Ontario Energy Board | Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2025-0046

ELEXICON ENERGY INC.

Application for rates and other charges to be effective January 1, 2026

BEFORE: **Allison Duff**
Presiding Commissioner

Robert Dodds
Presiding Commissioner

Shahrzad Rahbar
Commissioner

January 15, 2026

1. OVERVIEW

The Ontario Energy Board (OEB) is approving changes to the rates that Elexicon Energy Inc. (Elexicon Energy) charges to distribute electricity to its customers, effective January 1, 2026. Elexicon Energy 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.

The OEB approves Elexicon Energy's Price Cap Incentive Ratemaking proposals and deferral and variance account (DVA) proposals with the exception of certain Group 2 accounts to be reviewed at rebasing.

The OEB approves partial ICM funding of $6.55 million in capital for the Sandy Beach Station project, a reduction of $3.25 million from the proposed $9.70 million. The OEB denies ICM funding of $18.38 million in capital for a new Dual Element Spot Network at the Belleville Transformer Station.

Elexicon Energy is directed to file a Draft Rate Order for the OEB's review, reflecting the OEB's findings in this Decision and Order.

2. CONTEXT AND PROCESS

Elexicon Energy filed its application on July 15, 2025 under section 78 of the *Ontario Energy Board Act, 1998* and in accordance with Chapter 3 (Incentive Rate-Setting Applications) of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements).

The OEB approved the amalgamation between Veridian Connections Inc. and Whitby Hydro Electric Corporation in 2018[1]. Elexicon Energy was granted a 10-year deferred rebasing period until 2029 and was to maintain the two distinct rate zones throughout this period. This application was based on the Price Cap Incentive Rate option, as Elexicon Energy transitioned its Whitby Rate Zone from the Annual Incentive Rate Index rate-setting method to the Price Cap Incentive Rate option in 2022.[2] Before this application was filed, Elexicon Energy previously notified the OEB of its intention to file an early rebasing application by the end of 2025, in preparation for setting rates effective January 1. 2027. The rebasing application was filed on December 19, 2025.

The Price Cap Incentive Rate option is one of three Incentive Rate-setting Mechanisms (IRMs) used by the OEB.[3] It involves the setting of rates through a cost of service application in the first year and mechanistic price cap adjustments which may be approved through IRM applications in each of the ensuing adjustment years.

The OEB follows a standardized and streamlined process for IRM applications filed under the Price Cap Incentive Rate option. In each adjustment year of a Price Cap Incentive Rate term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements. The distributor then reviews, completes, and includes the models with its application, and may update the models during the proceeding to make any necessary corrections or to incorporate new rate-setting parameters as they become available.

Elexicon Energy serves approximately 179,000 mostly residential and commercial electricity customers in Ajax, Pickering, Belleville, Brock, Uxbridge, Scugog, Clarington, Port Hope, Gravenhurst, Whitby, Village of Brooklin, and hamlets of Ashburn and Myrtle.

[1] OEB Decision and Order EB-2018-0236, December 20, 2018 (Corrected February 11, 2020)
[2] EB-2022-0024, Decision and Order – Phase 2, July 6, 2023
[3] Each of these options is explained in the OEB's *Handbook for Utility Rate Applications*.

Notice of the application was issued on August 6, 2025. The following parties[4] applied for, and were approved, intervenor status:

- Power Workers Union (PWU)
- Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC)
- Consumers Council of Canada (CCC)
- Quinte Manufacturers Association (QMA)
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers Coalition (VECC)

Intervenors CCMBC, CCC, SEC, VECC, and QMA requested cost eligibility. The OEB approved cost eligibility for intervenors CCMBC, CCC, QMA, SEC, and VECC.

The OEB issued Procedural Order No. 1 on September 3, 2025, which among other things, established dates for filing interrogatories and interrogatory responses. Written submissions on the application were filed by OEB staff and intervenors on or before October 23, 2025, and a reply submission was filed by Elexicon Energy on November 4, 2025.

[4] On August 25, 2025, Environmental Defence requested intervenor status and cost eligibility. By letter dated September 18, 2025, Environmental Defence withdrew its request for cost eligibility and intervenor status.

3. DECISION OUTLINE

Each of the following issues is addressed in this Decision and Order, together with the OEB's findings.

- Annual Adjustment Mechanism
- Shared Tax Adjustments
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Group 2 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account
- Incremental Capital Module Requests
- Implementation

This Decision and Order does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges[5] and loss factors, which are out of the scope of an IRM proceeding and for which no further approvals are required to continue to include them on the distributor's Tariff of Rates and Charges.

[5] Certain service charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. For example, the OEB's Decision and Order in EB-2025-0199, issued June 19, 2025, established the adjustment for energy retailer service charges, effective January 1, 2026; and the OEB's Decision and Order in EB-2025-0200, issued June 19, 2025, established the 2026 Wireline Pole Attachment Charge, effective January 1, 2026.

4. ANNUAL ADJUSTMENT MECHANISM

Elexicon Energy has applied to change its rates, effective January 1, 2026. The proposed rate change is based on a mechanistic rate adjustment using the OEB-approved inflation minus X-factor formula applicable to IRM applications. The X-factor is the sum of the productivity factor and the stretch factor. It is an offset that varies among different groupings of distributors. The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.[6]

The components of the Price Cap Incentive Rate adjustment formula applicable to Elexicon Energy are set out in the table below. Inserting these components into the formula results in a 3.40% increase to Elexicon Energy's rates: **3.40% = 3.70% - (0.00% + 0.30%)**.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation factor[7]		3.70%
Less: X-factor	Productivity factor[8]	0.00%
	Stretch factor (0.00% to 0.60%)[9]	0.30%

An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year. The X-factor is a productivity offset that varies among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income. The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all IRM applications for the 2026 rate year. The stretch factor component of the X-factor is one of five stretch factor groupings established by the OEB, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as

[6] The adjustment does not apply to the following components of delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charge, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges (other than the Wireline Pole Attachment charge), and microFIT charge.

[7] OEB Letter, 2026 Inflation Parameters, issued June 11, 2025

[8] Report of the Ontario Energy Board – "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors" EB-2010-0379, December 4, 2013

[9] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update", prepared by Pacific Economics Group LLC., August 18, 2025

benchmarked against other distributors in Ontario. The stretch factor assigned to Elexicon Energy for both rate zones is 0.30%, resulting in a rate adjustment of 3.40%.

OEB staff had no concerns with Elexicon Energy's proposed Price Cap adjustment, and intervenor CCMBC submitted that the 3.40% adjustment is reasonable and that the OEB should approve it.

Findings

The OEB approves Elexicon Energy's proposed 3.40% rate increase. The OEB finds that this Price Cap Incentive Rate adjustment is in accordance with the annually updated parameters set by the OEB. The 3.40% increase is approved for the Veridian Rate Zone and Whitby Rate Zone, effective January 1, 2026.

5. SHARED TAX ADJUSTMENTS

In any adjustment year of an IRM term, a change in legislation may result in a change to the amount of taxes payable by a distributor.[10, 11] OEB policy is that the impacts of such legislated tax changes are shared equally between shareholders and customers.[12] The shared tax change amount, whether in the form of a credit or a debit, will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from the distributor's last cost of service proceeding.

For the Veridian Rate Zone, Elexicon Energy identified a total tax increase of $5,698, resulting in a shared amount of $2,849 to be collected from ratepayers. This allocated tax-sharing amount does not produce a rate rider to the fourth decimal place, in one or more rate classes. In situations where the Rate Generator Model does not compute rate riders, distributors are required to transfer the entire OEB-approved tax-sharing amount into the Disposition and Recovery of Regulatory Balances Control Account (Account 1595) for disposition at a later date.

For the Whitby Rate Zone, Elexicon Energy identified a total tax decrease of $100,344, resulting in a shared amount of $50,172. Elexicon Energy proposed a refund to customers of $50,172 for the Whitby Rate Zone, to be refunded over one year.

OEB staff had no concerns regarding Elexicon Energy's proposed shared tax savings adjustments.

Findings

The OEB approves the tax sharing charge of $2,849 for the Veridian Rate Zone. As the allocated tax sharing amount for the Veridian Rate Zone is not large enough to establish a rate rider in one or more rate classes, the OEB directs Elexicon Energy to record the debit amount of $2,849 in Account 1595 - Sub-account Principal Balances Approved for Disposition in 2026.

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[10] On July 25, 2019, the OEB issued a letter providing accounting guidance with respect to changes in capital cost allowance (CCA) rules. The guidance provides that impacts from changes in CCA rules will not be assessed in IRM proceedings, and that any request for disposition of amounts related to CCA changes is to be deferred to the distributor's next cost-of-service rate proceeding. A distributor's request for disposition of shared tax adjustment amounts in an IRM application should, therefore, be comprised only of impacts for tax changes unrelated to CCA.

[11] Chapter 3 Filing Requirements, section 3.2.8, notes that the Rate Generator Model reflects the change in the Small Business Deduction phase-out.

[12] EB-2007-0673, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, September 17, 2008, p. 35

The OEB approves the proposed tax sharing refund of $50,172 for the Whitby Rate Zone. This amount shall be refunded over a one-year period from January 1, 2026 to December 31, 2026, through a fixed monthly rate rider for residential customers, and through riders calculated on a volumetric basis for all other customers.

6. RETAIL TRANSMISSION SERVICE RATES

In Ontario, some distributors are connected directly to a licensed transmitter, while others may be embedded, or partially embedded, within the distribution system of another licensed distributor. Both of Elexicon Energy's rate zones are partially embedded within Hydro One Networks Inc.'s (Hydro One) distribution system.

On October 9, 2025, the OEB announced preliminary Uniform Transmission Rates (UTRs) effective January 1, 2026. The OEB also announced that an embedded distributor may update its Retail Transmission Service Rates (RTSRs) with Hydro One's proposed host Retail Transmission Service Rates.[13]

Elexicon Energy's RTSRs were updated based on the preliminary Uniform Transmission Rates and Hydro One's updated host Retail Transmission Service Rates. The OEB sets UTRs based on the approved revenue requirements for multiple transmitters. Preliminary UTRs are based on those revenue requirements that have already been approved for 2026. These preliminary UTRs are to be used for the setting of RTSRs to minimize the accumulation of variances in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge). The cost consequences of any future adjustments to 2026 UTRs to reflect remaining approvals to a transmitter's revenue requirement will be tracked in these accounts and recovered over time.

To recover its cost of transmission services, Elexicon Energy requests approval to adjust the RTSRs that it charges its customers in accordance with the UTRs and host RTSRs for Hydro One currently in effect.

On March 31, 2025, the OEB issued a report on the design of a new Electric Vehicle Charging Rate, *Electric Vehicle Charging Rate Overview – Final Report* (Final Report). The new Electric Vehicle Charging Rate reduces the Retail Transmission Service Rates that participating electric vehicle charging stations pay. The report requires electricity distributors to begin offering the Electric Vehicle Charging Rate to eligible customers in 2026, once their OEB-approved 2026 distribution rates become effective.[14]

OEB staff had no concerns with Elexicon Energy's requested adjustments to its RTSRs.

[13] EB-2025-0232, OEB Letter "2026 Preliminary Uniform Transmission Rates", issued October 9, 2025
[14] EB-2023-0071, Electric Vehicle Charging Rate Overview - Final Report, March 31, 2025.

Findings

Elexicon Energy's proposed adjustment to its RTSRs is approved. The RTSRs have been adjusted based on the preliminary UTRs and final host RTSRs for Hydro One.[15, 16] If final UTRs and/or final host RTSRs differ from the preliminary UTRs or proposed host RTSRs, the resulting differences shall be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

In accordance with the OEB's Final Report, Elexicon Energy will provide eligible electric vehicle charging station customers with the option to elect to be charged the RTSRs on the basis of the Electric Vehicle Charging Rate in its Draft Rate Order.

[15] EB-2025-0030, Rate Order, December 23, 2025
[16] EB-2025-0232, OEB Letter "2026 Preliminary Uniform Transmission Rates", issued October 9, 2025

7. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 DVAs to determine whether those balances should be disposed of. OEB policy states that Group 1 account balances should be disposed of if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of $0.001 per kWh, unless a distributor can justify why balances should not be disposed of.[17] If the net balance does not exceed the threshold, a distributor may still request disposition.[18]

<u>Whitby Rate Zone</u>

The 2024 year-end net balance for the Whitby Rate Zone's Group 1 accounts eligible for disposition, including interest projected to December 31, 2025, is a debit of $732,501 and pertains to variances accumulated during the 2024 calendar year. This amount represents a total claim of $0.0008 per kWh, which does not exceed the disposition threshold.

Elexicon Energy did not request the disposition of the Whitby Rate Zone's Group 1 acount balances.

<u>Veridian Rate Zone</u>

The 2024 year-end net balance for the Veridian Rate Zone's Group 1 accounts eligible for disposition, including interest projected to December 31, 2025, is a debit of $4,234,514 and pertains to variances accumulated during the 2024 calendar year. This amount represents a total claim of $0.0016 per kWh, which exceeds the disposition threshold.

Included in the Group 1 accounts are certain variances related to costs that are paid for by a distributor's customers. Customers pay different costs, depending on their classification. "Class A" customers, who participate in the Industrial Conservation Initiative, pay for Global Adjustment (GA) charges based on their contribution to the five highest Ontario demand peaks over a one-year period. "Class B" customers pay for Global Adjustment charges based on their monthly consumption, either as a standalone charge or embedded in the Regulated Price Plan (RPP).[19] A similar mechanism applies

[17] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative" (EDDVAR), EB-2008-0046, July 31, 2009
[18] OEB letter, "Update to the Electricity Distributors' Deferral and Variance Account Review ("EDDVAR Report"), released July 2009 (EB-2008-0046)", issued July 25, 2014
[19] For additional details on the Global Adjustment charge, refer to the Independent Electricity System Operator (IESO)'s website.

to Class A and Class B customers for Capacity Based Recovery (CBR) charges.[20] The balance in the GA variance account is attributable to non-RPP Class B customers and is disposed of through a separate rate rider. The balance in the CBR Class B variance account is attributable to all Class B customers.

During the period in which variances accumulated, the Veridian Rate Zone had customers transition between Class A and Class B. Under the general principle of cost causality, customer groups that cause variances that are recorded in Group 1 accounts should be responsible for paying the debits (or receiving credits) for the disposition. Elexicon Energy has proposed to allocate a portion of the Veridian Rate Zone's GA balance to each transition customer, based on their customer-specific consumption levels.[21] The GA amounts allocated to each transition customer are proposed to be recovered (or refunded, as applicable), by way of 12 equal monthly installments.

Elexicon Energy had Class A customers in the Veridian Rate Zone during the period in which variances accumulated so it has applied to have the balance of the CBR Class B variance account disposed of through a separate rate rider for Class B customers to ensure proper allocation between Class A and Class B customers.

OEB staff had no concerns with Elexicon Energy's request to dispose of the Group 1 DVA balances, totaling $4,234,514 for the Veridian Rate Zone.

Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements.*

The OEB approves the disposition of a debit balance of $4,234,514 for the Veridian Rate Zone as of December 31, 2024, including interest projected to December 31, 2025, for the Group 1 accounts on a final basis respectively.

Table 7.1 identifies the principal and interest amounts, for the Veridian Rate Zone which the OEB approves for disposition.

[20] All Class B customers (RPP and non-RPP) pay the CBR as a separate charge based on their monthly consumption. For additional details on the CBR for Class A customers, refer to the IESO's website.
[21] 2026 IRM Rate Generator Model, Tab 6.1a "GA Allocation"

Table 7.1: Group 1 Deferral and Variance Account Balances - Veridian Rate Zone

Account Name and Number		Principal Balance ($) A	Interest Balance ($) B	Total Claim ($) C=A+B
LV Variance Account	1550	700,139	66,099	766,239
Smart Metering Entity Charge Variance Account	1551	(269,036)	(20,564)	(289,600)
RSVA - Wholesale Market Service Charge	1580	(3,422,289)	(283,193)	(3,705,483)
Variance WMS - Sub-account CBR Class B	1580	1,139,359	53,186	1,192,545
RSVA - Retail Transmission Network Charge	1584	1,740,944	110,371	1,851,315
RSVA - Retail Transmission Connection Charge	1586	582,182	64,666	646,848
RSVA – Power	1588	(2,072,805)	(238,165)	(2,310,970)
RSVA - Global Adjustment	1589	5,634,832	469,999	6,104,831
Disposition and Recovery/(Refund) of Regulatory Balances (2021)	1595	10,122	37,621	47,743
Disposition and Recovery/(Refund) of Regulatory Balances (2022)	1595	(57,363)	(11,591)	(68,954)
Total for Group 1 accounts		**3,986,086**	**248,428**	**4,234,514**

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors.*[22] The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

[22] Article 220, Account Descriptions, *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012

The OEB approves these balances to be disposed of through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges, and payments, as applicable, will be in effect over a one-year period from January 1, 2026 to December 31, 2026, for the Veridian Rate Zone.[23]

[23] 2026 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

8. GROUP 2 DEFERRAL AND VARIANCE ACCOUNTS

Elexicon Energy seeks approval to dispose of certain Group 2 DVA balances for both of its rate zones. These balances have accumulated over extended periods due to Elexicon Energy's deferred rebasing and have not been cleared since 2014 (Veridian Rate Zone) and 2018 (Whitby Rate Zone).

Elexicon Energy proposed the disposition of Group 2 balances as of December 31, 2024, including projected interest to December 31, 2025, over a one-year period beginning January 1, 2026. The proposed balances by rate zone are shown in Table 8.1 below.

Table 8.1: Proposed Disposition for Group 2 Accounts

Group 2 Account	Total Claim Veridian Rate Zone	Total Claim Whitby Rate Zone
1508 – IFRS Transition Costs	$575,840	$ -
1508 – OEB Cost Assessments	$2,031,407	$438,867
1508 – Collection of Account Variance	$7,640,327	$ -
1508 – Pole Attachments	$(2,953,344)	$(702,370)
1508 – Getting Ontario Connected Act Variance	$595,482	$220,247
1508 – LEAP EFA Funding	$185,933	$ -
1508 – Estimate Useful Life	$ -	$1,073,505
1518 – Retail Cost Variance Account – Retail	$553,760	$133,229
1518 – Retail Cost Variance Account – STR	$99,522	$29,385
1555 – Stranded Meters	$(29,458)	$(7,903)
1575 – IFRS-CGAAP Transitional PP&E	$5,346,309	$ -
Total (net) Balance by Rate Zone	**$14,045,778**	**$1,184,960**

Detailed submissions on certain requested Group 2 accounts are summarized below.

<u>Account 1508 – Sub-account Collection of Accounts Variance</u>

Elexicon Energy requested the disposition of a balance of $7,640,327, representing lost revenue from the elimination of the Collection of Account charge. The balance comprises $6,750,409 in principal for the period of 2019 to 2024 and $889,918 in carrying charges for the period of 2019 to 2025. Elexicon Energy proposed recovery over a one-year period beginning January 1, 2026, and continuing the account after disposition to track incremental costs until rebasing. Elexicon Energy stated that the account was approved in the OEB's Decision and Rate Order on its 2020 IRM application[24] with an annual cap of $1,143,711, and that this is the first request for disposition.

OEB staff supported the disposition of the balance but recommended reducing the 2019 principal balance by 50% to reflect only half of the annual cap for the July to December 2019 period because the account has an effective date of July 1, 2019. OEB staff also submitted that carrying charges should be recalculated based on the reduced amount and that it supported Elexicon Energy's proposal to continue the account until its next rebasing application.

No intervenors provided comments or proposed adjustments regarding this account.

In its reply submission, Elexicon Energy opposed OEB staff's proposed reduction, submitting that its approach reflects actual lost revenues associated with the elimination of the charge and its consistency with prior OEB decisions (e.g., Brantford Power Inc.[25] and Energy+ Inc.[26] proceedings). Elexicon Energy stated that subtracting actual revenue collected in 2019 ($111,857) from the approved annual cap ($1,143,711) results in $1,031,854, which represents the true lost revenue. Applying an additional 50% reduction would under-recover the actual lost revenues. Elexicon Energy reiterated its request for approval of the full amount and maintained that continuing the account until rebasing is appropriate.

<u>Account 1508 – Sub-account Estimated Useful Lives Variance Account</u>

Elexicon Energy requested disposition of the Estimated Useful Lives Variance balance of approximately $1.07 million, with no carrying charges, over a one-year period. Elexicon Energy proposed continuing the account after disposition to track ongoing depreciation variances until its next rebasing application.

OEB staff submitted that disposition should be deferred to Elexicon Energy's next rebasing application, noting that the account relates to changes in depreciation method due to the implementation of International Financial Reporting Standards (IFRS). OEB staff also submitted that a comprehensive review of accounting policy changes and depreciation impacts should occur at rebasing when full Modified International Financial Reporting Standard disclosures are filed.

[24] EB-2019-0252, Decision and Rate Order, April 16, 2020, p. 13
[25] EB-2019-0022, Partial Decision and Interim Rate Order, January 23, 2020
[26] EB-2019-0031, Partial Decision and Interim Rate Order, January 23, 2020

Intervenor CCC supported postponement, citing the need for a comprehensive review of accounting changes and rate impacts during the 2027 rebasing application.

In its reply submission, Elexicon Energy opposed deferring disposition of the balance. Elexicon Energy submitted that the record in this proceeding sufficiently substantiates the balance and that interim disposition would mitigate intergenerational inequity, avoid continued accumulation of carrying charges, and narrow the scope of its next rebasing application. Elexicon Energy stated that the entries in this account are unlikely to materially change at rebasing and that postponement would unfairly burden future ratepayers.

<u>Account 1508 – Sub-account - Getting Ontario Connected Act Variance Account</u>

Elexicon Energy requested disposition of the Getting Ontario Connected Act variance account balance of approximately $815,729 (plus interest) over a one-year period beginning January 1, 2026. Elexicon Energy stated that these costs are incremental and directly attributable to compliance with the *Getting Ontario Connected Act*.

OEB staff submitted that the Getting Ontario Connected Act account should be reviewed and disposed of at rebasing, consistent with the OEB's expectation that these balances be addressed in a cost of service application unless a large balance accrues that may require earlier disposition.

Intervenor CCC submitted that Elexicon Energy overstated the balance by including administrative and supervisory costs and failed to adjust the baseline for incremental locate-related costs. Intervenor CCC proposed reducing the balance by $178,000 (plus interest) from the proposed $766,000 (plus interest). Intervenor SEC supported intervenor CCC's position.

Elexicon Energy maintained, in its reply submission, that its methodology aligns with OEB guidance and that the full balance should be recovered now. Elexicon Energy disagreed with OEB staff's recommendation to defer disposition, arguing that the account meets the criteria for recovery during the IRM term and that postponement would increase carrying charges and create intergenerational inequity. Elexicon Energy also opposed intervenor CCC's proposed adjustment, stating that administrative and supervisory costs are necessary for compliance and directly attributable to the *Getting Ontario Connected Act*.

Account 1575 - IFRS-CGAAP Transitional PP&E[27]

Elexicon Energy requested disposition of the IFRS-CGAAP Transitional PP&E balance of approximately $5.35 million, comprising a closing principal balance of $5.02 million for 2014 to 2024 and $331,010 in return calculated using the Weighted Average Cost of Capital. Elexicon Energy proposed recovery over a one-year period, consistent with its approach for other Group 2 accounts and indicated that continuing the account after disposition is necessary to track derecognition loss variances until its next rebasing application.

OEB staff submitted that disposition should be deferred to Elexicon Energy's next rebasing application, noting that the account relates to IFRS implementation impacts and should be reviewed comprehensively when full Modified International Financial Reporting Standard disclosures are filed.

Intervenor SEC agreed that disposition should occur, but proposed a four-year recovery period, instead of one, to mitigate significant bill impacts in the Veridian Rate Zone. Intervenor SEC argued that a longer disposition period is consistent with other distributors' treatment of similar accounts and aligns with OEB guidance that disposition periods should consider bill impacts.

Elexicon Energy opposed deferral and extended recovery periods, stating that the record in this proceeding substantiates the balance and that interim disposition would avoid continued accumulation of carrying charges, address intergenerational inequity, and simplify its next rebasing application. Elexicon Energy argued that a one-year recovery is consistent with prior OEB decisions and avoids unnecessary complexity. Elexicon Energy also noted that extending recovery to four years would increase the return on rate base from $331,010 to approximately $1.23 million, resulting in an additional $993,000 paid by ratepayers compared to a one-year disposition.

Other Group 2 Accounts

In addition, Elexicon Energy requested disposition of the following Group 2 DVAs 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[28]

[27] International Financial Reporting Standards – Canadian Generally Accepted Accounting Principles Transitional Property and Plant Equipment
[28] Low-Income Energy Assistance Program, Energy Financial Assistance

- Accounts 1518 and 1548 – Retail Cost Variance Account – Retail and Service Transaction Requests
- Account 1555 Smart Meter – Sub-account – Stranded Meters
- Account 1508 Other Regulatory Asset – Sub-account – Pole Attachment Revenue Variance

For these other Group 2 accounts, OEB staff supported disposition of these accounts over a one-year basis as proposed, noting that the balances are longstanding, appropriately recorded, and their clearance will mitigate intergenerational inequity.

Intervenor CCC requested that all Veridian Rate Zone balances be recovered over four years to mitigate significant bill impacts.

Intervenor CCMBC proposed a two-year recovery period for all Group 2 accounts to reduce current rate impacts.

Intervenor SEC supported Elexicon Energy's proposal to dispose of these accounts over one year.

Intervenors PWU, QMA and VECC did not make submissions on any Group 2 balances.

In its reply submission, Elexicon Energy rejected extended recovery periods, stating that one-year disposition avoids further interest accumulation, addresses intergenerational inequity, and simplifies its upcoming rebasing application. Elexicon Energy argued that bill impacts are manageable and below the OEB's mitigation threshold, and that mitigation measures are in place.

Findings

The OEB approves the Group 2 account balances in Table 8.2 for disposition.

Table 8.2: OEB Approved Group 2 Accounts for Disposition

Group 2 Account	Approved Balance Veridian Rate Zone	Approved Balance Whitby Rate Zone
1508 – IFRS Transition Costs	$575,840	$ -
1508 – OEB Cost Assessments	$2,031,407	$438,867
1508 – Collection of Account Variance	$7,640,327	$ -
1508 – Pole Attachments	$(2,953,344)	$(702,370)
1508 – LEAP EFA Funding	$185,933	$ -
1518 – Retail Cost Variance Account – Retail	$553,760	$133,229
1518 – Retail Cost Variance Account – STR	$99,522	$29,385
1555 – Stranded Meters	$(29,458)	$(7,903)
Total (net) Balance by Rate Zone	**$8,103,987**	**($108,792)**

The OEB finds the evidence sufficient to establish the accuracy, prudence and materiality of the balances in Table 8.2 to approve for disposition. In particular, the OEB accepts Elexicon Energy's reply submission regarding Account 1508 – Collection of Variance Account. The OEB finds approval of the proposed balance is consistent with prior OEB decisions regarding this account.[29]

While the total approved net balances are lower than those proposed, the bill impact on the GS > 50 kW and Large User customer classes in particular, necessitate mitigation measures. Considering these factors, the OEB agrees with intervenor CCMBC that a two-year disposition period is appropriate.

The OEB does not approve of the balances in the following Group 2 accounts, namely:

- Account 1508: Getting Ontario Connected Act Variance
- Account 1508: Estimate Useful Life
- Account 1575: IFRS-CGAAP – Transition PP&E

The OEB finds the evidence insufficient at this time to approve these account balances. Unlike Group 1 "pass through" accounts which are subject to a billing materiality threshold, Group 2 account balances are assessed for prudence and materiality. As a result, Group 2 accounts are typically addressed as part of a utility's cost of service or rebasing proceeding.

[29] EB-2019-0022 and EB-2019-0031

In this proceeding, these three accounts relate to OEB policy, Ontario legislation, depreciation methods and International Financial Reporting Standards accounting, which require further consideration. Further, the OEB is cautioned by the submissions of OEB staff, and intervenors CCC and SEC regarding the proposed balances and the proportion that should be collected from customers.

Specifically, regarding Account 1508: Getting Ontario Connected Act Variance Account, the OEB agrees with OEB staff that these balances be addressed in a cost of service application unless a large balance accrues that may require earlier disposition. The OEB does not consider a balance of $815,729 sufficiently large to warrant approval in a Price Cap Incentive Rate application. The OEB prefers to consider OEB precedent related to Getting Ontario Connected Act Variance Account balances and the specific costs recovered from customers at rebasing.

Regarding Account 1508: Estimated Useful Life, the OEB agrees with intervenor CCC and OEB staff that a comprehensive review of accounting policy changes and depreciation impacts should occur at rebasing. The OEB is not persuaded by Elexicon Energy's reply submission that disposition in 2026 would mitigate intergenerational inequity, avoid continued accumulation of carrying charges, and narrow the scope of its next rebasing application. Elexicon Energy chose a 10-year deferred rebasing period after amalgamation and should have been aware that accounting policy and rate base accounting would not be reviewed during the deferral period.

Further, regarding Account 1575: IFRS-CGAAP – Transition PP&E, the OEB agrees with OEB staff that the balance relates to International Financial Reporting Standards implementation impacts. The OEB does not consider the evidentiary record sufficient to approve the $5,346,3095 million balance without considering the modifications to International Financial Reporting Standards and accounting disclosures over the past 10 years. These issues should be addressed at rebasing.

As a result, the OEB finds that deferring consideration of these account balances until the next rebasing application is appropriate in order to consider all of these factors.

9. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT

The OEB has historically used a Lost Revenue Adjustment Mechanism (LRAM) Variance Account to capture implications for a distributor's revenues which arise from differences between actual and forecast Conservation and Demand Management savings included in its last OEB-approved load forecast. The use of the LRAM Variance Account is no longer the default approach for Conservation and Demand Management activities. The OEB has issued guidelines to electricity distributors related to non-wires solutions.[30] In accordance with these guidelines, a distributor may request the use of an LRAM Variance Account for distribution rate funded non-wires solutions, and this may include traditional Conservation and Demand Management activities or Local Initiatives Program activities, with need to be determined on a case-by-case basis.

Distributors delivered Conservation and Demand Management programs to their customers through the Conservation First Framework that began on January 1, 2015, until March 20, 2019, when the Conservation First Framework was revoked.[31]

Distributors that do not have a confirmed zero balance in the LRAM Variance Account are required to seek disposition as part of their IRM application, with supporting information, or provide a rationale for not doing so.[32]

Distributors are also eligible to make a LRAM Variance Account request relating to persisting impacts of conservation programs until their next rebasing. The OEB previously provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onwards on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAM Variance Account for all years until their next rebasing application.[33]

Elexicon Energy had LRAM eligible amounts for future years approved on a prospective basis in a previous year. For the 2026 rate year, Elexicon Energy was approved for a prospective LRAM eligible amount of $634,108 in 2025 dollars in the Veridian Rate Zone and a prospective LRAM eligible amount of $343,880 in 2025 dollars in the Whitby Rate Zone.[34] Prospective LRAM amounts are to be adjusted mechanistically by the approved inflation minus X-factor applicable to IRM applications in effect for a given

[30] *Non-Wires Solutions Guidelines for Electricity Distributors*, March 28, 2024
[31] On March 20, 2019 the Minister of Energy, Northern Development and Mines (now the Minister of Energy and Mines) issued separate Directives to the OEB and the IESO.
[32] Chapter 3 Filing Requirements, section 3.2.7.1
[33] EB-2021-0106, Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021, p. 27
[34] EB-2024-0016, Decision and Rate Order, December 12, 2024

year and recovered through a rate rider in the corresponding rate year. Applying Elexicon Energy's approved 2026 inflation minus X-factor adjustments to the previously approved prospective balance for the 2026 rate year, results in an amount of $655,667 in the Veridian Rate Zone and $355,571 in the Whitby Rate Zone.

OEB staff submitted that it had no concerns with Elexicon Energy's proposed request regarding the LRAM eligible amounts.

Findings

The OEB approves the disposition of the mechanistically adjusted LRAM eligible amount for the 2026 rate year of $655,668 for the Veridian Rate Zone and $355,572 for the Whitby Rate Zone. The OEB also confirms the previously approved LRAM eligible amounts, which have been mechanistically adjusted to 2026 as set out in Tables 9.1 and 9.2 below.[35]

Table 9.1: LRAM-Eligible Amounts for Prospective Disposition - Veridian Rate Zone

Year	LRAM-Eligible Amount (in 2025$)	LRAM-Eligible Amount (in 2026$)[36]
2026	634,108	655,668
2027	559,529	578,552
2028	480,919	497,270

Table 9.2: LRAM-Eligible Amounts for Prospective Disposition - Whitby Rate Zone

Year	LRAM-Eligible Amount (in 2025$)	LRAM-Eligible Amount (in 2026$)[37]
2026	343,880	355,572
2027	319,659	330,527
2028	264,627	273,624

[35] EB-2024-0016, Decision and Rate Order, December 12, 2024
[36] Calculated as: (approved LRAM-eligible amount for a given rate year in 2025 dollars) x (2026 approved inflation minus X-factor).
[37] *Ibid.*

10. INCREMENTAL CAPITAL MODULE

The OEB's ICM policy[38] was established to address the treatment of a distributor's capital investment needs that arise during a Price Cap Incentive Rate setting plan and which are incremental to a calculated materiality threshold. To qualify for ICM funding, a distributor must satisfy the eligibility criteria of materiality, need and prudence.[39]

Elexicon Energy seeks approval for ICM funding to support two Veridian Rate Zone investments not covered by current distribution rates:

1. Rebuilding Sandy Beach Station at an estimated cost of $9.70 million

2. Providing a capital contribution to Hydro One for installing a new Dual Element Spot Network (Belleville DESN 2) at the Belleville Transformer Station at an estimated cost of $18.38 million

If approved, the total incremental annual revenue requirement in 2026 associated with these ICM requests is $1.46 million, calculated using the half-year rule. Elexicon Energy requests approval of ICM rate riders on an interim basis and seeks permission to adjust these riders to reflect the full-year rule in a future application if its request for early rebasing is not approved.[40] Table 10.1 below shows the breakdown of the incremental capital expenditure for the Sandy Beach Station and Belleville DESN 2 projects.

Sandy Beach Station

Elexicon Energy stated that the Sandy Beach Station upgrade addresses urgent reliability, safety, and operational issues caused by deteriorating conditions, outdated equipment, inefficient layout, safety and environmental concerns, and reliance on an inadequate temporary spare transformer.[41] Elexicon Energy stated that the project was designated a high priority in 2023 and is scheduled to be in service by October 2026.

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[38] The OEB's policy for the funding of incremental capital is set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (Funding of Capital Report) and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report* (Supplemental Report) (collectively referred to as the ICM policy).
[39] Funding of Capital Report, p. 16
[40] CCC-13 a)
[41] Appendix B: Sandy Beach Station – Business Case

Belleville Transformer Station

Elexicon Energy stated that the Belleville DESN 2 project is an urgent investment to relieve immediate capacity constraints in Belleville caused by economic growth.[42] The project, undertaken by Hydro One, requires Elexicon Energy to pay a capital contribution for constructing a second Dual Element Spot Network at the Belleville Transformer Station, which will include two 75/125 Mega Volt Amp transformers. The project is scheduled to be in service by December 2026.

Table 10.1: Proposed Incremental Capital Expenditures

Incremental Capital Module Request	($ millions)
Sandy Beach Station	$9.70
Belleville DESN 2	$18.38
Total Proposed Incremental Capital	**$28.08**

Submissions Regarding ICM Requests

For the Sandy Beach Station ICM request, intervenor PWU and OEB staff agreed that the ICM request meets the ICM criteria, although OEB staff recommended a partial reduction to account for existing base-rate funding for substation transformer replacements. In contrast, intervenors CCC, SEC, and VECC opposed the funding request entirely, in part due existing funding in base rates. Intervenors SEC and VECC argued that, once this existing funding is considered, the required capital would not have a significant impact on the company’s operations. Intervenors CCC and CCMBC submitted that the capital funding request should be denied and it would be more appropriate to assess this capital project in the context of the 2026 rebasing application for rates to be effective January 1, 2027.

For the Belleville DESN 2 ICM request, intervenor PWU and OEB staff agreed that the project meets the ICM criteria. However, similar to the Sandy Beach Station ICM request, OEB staff raised concerns about some funding being included in base rates. Intervenor QMA supported the Belleville DESN 2 project, stating that the investment represents good value to electricity customers by relieving long-term capacity issues at the Belleville Transformer Station. While intervenors SEC and VECC acknowledged that the ICM criteria were satisfied, they submitted that the funding request should be reduced to account for capital contributions from large industrial customers that were

[42] Appendix C: Belleville DESN 2 – Business Case

not considered. Intervenors CCC and CCMBC submitted that capital funding should be denied and this capital project be considered as part of the rebasing application for rates to be effective January 1, 2027.

In its reply submission, Elexicon Energy agreed that neither project was included in the previous Distribution System Plans as it is impractical to anticipate long-term capacity needs eleven years in advance given load forecasting challenges. Further, Elexicon Energy confirmed that the required capital contributions have been properly addressed under the Transmission System Code and Distribution System Code.

Elexicon Energy rejected the claims that its ICM funding request should be reduced due to alleged lack of capital reprioritization. Instead Elexicon Energy argued that it still requires rate funding despite temporarily financing equipment.

Finding

The OEB finds that although the Sandy Beach Station ICM request meets the ICM criteria of materiality, need and prudence, the amount of incremental funding is reduced. The OEB agrees with OEB staff that current rates embed a budget for transformer stations, that should be deducted from the incremental capital to be funded in 2026.

The OEB finds that although the Belleville DESN 2 ICM request appears to meet the ICM criteria of materiality and need, the OEB cannot conclude it is prudent in 2026. The basis for this ICM request is the need for incremental funding in 2026, yet the in-service date for the Belleville DESN 2 is December 17, 2026. A two-week delay in construction would eliminate the justification for ICM funding in 2026. The OEB finds that the prudent timing assessment is more appropriately considered in the next cost of service rebasing proceeding for rates effective January 1, 2027, for which the rebasing application was filed on December 19, 2025. In that rebasing proceeding, an updated distribution system plan for the amalgamated utility could inform the prudent timing for this capital project. Accordingly, the request for ICM treatment of the Belleville DESN 2 is hereby denied.

The detailed submissions and reasons for the OEB’s finding are provided in the following sections addressing the OEB’s ICM criteria.

ICM Criteria

Materiality Criteria

To meet the materiality requirement under the ICM policy, a distributor’s application must satisfy three conditions. First, it must meet the materiality threshold formula, which defines the level of capital expenditures a distributor can manage within current rates.

This ensures that any incremental capital approved for recovery falls within the total eligible amount. Second, the distributor must demonstrate that the project is not a minor expenditure relative to its overall capital budget. Finally, the incremental funding must significantly impact the distributor's operations.[43]

The OEB applies the materiality threshold formula,[44] which accounts for both distributor growth and inflation since the last rebasing year,[45] to determine the maximum eligible incremental capital amount.

For the Sandby Beach Station project, Elexicon Energy applied the OEB-approved materiality threshold formula to calculate a threshold capital expenditure of $27,142,025, resulting in a maximum eligible incremental capital amount of $31,678,957. Similarly, for the Belleville DESN project, Elexicon Energy used the same formula to determine a threshold capital expenditure of $27,142,025, leading to a maximum eligible incremental capital amount of $40,357,015.

Intervenors PWU, SEC, and OEB staff agreed that both ICM projects meet the OEB's ICM materiality threshold.

Project-Specific Materiality Threshold

Elexicon Energy stated that both ICM requests meet the project-specific materiality threshold. Excluding the ICM capital expenditures from the in-service additions forecast for comparison purposes, the Sandy Beach Station and Belleville DESN projects account for approximately 22% and 42%, respectively, of the forecast 2026 in-service additions.

OEB staff submitted 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.

Intervenor SEC argued that, given the existing funding in Elexicon Energy's base rates for substation transformer replacements, the requested ICM funding is not material. Intervenor SEC stated that these replacements fall under base rates, which should fall within the distributor's approved 2026 capital budget. Intervenor SEC stated that based on the escalated base rate amount of $4.2 million for substation transformer

[43] EB-2014-0219: Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, p. 16

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

[45] 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.

replacements, only the incremental $5.5 million should be considered eligible for ICM treatment, which it submits is not material.

Elexicon Energy disagreed and noted that the OEB approved $3.4 million in ICM funding for its Bus Rapid Transit Highway 2 project[46], and therefore, $5.5 million should also be considered material. Elexicon Energy reiterated that both projects meet the materiality criterion and that the requested funding is necessary to address reliability and capacity issues.[47]

<u>Significant Influence on Operations</u>

The New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (Advanced Capital Module 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.[48]

Elexicon Energy forecasted $43.95 million in 2026 capital in-service additions. The two ICM requests total $28.1 million, representing approximately 40% of the forecasted 2026 in-service capital additions.

OEB staff submitted that these projects substantially impact company operations due to the size of the associated financial investments[49] with intervenor PWU making similar comments.

Intervenor SEC acknowledged that the Belleville DESN 2 project, representing 42% of the proposed 2026 capital additions, would clearly have a significant influence on operations.

Findings

The OEB reviewed the maximum eligible incremental capital amount using the formula defined in Chapter 3 of the Filing Requirements.

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

[46] EB-2021-0015, Decision and Rate Order, December 16, 2021
[47] Elexicon Energy Reply Submission, November 4, 2025, p. 9
[48] EB-2014-0219: Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module
[49] OEB Staff Submission, October 21, 2025, p. 9

$31,678,957. Accordingly, the OEB finds that the funding request of $9,700,047 for the Sandy Beach Station project meets the materiality threshold.

For the Belleville DESN 2 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. Accordingly, the OEB finds that the funding request of $18,378,106 for the Belleville DESN 2 meets the materiality threshold.

The OEB also finds 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 criterion.

The two ICM requests total $28.08 million, representing approximately 40% of the forecasted 2026 in-service capital additions. Accordingly, the OEB finds that these projects would have a substantial impact on company operations due to the size of the associated financial investments in relation to Elexicon Energy's planned capital envelope.

Need Criterion

The Advanced Capital Model Report defines the "need" criterion as follows: the distributor must satisfy the Means Test; claimed amounts must relate to discrete projects and be directly linked to the identified driver; and the amounts must fall outside the base used to derive rates.[50]

Under the Means Test, funding for incremental capital projects is not permitted if a distributor's actual Return on Equity exceeds the deemed Return on Equity embedded in its rates by more than 300 basis points. Elexicon Energy's historical Return on Equity has remained below the deemed Return on Equity of 9.43% for the years 2019 to 2024. In an interrogatory response,[51] Elexicon Energy confirmed that its forecast Return on Equity for 2025 is expected to be approximately 300 basis points below the deemed Return on Equity.

Intervenors PWU and VECC, and OEB staff submitted that Elexicon Energy meets the Means Test requirement. OEB staff noted that Elexicon Energy has not exceeded its deemed Return on Equity by more than 300 basis points during the period from 2019 to 2024 and is expected to remain below this threshold in 2025. Intervenor PWU agreed, stating that Elexicon Energy's application satisfies the Means Test set out in the Advanced Capital Model Report and therefore qualifies for funding. Intervenor PWU

[50] EB-2014-0219: Advanced Capital Module Report, p. 17
[51] SEC-06 b)

further submitted that the requested ICMs are legitimately required to maintain Elexicon Energy's ability to meet its obligations and preserve financial viability.

Elexicon Energy confirmed that its historical Return on Equity has remained below the deemed Return on Equity of 9.43% for 2019 to 2024 and that its forecast Return on Equity for 2025 is approximately 300 basis points below the deemed Return on Equity. Elexicon Energy submitted that this demonstrates compliance with the Means Test and supports its eligibility for Incremental Capital Models funding.[52]

Discrete Project

The ICM policy originally limited incremental capital funding to discrete projects. In 2022, this criterion was expanded to include ongoing capital programs under certain circumstances; however, these extended considerations do not apply to this ICM request.[53]

OEB staff and intervenors PWU, VECC and SEC submitted that the ICM funding requests relate to discrete projects noting that both the Sandy Beach Station and Belleville Dual Element Spot Network projects have clearly defined scopes involving the construction of a new substation and a Dual Element Spot Network, respectively. OEB staff noted that station construction projects have previously been found to meet the "discrete" requirement and generally qualify for ICM funding.

Directly Related to the Claimed Driver

Elexicon Energy stated that the Sandy Beach Station project is driven by the need to address immediate and significant issues affecting the station's reliability, safety, and continued operations. For the Belleville Dual Element Spot Network project, Elexicon Energy indicated that the request is intended to resolve immediate capacity constraints in Belleville.

Intervenors SEC and VECC, and OEB staff agreed that the incremental capital funding requests directly relate to the claimed drivers identified.

Outside of Base Upon Which Rates Were Derived

OEB staff submitted that a portion of the Sandy Beach Station project should be funded through Elexicon Energy's base capital budget and recommended a reduction of $190,349 to the incremental revenue requirement for this project. OEB staff noted that

[52] Manager's Summary, p. 17
[53] See Letter of the OEB - Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022, p. 1

Elexicon Energy's base electricity distribution rates for the Veridian Rate Zone already include some level of funding for substation transformer replacements. Although OEB staff did not object to the ICM funding request for the Belleville Dual Element Spot Network project, it stated that there is an expectation that some level of funding should exist in base rates to support a distributor's core system planning and infrastructure renewal obligations, including addressing foreseeable system needs such as capacity constraints.

Intervenors CCC, SEC and VECC submitted that the Sandy Beach Station project largely falls within Elexicon Energy's normal capital program for substation transformer replacements and should not qualify for ICM funding. Intervenors SEC and VECC noted that some funding is available within existing rates, with intervenor SEC estimating $4.2 million could be covered by base rates, leaving an immaterial incremental amount, while intervenor CCC maintained the entire $9.7 million should be funded through existing rates

Elexicon Energy disagreed with these positions and submitted that the Sandy Beach Station is not funded through base rates, making it eligible for ICM funding. Elexicon Energy argued that the Sandy Beach Station project was not part of prior capital plans or base rates, as its failure occurred in 2022 and earlier assessments rated it in 'Fair' condition. Elexicon Energy stated that OEB staff and intervenor SEC mistakenly claimed that a substantial portion of the funding for the Sandy Beach Station project is already included in base rates by inaccurately portraying two distinct projects from Veridian Connections Inc.'s last cost of service[54] as ongoing annual transformer replacement programs.

Findings

The OEB finds that Elexicon Energy passes the Means Test as it has not exceeded its deemed rate of Return on Equity by 300 basis points during the period from 2019 to 2024.

Both the Sandy Beach Station and Belleville DESN 2 projects have clearly defined scopes that involve the construction of a new substation and a Dual Element Spot Network, respectively. Accordingly, the OEB finds both ICM funding requests relate to discrete projects.

The OEB also finds that the incremental capital funding requests the Sandy Beach Station and Belleville DESN 2 projects directly relate to the claimed drivers identified.

[54] EB-2013-0174

The OEB finds that a portion of the project budget for the Sandy Beach Station, $3.15 million, is not outside the base upon which rates were derived. As a result, the OEB approves incremental capital funding of $6.55 million, a reduction of $3.15 million from the proposed Sandy Beach Station capital amount of $9.70 million. The corresponding reduction to the incremental revenue requirement in 2026 for the Sandy Beach Station project is $190,349.

Elexicon Energy's current rates are based on a capital budget for substation transformer station replacements. When any 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 forecast asset additions. This ongoing recovery enabled through rates is intended to support reinvestment in new infrastructure, such as replacing aging infrastructure and increasing system capacity.

The OEB acknowledges Elexicon Energy's reply submission that the specific projects approved in its last cost of service were completed, yet the OEB finds that the associated capital budget amounts continue to form the basis for current rates.

OEB staff calculated the $3.15 million amount by identifying the portion of the 2014 capital budget for Veridian Connections Inc. attributable substation transformer replacements and escalated for inflation.

The OEB reviewed the approved capital budget and the two projects related to substation transformer replacements in 2014.[55] The OEB also considered OEB staff's calculation using the OEB's annual inflation factor from 2015 through 2026 to estimate as the amount currently funded through base rates. The OEB accepts OEB staff's estimate of $3.15 million as a reasonable capital amount for substation transformer replacements underpinning 2026 rates – not outside the base upon which 2026 rates were derived.

No submissions were made regarding a 2014 capital budget for a dual element spot network or similar capital expenditure. The OEB finds that the proposed budget of $18.78 million for the Belleville DESN 2 is incremental and outside the base upon which rates were derived.

Prudence Criterion

The ICM policy states that 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 the least initial cost) for ratepayers.[56]

[55] EB-2013-0174, Chapter 2 Appendices, October 13, 2013, Tab 2AA Capital Projects
[56] ACM Report, p. 17

For the Sandy Beach Station project, Elexicon Energy stated that the full rebuild station is the preferred alternative as it addresses nearly all existing issues such as the replacement of outdated, obsolete and temporary equipment, environmental hazards, and installing advanced technology to enhance operational performance. Elexicon Energy evaluated four alternatives for the Sandy Beach Station project: rebuild and configuration, status quo, offload Sandy Beach Station, and relocate to a new site. Elexicon Energy dismissed alternatives for offloading or relocation due to risks of insufficient capacity, higher costs and potential delays.[57, 58]

OEB staff agreed with the proposed solution being the most prudent option as it addresses the concerns noted by Elexicon Energy. OEB staff submitted that the project costs are reasonable as they are similar to the $ per Mega-Volt Amp cost of a recently approved substation project in Centre Welington Hydro Ltd.'s 2025 rate application[59].

No comments were received by intervenors specifically on the prudence of the Sandy Beach Station project.

For the Belleville DESN 2 project, Elexicon Energy stated that the option to construct a new Dual Element Spot Network is the preferred option as it addresses the current station capacity need at Belleville Transformer Station as early as possible and provides capacity needs for the medium-term.

Intervenor CCMBC submitted that as a monopoly regulated utility owned by the municipalities it serves, Elexicon Energy's main responsibility should be the impact on the residents and businesses as ratepayers not shareholders.

OEB staff submitted that prudence for the project has been met.

Intervenor VECC recommended that the ICM amount for the Belleville DESN 2 be reduced to account for capital contributions expected from large industrial customers and prior payments already made by Elexicon Energy to Hydro One. Intervenor SEC made similar arguments.

Intervenor SEC did not agree that the Belleville DESN 2 represents a prudent option, citing concerns of the project cost presented in this application to have nearly doubled since the initial consideration of potential alternatives in 2021. As a result, intervenor SEC proposed that a full reassessment of alternatives be undertaken, including an

[57] Staff-22 b)
[58] Appendix B Sandy Beach Station – Business Case, p. 23
[59] EB-2024-0012, 2-Staff-27a

evaluation of potential non-wires solutions that could have deferred or reduced the need for the project.

In its response, Elexicon Energy stated that intervenor SEC's reference to the change in the project budget was unclear. Elexicon Energy explained that the total estimated cost for Belleville DESN 2 is $63.5 million and the portion Elexicon Energy is responsible for is $32.4 million with the estimated cost used in the options analysis being $32 million. Elexicon Energy calculated the difference to be only $0.4 million which it stated to be the range of a Class 3 estimate.

Elexicon Energy stated that the evidence does not justify a full reassessment for non-wires alternatives. Elexicon Energy noted that during the 2021 Peterborough-to-Kingston Integrated Regional Resource Plan process, the IESO screened for such solutions but ruled them out due to the immediacy of the need.

Elexicon Energy stated that the 2022 Peterborough to Kingston Regional Infrastructure Plan led by Hydro One determined that the project is the most cost-effective solution. Elexicon Energy projected that the 2025 peak load will exceed the capacity at the existing Belleville Dual Element Spot Network (DESN 1), creating higher operational risk. It added that halting construction activities to reassess alternatives is not prudent given the urgent need and reliability concerns as well as the fact that much of the equipment has already been ordered.

In response to arguments about reducing costs based on capital contributions, Elexicon Energy stated that it met all obligations in the Distribution System Code with respect to ensuring capital contributions have been collected from customers that trigger the need for the Belleville Dual Element Spot Network (DESN 2). Elexicon Energy stated that the distributor is only responsible for collecting the capital contributions based on the calculations performed by Hydro One.[60]

Finding

Sandy Beach Station

The OEB finds the Sandy Beach Station meets the prudence criterion. Due to the urgent nature of the replacement and the need to maintain reliable electricity service, the OEB finds that the proposed solution is the most prudent option in 2026 as it replaces failing end-of-life assets and addresses immediate reliability concerns.

[60] Elexicon Energy Reply Submission, November 4, 2025, pp. 10-11

The OEB 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, the OEB expects Elexicon Energy to review its station replacement policy to consider future increased capacity in its next Distribution System Plan which would enable the most efficient use of capital over the long term.

Belleville DESN 2

The proposed Belleville DESN 2 project was identified as cost-effective through the 2022 Regional Infrastructure Plan process for the Peterborough to Kingston area, led by Hydro One. The OEB considers the Regional Infrastructure Planning is an important consideration in any capital project.

However, the OEB does not find it prudent for ratepayers to pay, or Elexicon Energy to recover, incremental funding through ICM rate riders starting January 1, 2026, as proposed, for a project not expected to be in service until December 17, 2026.

Given the typical elasticity of construction schedules to accommodate unforeseen events, the "in service date" could end up being some time in 2027. Therefore, a full assessment of prudence is more appropriately considered in the next cost of service rebasing proceeding expected for rates effective January 1, 2027. In that rebasing proceeding, an updated Distribution System Plan for the amalgamated utility could inform the prudent timing for this capital project. At rebasing, the OEB could also verify the continued accuracy of the inputs to the 2022 cost effectiveness evaluation in the context of regional planning.

The appropriate amount of capital contributions from large volume customers was also raised in submissions. Elexicon Energy's reply submission clarified that Hydro One has permitted the first customer to temporarily connect its additional load to DESN 1, but this is conditional on the load being transferred to DESN 2 once it is constructed. The second customer is not required to make a capital contribution because its incremental load was fully accommodated on DESN 1.[61] As a result, it appears the demands from these large volume customers are currently being served.

Half Year Rule

For ICM-related capital additions, the ICM policy allows for a full-year's depreciation, capital cost allowance, and return on capital, for all years of a Price Cap Incentive Rate plan that the asset is expected to be in service, other than in the final year prior to

[61] Elexicon Energy Reply Submission, pp. 10-11

rebasing.[62] In the final year prior to rebasing, the half-year rule is used for calculation of the depreciation and return on capital, and associated taxes or payments in lieu of taxes (PILs) are treated as if it was the first year that an asset enters service.[63]

Elexicon Energy stated that the expected in-service date for the Sandy Beach Station project is October 30, 2026, and for Belleville DESN 2 is December 17, 2026. It proposed applying the half-year rule to calculate depreciation for determining the revenue requirement, based on approval from the OEB for early rebasing in 2027.

Intervenor SEC argued that the OEB should calculate the revenue requirement for the Sandy Beach Station and Belleville DESN 2 projects based on their actual in-service dates rather than applying the half-year rule.

Elexicon Energy disagreed, submitting that the estimated in-service dates for both ICM projects are not yet refined enough to apply “partial-year” treatment prorated on a monthly basis. It also stated that the notion that the half year rule should not be applied because the in-service date is later in the year deviates from the OEB’s treatment of previous ICM investments, such as the OEB approval Elexicon Energy received for the Seaton Transformer Station in 2022.[64]

Findings

The OEB approves application of the half-year rule to calculate depreciation for determining the revenue requirement for the Sandy Beach Station project, based on the expectation of an early rebasing application to be submitted in early 2026 for 2027 rates.

Since the OEB denies incremental capital funding for the Belleville DESN 2 project, the application of the half-year rule is moot.

[62] Supplemental Report pp. 7-11. When the half-year rule is applied, only half of the annual depreciation and CCA is allowed for depreciation and tax/PILs purposes. This ensures that the distributor recovers only a half-year of return on depreciation and capital as per the intent of the half-year rule.
[63] Funding of Capital Report, p. 23
[64] EB-2021-0015

11. IMPLEMENTATION

The approved effective date for Elexicon Energy's new rates is January 1, 2026, with an implementation date of February 1, 2026. The OEB directs Elexicon Energy to file a Draft Rate Order that reflects the findings in this Decision and Order.

The OEB also directs Elexicon Energy to file a Draft Rate Order consistent with the OEB's findings, including carrying charges up to December 31, 2025, recorded in Account 1508, Sub-account – Sandy Beach Station and Belleville Transformer Station Capital Additions Projects – Revenue Requirement Differential Variance Account. The Draft Rate Order filing shall include the calculation of the variance account balance, customer rate impacts, and detailed supporting information for final rates.

Elexicon Energy is further directed to estimate the forgone revenue for the period January 1, 2026 to February 1, 2026, and to propose rate riders to recover that amount over the remaining 11 months of 2026 (February 1 to December 31, 2026).

ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Elexicon Energy Inc. shall file with the OEB and forward to intervenors a Draft Rate Order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in this Decision and Order, no later than **January 19, 2026**. Elexicon Energy Inc. shall also include customer rate impacts and detailed information in support of the calculation of final rates in the Draft Rate Order.

2. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB, and forward to Elexicon Energy Inc., no later than **January 26, 2026**.

3. Elexicon Energy Inc. shall file with the OEB and forward to intervenors, responses to any comments on its Draft Rate Order no later than **January 29, 2026**.

4. In accordance with the OEB's March 31, 2025 report, *Electric Vehicle Charging Rate Overview – Final Report*, Elexicon Energy Inc. will, as of February 1, 2026, provide eligible customers with the option to elect to be charged Retail Transmission Service Rates on the basis of the Electric Vehicle Charging Rate, subject to the standard terms and conditions set out in Appendix A of the report.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2025-0046** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the OEB's online filing portal.

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found at the File documents online page on the OEB's website.
- Parties are encouraged to use RESS. Those who have not yet set up an account, or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.

- Cost claims are filed through the OEB's online filing portal. Please visit the File documents online page of the OEB's website for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the Practice Direction on Cost Awards.

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Oluwole (Wolly) Bibiresanmi, at 437-880-4352 or oluwole.bibiresanmi@oeb.ca.

Email: registrar@oeb.ca
Tel: 1-877-632-2727 (Toll free)

DATED at Toronto, January 15, 2026

ONTARIO ENERGY BOARD

Ritchie Murray

Digitally signed by Ritchie Murray
Date: 2026.01.15 10:34:45 -05'00'

Ritchie Murray
Acting Registrar