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

BY EMAIL

May 4, 2023

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 – Phase 2
OEB File Number: EB-2022-0024

Please find attached OEB staff's submission in the above-referenced proceeding, pursuant to Procedural Order No. 5.

Yours truly,

Birgit Armstrong

Digitally signed by Birgit Armstrong
Date: 2023.05.12 09:14:35 -04'00'

Birgit Armstrong

Incentive Rate Setting and Regulatory Accounting

Encl.

cc: All parties in EB-2022-0024

ONTARIO ENERGY BOARD

OEB Staff Submission

Elexicon Energy Inc.

2023 Rates Application – Phase 2 Incremental Capital Projects

EB-2022-0024

May 4, 2023

Table of Contents

Overview

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

On November 1, 2022, the OEB bifurcated the application into two phases. The OEB issued a Phase 1 Decision and Order deciding on the IRM elements of this application, on December 8, 2022. In Phase 2, the OEB will decide on three incremental capital module (ICM) requests:

(i) $36.7M for the **Whitby Smart Grid project in the Whitby rate zone** with an expected in-service date in 2025
(ii) $6.4M for Advanced Distribution Management System (ADMS) costs associated with the **Whitby Smart Grid in the Veridian rate zone** with an expected in-service date in 2025
(iii) $26.7M for the **Sustainable Brooklin project** with an expected in-service date in 2025.

In summary, OEB staff submits the following:

- **Whitby Smart Grid – Whitby Rate Zone**
  - Partial funding of $2.4M for the ADMS and Supervisory Control And Data acquisition (SCADA) portion of the Whitby Smart Grid should be approved, effective January 1, 2025
  - The remaining portions of the Whitby Smart Grid should be phased in over time and funded through existing rates
- Elexicon Energy should file an updated Distribution System Plan (DSP) that reprioritizes its existing capital budget to accommodate the modernization of its distribution system
- **Whitby Smart Grid – Veridian Rate Zone**
  - Elexicon Energy's ICM funding request of $6.4M should be approved, effective January 1, 2025
- **Sustainable Brooklin Project – Whitby Rate Zone**
  - Elexicon Energy's exemption request regarding Section 3.2 of the

[1] On December 20, 2018 the OEB approved an application to amalgamate Veridian Connections Inc. and Whitby Hydro Electric Corporation into Elexicon Energy Inc. (EB-2018-0236), which included a proposal to defer rebasing for ten years. Elexicon Energy will operate these legacy rate zone separately until 2029.

Distribution System Code (DSC) should be denied for the following reasons:

- The request is contrary to the beneficiary pays principle that is stated in the DSC. As Elexicon Energy's evidence does not support a reasonable expectation of quantifiable or tangible benefits to ratepayers

- Elexicon Energy's funding request for the Sustainable Brooklin project should be denied because, without an exemption to section 3.2 of the DSC, the funding request for this project does not meet the criteria of materiality, and need, as described in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (ACM Report).[2]

[2] Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, s. 4.1.5

Application Summary

Whitby Smart Grid

The Whitby Smart Grid project is a community-wide smart grid in the town of Whitby. The project includes an ADMS and a SCADA system that will benefit customers in both the Whitby and Veridian rate zones.

Through the SCADA and ADMS, the following technologies will be deployed as part of the Whitby Smart Grid:

- Voltage/VAR Optimization (VVO): allows a utility to operate its distribution system at the lower end of the acceptable voltage ranges and reduces reactive power in the distribution system resulting in lower system losses, lower energy consumption, and overall system energy and demand reduction.
- Distribution Automation (DA): provides better monitoring and controlling of the distribution system by providing real-time data as well as the capabilities to remotely locate faults and remotely operate equipment to restore service in the event of fault or loss of upstream power.
- Fault Location and Insolation Service Restoration (FLISR): provides better monitoring of the distribution system by providing real-time data, as well as the capabilities to remotely locate faults.
- Conservation Voltage Reduction (CVR): reduces voltage for customers to the lower end of an acceptable range.

The construction of the Whitby Smart Grid also includes the installation of various physical assets such as poles, automated switches, capacitors, voltage regulators, fault circuit interrupters, and voltage sensors (collectively, Field Hardware).

The cost of the Whitby Smart Grid is estimated at $47.2M ($12.8M for the ADMS and SCADA, and $34.4M for Field Hardware). Elexicon Energy is also receiving $4.04 million in Natural Resources Canada (NRCan) funding to partially offset the ADMS cost.

Sustainable Brooklin Project

The Sustainable Brooklin project involves the construction of two 27.6kV feeders from the Whitby transformer station to connect a new sub-division in North Brooklin. The two feeders would be constructed on two separate pole lines. Each pole line has the capacity to accommodate two additional feeders, for a total of three feeders.

Elexicon Energy's application includes a request for an exemption from section 3.2 of the DSC, which requires collecting a capital contribution from the local developers towards the cost of constructing and operating the Sustainable Brooklin Project.

Elexicon Energy requested the exemption in exchange for the developers building Distributed Energy Resources (DER)-ready homes that include rough-ins for solar panels and battery systems and for Electric Vehicle chargers. The estimated cost for the rough-ins to accommodate distributed energy resources and electric vehicles in the new community is $2,260 per home. Over a twenty-year horizon, it is estimated that approximately 10,000 homes will be built and that the total cost of the rough-in to the builders is approximately $23M.

Elexicon Energy seeks approval of the exemption and $26.6M for the Sustainable Brooklin expansion project.

Elexicon Energy has applied to fund these two projects in three requests under the ICM framework. The ICM is a funding mechanism available to electricity distributors whose rates are established under the Price Cap IR regime. It allows a distributor to collect additional revenue from customers to fund capital expenditures in the years between cost of service applications. The ACM report outlines three eligibility criteria for ICM funding: materiality, need and prudence.[3]

[3] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014

OEB Staff Submission

Generally, OEB staff supports electricity distributors taking steps to modernize the distribution system to better serve ratepayers. However, the issue is not whether Elexicon Energy should pursue such measures, but a question of timing. OEB staff supports the incremental funding request for the ADMS and SCADA portions of the Whitby Smart Grid project at this time since ADMS funding is tied to third-party funding. However, OEB staff supports a phased approach to the remainder of the Whitby Smart Grid components to avoid undue rate shock to customers in the Whitby rate zone. OEB staff submits that Elexicon Energy should examine the potential overlap between its 2021 DSP and the proposed Whitby Smart Grid prior to installing any Field Hardware for the Whitby Smart Grid.

OEB staff does not support the exemption from section 3.2 of the DSC requested for the Sustainable Brooklin project. The requested exemption is contrary to the 'beneficiary pays' principle upon which section 3.2 of the DSC is based. OEB submits without an exemption from section 3.2 of the DSC, the funding request for the Sustainable Brooklin project does not meet the ICM criteria of materiality and need.

OEB staff further submits that the implementation of both ICM projects would cause unreasonably high bill impacts for customers in the Whitby rate zone. To mitigate these potential impacts, OEB staff submits that Elexicon Energy should adopt a phased approach to the implementation of the Whitby Smart Grid.

In the following sections, OEB staff will make submissions based on the suggested topics list issued on April 4, 2023.

Issue #1 - Are the three ICM projects proposed mutually exclusive? If not, how should the OEB consider common/overlapping elements?

OEB staff submits that the Whitby Smart Grid and the Sustainable Brooklin ICM should be considered two mutually exclusive projects.

OEB staff notes that the funding request for the Sustainable Brooklin ICM only consists of costs to construct the two new 27.6kV feeders and does not include the installation of distributed energy resources. The use of the Distributed Energy Resource Management System was presented as a possible future scenario where Elexicon Energy would act as a Distribution System Operator and handle the dispatch and settlement of locally operated distributed energy resources.[4] In OEB staff's view, this is a tenuous link and dependent on future events which may or may not occur.

[4] Application, Appendix B-1 Whitby Smart Grid Business Case, p. 4

While the Whitby Smart Grid may support distributed energy resources and electric vehicles in the new subdivision, the benefits to the new subdivision were not quantified in the cost/benefit analysis for the Whitby Smart Grid ICM request. The Whitby Smart Grid is not a requirement to provide electricity to the new subdivision.

OEB staff submits that the OEB should consider each ICM request independently based on the costs and benefits provided for each.

Issue #2 - Has the Customer Engagement for these projects been appropriate?

OEB staff acknowledges that project specific customer engagement is not a requirement for an ICM funding request but submits that Elexicon Energy has not considered the impacts on customers' bills or customer preferences surveyed as part of its 2021 DSP.

In its application, Elexicon Energy provided the results of its customer engagement conducted as part of its consultation on its 2021 DSP (Customer Engagement Report), as well as the engagement with the Whitby Town Council, in support of these ICM requests.

Elexicon Energy stated that it "puts significant stock on the decision of elected officials to endorse the Whitby Smart Grid and Sustainable Brooklin Projects."[5] OEB staff submits that while ICM policy does not mandate customer engagement for the Whitby Smart Grid and Sustainable Brooklin Projects, there should be more weight put on the Customer Engagement Report rather than the endorsement of the Town of Whitby (Elexicon Energy's major shareholder).

In Elexicon Energy's 2021 Customer Engagement Report, approximately 44% of customers indicated that Elexicon Energy should manage their reliability within existing rates by allocating existing funds to reliability investments. Another 32% of customers[6] indicated that they would accept gradual increases in monthly bills if additional investment is required to maintain reliability levels.[7] The Customer Engagement Report also shows in response to a question about a previous ICM project, 37% of customers questioned the need for a rate increase and 15% questioned the design and size of the investment.[8] When given the opportunity to provide comments, approximately 64% of the comments were related to limiting the cost increases.[9]

[5] Application, Appendix B, p. 30
[6] Ibid. (p. 9)
[7] Ibid. (p. 9)
[8] EB-2022-0024 Application – Appendix B-7 Customer Engagement Report, February 2021 (p. 15)
[9] EB-2022-0024 Application – Appendix B-7 Customer Engagement Report, February 2021 (p. 32)

If all of Elexicon Energy's current funding requests before the OEB are approved,[10] a notional bill impact calculation provided by Elexicon Energy shows a 31.36% increase in distribution rates or 11.95% on the total bill impact for the 2025 rate year.[11]

OEB staff submits that Elexicon Energy has not taken customer concerns to limit rate increases into consideration. Furthermore, Elexicon Energy has not sufficiently considered its customer's preference to manage reliability within existing rates, or if required, increase rates only gradually.

Issue #3 - For the Sustainable Brooklin project, is the requested exemption to the Distribution System Code: A) appropriate; B) in the best interest of ratepayers; C) in the public interest?

A. Is the requested exemption appropriate?

OEB Staff submits that the requested exemption is not appropriate because Elexicon Energy's request, in essence, is that the beneficiary pays principle should not apply where a property developer may incur delays associated with financing a capital contribution as may be required under section 3.2 of the DSC.

Elexicon Energy requests an exemption from multiple subsections of section 3.2 of the DSC[12] specifically in relation to the $26.7M cost of the 'Brooklin Line'.[13] Elexicon Energy states that absent this relief, the Brooklin Landowner's Group "are concerned that construction of both the Brooklin Line and new homes in North Brooklin area will be delayed by several years while the Developers raise financing for the capital contribution."[14]

Section 3.2 of the DSC sets out the rules for who pays the costs relating to the expansion of the distribution system. It is based on the 'beneficiary pays' principle and allocates costs to customers who wish to connect or expand their existing access to distribution capacity.[15] Under the prescribed "economic evaluation" process, a customer must make a capital contribution if the present value of the cost of the expansion and on-going maintenance exceeds the present value of the projected incremental

[10] This includes the three ICM requests in this proceeding (EB-2022-0024) and a funding request of $4.6M for a Z-factor claim (EB-2022-0317)
[11] Technical Conference Undertaking response JT2.6
[12] The specific sections of the Distribution System Code Elexicon Energy's request covers are listed in a draft Rate Order Elexicon Energy submitted in response to Undertaking JT1.13; PDF pp. 105 – 106.
[13] Also referred to in evidence as the 'Sustainable Brooklin Project' and the 'Phase 1 Project'.
[14] Application – Appendix B; p. 44 of 56. This part A deals only with Elexicon Energy's reasons for needing the requested relief.
[15] In the OEB's view, "Beneficiaries of an infrastructure investment will contribute to the cost of an investment. …Costs should not be allocated to any load customer (consumer or distributor) or generator that will not benefit from the investment". See *Proposed Amendments to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning* (EB-2016-0003); Sept. 21, 2017), p. 3.

distribution revenue that will be generated by the expansion.[16] Under the same process, a customer who pays a capital contribution will be entitled to receive a rebate if a customer whose load was not included in a distributor's economic evaluation requests to connect to the new facilities during the applicable connection horizon.[17]

Elexicon Energy and the Brooklin Landowner's Group acknowledge in evidence that a developer's costs, including any capital contribution required under the DSC, would flow through to the selling price of the new housing units.[18]

OEB staff notes that Elexicon Energy proposes that, in addition to the requested exemption, the OEB order include "[a]s a condition of the approved exemption for the Brooklin Line" that Elexicon Energy "ensure in its contractual arrangements that all current and future residential developers that may stand to benefit from the Brooklin Line shall construct DER and EV ready homes or buildings"; and that in the event of failure to do so "…as determined by Elexicon Energy, Elexicon Energy shall require that developer or property owner to pay an appropriate capital contribution to Elexicon Energy in support of the Brooklin Line prior to energizing the property."[19]

As explained in part B below, even if the Brooklin Landowner's Group and future developers and homeowners comply with such an agreement over the long term, the most likely beneficiaries of the exemption will be the developers and the "DER and EV ready" homeowners who end up installing DERs and/or EV chargers.

B. Is the requested exemption in the best interest of ratepayers?

OEB staff has no reasonable expectation of material ratepayer benefit and therefore the exemption is not in the best interest of ratepayers.

As noted in part A, for the purposes of the required economic evaluation, the applicant seeks to exclude the $26.7 million capital cost of the 'Brooklin Line' from the total cost of the expansion required to connect Brooklin Landowner's Group.[20] Instead, Elexicon Energy seeks approval to recover this capital cost from all Whitby rate zone ratepayers through the Sustainable Brooklin ICM.

Elexicon Energy states in its application that they are requesting the exemption as a "quid-pro-quo" for Brooklin Landowner's Group's "incurring incremental costs to build Standard Rough-In's" in anticipation of the potential future installation of rooftop solar,

[16] DSC; ss. 3.2.4. Note that if a distributor must construct an expansion "in order to be able to connect a specific customer or group of customers", ss. 3.2.1 obliges them to "perform an initial economic evaluation…as described in Appendix B" to the Distribution System Code.
[17] DSC; ss. 3.2.27 and where applicable under ss. 3.2.27A to 3.2.27F.
[18] Respectively, TC2; p. 124; and Hearing Transcript, Vol. 2, p. 74.
[19] Undertaking JT1.13; PDF pp. 105 – 106. In OEB staff's view, the practical matter of OEB compliance monitoring and enforcement over the long term is not substantially addressed in the application.
[20] Undertaking JT1.13; PDF pp. 105 – 106.

battery storage, and EV chargers.[21] The specific intention is to save homeowners the cost of such rough-ins should they decide to invest in a DER, yielding more future DER installations compared to the "business as usual" case.[22]

Granting the exemption may benefit home/unit owners connected to the Brooklin Line as the cost of installing solar panels, a battery and/or EV charger would be reduced by the amount they would otherwise have to pay for the DER and EV ready rough-ins. However, these specific customers will obtain this benefit only if all Whitby rate zone ratepayers pay the $26.7 million cost of the Brooklin Line.[23]

Staff's view – supported by Elexicon Energy's application[24], interrogatory responses[25] and Technical Conference[26] and Oral Hearing testimony[27] – is that, as set out below, the sole quantifiable benefit to Whitby Rate Zone ratepayers is the potential to defer an investment in new transmission station capacity expected to be needed in the mid-to-late 2030s through the employment of homeowner DER's.[28]

In its Application, Elexicon Energy presents the results of METSCO's analysis of the value to Elexicon Energy ratepayers of deferring a future $40 million investment in a new transmission station (TS). METSCO concluded that "[t]he benefit of deferring the new TS ranges from $0.39 million to $9.94 million depending on the deferral period (one to five years) and discount rate (3% to 8%)."[29]

In its Argument in Chief, Elexicon states: "… Elexicon has produced evidence that demonstrates DERs can help to defer or potentially avoid another costly capacity upgrade, which is anticipated based on the METSCO analysis in the early 2030s."[30] OEB staff accepts as a general proposition that distributed energy resources[31] have the potential to defer or avoid a capacity upgrade. However, in OEB staff's view, the information provided by way of METSCO's estimates of the degree of DER installations (number of homes/units with solar/battery installations as a share of total homes/units built) required to defer a capacity investment when needed in this case suggests the

[21] "The estimated cost to the Brooklin Developers to install the Standard Rough-In is approximately $23M." Application; Appendix B-2; p. 4 of 37.
[22] See Application; Appendix B-2; pp. 10, 13 - 14 of 37.
[23] "Should there not be approval of the exemption to the DSC, it is certain that the developer would construct homes with traditional functionality, and therefore customers would have to undertake costly retrofits if they wanted DER and EV capabilities."; Application; Appendix B-2; pp. 13 - 14 of 37.
[24] Application; Appendix B; p. 9 – 11 of 56
[25] For example, IR Response to Staff-23, part c
[26] Technical Conference Transcripts Day 2; p. 29
[27] Oral Hearing Transcript Vol. 2; pp. 151 – 152.
[28] Elexicon Energy stated in cross-examination that "…in the context of doing a calculation of benefits of deferring capital, the year zero would be 2038". Oral Hearing Transcript, Vol. 2; p. 156.
[29] Appendix B-4 METSCO Elexicon Energy 2022-2041 Peak Load Forecast, p. 29
[30] Loc cit.; paragraph 37.
[31] Elexicon Energy's Application does not define this term. OEB staff infers from the context that the term includes but need not be limited to solar and energy storage facilities.

possibility of a short deferral, but not avoidance *per se*.

METSCO's analysis, augmented by information provided orally and by way of undertakings, illustrates the vulnerability of the results to changes in key assumptions. Actual deferral periods (and hence, the present value of a deferral) will depend on the capacity (in kW) of solar panels that can be installed on each home/unit[32], and more critically on the number of solar installations that are combined on the same home/unit with a 10 kWh battery.[33] OEB Staff also notes that METSCO's analysis excludes consideration of the impact on the need for new capacity of EV chargers in North Brooklin, which adds to the uncertainty around the deferral benefit.[34]

More generally, Elexicon Energy's ability to defer a capacity investment will depend on whether Elexicon Energy can control (i.e., "dispatch") the output of the solar/battery installations: "The DER would look to Elexicon Energy as a contracted provider of power."[35] The ways and means whereby Elexicon Energy intends to contract with customers and obtain the required control of customer DERs, Elexicon Energy advises, is the subject of a future application related to their 'DER Enabling Program'.[36]

OEB staff submits that the value of a future capacity deferral is the only quantifiable benefit to ratepayers identified in the Application that would offset the $26.7 million cost borne by Whitby Rate Zone ratepayers in the event that the exemption is granted. As noted above, METSCO concluded that the value of the deferral benefit ranges widely, depending on key assumptions. However, even under the most optimistic set of assumptions, which are unlikely to occur, the potential value of the deferral benefit is only a fraction of the $26.7 million cost. As a result, the Sustainable Brooklin ICM is not in the collective interest of Whitby ratepayers.

C. In the public interest?

In consideration of the OEB's objectives in relation to promoting economic efficiency and cost-effectiveness in the distribution and demand management of electricity, and facilitating innovation in the sector, OEB staff's view is that Elexicon Energy has not demonstrated that granting the requested exemption is in the public interest.

Elexicon Energy's application states that "An exemption to Section 3.2 of the Distribution System Code and approval of the Sustainable Brooklin Project ICM request will facilitate innovation, specifically the creation of a DER and EV-ready community in North Brooklin (on both the customer and utility side of the connection point) and a DER

[32] Undertaking J2.6: To Update Table 15 to Account for DER Penetration
[33] "Rooftop solar alone cannot reliably defer capacity constraints beyond one year since it is not dispatchable without an associated BESS." See also Table 15. Application; Appendix B-4; p. 24.
[34] Technical Conference Day 1, January 17, 2023 (pp. 155-156)
[35] D. Thompson (METSCO); TC2; p. 3.
[36] According to Elexicon Energy, among other things the program will explore "the potential for on-bill financing of new DERs"; and "involve the creation of a local capacity and energy market…" administered by Elexicon Energy. See Application, Appendix B; p. 11 of 56.

and EV ready grid in the balance of the Whitby rate zone via the Whitby Smart Grid."[37]

Transferring costs from the beneficiaries of the expenditures to all Whitby Rate Zone ratepayers is not innovative. Further, in the absence of robust evidence that doing so is cost-effective and/or economically efficient for Whitby Rate Zone ratepayers, the proposal raises significant concerns regarding the interests of private developers versus ratepayers.

It is not in the public interest to grant Elexicon Energy the requested exemption.

Issue #4 - Is the requested timeline for approval appropriate for the Whitby Smart Grid project/Sustainable Brooklin project?

4.1 Should the OEB allow an exception to the ICM policy?

Whitby Smart Grid

OEB staff notes that the funding requests for projects that will be in service in 2025 are premature. However, OEB staff supports Elexicon Energy's funding request for the ADMS and the SCADA portion of the Whitby Smart Grid for both rate zones. OEB staff submits that the OEB should make an exception and allow funding for the ADMS and SCADA portion of the project through the advance capital module (ACM) mechanism.

Elexicon Energy's request for pre-approval of the need and prudence of the Whitby Smart Grid is similar to an ACM, which is only available during a rebasing application and thus makes the request an exception to the ICM policy.

While the timing of this request is premature and does not align with the OEB's ICM/ACM policy, OEB staff supports funding of the ADMS portion of $4.04M for two reasons. Firstly, this investment is tied to NRCan funding and secondly, it forms an integral part of the Whitby Smart Grid. ADMS is a software platform that integrates numerous utility systems and provides automated outage restoration and optimization of distribution grid performance. The installation of an ADMS allows for automated outage restoration and the performance optimization of the distribution grid.

OEB staff also support funding of the SCADA portion of $4.76M. SCADA is a computer-based system for gathering real-time data to monitor and control distribution equipment. These two components form the backbone of the proposed smart grid technology and OEB staff supports the modernization of Elexicon Energy's distribution system. Since NRCan funding for the ADMS portion is dependent on a completion date of March 31, 2025, OEB staff submits that the OEB should grant the funding request as an ACM

[37] Application, Appendix B; p. 47 of 56

request. When filing an updated ACM/ICM model for final 2025 rates, OEB staff submits that Elexicon Energy should apply all provisions of the ACM policy.

Sustainable Brooklin Project

As noted under Issue #3, OEB staff does not support the exemption request by Elexicon Energy. OEB staff is of the view that Elexicon Energy's Sustainable Brooklin project should be funded through capital contributions in accordance with section 3.2 of the DSC.

OEB staff submits that the contribution by the developer, which is the normal practice in the industry, negates the need for incremental capital from Whitby rate zone's ratepayers. OEB staff submits that section 3.2 of the DSC should be applied and that there is no need for Elexicon Energy ratepayers to fund this project.

4.2 Are proposed illustrative rate riders on an interim basis appropriate?

OEB staff submits that the OEB should allow funding for the ADMS and SCADA portion of the Whitby Smart Grid through an ACM. This makes the use of "illustrative rate riders" approved on an interim basis unnecessary.

Whitby Smart Grid

OEB staff supports the pre-approval of need and prudence for the ADMS and SCADA portions of the Whitby Smart Grid due to the ADMS's dependency on third-party funding. OEB staff submits that rather than approving illustrative rate riders on an interim basis, the OEB should allow for the application of the ACM policy for the ADMS and SCADA portions of the Whitby Smart Grid on an exception basis. This would mean the approval of need and prudence as part of this application. At the time of filing for the ACM riders, OEB staff submits that the -/+ 30% deadband on project cost should apply.

Sustainable Brooklin Project

OEB staff notes that the question of illustrative rate riders approved on an interim basis is dependent on the OEB's decision on whether or not to grant Elexicon Energy's request for an exemption from the DSC. Should the OEB grant the exemption, OEB staff submits that the use of illustrative rate riders approved on an interim basis is inappropriate as it constitutes a one-sided adaptation of the ACM policy.

As discussed above, a request for need and prudence, with only an illustrative rate rider that will be updated at a later date, represents one aspect of the ACM mechanism. But unlike an ACM request, Elexicon Energy does not propose to adjust the capital cost that underlies the rate rider, regardless of what the actual costs may be. Neither does Elexicon Energy propose to apply the provision of the -/+ 30% deadband that would require Elexicon to reopen the need and prudence criteria if costs were significantly different from the current proposal. This approach is neither in the spirit of the ICM

mechanism nor the ACM mechanism.

OEB staff submits that if the OEB decides to approve Elexicon Energy's request of exempting from the DSC and to allow for an ACM funding mechanism as part of an incentive-rate setting mechanism, the full ACM policy should be adopted. This would include the adoption of a deadband as well as the off-ramp provision should the cost exceed the AMC threshold.

Issue #5 - Have the OEB's ICM criteria been met for the Whitby Smart Grid project/Sustainable Brooklin project?

The ACM report outlines three eligibility criteria for ICM funding: materiality, need and prudence

5.1 Materiality

With respect to materiality, the ACM Report states ICM funding requests must:[38]

- Fit within the total eligible incremental capital amount as calculated using the OEB's materiality threshold calculation and the distributor's capital budget
- Clearly have a significant influence on the operation of the distributor; otherwise, it should be dealt with at rebasing
- Be material in comparison to the distributor's overall capital budget; minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment (project-specific materiality threshold)

Materiality Threshold

OEB staff submits that an absolute materiality threshold for the 2025 rate year cannot be established since this is an advanced funding request and the final parameters required for the calculation of the threshold are not available at this time. The ICM/ACM models provided suggest that Whitby Smart Grid project and the Sustainable Brooklin project would be material.

Distributors applying for an ACM or ICM must file the OEB's capital model applicable to ACM and ICM (ICM Model). To assist in the assessment of the materiality criteria, the ICM Model calculates the maximum eligible incremental capital and the materiality threshold for the proposed ICM project.

OEB staff's position on the classification of this application as an ICM versus ACM is discussed under Issue # 4.

[38] ACM Report, p. 17

Elexicon Energy proposes to update and finalize 2025 rate riders and bill impacts relating to the Whitby Smart Grid and the Sustainable Brooklin project within its 2025 IRM application. OEB staff submits that Elexicon Energy should be required to provide updated ICM Models for any approvals received during this application. As part of its 2025 IRM application Elexicon Energy should update for the following:

- The OEB-approved inflation factors applicable for 2025 rates
- Any changes to Elexicon Energy's forecasted 2025 capital budget
- Actual 2023 demand data on Tab 3 of the ICM Model

OEB staff submits that the above updates will ensure that both the materiality threshold and maximum eligible incremental capital are appropriately calculated based on the most up-to-date information, as well as any resulting changes in rate riders.

Is the eligible amount for the Whitby Smart Grid appropriate?

For the Whitby rate zone, OEB staff notes that Elexicon Energy's proposed capital expenditure for the 2025 rate year is $75.2M, of which the Whitby Smart Grid constitutes $36.7M or 48%. If the OEB approves this current incremental funding request, Elexicon Energy will be funding capital projects in excess of $108M through incremental rate rider,[39] which far exceeds Elexicon Energy's approved rate base of $75M for the Whitby rate zone. OEB staff submits that these amounts are disproportionately high and should only be considered as part of a rebasing application when the Elexicon Energy overall capital budget can be evaluated.

As noted under Issue #4, OEB staff only supports the funding of the ADMS in the amount of $4.04M and SCADA portion in the amount of $4.8M, which are allocated as follows:

- Whitby Rate Zone $2.4M
- Veridian Rate Zone $6.4M

OEB staff submits that these amounts exceed the materiality threshold in both rate zones using current project estimates and parameters. As discussed below, OEB staff is of the view that the remainder of the Whitby Smart Grid should be phased in over time.

[39] 2022 ICM request (EB-2021-0015) – Seaton TS and Bus Rapid Transit Hyw. 2 (2022) for $44M and the current 2023 ICM request of $64.4M for the Whitby Smart Grid and Sustainable Brooklin project.

OEB staff also notes that the ADMS/SCADA portion of the Whitby Smart Grid (net of the NRCan contribution) makes up approximately 20% of the forecasted 2025 capital budget in the Veridian rate zone. On this basis, OEB staff submits that Elexicon Energy's ICM project makes up a significant portion of its capital budget and therefore, in OEB staff's view, satisfies the project-specific materiality threshold. While the amount is lower for the Whitby rate zone, OEB staff submits that the nature of this portion of the project is such that it needs to be considered as a whole and therefore OEB staff supports the ADMS and SCADA portion, which applies to both rate zones.

Is the eligible amount for the Sustainable Brooklin project appropriate?

As discussed under the Whitby Smart Grid – Materiality – OEB staff submits that the Sustainable Brooklin project as proposed is material. However, OEB staff believes that the proposed amount is not appropriate. The capital costs for the Sustainable Brooklin project are $26.6M. As discussed above, the current funding requests are disproportionate to the capital expenditures that ratepayers can reasonably expect.

OEB staff notes that this ICM funding request is dependent on the approval of an exemption from the DSC. If the DSC exemption is not allowed, the ICM funding request for the Sustainable Brooklin project is not required as this line would be paid for through capital contributions.

Does the Whitby Smart Grid have a significant influence on the operation of the distributor?

OEB staff supports Elexicon Energy's modernization of its distribution system. OEB staff supports the installation of the ADMS and SCADA system as this provides the backbone of a smart grid. OEB staff submits that these projects have a significant influence on the operation of the distributor and ready Elexicon Energy's distribution system for further modernization.

The ACM Report states that any amounts being requested for ICM funding must clearly have a significant influence on the operation of a distributor. Elexicon Energy is applying for capital cost of 36.7M for Whitby rate zone, which results in an incremental Revenue Requirement of $4.1M and $6.4M capital cost for the Veridian rate zone, which is an incremental Revenue Requirement of $1.5M.

Elexicon Energy's as-filed combined ICM revenue requirement for the Whitby Smart Grid is $5.6M. While the ACM Report does not define what constitutes "significant influence", OEB staff notes that the materiality threshold, as defined in Chapter 2 of the Filing Requirements used for the cost of service applications, is approximately $95,982 for the Whitby rate zone and $249,634 for the Veridian rate zone, for a combined

materiality threshold of $345,616.[40] On this basis, OEB staff submits that the as-filed Whitby Smart Grid project as a whole as well as the ADMS/SCADA portion on its own would, absent other factors, have a significant influence on the utility's operations.

As noted, the implementation of the control systems will form the base for a smart grid of the future. OEB staff supports the modernization of Elexicon Energy's distribution system and submits that the implementation of the ADMS and the SCADA system fulfills this criterion from both a financial and operational perspective.

However, OEB staff notes that the as-filed revenue requirement applies legacy capital cost allowance (CCA) rules, rather than accelerated CCA, to the Payments in Lieu of Taxes (PILs) component of the ICM revenue requirement.

Consideration of Accelerated CCA

OEB staff does not have any issues with the significant influence on operations criteria for the Whitby Smart Grid in consideration of accelerated CCA.

Elexicon Energy proposes not to reflect accelerated CCA in the ICMs in accordance with the OEB's Chapter 3 Filing Requirements.[41] Elexicon Energy noted that it will track any impact from accelerated CCA in Account 1592, Sub-account CCA Changes.[42] OEB staff does not take issue with this approach as it is consistent with the Chapter 3 Filing Requirements.[43]

OEB staff also assessed the impact of accelerated CCA on the Whitby Smart Grid and has no concerns on the request for ICM funding in relation to the impact from accelerated CCA. The Accelerated Investment Incentive program (AIIP) provides for a first-year increase in CCA deductions (i.e., accelerated CCA at one and a half times full-year CCA) on eligible capital assets acquired after November 20, 2018. The AIIP is to be phased out from 2024 to 2027, where a full year's CCA is eligible as a deduction against taxable income.

The ACM Report states that any amounts being requested for ICM funding must clearly have a significant influence on the operation of a distributor. Furthermore, the OEB's

[40] The threshold calculations are based on Elexicon Energy's distribution revenue requirements for each rate zone as per their last Cos of Service application. Due to the customer growth in both the Whitby rate zone since 2011 and in the Veridian rate zone since 2014, revenues collected through distribution rates are substantially higher and the revenue requirements.
[41] EB-2022-0024, IRR-Staff-51
[42] Ibid.
[43] Chapter 3 Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications, June 24, 2023, S. 3.3.2.5, p.31

Filing Requirements[44] indicate that even though the OEB generally requires accelerated CCA to be excluded from ACM/ICM calculations, the OEB may take accelerated CCA into consideration in assessing the impact of the proposed capital project(s) on the operations of the distributor in determining if ACM/ICM funding is warranted.[45]

Elexicon Energy provided the ICM revenue requirements for the Whitby Smart Grid for the Veridian and Whitby rate zones, as well as Sustainable Brooklin reflecting accelerated CCA and stated that the ICMs have a significant influence on the operation of the distributor and ICM funding is still warranted after taking accelerated CCA into account for the ICMs.[46]

As noted in this submission, OEB staff supports the ADMS and SCADA portion of the Whitby Smart Grid for both rate zones. OEB staff calculated the ICM revenue requirements only for the ADMS and SCADA portion for the Veridian and Whitby rate zones, including and excluding accelerated CCA as shown in the following table:

Table 1 - ICM Revenue Requirement for ADMS and SCADA[47]

	Veridian ($)	Whitby ($)	Total ($)
Excluding accelerated CCA	977,735	438,776	1,416,511
Including accelerated CCA[48]	737,813	333,735	1,071,548

OEB staff notes the revenue requirements for both rate zones are above the materiality thresholds and should be considered to have significant influence on the operations of Elexicon Energy regardless of whether accelerated CCA is included or excluded from the revenue requirements for both rate zones. Therefore, OEB staff does not have any issues with the significant influence on operations criteria for the Whitby Smart Grid in consideration of accelerated CCA.

[44] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications, April 18, 2022, page 21
[45] Generally accelerated CCA is excluded from the ACM/ICM revenue requirement. The OEB will assess the impact of accelerated CCA at the time of rebasing to minimize the complexity of review.
[46] EB-2022-0024, IRR-Staff-51
[47] Calculated using the ICM models provided as Undertaking Response JT1.15 filed March 27, 2023, with only the SCADA and ADMS remaining in tab 9b.
[48] Ibid. Also revised CCA in tab 9b to full year CCA to reflect actual CCA rules in 2025 instead of half-year CCA in the undertaking response.

Does the Sustainable Brooklin project have a significant influence on the operation of the distributor?

The applied for capital cost for the Sustainable Brooklin project is $26.7M, which would result in an incremental Revenue Requirement of $2.160M. As discussed above, the combined materiality threshold Elexicon Energy is of $345,616.[49] OEB staff submits that the proposed incremental capital is significantly above this threshold.

As discussed under the Whitby Smart Grid – Materiality – Consideration of Accelerated CCA section, Elexicon Energy provided the ICM revenue requirements for the Whitby Smart Grid for the Veridian and Whitby rate zones, as well as Sustainable Brooklin reflecting accelerated CCA and stated that the ICMs have a significant influence on the operation of the distributor and ICM funding is still warranted after taking accelerated CCA into account for the ICMs.[50] OEB staff does not have any issues with the significant influence on operations criteria for the Sustainable Brooklin in consideration of accelerated CCA, in the case where the OEB approves this ICM.

5.2 Need

In order to qualify for ICM funding for a particular project, a distributor must demonstrate that there is a need for incremental funding. The need criterion has three parts that must be met:[51]

- The distributor must pass the Means Test (as defined in the ACM Report)
- Amounts must be based on discrete projects and should be directly related to the claimed driver
- The amounts must be clearly outside of the base upon which the rates were derived

Means Test

OEB staff submits that Elexicon Energy passes the means test for both projects. OEB staff also notes the means test should be recalculated when Elexicon Energy seeks final approval of the ICM rate riders.[52]

[49] The threshold calculations are based on Elexicon Energy's distribution revenue requirements for each rate zone as per their last Cos of Service application. Due to the customer growth in both the Whitby rate zone since 2011 and in the Veridian rate zone since 2014, revenues collected through distribution rates are substantially higher and the revenue requirements.
[50] EB-2022-0024, IRR-Staff-51
[51] ACM Report, p. 17
[52] As per the ACM Report, p. 15, if a distributor's regulated return on equity (ROE) exceeds the deemed ROE embedded in rates by more than 300 basis points funding for any incremental capital project will not be allowed. Elexicon Energy stated that its most recently available ROE for 2001, was 6.87%, which is

Discrete Project

OEB staff submits that the Sustainable Brooklin project as well as the Whitby Smart Grid as a whole are discrete projects.

The ACM report states that incremental capital funding is for discrete projects and not for ongoing capital programs. After the ACM report, the OEB has provided additional flexibility to allow distributors to apply for ICM funding for an annual capital program during extended deferred rebasing periods provided certain additional conditions are met.[53]

In this case, the ICMs in question are clearly discrete projects and therefore satisfy this requirement.

Outside of Rate Base

Whitby Smart Grid

OEB staff submits that a portion of the Whitby Smart Grid is within the existing approved rate base.

The ACM report states that the amounts requested through an ICM must be clearly outside of the base upon which the rates were derived. OEB staff submits that there are clear overlaps between the Whitby Smart Grid ICM and Elexicon Energy's 2021 DSP. Elexicon Energy's budget includes capital investments for pole replacement, switches/ switchgear, system reliability improvements, and information technology. Components in these investments overlap with components in the Whitby Smart Grid. For example, switches are a significant portion of the Whitby Smart Grid[54] and the DSP has a program to replace switches.[55] Also, system reliability improvement investments in the DSP,[56] include reclosers, switches, and faulted circuit indicators. OEB staff submits that all of these components overlap with the Whitby Smart Grid.[57]

Elexicon Energy's view is that the Whitby Smart Grid ICM and the capital expenditure plan shown in the DSP are generally separate investments addressing separate issues.[58] The only smart grid component that has overlap with the proposed capital

2.56% (256 basis points) lower than its deemed ROE of 9.43%.

[53] Letter of the OEB – Incremental Capital Modules During Extended Deferred Rebasing Periods, February 10, 2022
[54] Interrogatory Response VECC, VECC-07
[55] Distribution System Plan, April 1, 2021 (Material Investment R5 – Renewal Programs Switches and Switchgear)
[56] Distribution System Plan, April 1, 2021 (Material Investment S5 – System Reliability Improvements)
[57] EB-2022-0024 Application – Appendix B-1 Whitby Smart Grid Business Case, p. 26
[58] Oral Hearing Transcript Day 2, April 3, 2023 (p. 142)

budget is the ADMS project.[59] OEB staff disagrees that the Whitby Smart Grid should be considered separately from the ongoing capital budget. OEB staff submits that, in addition to the overlaps set out in the previous paragraph, there may be further overlaps between the Whitby Smart Grid ICM and the ongoing capital budget. OEB staff notes that Elexicon Energy has not analyzed the contrary.[60]

Sustainable Brooklin
The Sustainable Brooklin ICM cost is $26.7 million. In Elexicon Energy's 2021 DSP, there is a capital investment for feeder expansions, but the investment is fully covered through capital contributions.[61] Elexicon Energy is now seeking an exemption for the DSC to allow developers to be exempt from paying a capital contribution. OEB staff submits if the DSC exemption is granted the costs of the Brooklin feeders are outside of rate base.

Is the evidence sufficient to approve 2025 ICM funding in 2023?

Whitby Smart Grid

OEB staff submits that except for the SCADA and ADMS portions for the Whitby Smart Grid, Elexicon Energy has provided insufficient evidence to approve this ICM request at this time.

The Report of the OEB: New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016 (Supplemental ACM Report) stated that an applicant must provide an explanation for any ICM that could not have been foreseen or sufficiently planned as part of a DSP.[62] The Supplemental Report also requires an explanation for significant differences in the capital budget forecast from the DSP forecast.[63] Elexicon Energy has not provided a sufficient explanation as to why the three ICMs could not have been foreseen or planned as part of its 2021 DSP.

OEB staff believes that Elexicon Energy should proceed with the ADMS and SCADA portions of the Whitby Smart Grid project. When filing its next DSP, OEB staff submits that Elexicon Energy should be required to show how other capital projects were re-prioritized and the Smart Grid was incorporated.

[59] Interrogatory Response Staff-4 (b) and SEC-13
[60] Oral Hearing Transcript Day 2, April 3, 2023 (p. 142)
[61] Distribution System Plan – A3 Feeder Expansions
[62] *The Report of the OEB: New Policy Options for the Funding of Capital Investments: Supplemental Report*, January 22, 2016, Appendix A, p. 22
[63] Ibid

Sustainable Brooklin
Based on Elexicon Energy's engineering guidelines, the need to construct a second circuit on a physically separated pole line is based on risk management.[64] However, OEB staff confirmed that there was no risk assessment done for this project[65] and OEB staff submits that there is insufficient evidence to support the ICM funding in full. This is further elaborated on in the prudence section.

Are the project's components severable? If so, should the components be phased in over time?

Whitby Smart Grid
OEB staff submits Field Hardware can be phased in over time.

The Whitby Smart Grid can be broken into two parts:

- the control system (ADMS and SCADA)
- the Field Hardware (Wood Poles, Overhead Load Inter-Switch, Tx Polemount)

The Whitby Smart Grid has two benefits: VVO and reliability improvements. Both benefits will be realized incrementally as the Field Hardware is installed across the distribution system.

If the Field Hardware is installed between neighbouring feeders, benefits can be realized in a phased approach as discussed below.

Sustainable Brooklin
The Sustainable Brooklin ICM is for the construction of two physically separate 27.6kV pole lines to the developments planned in North Brooklin. Rather than building both poll lines at the same time, OEB staff submits that one poll line could be built at first with the second poll line built at a future date when additional load is needed.

Elexicon Energy claims that the costs of constructing the two pole lines separately would be substantially more. OEB staff disagrees with that position. When OEB staff explored the costs of the pole lines during the oral hearing, Elexicon Energy stated that their cost estimate was only to entertain the panel's questions and implied that the option to consider phasing the two pole lines was not considered seriously.[66] Elexicon Energy could not provide sufficient evidence that costs would be higher if the pole lines were constructed in phases. OEB staff believes that the engineering planning can be

[64] Responses to OEB Panel Question, February 21, 2023 (OEB Panel-3 Attachment 1)
[65] Oral Hearing Transcript Day 2, April 3, 2023 (p. 110)
[66] Oral Hearing Day 2, (pp. 113-119)

done with the full design of six feeders on two pole lines, but the construction of the poles can be phased. This should not result in significant cost increases as there should not need to be any redesign if it was properly planned in the engineering phase. As the feeders are on separate sides of the road, there would also be minimal costs savings of constructing the pole lines together rather than phasing construction.

5.3 Prudence

Are the risk/cost vs. benefits appropriate?
Is the proposal the most cost-effective option for ratepayers?

Whitby Smart Grid
OEB staff submits that it is more prudent to phase in the Whitby Smart Grid rather than expedite the rollout for 2025. In its argument-in-chief, Elexicon Energy pointed out that the Minister of Energy's letter of direction stated that the OEB should continue to prioritize enabling innovation and electrification. OEB staff notes that the Minister's letter also talks about implementing these initiatives at an affordable price. OEB staff supports innovation and electrification, but not to the exclusion of ratepayers' affordability.

Elexicon Energy considered three alternatives for the Whitby Smart Grid:

1. Deploy the Whitby Smart Grid by 2025, funded through an ICM
2. Deploy the Whitby Smart Grid by 2028, funded through existing capital budget
3. Do nothing

Elexicon Energy rejected Option 2, to deploy the Whitby Smart Grid by 2028, because Elexicon Energy secured NRCan funding related to the ADMS portion of the Whitby Smart Grid, which expires in 2025. Elexicon Energy believes this investment is too large to accommodate within Elexicon Energy's existing capital envelope and would have unacceptable impacts on other necessary capital investments.[67]

In the oral hearing, OEB Staff provided an analysis of the Net Present Value of deploying the Whitby Smart Grid by 2025 as compared to 2028. The Net Present Value model contained three options:

- Option 1 is Elexicon Energy's proposed approach with investments in the Whitby Smart Grid over the next three years and an in-service date of 2025. Benefits would be realized the year after.
- Option 2 is Elexicon Energy's proposed approach with investments in the Whitby Smart Grid over the next six years and an in-service date of 2028. Benefits would be realized the year after.

[67] EB-2022-0024 Application – Appendix B-1 Whitby Smart Grid Business Case, pp. 39-40

- Option 3 is the same as Option 2, but benefits are phased in starting in 2025 as components are being installed in the Whitby Smart Grid.

The analysis of the three options indicates that if Elexicon Energy took into consideration phased benefits which are realized as the Field Hardware is being installed, Option 3 results in the greatest Net Present Value (i.e., the highest benefit to ratepayers).

While Elexicon Energy disagrees with OEB Staff's model, the changes Elexicon Energy made to OEB staff's model are not entirely correct and inconsistent with its evidence during oral hearing. Elexicon Energy has now added phased benefits for Option 1, which is a reverse of its position in the oral hearing.[68] In addition, Elexicon Energy also now believes the benefits can be phased in earlier than Option 3. Elexicon Energy has also tried to phase in and out the benefits, but they chose to do it on a basis of 27 years from when benefits are first realized. The premise that field assets are retired in a 27-year timeframe, and therefore benefits go with it, should mean the benefits are phased out based on when field assets are installed. In the case of Option 1, field assets are installed in 2023 and therefore should also start to have benefits phased out in 2050.

OEB staff stresses that with different assumptions and different ways to calculate the Net Present Value, implementing the Whitby Smart Grid by 2025 and/or by 2028 can produce Net Present Values with minimal differences in benefits. However, from a cost perspective, a 2025 deployment will see a larger rate increase than a paced deployment. With uncertain benefits but clear rate increases, the OEB should have Elexicon Energy pace the Whitby Smart Grid.

Furthermore, OEB staff continues to believe that it is unreasonable to expect zero benefits until the entire system is installed and in the absence of a more reasonable methodology provided by Elexicon Energy the phased approach should be adopted. OEB staff also notes that Elexicon Energy mentioned that there is a worst-feeder performance list. By focusing on these feeders, it is reasonable to expect that there will be improvements to reliability.

OEB staff also notes that the NRCan funding is linked to the ADMS part of the Whitby Smart Grid and Elexicon Energy confirmed that if they complete the ADMS portion their funding would not be at risk.[69] OEB staff supports the ADMS portion of the Whitby Smart Grid and this will also ensure that Elexicon Energy receives NRCan funding for the ADMS.

[68] Oral Hearing Undertaking Responses, April 12, 2023 (JT2.11)
[69] EB-2022-0024 Staff Interrogatories, October 18, 2022 (Staff-9)

Sustainable Brooklin

The proposed design of the Brooklin project is to have each feeder on a separate pole line with capacity for two future spare feeders. The additional spare circuits would be utilized as the load materializes. Elexicon Energy justified the need to have the feeders on separate pole lines because there is no other 27.6kV supply to the area, which requires redundancies.

The prudence of having two 27.6kV feeders on separate poles lines as compared to two 27.6kV feeders on a single pole line was explored in the oral hearing.[70] Elexicon Energy stated that their planning and engineering design requires a loop feed and physical separation of the feeders.[71] However, as stated in Elexicon Energy's Engineering Guideline for Load Interrupt Switches, the physical separation is an outcome of a risk management exercise and is premised on the consideration of critical infrastructure.[72] In the oral hearing, Elexicon Energy acknowledged that there was no risk assessment done for this project. OEB staff notes that risk is calculated as probability times consequences and while Elexicon Energy stated that the consequences of a single pole line failure are high, they have not provided any assessment of the probability of the events happening. While having the feeders on a separate pole line increases reliability, it may not be cost effective. OEB staff submits that Elexicon Energy has not provided sufficient justification to expedite the construction of a second pole line through an ICM. Elexicon Energy should consider the construction costs of second feeder along with other capital investments in the overall context of a consolidated DSP at Elexicon Energy's next rebasing.

Issue #6 - Is the proposed cost allocation for each project appropriate?

Whitby Smart Grid

OEB staff submits that the OEB should require Elexicon Energy to employ a cost allocation methodology that more closely ties the cost and benefit allocations since this ICM is based on the view that customers should see a net benefit as a result of implementing this project.

Elexicon Energy has allocated costs based on the OEB ICM model, resulting in allocating approximately $3.1 million of the total $4.5 million revenue requirement to the residential rate class. The benefits of this project are based on the VVO and the reliability benefits. The projected VVO benefit is $3.3 million and for the purpose of allocating benefits could use the same allocation method as the ICM model, since it

[70] Oral Hearing Transcript Vol. 2, (pp. 113-119)
[71] Oral Hearing Transcript Vol. 2, (pp. 113-119)

[72] Responses to OEB Panel Question, February 21, 2023 (OEB Panel-3 Attachment 1)

benefits all customers equally, resulting in $2.2 million allocated to the residential rate class. The reliability benefits for the residential rate class were $184k of the $1.8 million.[73] The combined VVO and reliability benefits to residential customers is therefore approximately $2.4 million, as compared to the allocated costs of $3.1 million. OEB staff submits that Elexicon Energy should use the expected benefits as the cost allocator.

Sustainable Brooklin

OEB staff submits that for the Sustainable Brooklin project, the DSC should apply and the cost should be allocated to the customers as per Appendix B of the Code.

Issue #7 - What Conditions of Approval would be appropriate for each project?

Whitby Smart Grid

OEB staff submits that, should the OEB approve the Whitby Smart Grid, it should apply similar conditions as outlined in the PUC's Sault St. Marie Smart Grid Decision.[74]

The OEB ordered the following items as part the PUC's Sault St. Marie Smart Grid Decision, and OEB staff believes they could be applied to the Whitby Smart Grid with some modifications.

- File an updated DSP at the time of its next rebasing application which demonstrates how the Smart Grid Project is being accommodated through the re-prioritization of other capital expenditures.
- Provide a detailed report as part of its next rebasing application, which compares the Smart Grid Project costs and benefits as implemented to what was forecast in this application.
- Post on its public website a report, within 18 months of project completion, and with annual updates for 10 years thereafter which shows the actual benefits of the Smart Grid Project, broken down by customer class.
- Propose an appropriate metric and targets to symmetrically link the VVO performance of the Smart Grid Project to the allowable ROE for the Smart Grid Project.

OEB staff submits that Elexicon Energy should be directed to demonstrate that it has accommodated the Whitby Smart Grid through re-prioritization of other capital expenditures in its DSP at its next rebasing. Elexicon Energy last filed a DSP in 2021 with the OEB and it does not include the Whitby Smart Grid. In issue #5.2 above, OEB staff identified possible overlaps between capital investments in the DSP and the Whitby Smart Grid investments. An updated consolidated DSP will ensure proper

[73] Ibid
[74] EB-2020-0249/EB-2018-0219 Decision and Order, April 29, 2021

planning for the system.

Unlike the PUC's Sault St. Marie smart grid, which had a business case that relied only on VVO savings to justify the investment, Elexicon Energy's business case relies on both VVO performance and reliability improvements. OEB staff submits that Elexicon Energy should propose a symmetrical link between the expected benefits proposed in this application (VVO performance and reliability improvements) and the ROE for the Smart Grid.

Issue #8 - If ICM funding is approved, what future reporting and metrics would be appropriate for each project?

OEB staff submits that Elexicon Energy should be directed to file a report 18 months after the Smart Grid has been fully implemented that compares the Whitby Smart Grid Project costs and benefits as implemented to what was forecasted.

OEB staff further submits that Elexicon Energy should file actual benefits of the Smart Grid Project 18 months after the Smart Grid has been fully implemented on their public website for 10 years.

Issue #9 - Accounting Order

OEB staff supports the establishment of the sub-accounts under Account 1508 if all or part of the Whitby Smart Grid ICM is approved.

Elexicon Energy has been granted $4M of NRCan funding for ADMS portion of the Whitby Smart Grid project. Elexicon Energy proposed the establishment of the below three new sub-accounts to track the NRCan Funding. Elexicon Energy provided the draft accounting order and discussed the causation, materiality and prudence of the sub-accounts.[75]

- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue – Contributed Capital
- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Carrying Charges
- Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Amortization

The proposed sub-accounts under Account 1508 are similar to the OEB's generic ICM sub-accounts that track approved ICMs until a utility rebases. OEB staff reviewed the draft accounting order and have no concerns.

[75] EB-2022-0024, IRR-Staff-50

Issue #10 – Other Contractual Obligation for Future Developers

As part of the quid-pro-quo arrangement for the Sustainable Brooklin Line, Elexicon Energy stated that it would require future developers to require to pay a capital contribution of $2,260 per home if they fail to deliver DER/EV-ready homes.[76]

Elexicon Energy has also stated that it is not proposing to update the costs of the final project cost for either of the ICM projects in 2025,[77] nor does Elexicon Energy propose to adjust the illustrative rate order which would require a developer to pay a capital contribution of $2,260 per home if they fail to install DER/EV rough-ins.

OEB staff has concerns about the potential enforceability of Elexicon Energy's arrangement. Specifically, if a full exemption is granted from section 3.2 of the DSC, OEB staff does not believe that the OEB can compel future developers to pay a contribution of $2,260 as they are not entities licensed or overseen by the OEB.

Issue #11 –Connection Horizon issue

In its argument-in-chief, Elexicon Energy adopted concerns that it previously raised in its letter to the OEB on March 27, 2023. In that earlier letter, Elexicon Energy took issue with OEB staff's December 2022 reminder to electricity distributors that they have the discretion to extend the customer connection horizon used in the economic evaluation of distribution system expansions beyond the default 5 year period.

OEB staff submits that the question of whether an electricity distributor has discretion to extend the customer connection horizon beyond the typical 5-year period does not have to be adjudicated in this proceeding. Elexicon Energy does not support extending the customer connection horizon beyond five years in this case. Elexicon Energy has refused overtures by the Brooklin Landowners Group to extend the connection horizon related to the development in North Brooklin.[78] In its evidence, Elexicon Energy further indicated that such an extension would introduce significant complexities that are not warranted.[79]

In the alternative, should the OEB decide to consider this issue further, OEB staff's view is set out in its December 22, 2022 guidance.[80] Specifically, OEB staff submits that the DSC provides electricity distributors discretion, on a case-by-case basis, to extend the customer connection horizon that is used in distribution system expansions. OEB staff emphasizes that the discretion is that of electricity distributors and, in the normal course, is not something that the OEB would question. Such an approach is consistent

[76] Oral Hearing Undertaking JT2.10
[77] Oral Hearing Transcript, Vol. 2, pp. 72-74
[78] Oral Hearing Transcript, Vol. 1, pp. 82-87
[79] Oral Hearing Transcript, Vol. 2, pp. 7-10
[80] OEB Staff Letter; Re: Reminder of Distributor Discretion to Extend Customer Connection Horizon for System Expansions, December 22, 2022

with the OEB's long-held view that it should not micromanage utility operations.[81]

Issue #12 –Jurisdictional Concerns

At the outset of the oral hearing, the School Energy Coalition raised questions about the OEB's jurisdiction given changes to the in-service dates of the proposed ICMs.

It is unclear if this issue remains after the oral hearing. However, OEB staff has not identified an issue that precludes the OEB from making a decision on Phase 2 of Elexicon Energy's application. The OEB, as an administrative decision maker, is the master of its own processes and procedures.[82] As such it has flexibility in terms of how and when it hears issues that fall within its statutory jurisdiction. OEB staff believes that the concern raised by the School Energy Coalition may be that Elexicon Energy's request deviates from ICM policy, specifically that ICMs are available to projects that are going into service during the rate year. On that point, OEB staff's position is set out above in issue 4.1.

~All of which is respectfully submitted~

[81] See for example, EB-2009-0096, Decision with Reasons, April 9, 2010, p. 12; EB-2011-0293, Decision and Order, June 18, 2012, p. 11
[82] *Knight v. Indian Head School Division No. 19*, [1990] 1 S.C.R. 653 at 685; *Rogers Communications Partnership v. Ontario Energy Board*, 2016 ONSC 7810 (Div. Ct.), paras. 17, 24