

June 15, 2023

Ontario Energy Board issues decision on Elexicon Energy's application for approval to recover costs associated with May 21, 2022 derecho storm

DECISION

Today, the Ontario Energy Board (OEB) issued its Decision and Order on an application from Elexicon Energy Inc. (Elexicon Energy) requesting approval to recover restoration costs of approximately \$4.6M from its ratepayers following a derecho storm event on May 21, 2022. These types of requests for funding related to extraordinary circumstances outside of a utility's control are referred to as a "Z-Factor".

In its Decision and Order, the OEB approved recovery of approximately \$4.1M. The OEB disallowed roughly \$0.5M that had been claimed to replace electricity poles that would have been replaced in the near term given their condition or for which no asset condition records were kept. This is consistent with the purpose of the Z-factor, which is to permit recovery of costs of major unforeseen and uncontrollable events.

The OEB approved Elexicon Energy's proposal to recover the restoration costs from ratepayers via the following two fixed rate riders:

- **Capital expenditures rate rider** – from July 1, 2023, to December 31, 2028¹. This approach spreads out the recovery of capital costs over a longer period and reduces the monthly bill impact for ratepayers
- **Operating cost rate rider** – over a one-year period from July 1, 2023, to June 30, 2024

In adopting Elexicon Energy's proposal to extend the recovery period of the capital expenditure rate rider, the OEB agreed that spreading out the recovery of the capital-related revenue requirement of the Z-factor claim over a longer period would reduce the monthly bill impact on ratepayers.

The exact Z-factor rate riders and bill impacts for Elexicon Energy's ratepayers will not be known until later this summer when the OEB approves a rate order that reflects today's Decision and Order.

BACKGROUND

On May 21, 2022, a derecho storm swept through the province of Ontario, including large portions of Elexicon Energy's service territory. This storm caused extensive damage to Elexicon Energy's infrastructure, leading to power outages for over 95,000 Elexicon Energy customers in the communities of Ajax, Belleville, Bowmanville, Pickering, Uxbridge, and Whitby. Uxbridge was the most severely impacted service area with its main transformer station requiring a full rebuild as part of the restoration operation. By May 27, 2022, power had

¹ Deferred rebasing period until December 31, 2028 approved by OEB during the amalgamation between the former Veridian Connections Inc. and Whitby Hydro Electric Corporation ([EB-2018-0236, Decision and Order](#)).

been restored to approximately 98.7% of customers and power was fully restored to the utility's customers on May 29.²

REGULATORY TERMS

The following is a list of some of the commonly used regulatory terms that appear in this backgrounder, along with a plain language description for each.

Rate rider – A rate rider is a charge or a credit that the OEB approves for a temporary period, generally a year or less. An example of an amount that is either charged or refunded to customers using a rate rider is the difference between the amount a utility has paid for the electricity it delivers to its customers over a specified period, and the amount it has billed its customers during the same period.

Z-factor – Once a utility's rates have been set by the OEB, the utility is expected to operate and maintain its system and serve its customers based on those rates until the utility's next scheduled rate application. However, the OEB recognizes that a utility may need additional revenue between rate-settings due to extraordinary circumstances outside of its control, such as a major storm event. The Z-factor mechanism serves this purpose.

A utility that is applying to recover costs through the Z-factor mechanism must satisfy the OEB that it meets all three of the following eligibility criteria:

- **Causation:** The costs that the utility is seeking to recover are directly related to the Z-factor event and are clearly outside of the base upon which rates were derived.
- **Materiality:** The costs that the utility is seeking to recover must exceed the OEB-defined materiality threshold for the utility and have a significant influence on the operation of the distributor. The materiality threshold depends on the size of the distributor's revenue requirement.
- **Prudence:** The costs that the utility is seeking to recover must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

The OEB expects that any application for a Z-factor will be accompanied by a clear demonstration that the utility could not have been able to plan and budget for the extraordinary event and that the harm caused by the extraordinary event is genuinely incremental to their experience or reasonable expectations. The utility will also be expected to supply the details of management's plans for addressing these events.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

² [Application](#), pp.3-5

Contact Us

Media Inquiries

Phone: 416-544-5171

Email: oebmedia@oeb.ca

Consumer Inquiries

416-314-2455/1-877-632-2727

Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued today, which is the official OEB document.