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Ontario Energy Board
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RE: EB – 2024 – 0092

Orlando Submission on the Ontario Energy Board's Distribution System Expansion Discussion

When the OEB's Distribution System Code was first implemented, system expansion was defined as the hydro design and construction of the work within a new development up to the connection with the LDC's existing infrastructure adjacent to the development. Any further capital costs arising outside of the local development (for example, to extend power lines or build substations) were funded through an upstream cost calculation embedded in the LDC's economic evaluation model (EEM). This calculation was stated in the OTC. The resulting capital pool funded by these upstream cost charges ensured that each development contributed to common infrastructure in a fair manner. Historically, this system of funding common distribution infrastructure served developers, builders and LDCs well because it enabled shared distribution capacity to be continuously built and renewed, and to meet consumer needs.

When the OEB revised the Distribution System Code, LDCs lost their ability to charge upstream costs to developers as part of the OTC. Since the LDCs could no longer recover upstream costs from developer contributions and are prohibited from recovering these costs from the existing rate base, LDCs stopped building new common infrastructure.

As a result, existing surplus capacity is quickly being consumed and LDCs cannot reliably connect new developments without major investment for new infrastructure. As per their interpretation of the current Distribution System Code, LDCs are now including the cost of line expansions and, in some cases, the construction of new substations and transformer stations within the scope of expansions included in OTCs. In other words, the full capital cost of common electrical distribution infrastructure is now being borne directly by individual developers rather than being funded by pooled resources as they were previously.

The continued inclusion of capital costs for common infrastructure within a subdivision OTC is untenable because those costs are extraordinary, and the capacities being brought online are often much larger than what the local development actually requires. Furthermore, after the five-year connection horizon, any reserved capacity that is not used by the development is forfeited to the LDC.

To give a practical illustration of the problem, a developer could be liable to pay for a 20MVA feeder expansion in order to secure only 5MVA for its new subdivision, and then connect just 2.5MVA in the following five years. Under the present funding model, in addition to bearing the full cost of the initial feeder expansion, the developer would lose its security for the unused 2.5MVA and the LDC would reallocate that additional capacity to another project. When the developer eventually requires the additional 2.5MVA it originally requested, it might then have to install an additional 20MVA feeder—again at its expense. In cases where a transformer station is required, the developer could be liable to pay for a capital asset in excess of $125,000,000.00 that provides 160MVA of capacity, even if only a small fraction of that power is needed. The current funding model, if implemented as described above, will inhibit new developments at precisely the time that new home construction has become a priority of the Ontario government.

To prevent individual developers from bearing unreasonable costs for shared infrastructure that benefits the entire distribution system, we have the following recommendations.

1. That expansions under the Distribution System Code be split into three separate scopes.
    a. Local expansion within the boundaries of the new development.
    b. External line extensions to the site from the core transmission network.
    c. Transformer and substation construction.

a) For expansion within development boundaries we recommend the following:
    i. Extending the 25-year economic evaluation horizon to more accurately reflect the actual life cycle of newly constructed distribution assets.
    ii. Extending the 5-year connection horizon to 15 years for commercial/industrial developments. Consideration should also be given for extending the connection horizon for residential development

b) For external line extensions we recommend the following:
    i. Making any capital charges to the developer subject to a separate agreement in which the costs are proportional to the actual capacity needed.
    ii. Extend all connection horizons for external line expansions that were funded by the developer.
    iii. Providing to 25 years assurance that, once paid for, the capacity will remain available for that development.

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iv. Ensuring that the LDCs are transparent in their cost calculation for the external line extensions, and that the developer has the option of hiring an approved design engineer and contractor to construct the line in keeping with the LDC's standards and specifications.

c) For transformer and substation construction we recommend the following:
   i. Removing design and construction of new stations from the scope of expansions and leaving this work to LDCs to complete in accordance with secondary plan approvals and other existing processes.
   ii. Funding new stations on a catch-up basis with investment secured by the provincial government. Alternatively, this funding could be secured directly by the LDCs if the OEB allows them to do so.
   iii. Implementing a transformer station charge within LDCs that is applied to all new developments on a kVA basis to ensure that each development pays a proportionate share of the station costs. These charges would pay for the costs of building the required stations in the near term and accumulate over time to pay for additional stations in the long term so that provincial backing would eventually not be required.

It is our strong opinion that adopting the above suggestions would help promote development of both residential and commercial/industrial properties throughout Ontario.

We look forward to meaningful discussions on the above in the hopes of resolving these substantive issues.

Yours truly,

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VP, Development Engineering