REVISION AND CLARIFICATION QUESTION, SETTLEMENT PROPOSAL

SETTLEMENT PROPOSAL QUESTION SP-OEB-1

REFERENCES: Settlement Proposal, Table 6 – Derivation of Revenue Growth Factor, pp. 27-28

PREAMBLE:

Based on Table 6 of the Settlement Proposal, the OEB observes that the mathematical methodology used to remove inflation from the Revenue Growth Factor (RGF) does not appear to fully remove the inflation assumptions embedded in the RGF at the time the formula is established. The OEB understands that this may be due, at least in part, to different inflation assumptions being applied to different capital projects and programs.

The OEB further observes that changing the inflation assumption changes the resulting RGF. As a result, if actual inflation reflected in the Custom IR update application is higher than the proposed 2% inflation assumption, the resulting Revenue Requirement (RR) may be higher than the RR calculated today using that same higher inflation assumption. The OEB seeks to understand whether the RGF is sensitive to the inflation assumption used when it is established.

REQUIRED REVISION OR CLARIFICATION:

a) Please confirm whether the intent of the Custom IR methodology is to establish RGFs that are normalized for inflation, such that changes in actual inflation do not affect the underlying real growth factors. If not, please explain why not.
b) Please confirm whether the OEB's observations noted in the second paragraph of the preamble are correct. If so, please propose a methodology to normalize the RGFs for inflation and provide the supporting calculations. If not, please explain why the OEB's observations are incorrect and provide supporting calculations.

RESPONSE:

a) The intent of the Custom IR methodology is to establish an RGF that excludes a forecasted OEB inflation factor, so that changes in general inflation are captured through the actual OEB inflation factor applied formulaically each year through the custom index, rather than through the RGF itself. This approach allows revenues to be adjusted annually in response to general inflationary changes, as reflected in the most up-to-date inflation factors published by the OEB. The methodology was designed to remove the 2% forecast general inflation assumption used in planning from the RGF; it was not designed to strip out program and project specific cost growth assumptions which may exceed general inflationary pressures.

Elexicon explained how variances in the OEB's inflation factor flow through to distribution revenues in its response to interrogatory 1-CCC-6 part c), which has been provided below for ease of reference.

> *The OEB's annual inflation factor is intended to reflect growth in input prices. In the event the OEB's annual inflation factor in any year from 2028 to 2031 is in excess of the 2% currently forecast for this value, this outcome will be a reflection of greater than anticipated input price growth. The funding result of an OEB inflation factor of greater than 2% would be an increase to distribution revenue relative to Elexicon's current forecast revenue, concurrent with externally-driven input price growth relative to Elexicon's current cost forecast. Conversely, to the degree the OEB's inflation factor is lower than 2% in any year from 2028 to 2031, Elexicon's revenues will be less than currently forecast. The outcome of variances in the OEB's inflation factor on Elexicon's distribution revenues is identical to the variances experienced by distributors operating under Price Cap IR. Elexicon's proposed approach to*

the treatment of the OEB's inflation factor in annual update applications is functionally the same as that approved by the OEB in EB-2023-0195.

b) While the Parties agree that the RGF is sensitive to the inflation assumption used when it is established, the Parties do not propose to revise the RGF methodology. The methodology used to establish the RGF, and update it annually, is a fundamental component of the Custom IR framework and the negotiated capital outcome, which includes a 16% reduction to Elexicon's proposed capital plan, a higher base stretch factor and an incremental stretch factor applied to capital-related revenue. These terms were agreed as an integrated package of compromises informed by Elexicon's capital investment needs and the Parties' views on the appropriate allocation of risk between Elexicon and its customers, and modifying the RGF methodology in isolation would disturb that balance and require the Parties to revisit the broader settlement. For these reasons, the Parties submit that the RGF is operating as intended under the Settlement Proposal and that no revision to the methodology is necessary or appropriate.

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SETTLEMENT PROPOSAL QUESTION SP-OEB-2

REF 1: Settlement Proposal, Attachment Part F – Clarification Questions, SC-SEC-1, pages 9-12
REF 2: Interrogatory Response 2A-SEC-31

PREAMBLE:
In reference 1, Table 2, Elexicon Energy reconciles the $6,307,987 difference between the net ICM assets reported in Appendix 2-BA (ICM) and the net asset amounts reported in Ref 2. The difference consists of the Sandy Beach Substation ($6,468,717), Seaton TS ($-872,398) and WSG ($711,667). OEB notes that the Appendix 2-BA (ICM) filed with the Settlement Proposal appears to remain unchanged and does not reflect the reconciled gross asset, accumulated amortization and net asset balances identified in reference 1.

REQUIRED REVISION OR CLARIFICATION:

a) Please confirm whether OEB's observation is correct.
    i) If correct, please provide an updated Appendix 2-BA (ICM) incorporating the latest reconciled gross asset, accumulated depreciation and net asset balances and identify any resulting impacts on the rate base, depreciation expense and revenue requirement
    ii) If incorrect, please explain why the OEB's observation is incorrect.

RESPONSE:

a) The OEB observation is not correct. Please refer to part ii) below.

i) Not applicable.

ii) As explained in clarification question SC-SEC-1, the amounts as noted in Appendix 2-BA (ICM) as part of response to 1-SEC-13 are correct and consequently have been appropriately included as part of Appendix 2-BA (ICM), Settlement Proposal. For convenience Elexicon is restating the response below:

The reconciliation completed within clarification question SC-SEC-1 was to provide a breakdown of the difference between Appendix 2-BA (ICM) amounts in 1-SEC-13 and to referenced items in the question. The variances were mainly due to timing of the pre-filed evidence in 2025 and subsequent update of the ICM information for 2025 actuals.

Specifically:

- **Sandy Beach Substation**: The Sandy Beach assets were not part of the referenced items in clarification question SC-SEC-1. As noted in Table 3 of the SC-SEC-1 response, Sandy Beach ICM was appropriately included in the 1-SEC-13 Appendix 2-BA (ICM) and continues to be included in the Settlement Proposal, Appendix 2-BA (ICM).

- **Seaton TS**: The balance referenced in Interrogatory Response 2A-6-1, Table 6, was based on actual results available through 2024. Appendix 2-BA(ICM) in 1-SEC-13 incorporated updated information through 2025, including the approximately $0.8 million Hydro One refund in relation to Seaton TS. Consequently, the balances presented in the 1-SEC-13, Appendix 2-BA(ICM) appropriately include this adjustment, and this continues to be reflected in Settlement Proposal, Appendix 2-BA (ICM).

- **WSG**: As explained in Interrogatory Response 2A-SEC-31, Table 6, the variance is primarily attributable to differences in the assumptions used to calculate forecasted amortization. The balances for WSG ICM were updated for actual depreciation amount in 2025. Consequently, the balances as noted 1-SEC-13 Appendix 2-BA (ICM) are accurate and the same adjustment has been noted in Settlement Proposal, Appendix 2-BA (ICM).

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SETTLEMENT PROPOSAL QUESTION SP-OEB-3

REF 1: Settlement Proposal, Attachment 4, App.2-C_DepExp

REF 2: Interrogatory Response 1-SEC-13, Attachment 1, App. 2-C_DepExp

PREAMBLE:

The depreciation expense for Accounts 1611, 1920 and 1945 in reference 1 is higher than in reference 2, even though the 2027 additions to these accounts are the same in both:

Account	1-SEC-13 (2027)	Settlement (2027)
1611 – Computer Software	$2,257,630	$2,423,706
1920 – Computer Hardware	$2,344,374	$2,968,737
1945 – Measurement & Testing	$2,634	$39,280

REQUIRED REVISION OR CLARIFICATION:

a) Please explain why the depreciation expense for Accounts 1611, 1920 and 1945 increased from the 1-SEC-13 interrogatory response to the settlement proposal.

b) Please explain how the depreciation expense and implied depreciation rates for Accounts 1611, 1920 and 1945 increased from reference 2.

RESPONSE:

a) In response 1-SEC-13 Elexicon updated FA continuity for 2025 actual financial results while in its pre-filed evidence 2025 financials were submitted on a forecast basis. The actual ISA and mix of the assets in 2025 varied from the forecast this resulted in higher depreciation expense for Accounts 1611, 1920 and 1945 when compared to forecast.

Given the limited time available during interrogatories, the scale of the schedules that would be impacted and the relative materiality of the change, Elexicon did not fully flow through the impact of 2025 actuals to the 2027 fiscal year. Rather, 2027 was kept consistent with the pre-filed application through manual adjustments in 2026.

Through settlement, Elexicon needed to update all associated schedules and was able to fully flow the impact of 2025 actuals through to 2027.

b) Refer to response in part a).

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SETTLEMENT PROPOSAL QUESTION SP-OEB-4

REF 1: Settlement Proposal, pages 48-49 and footnote 22
REF 2: Interrogatory Response 4.1-PWU-9

PREAMBLE:
Reference 1 states that the maximum potential disallowance of Dx NEXT implementation costs recorded in Account 1511 is capped at 45% of the principal balance, excluding carrying charges. Footnote 22 states that the 45% is "based on the proportion of forecast costs relative to the implementation costs, as provided in response to Interrogatory 4.1-PWU-9."

Based on the response to Interrogatory 4.1-PWU-9, forecast costs represent approximately 71% of total implementation costs ($29.8 million / $42 million). Using 2027 forecast costs only, the proportion is approximately 46%.

REQUIRED REVISION OR CLARIFICATION:

a) Please explain how the 45% cap was derived from the response to Interrogatory 4.1-PWU-9.

b) Please confirm the date and dollar amount of the Account 1511 principal balance to which the 45% cap applies.

RESPONSE:

a) The 45% cap reflects a negotiated outcome reached through settlement discussions among the Parties and memorializes the Parties' agreement regarding the circumstances in which disallowances related to the Dx Next Project may be proposed. While historical costs were

informative, they were not determinative of the cap. The referenced footnote was included in error and will be removed from the Settlement Proposal.

b) The principal balance of Account 1511 to which the 45% cap applies is 42,004,781. This is the principal total balance (without interest) forecasted for 2027, which includes project costs in 2025, and forecast costs anticipated in 2026 and 2027. This is the total principal balance sought for recovery.

REVISION AND CLARIFICATION QUESTION, SETTLEMENT PROPOSAL

SETTLEMENT PROPOSAL QUESTION SP-OEB-5

REF 1: Settlement Proposal, Table 1, pages 10-11 and Part F, Issue 5.2, page 65
REF 2: Settlement Proposal, Part F, Issue 3.2, page 61
REF 3: Settlement Proposal, Table 24, page 69; Attachment 13 – Load Forecast; Attachment 17 – Rate Design Model
REF 4: Settlement Proposal, Part H – Attachments, page 80
REF 5: Settlement Proposal, Attachment 4, App. 2-AA

PREAMBLE:
The OEB has identified the following errors and inconsistencies in the settlement proposal documents.

REQUIRED REVISION OR CLARIFICATION:

a) In reference 1, Table 1 lists Issue 5.2 as a "Complete Settlement", while Part F identified Issue 5.2 as a "Partial Settlement". Please confirm the settlement status of Issue 5.2 and revise the settlement proposal as needed.

b) In reference 2, PWU is listed as both a Supporting Party and a Party taking no position on Issue 3.2. Please confirm PWU's position and revise the settlement proposal as needed.

c) In reference 3, the kWh charge determinants in Table 24 appear to be shifted by one year relative to the load forecast and rate design models. Please confirm and revise Table 24 as needed.

d) Reference 3 lists Attachment 1 – Load Forecast Summary. This attachment does not appear to have been filed. Please file Attachment 1.

e) Columns B to M of the App.2-AA tab in reference 5 are hidden. Please refile Attachment 4 with all columns visible.

RESPONSE:

a) Issue 5.2 is partially settled. The Parties agree that the derivation of PILs and other tax-related components as proposed is appropriate. The PILs Workform for the 2027-2031 rate term will be updated at the Draft Rate Order stage to reflect the OEB's determination of the unsettled OM&A, the Dx NEXT project costs, and LTDR issues. A revised settlement proposal correcting the reference to Issue 5.2 will be filed along with the responses to these revision and clarification questions.

b) As noted at page 7, under Part C, the PWU is neither supporting nor opposing any elements of the Settlement Proposal, and in the table on page 61 of the Settlement Proposal, the PWU is listed as a party taking no position. The reference to PWU as a supporting party is a typo. The table has been updated to remove PWU from supporting parties listed on page 61.

c) Confirmed. The revised Table 24 is provided below.

Table 24: 2027-2031 Charge Determinants

MWh	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast
Residential	1,496,169	1,522,611	1,545,953	1,578,020	1,611,796
Residential Seasonal	13,137	13,563	13,936	14,392	14,865
GS<50 kW	354,777	354,832	354,087	355,353	356,378
GS 50 - 2,999 kW	1,328,857	1,338,757	1,344,927	1,351,543	1,352,835
GS 3,000 - 4,999 kW	282,740	309,345	330,219	341,725	353,536
Large Use	434,996	520,133	601,394	630,464	637,881
Street Light	15,625	15,821	16,020	16,221	16,426
Sentinel Light	87	86	84	83	82
USL	6,480	6,450	6,422	6,393	6,365
Total MWh	**3,932,868**	**4,081,599**	**4,213,042**	**4,294,193**	**4,350,164**
GS 50 - 2,999 kW	3,256,265	3,294,405	3,326,120	3,361,193	3,383,576
GS 3,000 - 4,999 kW	604,293	665,752	714,880	744,001	774,616
Large Use	742,952	895,387	1,042,834	1,100,818	1,121,411
Street Light	43,544	44,091	44,645	45,206	45,774
Sentinel Light	654	645	635	625	616
Total kW	**4,647,709**	**4,900,280**	**5,129,114**	**5,251,843**	**5,325,994**
Residential	169,426	171,982	174,699	177,521	180,169
Residential Seasonal	1,546	1,543	1,539	1,536	1,532
GS<50 kW	12,204	12,318	12,434	12,550	12,668
GS 50 - 2,999 kW	1,517	1,528	1,537	1,546	1,555
GS 3,000 - 4,999 kW	12	13	13	13	13
Large Use	6	6	6	7	7
Street Light	45,775	46,311	47,044	47,726	48,428
Sentinel Light	261	255	251	246	248
USL	1,159	1,159	1,159	1,158	1,153
Total Customers/Devices	**231,905**	**235,116**	**238,684**	**242,303**	**245,773**
Total Metered Customers	**184,710**	**187,390**	**190,229**	**193,174**	**195,944**

d) Please see Attachment 1, Load Summary, attached as a PDF.

e) Attachment 4 is refiled with all columns visible. Columns B to M of the App. 2-AA tab in Reference 5 are unhidden.