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BY EMAIL

November 15, 2022

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

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Elexicon Energy Inc.
Application for 2023 Rates
OEB File Number: EB-2022-0024**

Please find attached the OEB staff's submission on Phase 1 (IRM portion) of the application in the above-referenced proceeding, pursuant to Procedural Order No. 2.

Yours truly,

B. M. Armstrong

Birgit Armstrong
Incentive Rate Setting and Regulatory Accounting
Encl.
cc: All parties in EB-2022-0024



ONTARIO ENERGY BOARD

OEB Staff Submission Phase One

Elexicon Energy Inc.

2023 Rates Application

EB-2022-0024

November 15, 2022

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Application Summary

Elexicon Energy Inc. (Elexicon Energy) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on July 28, 2022, under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2023.

On December 20, 2018, the OEB approved an application to amalgamate Veridian Connections Inc. and Whitby Hydro Electric Corporation into Elexicon Energy, which included a proposal to defer rebasing for ten years.¹

Consistent with Chapter 3 of the Filing Requirements,² Elexicon Energy applied the Price Cap Incentive Rate-setting (IR) adjustment factor to adjust the monthly service charge during the incentive rate-setting years. Elexicon Energy's application was based on a placeholder value of 3.30% for the 2023 annual adjustment for both the Veridian RZ and the Whitby RZ. The OEB's letter regarding the 2023 inflation parameters was issued on October 20, 2022,³ announcing an inflation factor of 3.7% for electricity distributors. OEB staff has updated Elexicon Energy's 2023 Rate Generator Models for each rate zone to reflect the OEB-approved 2023 inflation factor and the resulting Price Cap IR adjustments of 3.4%. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor.⁴

Elexicon Energy has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO). OEB staff notes that in the event the Uniform Transmission Rates (UTRs) change effective January 1, 2023, OEB staff will update Elexicon Energy's 2023 IRM Model to reflect the impacts of any changes in the UTRs before the issuance of a decision and order.

On November 1, 2022, the OEB bifurcated this proceeding into two phases, given the complexity of the incremental capital funding proposals and the relatively mechanistic IRM portion of the application.⁵ Those IRM elements include: (i) the Price Cap

¹ Decision and Order, EB-2018-0236

² Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

³ OEB Letter, 2023 Inflation Factor, October 20, 2022

⁴ Ibid, pages 5 - 6

⁵ Procedural Order No. 2, November 1, 2022, p. 1-2

adjustment, (ii) the review and disposition of Group 1 deferral and variance account balances, (iii) RTSRs, (iv) shared tax adjustments, and (v) review and disposition of the lost revenue adjustment mechanism variance account.

OEB staff makes detailed submissions on the following elements of Phase 1:

- Annual Adjustment Mechanism
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account

OEB Staff Submission

Annual Adjustment Mechanism

Background

As part of the amalgamation of the former Veridian Connections Inc. and the former Whitby Hydro Electric Corporation to form Elexicon Energy, Elexicon Energy was granted a ten-year deferred rebasing period from the closing of the proposed transaction, consistent with the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations*, issued January 19, 2016, and *Report of the Board on Rate-Making Associated with Distributor Consolidation*, issued on March 26, 2015. Elexicon Energy indicated that during the deferred rebasing period, the pre-existing rate plans for Veridian Connections (Price Cap IR Index) and Whitby Hydro (Annual IR Index), would remain in effect until their expiry.⁶ Elexicon Energy also stated that the Veridian Connections and Whitby Hydro service areas would continue to have rates adjusted under Price Cap IR Index and Annual IR Index, respectively, until the end of the ten-year deferred rebasing period, which was approved as part of the MAADs decision.⁷

On December 1, 2021, the OEB issued a letter that outlined the OEB approach to deferrals.⁸ To provide a further incentive for distributors considering consolidation, the OEB allowed distributors that are on the Annual IR Index rate-setting plan and in a current deferral period, arising out of consolidation, to move to the Price Cap IR plan for 2023 rates.

As part of this application, Elexicon Energy seeks to move its Whitby RZ to a Price Cap IR plan, effective January 1, 2023. The resulting Price Cap IR adjustment for the Whitby RZ, using the approved OEB formula of inflation factor minus the X-factor, is 3.4%.

⁶ Decision and Order, EB-2018-0236, p. 18

⁷ Ibid, p. 18

⁸ OEB Letter, Applications for 2023 Electricity Distribution Rates, p.

Submission

OEB staff takes no issue with this approach.

Group 1 Deferral and Variance Accounts**Veridian RZ**

For its Veridian RZ, Elexicon Energy requested disposition of its December 31, 2021 Group 1 Deferral and Variance Account (DVA) in the debit amount of \$6,596,499 on a final basis over a 12-month period. This includes interest projected to December 31, 2022. The Group 1 account balances exceed the OEB's \$0.001/kWh threshold for disposition.

As part of its 2022 rates proceeding, the OEB approved the disposition of Veridian RZ's 2018 to 2020 Group 1 account balances, on an interim basis. As part of this application, Elexicon Energy is also requesting the approval of the 2018 to 2020 balances on a final basis.

Unaccounted for Energy Issue

In Elexicon Energy's 2021 rate proceeding for the Veridian RZ, Elexicon Energy confirmed that it has implemented the OEB's accounting guidance for Accounts 1588 – RSVA Power and Account 1589 – RSVA Global Adjustment (Accounting Guidance).^{9,10} In Elexicon Energy's 2022 rate proceeding, Elexicon Energy identified an issue relating to unaccounted-for energy used in the Veridian RZ's settlement process due to a system modification implemented in December 2019. Elexicon Energy was approved interim disposition of the Veridian RZ's 2018 to 2020 Group 1 balances but committed to doing a final review of the balances prior to requesting final disposition.¹¹ In the current application, Elexicon Energy noted that the unaccounted-for energy issue impacted Accounts 1588 and 1589 by \$25,860 and \$11,460, respectively for 2019.¹² Elexicon Energy noted adjustments were not made to the Account 1588 and 1589 balances to reflect the impact from the unaccounted-for energy issue as it is not a material impact. Elexicon Energy indicated that if adjustments were made, they would not be significant enough to change the rate riders calculated for the disposition of Group 1 balances, and therefore, had no bill impact.

The unaccounted-for energy impact to Accounts 1588 and 1589 for 2020 was already

⁹ Accounting Procedure Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

¹⁰ Manager's Summary, p.20-23

¹¹ Ibid.

¹² IRR OEB Staff-43

included in the 2020 balances previously approved for disposition on an interim basis, and no further adjustments were needed.¹³ Furthermore, Elexicon Energy stated that it does not believe that there are any material systemic issues that have not been identified.¹⁴

Account 1595 (2019) Error

In the current application, Elexicon Energy indicated that it identified an error relating to Account 1595 (2019), which is being requested for final disposition in this proceeding, and the 2019 Account 1589 balance, which was previously disposed on an interim basis in Elexicon Energy's 2022 rate proceeding. In the 2019 rate proceeding of Veridian Connection Inc., the OEB approved disposition of 2017 Group 1 balances for what is now the Veridian RZ including \$220,827 recovery from Class A/B transition customers. Subsequently, \$220,827 was recovered from transition customers, but the recovery was incorrectly recorded in 2019 in Account 1589 instead of Account 1595 (2019). In the current application, Elexicon Energy is proposing to reflect the correction to Account 1589 in the 2021 balance instead of revising the 2019 balance that has already been approved for disposition on an interim basis. Elexicon Energy indicated that the impact of this proposal would result in 16 transition customers identified in its 2022 rate application being undercharged a total of \$8,897, and 10 transition customers identified in the current rate application being under-credited by a total of \$5,914.¹⁵ Elexicon Energy has proposed to refund the 10 transition customers in the current rate application a total of \$5,914, where the amount will be funded from Elexicon Energy's return on equity.¹⁶

In response to interrogatories, Elexicon Energy confirmed that it is requesting to dispose Account 1595 (2019) in the current proceeding even though the sub-account is not yet eligible for disposition.¹⁷ Elexicon Energy confirmed that no transactions have been recorded to date in 2022 and no further transactions are expected to be recorded for the remainder of 2022.¹⁸

Submission

OEB staff supports Elexicon Energy's proposed final disposition of Group 1 balances, subject to the condition that Elexicon Energy is to make the adjustments of \$25,860 and

¹³ IRR OEB Staff-43

¹⁴ Manager's Summary, p.22

¹⁵ Manager's Summary, p.14-16

¹⁶ IRR OEB Staff-39

¹⁷ Account 1595 (2019) would be eligible for disposition in Elexicon Energy's 2024 rate proceeding (i.e. two-years after the expiry of the April 2020 rate riders and the sub-account has been audited).

¹⁸ Ibid.

\$11,460 to the 2019 Account 1588 and 1589 balances, respectively relating to unaccounted-for energy. OEB acknowledges that the adjustments are not significant enough to change the rate rider calculations in this proceeding. However, Accounts 1588 and 1589 were approved on an interim basis to allow for adjustments, such as the potential adjustments that could be made to account for the issues Elexicon Energy identified in this proceeding. Furthermore, Accounts 1588 and 1589 are commodity pass-through accounts where no profit or loss is made. Therefore, if the accounts were not accounted for accurately, there may potentially be cross-subsidization between customer groups. OEB staff is of the view that recording the adjusting journal entries in Elexicon Energy’s general ledger and the DVA Continuity Schedule would not require a significant amount of effort. Therefore, OEB submits that the adjustments to Accounts 1588 and 1589 should be made to the 2021 balances requested for disposition.

OEB staff has reviewed the evidence Elexicon Energy provided relating to the Account 1595 (2019) error and supports Elexicon Energy’s proposal to dispose Account 1595 (2019) on a final basis and refund \$5,914 to the transition customers in this proceeding. OEB staff submits that allowing for the final disposition of Account 1595 (2019) in this proceeding would allow for regulatory efficiency as the sub-account has been reviewed in this proceeding already and Elexicon Energy has confirmed it expects no further transactions in this sub-account. In the case where Elexicon Energy identifies significant adjustments to the account after the final disposition, OEB staff also notes that the OEB has issued a letter dated Oct 31, 2019 indicating that it will determine on a case-by-case basis whether to make a retroactive adjustment for accounting errors in commodity accounts that are identified after it has been cleared by a final order by the OEB.¹⁹

Whitby RZ

For its Whitby RZ, Elexicon Energy requested disposition of its 2020 and 2021 Group 1 DVA in the debit amount of \$1,870,967 on a final basis over a 12-month period. This includes interest projected to December 31, 2022. The Group 1 account balances exceed the OEB’s \$0.001/kWh threshold for disposition.

Elexicon Energy has not yet fully implemented the Accounting Guidance for the Whitby RZ due to high staff turnover and has requested an extension for the implementation until December 31, 2022.²⁰ Elexicon Energy has used a modified approach to account for Whitby RZ’s Accounts 1588 and 1589 since the 2017 balances. The OEB has approved Whitby RZ’s 2017 to 2019 Group 1 balances on a final basis using this

¹⁹ OEB letter regarding Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition, October 31, 2019

²⁰ Manager’s Summary, p.26

modified approach in Elexicon Energy’s 2021 rate proceeding.²¹ In the current proceeding, Elexicon Energy confirmed that it has continued to use the modified approach to account for the 2021 Accounts 1588 and 1589 balances requested for disposition in this proceeding. Elexicon Energy further noted that the implementation of the Accounting Guidance is strictly process-driven as adjustments to align to the Accounting Guidance have been already incorporated in the balances requested for disposition.²² Elexicon Energy provided the GA Analysis Workform and additional reasonability analysis²³ to support the balances requested for disposition.

Submission

Elexicon Energy has confirmed that the extension to implement the Accounting Guidance will not impact customers, nor the outcome of the account balances requested for disposition in this proceeding.²⁴ OEB staff has reviewed the evidence on record and supports the disposition of Whitby RZ’s Group 1 balances on a final basis.

Lost Revenue Adjustment Mechanism

Background

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding Lost Revenue Adjustment Variance Account (LRAMVA) balances related to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on eligible program savings.²⁵

Elexicon Energy is requesting the disposition of its 2020-2022 LRAMVA balance related to previously established LRAMVA thresholds resulting from its conservation and demand management (CDM) activities. Elexicon Energy requested disposition on a partial basis but did not provide an explanation as to why this would not be a complete disposition. This includes approval of its LRAMVA balances for 2020 to 2022, resulting from 2020-2021 CDM programs for both rate zones and persistence of 2012-2019 programs in 2020-2022 in the Veridian RZ and persistence of 2011-2019 programs in 2020-2022 in the Whitby RZ. The LRAMVA balance, including carrying charges projected to December 31, 2022, is a debit amount of \$2,538,763 for the Veridian RZ

²¹ EB-2020-0012, Decision and Rate Order, December 10, 2020

²² IRR OEB Staff-46

²³ Per IRR OEB Staff-45, excel file “EE_WRZ_2023_Acctg Guidance_2021 Analysis_20220727” is a reasonability test that compares the expected account balance computed based on annual data, to the actual account balance that has been recorded using Whitby RZ’s modified approach for the Accounts 1588 and 1589

²⁴ Manager’s Summary, p.28

²⁵ Chapter 3 Filing Requirements, section 3.2.6.1

and a debit amount of \$1,150,039 for the Whitby RZ. Elexicon Energy proposes to recover the LRAMVA amounts through class-specific volumetric rate riders that would be in effect for 1 year for Veridian RZ customers and 3 years for Whitby RZ customers. Should the OEB approve Elexicon Energy’s request, the LRAMVA would have a balance of zero for the Veridian RZ and the Whitby RZ.

Veridian RZ:

The components of the LRAMVA balance are shown in Table 1.

Table 1 - LRAMVA Balance for Disposition (Veridian RZ)

Account Number	Actual CDM Savings (\$)	Forecasted CDM Savings (\$)	Carrying Charges (\$)	Total Claim (\$)
	A	B	C	D = (A-B)+C
1568	3,207,289	711,161	42,637	\$2,538,763

The OEB’s CDM Guidelines²⁶ indicate that distributors are also eligible for LRAM for persisting impacts of conservation programs until their next rebasing. The OEB 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 LRAMVA for all years until their next rebasing application.²⁷

For the Veridian RZ, Elexicon Energy has requested approval on a prospective basis for an LRAM-eligible debit amount of \$3,594,732 in 2023-2028, arising from persisting savings in 2023-2028 from previously implemented CDM programs as set out in Table 2 below. This amount would be adjusted mechanistically by the approved inflation minus X factor for 2023-2028, when available.²⁸ Elexicon Energy is proposing a separate LRAM-Eligible Amount Rate Rider to be included beginning with the 2023 rate year to recover this amount.

²⁶ [Conservation and Demand Management Guidelines for Electricity Distributors](#) (EB-2021-0106), December 20, 2021.

²⁷ [Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2023 Rates](#), June 16, 2022

²⁸ On October 20, 2022, the OEB announced the inflation factors for 2023 rate applications (OEB Letter, 2023 Inflation Parameters, issued October 20, 2022). Elexicon Energy’s updated IRM rate generator models submitted on October 28, 2022 for both the Veridian RZ and the Whitby RZ for the 2023 LRAM-eligible amounts reflect the 2023 inflation factor of 3.7% for electricity distributors.

Table 2 – LRAM-Eligible Amounts for Prospective Disposition (Veridian RZ)

Year	LRAM-Eligible Amount (in 2022 \$)
2023	779,539
2024	692,891
2025	622,055
2026	568,102
2027	501,286
2028	430,859

Whitby RZ:

The components of the LRAMVA balance are shown in Table 3.

Table 3 - LRAMVA Balance for Disposition (Whitby RZ)

Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D = (A-B)+C
1568	1,130,941	0	19,098	1,150,039

For the Whitby RZ, Elexicon Energy has requested approval on a prospective basis for an LRAM-eligible debit amount of \$1,877,015 in 2023-2028, arising from persisting savings in 2023-2028 from previously implemented CDM programs as set out in Table 4 below. This amount would be adjusted mechanistically by the approved inflation minus X factor for 2023-2028, when available. Elexicon Energy is proposing a separate LRAM-Eligible Amount Rate Rider to be included beginning with the 2023 rate year to recover this amount.

Table 4 - LRAM-Eligible Amounts for Prospective Disposition (Whitby RZ)

Year	LRAM-Eligible Amount (in 2022 \$)
2023	372,558
2024	350,638
2025	322,269
2026	308,084
2027	286,385
2028	237,081

Submission

OEB staff supports Elexicon Energy's requests to dispose of its LRAMVA balances and

to also approve the 2023-2028 LRAM-eligible amounts, including recovering these amounts, subject to adjustment by the approved inflation minus X factors, beginning with the 2023 rate year for both the Veridian RZ and the Whitby RZ. OEB staff further submits that Elexicon Energy's requests are consistent with the OEB's CDM Guidelines. OEB staff has reviewed the LRAMVA balances and the LRAM-eligible amounts, and the supporting evidence substantiating these amounts. In OEB staff's opinion, the LRAMVA balances and the LRAM-eligible amounts are reasonable.

OEB staff does not support disposition on a partial basis. OEB staff submits that Elexicon Energy should confirm in its reply submission that disposition is on a complete and final basis, or explain why this should not be the case. If confirmed that the proposed disposition is complete (ie. not partial) and final basis, OEB staff submits that the LRAMVA balance should be set to zero and recommends that no further entries to the LRAMVA be permitted at this time, but that the LRAMVA not be discontinued, in the event that Elexicon Energy requests the use of the LRAMVA for a CDM activity in a future application, which the OEB can consider on a case-by-case basis. OEB staff is recommending this approach for all distributors who have disposed of all outstanding LRAMVA balances as part of their 2023 rate applications.

~All of which is respectfully submitted~