

BY E-MAIL

July 15, 2026

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

Dear Ritchie Murray:

**Re: Elexicon Energy Inc. (Elexicon Energy)
2027-2031 Custom Rate Application for Electricity Rates and Charges
Ontario Energy Board (OEB) File Number: EB-2025-0312**

In accordance with Procedural Order No. 3, please find attached OEB staff's interrogatories regarding the reply evidence filed by Elexicon Energy on July 10, 2026. Elexicon Energy and all intervenors have been copied on this filing.

Elexicon Energy's responses to interrogatories are due by July 22, 2026.

Any questions relating to this letter should be directed to Birgit Armstrong, at 416-544-5162 or Birgit.Armstrong@oeb.ca. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Birgit M.
Armstrong

Digitally signed by Birgit
M. Armstrong
Date: 2026.07.15
15:57:24 -04'00'

Birgit Armstrong
Sr. Advisor – Distribution Asset Management

cc. All parties to EB-2025-0312

OEB Staff Interrogatories

Elexicon Energy, Inc.

**Application for electricity distribution rates and other charges
beginning January 1, 2027**

EB-2025-0312

1-Staff-1

Ontario Industry Productivity Trend

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," pp. 2-4

Preamble:

Clearspring criticizes the 2013 start date of PEG's featured productivity trend calculations.

Question(s):

Please confirm the following. If not confirmed, please provide an explanation as to why the statement is not confirmed.

- a) For purposes of productivity trend measurement, AML account clearances to *plant additions* are much less of a concern than additions to *OM&A expenses* since a capital cost surge is not followed by a capital cost plunge.
- b) The 1.04% decline in OM&A productivity in 2013 that PEG reports was not especially large, ranking 11th in absolute value over PEG's full sample period.
- c) Based on Clearspring's persistence on raising the issue of deferred smart meter O&M in 2013, PEG decided to conduct an independent analysis. We found that 38 distributors or more than half had cleared account 1556 to zero, negative or trivial values by the end of 2012. We also found that 21 distributors had fully cleared account 1556 during 2013. 12 of those distributors had previously cleared amounts from account 1556 between 2007 and 2012. In many of these cases, the amounts cleared earlier exceeded those cleared in 2013. Furthermore, six distributors cleared account 1556 during 2014 and 8 after 2014.

As stated in our original response to information requests, account 1556 will include depreciation expenses which can be substantial and are not included in either the PEG or Clearspring studies. This complicates any attempt to

determine the materiality of the impact on OM&A expenses and therefore productivity. Doesn't the fact that a minority of distributors cleared accounts in 2013, many of these had already drawn down these accounts, and 14 cleared accounts after 2013 materially weaken the argument for excluding 2013 data from the TFP trend calculation?

1-Staff-2

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," pp. 6-8

Preamble:

Clearspring claims that PEG's 11-year sample period is arbitrary and that PEG recommended use of a *ten*-year sample period as the basis for the THESL productivity factor in a 2023 proceeding.

Question(s):

- a) Please confirm that PEG featured a *fifteen*-year sample period in its THESL evidence and has rarely if ever featured a sample period less than 15 years for such evidence if quality data for a longer period were available. 15 years is also the norm in the productivity trend research of Christensen Associates. If not confirmed, please provide an explanation as to why the statement is not confirmed.
- b) Since PEG typically uses a 15-year sample period and data problems prohibit a 15-year period in this study, how would a ten-year sample period be less "arbitrary" than the 11-year period that PEG proposes?

1-Staff-3

Ontario Industry Productivity Trend

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," p. 4

Preamble:

Clearspring disputes PEG's inclusion of Elexicon in its productivity trend sample.

Question(s):

- a) Please confirm that productivity studies that are used to set productivity factors in IR plans commonly include the subject utility. If not confirmed, please provide persuasive evidence to the contrary.

1-Staff-4

Ontario Industry Productivity Trend

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," pp. 6-8

Preamble:

Clearspring advances several reasons for not using ratcheted peak demand as a measure of output growth in the Ontario productivity trend research.

Question(s):

- a) The table below compares econometric results when a rolling average of peak demand is used in PEG's three cost models instead of ratcheted peak demand. It can be seen that, while the first order term for the rolling average peak has a little higher parameter estimate and higher t stat than the ratcheted peak term, it has a materially *lower* parameter estimates (in absolute value) for the second order and interaction terms. Moreover, the adjusted R-squared is higher in the model with ratcheted peak demand while the root mean squared error is lower. Do these models, which are based on US data and thus also have implications for US productivity trends, support Clearspring's contention that a "correction" must be made to PEG's US and Ontario productivity calculations to remove ratcheted peak demand as a scale variable?

		Peak Variables in Full Sample Models (including Elexicon)	
Variable Details		Ratcheted	10-year rolling average
Linear peak parameter (YP)	Total Cost	0.398	0.421
	<i>t-statistic</i>	15.645	21.688
	OM&A Cost	0.238	0.313
	<i>t-statistic</i>	5.304	8.764
	Capital Cost	0.500	0.486
	<i>t-statistic</i>	28.241	44.818
Quadratic peak parameter (YP*YP)	Total Cost	1.488	0.928
	<i>t-statistic</i>	11.397	11.273
	OM&A Cost	1.716	0.846
	<i>t-statistic</i>	5.900	4.790
	Capital Cost	1.230	0.976
	<i>t-statistic</i>	18.704	20.057
Interaction peak parameter (YN*YP)	Total Cost	-1.417	-0.859
	<i>t-statistic</i>	-10.600	-10.308
	OM&A Cost	-1.643	-0.760
	<i>t-statistic</i>	-5.485	-4.243
	Capital Cost	-1.171	-0.931
	<i>t-statistic</i>	-19.256	-18.877
Adjusted R ²	Total Cost	0.971	0.970
	OM&A Cost	0.907	0.905
	Capital Cost	0.974	0.973
RMSE	Total Cost	0.165	0.168
	OM&A Cost	0.293	0.297
	Capital Cost	0.162	0.164

- b) Please confirm that distributors will rationally base their capacity decisions on the expectation of peak demand growth in the next several years. If confirmed, wouldn't a rolling average of past peak demand poorly model the effect of peak demand on the productivity of Elexicon and many other Ontario distributors today? If not confirmed, please explain what distributors base their capacity decisions on.
- c) If rolling average peak demand is the best variable for studying the impact of peak demand on power distributor cost, why did Clearspring instead use a forecast of peak demand (i.e. expected actual demand) and not a rolling average in constructing its proposed G factor mechanism?
- d) Please confirm that, Clearspring was effectively using a forecast of Elexicon's ratcheted peak demand growth in its G factor calculations. If not confirmed, please explain how Clearspring's forecast differed from the forecasted growth in ratcheted peak demand.

- e) Please confirm that CDM budgets are principally directed to the volume savings that drive energy costs and not to the peak load savings that are only one of several drivers of distribution cost. If not confirmed, please provide an explanation as to why the statement is not confirmed.

1-Staff-5

Ontario Industry Productivity Trend

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," p. 4

Preamble:

Clearspring disputes PEG's inclusion of Elexicon in its productivity trend sample.

Question(s):

- a) Please confirm that productivity studies that are intended to set productivity factors in IR plans commonly include the subject utility. If confirmed, is a "correction" to PEG's calculations again in order? If not confirmed, please provide persuasive evidence to the contrary.

1-Staff-6

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," pp. 7-10

Preamble:

Clearspring ventures arguments against the use of OM&A cost research in these pages, stating the following.

- "Just like with disaggregated cost benchmarking, as OM&A and capital are separated this creates an unknown error from items such as capitalization differences between utilities and substitution issues where capital and OM&A investment strategies differ between utilities and through time. TFP trends mitigate these unknown errors because both capital and OM&A are combined in the analysis." (p. 7)
- "PEG suggests using weights derived from its OM&A cost model (to calculate the OM&A G factor) in the scenario of the panel rejecting Elexicon's proposal." (p. 9)
- "Both an OM&A cost model and PFP trends will cause results to have high standard deviations and variances. These issues are mitigated when using a total cost model approach and TFP trends." (p. 9)

- “The first order peak demand variable in Clearspring’s total cost model has a higher t-statistic than PEG’s and is more precise.” PEG’s lower and less precise cost elasticity estimates on peak demand reduce the weight given to peak demand growth in the G Factor calculation.” (p. 9)

Question(s):

- a) Please confirm the following statements. If not confirmed, please provide an explanation as to why the statement is not confirmed.
- i. OM&A productivity growth is sensitive to capital/OM&A substitution strategies but in the design of a revenue cap index that applies specifically to OM&A revenue this is highly relevant.
 - ii. Differences in capitalization propensities between utilities should not be a major concern in calculating OM&A productivity *trends*. *Changes* in capitalization policies could matter in calculating these trends but a sample period is available that is largely free of these changes.
 - iii. PEG argued in favor of a G factor based on OM&A cost elasticities if the IPD was included in the approved index formula.
 - iv. Clearspring developed its own OM&A cost model and reports that the estimated elasticity of cost with respect to peak demand is considerably lower than in its total cost model while the elasticity with respect to customers is much higher. Aren’t these results sensible considering that a sizable share of OM&A cost (e.g., metering, meter reading, billing and collection expenses) is driven by the number of customers? Isn’t Clearspring therefore essentially saying that *total* cost elasticities should be used to calculate a G factor designed to escalate *OM&A* revenue because they can be computed more accurately even though they are less relevant?

1-Staff-7

K-Bar

Ref 1: Clearspring Reply Report “Responses to PEG’s New Analyses and Studies,” pp. 10-14

Preamble:

Clearspring ventures various criticisms of PEG's K-bar calculations on these pages. These include the following.

- "The K-Bar approach is not an option under the OEB's Renewed Regulatory Framework" (p. 10)
- "A K-Bar approach (using properly constructed calculations to align with economic theory) would in our view only be a potential option for utilities that are in a "steady state" situation." (p. 10)
- "PEG tries to acknowledge this reality by excluding high growth cost items from the calculations to make the results close to the Company's forecasts. This defeats the purpose of pursuing a historical indexing approach in the first place."
- "A generic proceeding where all stakeholders and experts can put forth proposals and counterproposals and fully analyze the models of others is the proper place for this discussion." (p. 11)
- "The inflation assumptions used in PEG's preliminary analysis are also of consequence. For example, on Table 6a PEG assumes 2025 asset price inflation is equal to 2.41% based on a weighting of the AWE and GDP-IPI. PEG includes a 2-year lag so the 2025 inflation assumption shows up in 2027. However, the 2025 Handy-Whitman indexes have now been released and they show the growth rate in 2025 was 4.99%, over twice the value of PEG's assumption. PEG's underestimating of asset price inflation is likely to continue through the 2031 period given the persistently high asset price inflation over the last 25 years." (pp. 11-12)
- "The growth escalation assumption clearly underestimates Elexicon's forecasted capital expenditures by a large amount." (p. 11)
- Accelerating growth will necessitate large increases in capital expenditures far beyond the actual output quantity growth rate. (p. 12)

Question(s):

- a) Doesn't the use of cost forecasts to accelerate capital revenue defeat the purpose of pursuing a historical indexing approach? If yes, why isn't replacing forecasts with an alternative approach that strengthens performance incentives, lowers regulatory cost, and reduces information asymmetries that favor utilities, more in the spirit of historical indexing than what Elexicon is proposing? Aren't some kinds of capex excludable from K-bar treatment in Alberta and Massachusetts?
- b) Please confirm that PEG *did* use a Handy Whitman power distribution construction cost index in its K-bar calculations but was unable to forecast its

growth in the illustrative application. If not confirmed, please provide an explanation as to why the statement is not confirmed. Wouldn't complete reliance on HWIs in the K-bar calculations increase their usefulness in Ontario ratemaking?

- c) Wouldn't an econometric model of capital expenditures be useful in ascertaining the appropriate scale driver(s) for a K-bar formula?
- d) Isn't a large proportion of capital expenditures unrelated to system growth but related to the general scale of operations?
- e) Please confirm that PEG has not proposed to apply a K-bar treatment to most rapidly growing capex projects (e.g., those projects where the funding provided by K-bar was less than 30% of Elexicon's forecast). If not confirmed, please provide an explanation as to why the statement is not confirmed.
- f) Please confirm that the OEB's RRFE decision did not mandate any specific approaches to Custom IR plans and that revenue cap indexes with G factors and input price differentials are innovations not mentioned in the decision. If not confirmed, please provide an explanation as to why the statement is not confirmed.

1-Staff-8

Construction Cost Inflation

Ref 1: Clearspring Reply Report "Responses to PEG's New Analyses and Studies," p. 13

Preamble:

Clearspring states that

Asset price inflation rates have historically exceeded 6% for the last two decades and do not appear to be abating, yet Elexicon used lower inflation assumptions in its capital planning process. This is already effectively an implicit supplemental stretch factor on top of both the proposed 0.15%.

Questions

- a) Please confirm that a simple average of Elexicon's annual capex price inflation assumption for the 2027-31 period is a brisk 4.67%. If not confirmed, please provide the correct value. Please confirm that other CIR applicants have in recent years made much more conservative inflation assumptions. If not confirmed, please provide an explanation as to why the statement is not confirmed.

- b) Please confirm that Clearspring, like Elexicon, has relied on *historical* inflation trends to legitimize brisk future inflation even though forecasts of Handy Whitman power distribution construction cost inflation are readily available from S&P Global. If not confirmed, please provide an explanation as to why the statement is not confirmed.
- c) Given Clearspring's advocacy of using Handy Whitman indexes in TFP research and an IPD based on inflation forecasts rather than historical trends, how much weight should the OEB panel place on the historical capex price trend analysis?