

EB-2025-0046

Elexicon Energy Inc.

Application for electricity distribution rates and other charges effective January 1, 2026

VECC Submissions October 21, 2025

Elexicon Energy Inc. (Elexicon) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on July 16, 2025, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to its electricity distribution rates for the Veridian Rate Zone and the Whitby Rate Zone effective January 1, 2026. Elexicon has also requested funding for an Incremental Capital Module (ICM) to rebuild the Sandy Beach Substation and for the installation of a new Dual Element Spot Network.

VECC's submissions relate to Elexicon's ICM funding requests.

Background

Whitby Hydro Electric Corporation and Veridian Connections Inc. amalgamated into Elexicon Energy Inc. with two separate rate zones: Whitby Rate Zone (WRZ) and Veridian Rate Zone (VRZ) effective April 1, 2019. The OEB granted Elexicon a 10-year deferred rebasing period to 2029. In a letter to the OEB dated April 15, 2025, Elexicon indicated its intentions to file 2 years early to rebase for 2027 rates.¹

Incremental Capital Module

Elexicon is requesting ICM approval of \$28,078,153 to fund two investments within the Veridian Rate Zone (VRZ) as shown below. The total incremental annual revenue requirement associated with the ICM requests is \$1,455,449.

ICM	\$	Revenue Requirement (\$)
Sandy Beach Substation Rebuild	\$9,700,047	\$405,577
Capital contribution to Hydro One Networks Inc. for the installation of a new	\$18,378,106 ²	\$1,049,871

¹ Application p. 5

² Appendix A p. 10

Dual Element Spot Network (DESN) at Belleville Transformer Station (Belleville DESN 2)		
Total Incremental Capital	\$28,078,153	\$1,455,458

Project Timing

The current in-service date for the Sandy Beach Station Rebuild is Oct 30, 2026.³ In a previous Elexicon ICM project, the Seaton TS project, Elexicon expected that the project would be placed in service in November 2022,⁴ but the actual project in-service date was December 31, 2022.⁵ The same possibility exists that the Sandy Beach project could have an in-service date beyond 2026 meaning it will not be truly useful until 2027. The latest forecast in-service date for the Belleville DESN 2 project is December 17, 2026,⁶ leaving little room for a schedule variance.

The decision to pursue an ICM application for Sandy Beach Station and Belleville DESN 2 were finalized in April 2025.⁷ This timing coincides with Elexicon's letter to the OEB regarding its intention to rebase in 2027. The bill impacts in 2026 are substantial. For residential customers, the 2026 Distribution Part A rate increase for the VRZ is 12%. This includes 0.6% for the Sandy Beach ICM and 1.4% for the Belleville DESN 2 ICM.⁸ For other customers, GS 50 to 2,999 kW, GS 3000 to 4,999 kW and Large User customers, the rate increases are as high as 35.3%, 35.1% and 37.6%, respectively.⁹

As part of the upcoming rebasing application, Elexicon will be filing a 5-year DSP for the years 2027-2031 with 2026 Bridge Year and 2027 Test Year expenditures. Given the gap between when the need for the two projects was identified and the subsequent ICM requests, and the potential for schedule delays for the two projects, pushing them into 2027, VECC's starting position is that it's more appropriate for these requests to be brought forward as part of a comprehensive capital plan in the 2027 rebasing application, allowing the OEB to consider the need and bill impacts of these projects in the context of the overall capital plan.

VECC makes the following comments on the OEB's ICM criteria should the OEB reject VECC's position.

³ VECC-11 (c)

⁴ EB-2021-0015 OEB Decision January 1, 2022 p. 19

⁵ VECC-34

⁶ VECC-25 (e)

⁷ VECC-2 (a)

⁸ CCC-3

⁹ Application p. 8

ICM Criteria

An ICM is a mechanism for a distributor to collect additional revenue from customers to fund capital expenditures in the years between cost of service applications. In order to qualify for ICM funding, a distributor must satisfy the OEB's eligibility criteria of materiality, need and prudence as follows:¹⁰

Materiality	A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. 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.
Need	The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Need - 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.

Elexicon does not have an OEB approved ROE. A weighted average has been used to derive an OEB-approved ROE proxy of 9.43%.¹¹

¹⁰ OEB Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p.17

¹¹ P. 28

Ellexicon's 2024 actual ROE was less than the 9.43%. The current forecast for 2025 ROE is less than the OEB-approved ROE proxy.

Ellexicon meets the Means Test.

Materiality Threshold

The ICM materiality threshold formula serves to define the level of capital expenditures that a distributor should be able to manage within current rates.

Ellexicon's maximum eligible incremental capital amount is \$50,057,063. This is calculated by subtracting the ICM materiality threshold of \$27,142,025 for 2026, from the 2026 capital forecast of \$77,199,088.¹²

Description	2025
Capital Forecast	\$77,198,088
Less: Materiality Threshold	(\$27,142,025)
Maximum Eligible Incremental Capital	\$50,057,063

Sandy Beach Substation Rebuild

Ellexicon seeks \$9.7 million in ICM funding to rebuild the Sandy Beach Substation.

The scope of work includes the removal of deteriorating, legacy and at or near end of-life equipment and structures, as well as the replacement of transformers, reclosers, control building, and underground cables.

Need – Discrete Project & Outside of Base Rates

Sandy Beach Ellexicon did not identify an urgent need to rebuild the Sandy Beach Station prior to the transformer failure in May 2022. Based on asset condition assessment results prior to 2022, the health index for the Sandy Beach Station was fair, and it was not identified for replacement in the 2021 DSP.

On May 31, 2022, Transformer T2 suffered a failure and the transformer was replaced with a unit which sits on a wood structure as a temporary solution. No additional failures have occurred at this station since the two incidents in 2022.¹³ In 2023, the station was identified in 2023 as a high priority project.¹⁴

¹² Appendix A p.15

¹³ CCC-15

¹⁴ CCC-12

Elexicon has demonstrated that the Sandy Beach Substation Rebuild project is a discrete project and directly related to the claimed driver. However, with respect to need, VECC submits Elexicon has not sufficiently demonstrated that the amounts are clearly outside of the base upon which the rates were derived.

In Veridian's last cost of service application (EB-2013-0174), a total of \$3.15M in capital costs related to substation transformer replacements was included in the capital budget."¹⁵ ¹⁶ In the last cost of service application (EB-2009-0274) for Whitby Hydro, the 2010 capital budget included \$1.022M in capital costs related to station transformer investments.¹⁷ ¹⁸

Elexicon does not have an actual rate base for each of the rate zones, and Elexicon no longer breaks down its capital in-service additions for each legacy rate zone (i.e. Veridian and Whitby). Likewise, operating expenses are not tracked by rate zone.¹⁹ The total amount of capital funded in rates across both rate zones is \$38.9M.²⁰ Given Elexicon operates with one rate base, it is appropriate to consider amounts in rate base related to station investments from both rate zones. Escalating these amounts to 2026 using the yearly IRM Rate²¹, VECC estimates there is close to \$5.5 million²² in case rates related to station investments. This leaves a remaining balance of \$4.2M which is not material compared to the overall \$77.198M capital budget in 2026. A substation project in 2024, Monarch Substation Partial Rebuild, with a similar cost of \$4.5M was funded through the capital budget.²³

Despite Elexicon's view that capital funding in base rates is determined at the envelope level, not the component level, and as such there is no substation amount in base rates for Veridian,²⁴ Elexicon has made annual substation investments over the rate period across both rate zones demonstrating the necessity of this capital work.²⁵

Given more than 50% of the project cost can be seen to be funded through base rates, VECC submits the project is not material on a project-specific basis. Accordingly, the OEB should not approve the ICM request for the Sandy Beach Station Rebuild project.

Belleville DESN 2 Project

¹⁵ EB-2013-0174 Appendix 2-AA (\$3,147,500)

¹⁶ Staff-22 (h)

¹⁷ EB-2009-0274 Ex. 2 p. 134

¹⁸ EB-2009-0274: new rates effective January 1, 2011; 2010 variables were used to develop rates for 2011. Rates were set for 2011 based on adjustments to the 2010 proxy components. To calculate 2011 rate base, the 2010 rate base proxy was increased by 5% to reflect Whitby Hydro's historic annual rate base increase (OEB Decision p. 4)

¹⁹ SEC-6 (c) & (d)

²⁰ CCMBC-10 (a)

²¹ Appendix D p. 40 Table 4.14

²² VRZ \$4.15 M + WRZ \$1.4= \$5.55 M

²³ VECC-5 (d)

²⁴ Staff-22 (h)

²⁵ VECC-5 (c)

The total estimated cost for Belleville DESN 2 is \$63,499,388 and Elexicon's portion is 51%.²⁶

Elexicon seeks \$18.4 million in ICM funding²⁷ for the capital contribution to Hydro One Networks Inc. for the installation of a new DESN at Belleville Transformer Station (TS). This amount includes Elexicon's project management costs and accounts for a capital contribution from one customer.

Elexicon has demonstrated the need for the project. Capacity constraints at Belleville TS were identified during the IESO and Hydro One's regional planning exercises. The third cycle of the Peterborough to Kingston Integrated Regional Resource Planning (IRRP) process, concluded with the publication of the IRRP report on November 4, 2021.²⁸ The projected peak load in 2025 for this part of Elexicon's service territory was expected to exceed the current capacity available (approximately 110 MW for Elexicon only) for the region."²⁹ Elexicon reported that it exceeded its allocated capacity of 110 MW at Belleville DESN 1 in August 2025 with a peak load of approximately 112 MW.³⁰

To construct Belleville TS DESN #2, Hydro One will install two (2) power transformers, low voltage switchyard, and a Protection, Control, and Telecom (PCT) Building.

Materiality & Need – Discrete Project & Outside of Base Rates

Elexicon has demonstrated that the Belleville DESN 2 is a discrete, material project that fits within the total eligible incremental capital amount of \$50M. It is directly related to the claimed driver, outside the base upon which rates were derived and will have a significant influence on the future operations of the distributor.

The Belleville DESN 2 project is also material on a project-specific basis. The Belleville DESN 2 Project accounts for approximately 24% of Elexicon's total 2026 capital expenditure forecast.³¹

Prudence

Elexicon has demonstrated that the amounts to be incurred will be prudent, subject to the proposed adjustments discussed below.

Hydro One prepared the cost estimate and Hydro One will be responsible for the design and construction of the new DESN as outlined in the CCRA. Procurement of the assets is being

²⁶ VECC-19

²⁷ Appendix C p. 11

²⁸ CCC-7 (a)

²⁹ CCMBC- 6 (b)

³⁰ CCC-20 (a)

³¹ \$18.4/\$77.2=24%

managed by Hydro One.³² Elexicon has regular meetings with Hydro One regarding the project, following which Hydro One provides a point form summary of the meeting.³³ Hydro One is also providing Elexicon with Quarterly Project Status Reports that provide a dashboard that includes project costs and schedule.³⁴

Elexicon provided the payment milestones agreed to by Hydro One including payments already made in 2023 (\$243,500) and 2024 (\$2,034,500).³⁵ Given that the payments made to Hydro One have already been funded through Elexicon's 2023 and 2024 capital budgets,³⁶ VECC submits that the ICM amount should be reduced by \$2,278,000.³⁷

Elexicon indicates large industrial customers will account for approximately 12 MW of additional peak load by 2034 compared to 2025.³⁸ Elexicon has a signed offer-to-connect (OTC) with a large industrial customer that will increase their load by approximately 3.2 MW by 2026.³⁹ The customer signed the offer to connect (OTC) in April 2025. Elexicon indicates has a signed OTC with a second large industrial customer that will increase their load by approximately 7 MW by 2028.⁴⁰

Elexicon has appropriately reduced its capital contribution amount to Hydro One by \$371,500⁴¹ to reflect the capital contribution it will collect from one customer. However, Hydro One has not accounted for the second customer or the remaining 1.2 MW. VECC submits the capital contributions for these customers should be determined and factored in to reduce Elexicon's ICM request.

³² VECC-30 (b)

³³ VECC-29 (b)

³⁴ VECC-31 (d)

³⁵ Appendix C p. 9

³⁶ Staff-24 (a)

³⁷ Appendix C p.9

³⁸VECC-26

³⁹ The customer signed the offer to connect (OTC) in April 2025 (Appendix C p. 8)

⁴⁰ Staff-25 (a)

⁴¹ Appendix A p. 11

