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October 21, 2025
Our File: EB20250046

Attn: Ritchie Murray, Acting Registrar

Dear Mr. Murray:

Re: EB-2025-0046 – Elexicon Energy Inc. 2026 Rate Application – SEC Submissions

We are counsel to the School Energy Coalition (“SEC”). Pursuant to Procedural Order No. 1, this is SEC’s submission regarding Elexicon Energy Inc.’s (“Elexicon”) proposed Incremental Capital Modules (“ICMs”) and request to dispose of specific Group 2 Deferral and Variance Accounts (“DVAs”) as part of its 2026 IRM application.

Background

Elexicon was formed through the merger of Veridian Connections Inc. (“Veridian”) and Whitby Hydro Electric Corporation (“Whitby”) in 2019. In approving the merger, the Ontario Energy Board (“OEB” or “Board”) accepted a ten-year deferral period, with the next rebasing to occur in 2029.¹ However, Elexicon has informed the Board that it intends to file a rebasing application for 2027 rates.²

For 2026 rates, Elexicon has applied for approval of two Incremental Capital Module (“ICM”) projects, (1) to rebuild the Sandy Beach Municipal Substation (“Sandy Beach”) at a cost of \$9,700,047³, and (2) an \$18,378,106 capital contribution to Hydro One Networks Inc. (“Hydro One”) for the construction of a Dual Element Spot Network (“DESN”) station at Belleville TS (“Belleville DESN”). Both projects are located in the Veridian Rate Zone (“RZ”).⁴

Elexicon is also requesting approval for clearance of a total balance of \$15,230,738, for certain Group 2 DVAs as of the end of 2024.⁵ Elexicon is proposing a one-year period to recover the balances for both rate zones.

The distribution bill impacts for customers in Veridian RZ are significant, and most relevant for schools, including a 14.1% impact for GS <50 customers, and a 35.3% increase for GS >50 to 2,999

¹ [Decision and Order \(EB-2018-0236\), December 20 2018](#), p. 10

² Elexicon Letter to the OEB, April 15, 2025

³ EE_VRZ_2026_Sandy Beach_ACM_ICM_20250715, Tab 9b Proposed ACM ICM Projects

⁴ EE_VRZ_2026_Belleville_ACM_ICM_Model_20250715, Tab 9b Proposed ACM ICM Projects

⁵ EE_2026_Group 2 Continuity Schedule_20250714, Tab Allocation of Balances

customers.⁶ Distribution bill impacts for Whitby RZ are less than those for Veridian RZ, but remain material, with an increase for GS >50 customers of 10.1%.⁷

These impacts are especially concerning given the fact that Elexicon plans to rebase in 2027, which will no doubt result in an additional request for a large increase, given the time since the last rebasing and its current financial position. Elexicon states that it did not do any customer consultation specifically regarding this Application, as it “was already conducting fulsome customer engagement in support of its upcoming early rebasing application.”⁸ As part of that survey, Elexicon provided an explanation of the drivers of the rate changes for 2026 along with illustrative bill impacts, however, customers were not asked for their input.

Summary of Submissions

SEC submits that given the concerns about the distribution bill impacts, the OEB should not approve Elexicon’s request for the two ICMs and should only approve partial disposition of the Group 2 DVAs.

With respect to the ICMs, it is more appropriate that these requests be brought forward as part of a comprehensive capital plan in a rebasing application, as detailed below. However, should the OEB decide to approve either of the ICMs, SEC submits the following:

- **Sandy Beach.** Given that a large portion of the capital budget for this project can be shown to already be included in base rates, and the remaining amount is not material in the context of the total capital budget, this ICM request should not be approved.
- **Belleville DESN.** If the OEB does approve the Belleville DESN ICM it should be for the requested \$18.4M minus any additional expected customer contributions. In addition, given that the in-service date for this project is within two weeks of the end of the year, the ICM should be approved using the actual in-service date to determine the depreciation expense, not the half-year rule.

SEC agrees with Elexicon that disposition of the 2024 balances for the specific Group 2 DVAs is prudent at this time, given the magnitude of some of the balances. With respect to the particular balances and disposition period, SEC submits the following:

- **Account 1575 - IFRS-CGAAP Transition PP&E.** To minimize the already significant bill impacts, disposition should be over four years. A longer disposition period for this account is consistent with practice of other distributors.
- **Account 1508 - GOCA Variance.** SEC has had the opportunity to review the submission of the Consumer’s Council of Canada (“CCC”) and supports its position with respect to the Getting Ontario Connected Account (“GOCA”).

⁶ Application, p.8

⁷ Application, p.8

⁸ Interrogatory Response SEC-1b

Rebasing Application

Elexicon has informed the OEB that it intends to rebase in 2027, two years earlier than the approved rebasing year of 2029 established in its merger application. When it files, Elexicon will be required to submit an updated Distribution System Plan (“DSP”) detailing its capital spending for the 2026 bridge year and the 2027–2031 test period.

As SEC noted in its submission on the OEB’s Review and Evaluation of the Incremental Capital Module Policy,

All capital spending is understood and assessed better if it is considered in the context of the overall plan of the utility for the management and operation of its infrastructure. Rebasing is the best time to do that, since that is when Commissioners and the OEB generally have a full set of evidence on the utility’s plans. Things like the load forecast, the distribution system plan, and the personnel plan, are all laid out in detail and are up to date, as are any particular challenges or opportunities specific to that utility. The relationships between the utility and its shareholder(s), affiliates, and customers are made clear, and background evidence supporting that information is provided.⁹

Elexicon has indicated that the need for the Sandy Beach project was identified following a transformer failure in May 2022, and that the need for the Belleville DESN was first identified in the 2021 Peterborough to Kingston Integrated Regional Planning report and confirmed in Hydro One’s 2024 Needs Assessment Report.¹⁰ Although Elexicon has stated that both projects are urgent¹¹, the significant time between identification and the proposed in-service dates, October 30, 2026¹² for Sandy Beach and December 17, 2026¹³ for Belleville DESN, suggests otherwise. SEC submits that Elexicon will not be adversely affected if it waits a few more months and includes both projects as part of its 2027 rebasing application. In any event, given the project schedules, particularly for Belleville DESN, it is likely that the work will not actually be in service until 2027. If included as part of the 2027 cost of service test year, the OEB and stakeholders can fully review both projects within the context of Elexicon’s complete capital budget and updated DSP.

The urgency for these projects appears to be driven by a desire to increase 2026 revenues and mitigate rate impacts in the upcoming rebasing application, rather than by any genuine need to have the projects completed in 2026. This is evident from the delayed project start dates: February 27, 2025¹⁴ for the Belleville DESN, which was identified in 2021, and December 18, 2024 for the Sandy Beach project¹⁵, which was identified in 2022.

⁹ EB-2024-0236, [ICM Policy Consultation, SEC Submission, July 2, 2025](#), p.3

¹⁰ Interrogatory Response SEC-5b

¹¹ Interrogatory Response SEC-1b

¹² Interrogatory Response VECC-11c

¹³ Interrogatory Response VECC-25e

¹⁴ Interrogatory Response VECC-31d

¹⁵ Interrogatory Response VECC-6c

OEB ICM Eligibility

The OEB applies a three-part test of need, materiality, and prudence when assessing an ICM request.¹⁶ As set out below, SEC submits that Elexicon's proposed Sandy Beach ICM project does not meet the Need or Materiality criteria. In contrast, the proposed Belleville DESN ICM project satisfies all three.

Need. The distributor must satisfy the Means Test, which is defined as the distributor's most recent return on equity ("ROE") not be more than 300 basis points above the deemed ROE included in base rates. Elexicon has shown that its most recent actual ROE for 2024 and the forecasted 2025 ROE meets the Means Test.¹⁷

Additionally, the "amounts must be based on discrete projects" that are "directly related to the claimed drivers" and "must be clearly outside of the base upon which the rates were derived."¹⁸

SEC submits that Elexicon has shown that both ICM projects are discrete and directly related to the identified drivers. The Connection and Cost Recovery Agreement ("CCRA") contribution to Hydro One required for the Belleville DESN appears to be outside the base upon which rates were derived. However, SEC submits that Elexicon has not provided sufficient evidence that all of the \$9.7M cost for the Sandy Beach project is outside the base used to establish base rates.

In Veridian's last cost of service application for 2014 rates, \$3.15M in capital costs related to substation transformer replacements was included.¹⁹ Escalated to 2026 using the annual PCI adjustment²⁰, this amount would be approximately \$4.2M embedded in 2026 rates. In Elexicon's most recent DSP, the forecasted average annual expenditure for renewal of station assets is \$4.04M.²¹

Elexicon disputes that its last cost of service decision included funding for transformer upgrades, stating that capital funding in base rates is determined at the envelope level rather than the component level, and that the OEB's approval was on that basis. SEC agrees that the distributor retains discretion over how to allocate capital within its approved envelope.²² However, the fact that Elexicon included substation transformer upgrades in its approved 2014 test-year budget, and continues to include a Renewal Program for Station Assets in its current DSP²³, demonstrates that such renewals are part of the company's normal capital program necessary to maintain system integrity and reliability.

¹⁶ [Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module \(EB-2014-0219\), September 18, 2014; Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report \(EB-2014-0219\), January 22, 2016](#)

¹⁷ SEC-6

¹⁸ [Filing Requirements For Electricity Distribution Rate Applications - Chapter 3 - Incentive Rate-Setting Applications](#), p.24 and 25

¹⁹ Interrogatory Response 1-Staff-22h

²⁰ For example, as shown in Appendix D Table 4-14

²¹ EB-2021-0015, Elexicon Energy Inc. 2022 IRM Rate Application (2 of 2), Appendix N Distribution System Plan, August 18, 2021, Program Business Case Document R1-Renewal Programs-Station Assets, pdf 365

²² Interrogatory Response 1-Staff-22h

²³ EB-2021-0015, Elexicon Energy Inc. 2022 IRM Rate Application (2 of 2), Appendix N Distribution System Plan, August 18, 2021, Program Business Case Document R1-Renewal Programs-Station Assets, pdf 365

SEC submits that this indicates substation transformer replacement and renewal are part of Elexicon's base rates. Given that Elexicon has described the Sandy Beach project as mandatory²⁴, it is the company's responsibility to complete the work within its approved 2026 capital budget, in the same way that System Access projects are mandatory. Based on the escalated base-rate amount of \$4.2M, only the incremental \$5.5M (\$9.7M–\$4.2M) should be considered eligible for ICM treatment.

Materiality. Elexicon has shown that its proposed 2026 capital spending, including both ICM projects, meets the OEB's ICM materiality threshold. The Belleville DESN project represents 42% of Elexicon's proposed 2026 capital additions budget, which would clearly have a significant influence on the distributor's operations.²⁵

With respect to the Sandy Beach project, the revised eligible amount of \$5.5M would not meet that requirement. It is minor in comparison to the overall capital budget, would not have a significant impact on the company's operations, and should therefore be absorbed within the total capital budget.

Prudence. Prudence requires that the distributor's decision to incur the costs must represent the most cost-effective option for ratepayers.²⁶

SEC is concerned with the significant cost increase for the Belleville DESN since the initial consideration of potential alternatives. In 2021, when the alternative to a new DESN station was evaluated, the forecast cost was \$32M²⁷, not the current \$63.5M. At that time, Elexicon determined that non-wires alternatives did not need to be assessed for the Belleville TS.²⁸ Given that the project cost has nearly doubled, a full reassessment of alternatives should have been undertaken, including an evaluation of potential non-wires solutions that could have deferred or reduced the need for the project. In the absence of this information, SEC is unable to conclude that the Belleville DESN represents a prudent option.

Other Matters

Capital Contribution to Elexicon Offset Required. Elexicon has provided information on the load forecast it submitted to Hydro One to justify the need for additional capacity. That forecast shows that large industrial customers will account for 12 MW of additional peak load by 2034 compared to 2025.²⁹ Elexicon has a signed offer-to-connect ("OTC") with one of these customers for 3.2 MW by 2026 and will receive a \$371,150 capital contribution.³⁰ It also has a signed OTC with a second customer that will increase load by 7 MW by 2028.³¹

There is no indication that Elexicon has calculated a capital contribution from this second customer or from the customer(s) responsible for the remaining 1.2 MW. SEC submits that it must be required to do so and that the calculated contributions should be subtracted from the requested \$18.4 million. As

²⁴ Interrogatory Response 1-Staff-30g

²⁵ Application, Appendix A, p.16

²⁶ [Filing Requirements For Electricity Distribution Rate Applications - Chapter 3 - Incentive Rate-Setting Applications](#), p.25

²⁷ Application, Appendix C, p.18

²⁸ Interrogatory Response SEC-5

²⁹ Interrogatory Response 1-Staff-25a

³⁰ Application, Appendix A, Table 5

³¹ Interrogatory Response 1-Staff-25a

part of the Draft Rate Order stage, Elexicon should also be required to file the contribution amounts and the underlying economic evaluation calculations.

Half Year Rule Not Appropriate. Elexicon has forecast the in-service date for the Sandy Beach project as October 30, 2026, and for the Belleville DESN as December 17, 2026. It has proposed using the half-year rule to calculate depreciation when determining the associated revenue requirement. Given the magnitude of the overall ICM costs and the short period in 2026 during which the projects will be in service, particularly the Belleville DESN, the OEB should not approve the use of the half-year rule. Instead, the revenue requirement should be calculated based on the actual in-service dates.

This approach would be consistent with the OEB's policy on the use of the half-year rule which provides that it may be more appropriate to use a partial-year treatment. As stated in the *Report of the OEB: New Policy Options for the Funding of Capital Investments: Supplemental Report*:

The half-year rule is an approximation of when, during a test year, assets enter service. In the absence of more detailed forecasts, the half-year rule assumes that all new assets enter service on July 1 (half way through the test year) for ratemaking purposes. In some cases, more refined in-service date forecasts are available which result in "partial-year" treatment, as appropriate, as opposed to exactly "half-year" treatment.³²

This partial-year treatment is appropriate in this case. The use of the half-year rule, especially for the Belleville DESM, would be manifestly unfair to customers who would be paying for a project for the equivalent of 6 months in 2026, when it would only be useful for 2 weeks.

If the OEB does not approve Elexicon's early rebasing request but approves the ICMs, the actual in-service date forecasts should still form the basis for calculating the 2026 revenue requirement. A full-year revenue requirement may then be used for 2027 and 2028 when recalculating the updated ICM rate riders.

Disposition of Group 2 DVAs

Elexicon is proposing to dispose of the following Group 2 DVAs, in advance of its rebasing application.

Veridian RZ			Whitby RZ		
		Total Claim \$			Total Claim \$
Deferred IFRS Transition Costs	1508	575,840			
Pole Attachment Revenue Variance	1508	(2,953,344)	Pole Attachment Revenue Variance	1508	(702,370)
GOCA Variance Account	1508	595,482	GOCA Variance Account	1508	220,247
LEAP EFA Funding Deferral Account	1508	185,933			
Collection of Account Variance	1508	7,640,327			
OEB Cost Assessment Variance	1508	2,031,407	OEB Cost Assessment Variance	1508	438,867
Retail Cost Variance Account - Retail	1518	553,760	Retail Cost Variance Account - Retail	1518	133,229
Retail Cost Variance Account - STR	1548	99,522	Retail Cost Variance Account - STR	1548	29,385
Stranded Meter Costs	1555	(29,458)	Stranded Meter Costs	1555	(7,903)
IFRS-CGAAP Transition PP&E	1575	5,346,309			
			Change in Estimated Useful Life	1508	1,073,505
Total of Group 2 Accounts		14,045,778	Total of Group 2 Accounts		1,184,960

³² [Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report \(EB-2014-0219\), January 22, 2016](#), p.8

SEC supports Elexicon's proposal to dispose of some of the proposed Group 2 accounts early as significant balances have accumulated, and to smooth rate impacts in anticipation of an imminent rebasing application, however, the impact of the proposed disposition on Veridian RZ rate payers is significant, especially for some classes. Therefore, SEC proposes that the IFRS-CGAAP Transition PP&E Account 1575 be disposed of over a four period, not one. The rest of the Group 2 DVAs can be disposed of over a one-year period. A longer disposition period would mitigate the significant distribution impacts in the Veridian RZ, and would be consistent with other distributors disposition of this specific accounts (1575/76)³³ and the OEB's related guidance, which noted that the "disposition period will be on a case-by-case basis and that it be guided primarily by such considerations as bill impacts and the financial impact on distributors."³⁴

SEC has had the opportunity to review CCC's submission on the GOCA Variance Account and supports their position.

Summary

SEC submits that the Sandy Beach project can and should be completed in 2026 within Elexicon's approved capital budget funded through existing rates. The Belleville DESN should be placed in service in 2027 and be included in Elexicon's 2027 test-year capital budget as part of its rebasing application. SEC further submits that the disposition of the specific Group 2 DVAs should be approved as proposed, except for the GOCA account. All Group 2 DVAs should be disposed of over a one-year period, with the exception of Account 1575, which should be disposed of over four years.

Yours very truly,
Shepherd Rubenstein P.C.

Mark Rubenstein

cc: Brian McKay, SEC (by email)
Jane Scott, SEC Consultant (by email)
Applicant and intervenors (by email)

³³ See for example Renfrew Hydro Inc. ([Decision and Order \(EB-2016-0166\), February 9 2017, Schedule A, Settlement Proposal](#) p.44 (4 years), Niagara-On-The-Lake Hydro Inc. (5 years) ([Decision and Order \(EB-2013-0155\), April 3 2014, Schedule A, Settlement Proposal](#), p.75; Niagara Peninsula Energy Inc. (2 years) ([Decision and Order \(EB-2014-0096\), May 14 2015, Appendix A, Settlement Agreement](#), p.33); North Bay Hydro (2 years) ([Decision and Order \(EB-2014-0099\), July 16 2015, Schedule A, Settlement Proposal](#), p.21

³⁴ See [OEB Letter, Re: Accounting Policy Changes For Accounts 1575 and 1576 \(June 25, 2013\)](#), p.3