 million. The second pertains to funding the capital contribution to Hydro One for the installation of a new Dual Element Spot Network (DESN) at the Belleville Transformer Station, with an estimated cost of \$18.4 million. Elexicon Energy states that these investments are crucial to ensure reliable service and accommodate current and future electricity demand.

The total incremental annual revenue requirement resulting from the ICM requests is \$1.46 million and is based on the application of the half-year rule. Elexicon Energy requests approval of the ICM rate riders on an interim basis, as well as approval to

¹¹ EB-2023-0143, Decision and Order, October 31, 2023, p. 7

adjust the ICM rate riders to reflect the full year rule in a subsequent application, should the OEB not approve Elexicon Energy's request for early rebasing.¹²

Table 1: Proposed Total ICM Capital Expenditure/Contribution

Incremental Capital Module Request	(\$000's)
Sandy Beach Station	\$9,700
Belleville DESN 2	\$18,378
Total Incremental Capital	\$28,078

Sandy Beach Station

Elexicon Energy states that the Sandy Beach Station upgrade is to address immediate and significant issues related to reliability, safety, and continued operations of the station. The project was designated a high priority in 2023 due to the station's deteriorating condition, safety and environmental concerns, outdated equipment and inefficient layout, and the use of an inadequate temporary spare transformer. The project is expected to be in service for October 2026.

Belleville Transformer Station

Elexicon Energy states that the Belleville DESN project is an urgently needed investment to address immediate capacity constraints in Belleville because of economic growth. As this is a transformer station project, the work is undertaken by Hydro One, and for which Elexicon Energy is required to pay a capital contribution. The proposed project is to construct a second DESN at the Belleville Transformer Station, which will include two 75/125 MVA transformers. The project is expected to be in service for December 2026.

Materiality

To determine whether an application meets the materiality requirement under the ICM policy, the OEB considers three key factors:

1. Materiality Threshold – Whether the application meets the OEB defined threshold for maximum eligible capital funding.
2. Project-Specific Materiality – Whether the proposed investment represents a significant expenditure relative to the distributor's overall capital budget.
3. Significant Influence on Operations – Whether the incremental funding materially affects the distributor's operations.¹³

¹² CCC-13 a)

¹³ [ACM Report, p. 16](#)

Materiality Threshold

The OEB determines the maximum eligible incremental capital amount using a materiality threshold formula that accounts for utility growth and inflation since its last rebasing year.¹⁴ This formula, defined in Chapter 3 of the Filing Requirements¹⁵, reflects the distributor's financial capacity supported by existing rates, including a 10% dead band.

To assist with this calculation, the OEB provides an Excel-based ICM model for use in Advanced Capital Module (ACM) and ICM applications. With the required inputs, the model calculates:

- The maximum eligible incremental capital amount
- The associated revenue requirement
- The rate riders applicable for the subject rate year

The equation used to calculate the maximum eligible incremental capital amount is as follows:¹⁶

$$\text{Threshold Value}(\%) = \left(1 + \left[\left(\frac{RB}{d} \right) \times (g + PCI \times (1 + g)) \right] \right) \times ((1 + g) \times (1 + PCI))^{n-1} + X\%$$

Where: n = number of years since cost-of-service rebasing

RB = Rate Base included in base rates (\$)

d = depreciation expense included in base rates (\$)

g = distribution revenue change from load growth (%)

PCI = price cap index

X = dead band of 10%

For the Sandby Beach Station project, Elexicon Energy used the OEB-approved materiality threshold formula to arrive at a threshold capital expenditure value of \$27,142,025, resulting in a maximum eligible incremental capital amount of \$31,678,957. OEB staff submits that the funding request of \$9,700,047 for the Sandy Beach Station project meets the materiality threshold.

¹⁴ Elexicon Energy was granted a ten-year deferred rebasing (EB-2018-0236) period (2018–2028) for its Veridian and Whitby rate zones, following the 2019 amalgamation of its predecessor companies.

¹⁵ Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 19, 2025.

¹⁶ *Ibid.*

For the Belleville DESN project, Elexicon Energy also used the OEB-approved materiality threshold formula to arrive at a threshold capital expenditure value of \$27,142,025, resulting in a maximum eligible incremental capital amount of \$40,357,015. OEB staff submits that the funding request of \$18,378,106 for the Belleville DESN meets the materiality threshold.

Project Specific Materiality Threshold

The ACM Report addresses the project-specific materiality threshold criterion as follows:

Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the [OEB]-defined threshold calculation is expected to be absorbed within the total capital budget.¹⁷

Elexicon Energy states that the two ICM requests meet the project-specific materiality threshold. If the ICM capital expenditures are excluded from the in-service additions forecast for the purpose of comparison, the Sandy Beach Station and Belleville DESN projects represent approximately 22% and 42%, respectively, of forecast 2026 in-service additions.¹⁸

OEB staff submits that each of the projects being requested for ICM funding constitutes a significant portion of Elexicon Energy's forecast 2026 capital expenditures and therefore satisfy the project-specific materiality threshold.

Significant Influence on Operations

The ACM Report states (in part) that any approved incremental capital must fall within the total eligible amount and have a significant operational impact on the distributor. Otherwise, such investments should be addressed during rebasing.¹⁹

Elexicon Energy's forecast for 2026 capital in-service amounts to \$43.95 million. The total incremental capital from both ICM requests is \$28.1 million, making up approximately 40% of Elexicon Energy's 2026 in-service capital additions.

OEB staff submits that these projects substantially impact company operations due to the size of the associated financial investments.

¹⁷ ACM Report, p. 17

¹⁸ Appendix A, ICM Requests: Sandy Beach Station & Belleville DESN 2, p. 16

¹⁹ [Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p.17](#)

Need

The ACM Report outlines the “need” criterion as follows:

- The distributor must satisfy the Means Test, as defined in the ACM Report.
- Claimed amounts must be tied to discrete projects and directly linked to the identified driver.
- The amounts must clearly fall outside the base used to derive rates.²⁰

Means Test

Under the Means Test, funding for incremental capital projects is not allowed if a distributor’s actual Return on Equity (ROE) exceeds the deemed ROE embedded in a distributor’s rates by more than 300 basis points.

Table 2 below summarizes Elexicon Energy’s historical ROE. Elexicon Energy’s ROE is below the deemed ROE of 9.43% for the years 2019 to 2024. In an interrogatory response,²¹ Elexicon Energy confirmed that forecast ROE for 2025 is estimated to be 300 basis points below the deemed ROE.

Table 2: ROE²²

Year	Approved ROE	Achieved ROE	Over (Under) Earned
2024	9.43%	5.39%	(4.04%)
2023	9.43%	5.15%	(4.28%)
2022	9.43%	4.86%	(4.57%)
2021	9.43%	6.87%	(2.56%)
2020	9.43%	6.80%	(2.63%)
2019	9.43%	7.61%	(1.82%)

OEB staff submits that Elexicon Energy passes the Means Test as it has not exceeded its deemed rate of return by 300 basis points during the period from 2019 to 2024 and is expected to not exceed this threshold for 2025 as well.

Discrete Projects

The ACM Report indicates that incremental capital funding is for discrete projects.²³ In

²⁰ ACM Report, p. 17

²¹ SEC-06 b)

²² Appendix A, p. 17; 2024 Scorecard - Elexicon Energy Inc., September 12, 2024.

²³ The criterion was updated in 2022 beyond discrete projects to also cover ongoing capital programs during extended deferred rebasing periods, February 10, 2022.

its application, Elexicon Energy states that the projects are both discrete capital projects.²⁴

OEB staff agree that the ICM funding requests relate to a discrete project. Both the Sandy Beach Station and Belleville DESN projects have clearly defined scopes that involve the construction of a new substation and DESN, respectively. OEB staff has previously found that station construction projects both meet the “discrete” requirement and, more generally, can qualify for ICM funding.²⁵

Directly Related to the Claimed Driver

Elexicon Energy states that the drivers for the Sandy Beach Station project are to address immediate and significant issues related to the reliability, safety, and continued operations of the station. For the Belleville DESN project, Elexicon Energy states that the request is to address immediate capacity constraints in Belleville.

OEB staff submits that the incremental capital funding requests directly relate to the claimed drivers identified.

Outside the Base Upon Which Rates Were Derived

OEB staff submits that a portion of the Sandy Beach Station project should be funded by Elexicon Energy’s capital budget through its base electricity rates and, as a result, a reduction in the amount of \$190,349 should be applied to the incremental revenue requirement being requested for this project. Elexicon Energy’s base electricity distribution rates for the Veridian Rate Zone already include some level of funding for substation transformer replacements. In the last cost of service application filed by Elexicon Energy’s predecessor, Veridian Connections Inc., \$3.15 million of total spending was allocated to two projects related to substation transformer replacements in the Test Year capital budget.²⁶

In response to an interrogatory, Elexicon Energy disagreed with this premise, stating that capital funding is approved at the envelope level rather than the component level.²⁷ OEB staff maintains that end-of-life asset replacements are a routine part of utility

²⁴ Appendix A, p. 19

²⁵ EB-2010-0104 Decision and Order, Oakville Hydro Electricity Distribution Inc., March 14, 2011; EB-2010-0130 Decision and Order, Guelph Hydro Electric Systems Inc., March 14, 2011; EB-2012-0124 Decision and Order, Festival Hydro Inc., April 4, 2013; EB-2013-0178 Decision and Order, Wellington North Power Inc., March 13, 2014; EB-2013-0127 Decision and Order, March 13, 2014; EB-2018-0328 Decision and Rate Order, April 4, 2019; EB-2018-0063 Decision and Rate Order, Ottawa River Power, March 28, 2019.

²⁶ EB-2013-0174, Chapter 2 Appendices, October 13, 2013, Tab 2AA Capital Projects

²⁷ Staff-22 h)

operations and should be proactively planned for within the envelope of a utility's capital budget, especially for critical system assets like substations, which have a significant impact on service reliability.

Although OEB staff recognizes that the cost of this project is significant relative to Elexicon Energy's overall capital budget, a portion of the funding should be sourced from the utility's existing capital budget. As a result, OEB staff submits that a disallowance in the amount of \$190,349 should be applied to the incremental revenue requirement requested for the Sandy Beach Station project. OEB staff calculated this amount by identifying the portion of the 2014 revenue requirement for Veridian Connections Inc. attributable to the \$3.15 million allocated for substation transformer replacements noted above. This portion was then adjusted for inflation using the OEB's annual inflation factor from 2015 through 2026 to arrive at the \$190,349 being proposed for reduction.

While OEB staff is not recommending a reduction to the Belleville DESN project because it could not find an exact project related to its base rates, OEB staff notes that there is a similar concern as the Sandy Beach Station project ICM funding request. Specifically, there is an expectation that some level of funding should exist in base rates to support a utility's core system planning and infrastructure renewal obligations, including addressing foreseeable system needs such as capacity constraints. When a utility is approved for base rates in a cost-of-service application, those rates include funding to recover the depreciation expense and cost of capital associated with assets that are in service, until its next rebasing, even once the asset is retired or taken out of service. This ongoing recovery is intended to support reinvestment in new infrastructure, such as replacing aging infrastructure and increasing system capacity.

In an interrogatory response, Elexicon Energy states that the capacity constraints at the Belleville Transformer Station were identified during the third cycle of the Peterborough to Kingston Integrated Regional Resource Planning (IRRP) process, which concluded with the publication of the IRRP report on November 4, 2021.²⁸ Specifically, the report notes that the projected peak load in 2025 for Elexicon Energy's service territory is expected to exceed the available transformation capacity of approximately 110 MW.²⁹

Given this information, OEB staff is of the view that it is reasonable to expect that Elexicon Energy would have incorporated these findings into its capital planning and budgeting processes. Regional planning provides utilities foresight into system needs and emerging constraints, allowing them to take timely action. When capacity limitations are identified, especially with a specified timeline and quantified capacity, it is the

²⁸ CCC-7, a)

²⁹ Appendix A, p. 10

responsibility of the utility to ensure sufficient funding in the utility's revenue requirement to support the infrastructure investment of this nature.

However, given that no specific transmission-related project was included in the last cost of service application for Veridian Connections Inc., the significant cost of the project relative to Elexicon Energy's capital budget, and the potential reliability and service impacts of not proceeding, OEB staff does not object to the ICM funding request to construct the new DESN.

Prudence

The ACM Report describes the "prudence" criterion as follows:

The amounts to be incurred must be prudent, meaning the distributor's decision reflects the most cost-effective option for ratepayers, not necessarily the option with the lowest initial cost.³⁰

Sandy Beach Station

For the Sandy Beach Station project, Elexicon Energy considered four project alternatives: rebuild and configuration, maintain existing infrastructure, offload Sandy Beach Station, and relocate to a new site. Elexicon Energy states that rebuilding the station was the most prudent option as it addresses nearly all existing issues: the replacement of outdated, obsolete and temporary equipment, remediation of environmental hazards, and installation of advanced technology to enhance operational performance.³¹

Elexicon Energy states that off-loading Sandy Beach Station to neighbouring stations was not feasible as the loss of Sandy Beach Station would reduce total system capacity below the historical peak load in Ajax-Pickering under an N-1 contingency scenario,³² posing a risk to reliability.³³ It further states that capacity concerns would be exacerbated in the next five years as the load forecast estimates that peak load will grow by 2031.³⁴

Elexicon Energy states that the need to replace Sandy Beach Station emerged in 2022 following multiple equipment failures, including the failure of Transformer T2. Elexicon Energy states that a temporary spare transformer was installed and remains in use on

³⁰ ACM Report, p. 17

³¹ Appendix B Sandy Beach Station – Business Case, p. 23

³² An N-1 contingency scenario is a power system planning principle that ensures the grid can withstand the failure of any single component without causing a complete outage. In this case, it is in the scenario of the loss of another distribution station in the Ajax-Pickering area. See Staff-22 b) for more details.

³³ Staff-22 b)

³⁴ *Ibid.*

an unsustainable wood structure. Additional failures, such as the T1 recloser malfunction, further highlight reliability concerns, prompting Elexicon Energy to initiate a full station rebuild.³⁵ Elexicon Energy considered relocating the substation in its alternative analysis, but noted concerns around high capital costs, potential delays due to complexity, and process to purchase land.³⁶

OEB staff submits that due to the urgent nature of the replacement and the need to maintain reliable electricity service, the proposed solution is the most prudent option as it replaces failing end-of-life assets and addresses immediate reliability concerns. With respect to the prudence of the cost, OEB staff notes that Elexicon Energy indicates it benchmarked costs using vendor quotes for materials and equipment, labour estimates based on similar station configurations, and contractor quotes for construction.³⁷

OEB staff benchmarked the cost of the project using data from a recently approved cost of service application for Centre Wellington Hydro Ltd.,³⁸ which included a planned 6 MVA substation project, Fergus MS-5 station, scheduled to be in-service for 2026. The Fergus MS-5 station project is a comparable project, in OEB staff's view, as its cost estimate was recently developed and therefore more closely reflects current market conditions, such as rising material costs driven by inflationary pressures and supply chain challenges. This makes the Fergus MS-5 project a comparable reference for assessing the reasonableness of the Sandy Beach Station project costs. The major equipment costs for the Fergus MS-5 station amount to approximately \$262,267 per MVA³⁹ whereas a comparable calculation for the Sandby Beach Project yields a lower cost of approximately \$194,062 per MVA. As a result, OEB staff submits that the project costs for the Sandby Beach Station project are reasonable.

OEB staff agrees with Elexicon Energy that the option to offload Sandy Beach Station to neighbouring stations is not feasible given the available system capacity under the N-1 contingency scenario. However, OEB staff submits that the OEB should direct Elexicon Energy to review its station replacement policy to consider future increased capacity in its next Distribution System Plan. Elexicon Energy can explore opportunities for strategic consolidation of aging infrastructure, such as upsizing select substation rebuilds to accommodate load from neighbouring substations that may be nearing end-of-life. This approach could enable the future decommissioning of adjacent stations, reduce the need for multiple rebuilds, and result in more efficient use of capital over the long term.

³⁵ Appendix B – Sandy Beach Station – Business Case, p. 4

³⁶ Appendix B – Sandy Beach Station – Business Case, p. 21

³⁷ SEC-11 b)

³⁸ EB-2024-0012

³⁹ EB-2024-0012, 2-Staff-27a); Major equipment cost of \$1.57M divided by 6 MVA

Belleville DESN

For the Belleville DESN project, Elexicon Energy considered three alternatives: a new Belleville DESN station, installing an additional transformer at the existing station, and load transfers.⁴⁰ Elexicon Energy states that the construction of a new DESN is the preferred option as it addresses current station capacity need at Belleville TS as well as helps mitigate the voltage drop at the Belleville TS Low Voltage bus.⁴¹ The capacity challenges in the Belleville region were first identified during regional planning exercises led by the IESO and Hydro One. Elexicon Energy states that these challenges can only be resolved through funding upstream assets, specifically the construction of the proposed new DESN station, which will allow the utility to service large commercial customers and support economic growth in the region.⁴²

Elexicon Energy states that the option to install a third transformer at Belleville would temporarily address the capacity issue but would not be a viable long-term solution. Adding a third transformer would not provide the reliability of a full DESN, would raise short circuit levels at the 44 kV bus, and would fail to resolve existing voltage limitations.

If the new DESN station construction does not proceed, Elexicon Energy states that it will not be able to meet the capacity needs of its customers. This would require Elexicon Energy to have to overload the system, resulting in many customers experiencing regular outages.

OEB staff submits that the construction of the Belleville DESN project is prudent given the capacity needs and the consequences of inaction, such as potential system overloads and customer outages. The proposed Belleville DESN project aligns with regional planning objectives and ensures Elexicon Energy can meet customer demand and support economic growth in the Belleville area.

Considering that this project was identified through a coordinated regional planning process led by Hydro One and the IESO and given the urgency of the investment to address critical system needs, OEB staff submits that the new DESN project is prudent and should be accepted by the OEB.

~All of which is respectfully submitted~

⁴⁰ Appendix C – Belleville DESN 2 – Business Case, p. 19

⁴¹ Appendix C – Belleville DESN 2 – Business Case, p. 20

⁴² Appendix C – Belleville DESN 2 – Business Case, p. 3