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Ontario Energy Board
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RE: EB – 2024 - 0092

BILD Submission on the Ontario Energy Board's Distribution System Expansion for Housing Development Cost Recovery Options Discussion

Thank you for the opportunity to participate in the Ontario Energy Board's consultation on "Distribution System Expansion for Housing Developments: Exploring Connection and Revenue Horizon Options." We are in receipt of the OEB presentation made at the stakeholder meeting of April 3rd, as well as the November 29, 2023 renewed Letter of Direction from the Minister of Energy which this consultation is in response to. BILD has consulted with its' members, and as the Ontario Energy Board prepares its' response to the Minister's Letter of Direction, we trust that you will take these preliminary BILD comments in to consideration.

The Building Industry and Land Development's members are land developers and builders, both residential and non-residential, who are community building partners that support the provincial Housing Supply Action Plan objectives to reduce the cost of building new housing and providing certainty for families. It is their objective to continue to working with the province to enhance employment opportunities, and to help build the 1.5 million new homes needed over the next decade.

Unfortunately, there exists a significant impediment to assist in this objective. BILD members have expressed concern and challenges relating to the delivery of energy infrastructure required to service residential, commercial and employment developments within the Greater Toronto Area and beyond. These are projects that have been planned or approved for development, to which we elaborate on later in this submission.

Although this current OEB stakeholder consultation will not solve for these immediate and pressing needs experienced by many BILD members to provide electricity to their projects, we are hopeful that this will present an opportunity to continue the much needed dialogue on the lack of financial transparency, the lack of short and long term planning, and misinterpretations with the Distribution System Code as related to the electrification of new communities in the GTA.

We recognize the complexity of this conversation, and request that BILD, its members, the appropriate Ministries such as Energy and Municipal Affairs and Housing, as well as local energy distribution companies and municipalities where appropriate, and the OEB engage in regular dialogue through the creation of a formal Industry Roundtable.

This “**Energizing New Communities Industry Roundtable**” must be a significant, efficient and effective forum as we collectively work towards the identification and implementation of solutions to accelerate the provision of electricity to growing communities across the GTA and province.

This is a forum that should be established imminently, without sunset, to allow for continued conversation. There are, however, items in the short term that require priority attention. It is noted that quick action and priority is required to find a solution for all stakeholders, as request by the Minister, to not further delay and exacerbate the housing crisis.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

- BILD recommends that member representatives, the appropriate Ministries such as Energy and Municipal Affairs and Housing, as well as local energy distribution companies and municipalities where appropriate, and the OEB engage in regular dialogue through the creation of a formal “Energizing New Communities Industry Roundtable.”
- There are items in the short term that require priority attention. It is recommended that these be identified and acknowledged, and that quick action be taken to find a solution for all stakeholders, as request by the Minister, to not further delay and exacerbate the housing crisis.
- BILD also recommends that the provincial government contemplates its own role and responsibility to support electrifying new communities and considers delivering on the need for provincial investment.
- As part of arriving at alternative solutions to electrify new communities, BILD recommends that the province conduct an economic and infrastructure delivery review based on, and in alignment with, the current provincial Growth Plan.
- We believe that solutions to the challenges of electrifying new communities can be achieved that strikes a balance between consumer protection and the long-term growth and sustainability of the energy sector. BILD, therefore, recommends that the Ontario Energy Board continue its discussion with the industry to examine the probability of identifying which solutions are appropriate in various scenarios, which

may include the establishment and implementation of various options at the same time.

- BILD also recommends that these continued discussions on a development of a new approach to electrify new communities are guided by a transparent, accountable, predictable and timely process with outcomes that are fair, affordable and commercially manageable. All of these principles will help to ensure that energy infrastructure is delivered on time to meet demand.

INTRODUCTION: CONTEXT & BACKGROUND

Of significant interest to BILD and its members is the following paragraph from the Minister's Letter of Direction in reference to "priorities to advance in the near-term":

'Housing, Transportation and Job Creation: Our government has ambitious goals to build at least 1.5 million new homes, new highways, subways and improved rail transportation, and has also been successful in attracting new jobs to the province, particularly in critical minerals, electric vehicles and battery manufacturing. With this in mind, **it is critical that the OEB ensures that Ontario's electricity and gas transmission and distribution systems are built to support these goals in a timely manner**, while protecting ratepayers. Achieving this goal requires timely decision-making, well scrutinized costs and a regulatory environment with certainty for proponents. **I encourage the OEB to review electricity infrastructure unit costs in the electricity sector and potential models for cost recovery** that could help to ensure infrastructure costs are kept low and are not a barrier to growth in our province. I also ask that the OEB review its electricity distribution system expansion connection horizon and revenue horizon direction to ensure that the balance of growth and ratepayer costs remain appropriate."

This section of the Minister's letter reinforces the following significant themes or directions:

Provincial Objectives:

- The provincial goals of accelerating housing and employment supply
- The importance of the OEB's energy transmission and distribution system to support these goals in a timely matter, while protecting ratepayers
- Achieving these goals through timely decision making, well scrutinized costs, certainty for proponents

Provincial Direction to:

- review electricity infrastructure unit costs and potential models for cost recovery while keeping infrastructure costs low and not a barrier to growth
- review electricity distribution system expansion connection horizon and revenue horizon to ensure that the balance of growth and ratepayer costs remain appropriate.

Ontario, like other jurisdictions, is facing two major social and public policy challenges: meeting the urgent need of a growing population for new homes and employment areas, and enhancing Ontario's economic growth and prosperity through electrification and an energy transition.

When contemplating these provincial objectives, which are strongly supported by BILD and its members, weighed against the provincial directions, it is important to note that the current approach to funding distribution network investments to connect new residential and non-residential developments is no longer fit for purpose.

The current regulatory framework adheres to an uncompromising application of the “beneficiary pays” principle and constrains timely investment in distribution infrastructure. The Minister’s Letter of Direction is right to call for a re-examination of the “balance” between the costs borne by existing ratepayers and the costs allocated to new growth on electricity distribution systems.

However, that re-examination must include and extend beyond a narrow focus on the Customer Connection Horizon and Customer Revenue Horizon employed in the Discounted Cash Flow model used in the Economic Evaluation Methodology set out in Appendix B to the Distribution System Code (DSC). Instead, the OEB, stakeholders and, ultimately, the government need to look more broadly at the full set of rules governing costs and timing of distribution infrastructure investment. And this includes the rules about Expansions, Expansion Deposits, Enhancements, and the treatment of First Contributors.

Accordingly, the following BILD comments will:

- provide an illustration on how the expansion and connection rules adversely impact new developments;
- considers the principles that should guide the creation of a new approach in association to the related choices that will need to be made;
- remarks on the several “solution” options presented by the OEB; and,
- set out our recommendations regarding next steps and the best way forward.

IMPACT OF CURRENT APPROACH ON NEW DEVELOPMENT & NEW HOMEBUYERS

As indicated in the onset, BILD members have expressed frustration with the lack of financial transparency, the lack of short and long term planning, and misinterpretations with the Distribution System Code as related to the electrification of new communities in the GTA.

Information gathered from ongoing hydro infrastructure plan discussions between BILD members and local distribution companies in the GTA have resulted in varying interpretations, servicing solutions and most importantly, cost to new homebuyers. In one instance, the servicing solution requires a significant length of new overhead residential hydro infrastructure at an estimated staggering cost of \$80 million to service the first subdivision. Based on the interpretation of the current OEB governance model and anticipated new home absorption rate of 750-1,000 units per year, this would result in a cost to new homebuyers of \$20,700 per unit. This includes an alarming capital cost of \$16,000 and interest charges of \$4,700 per new home at current interest rates.

In another scenario, the servicing solution includes a combination of new expansion costs that include overhead expansion infrastructure and new sub-stations at an estimated aggregated cost to new homebuyers of \$15 million to service the overall growth covered by approved secondary plans. Based on the interpretation of the current OEB governance model and same absorption rate used above, this would result in a cost to new homebuyers of \$4,100 per unit. This includes a capital cost of \$3,000 and interest charges of \$1,100 per new home at current interest rates. For clarity, both scenarios are required to service large new community/development areas and should be considered differently than the typical subdivision expansion process.

It must be emphasized that BILD members are community building partners who support the provincial Housing Supply Action Plan, the government's goal of significantly increasing the supply of all housing types in the Province and reducing the regulatory burden that increases costs and delays for future residents. It is evident based on just these two examples of many that the financial impact of this current approach does not serve to meet any objectives of accelerating housing/ employment supply or reducing the cost burden on the new homebuyer or business.

URGENT NEED FOR NEW APPROACH

There are significant industry concerns with the delivery of energy infrastructure for many sites in the GTA and beyond that have been planned or approved for development. These concerns have culminated and often go beyond the purview of the Ontario Energy Board.

Cost Implications

There are on-going concerns pertaining to requests to developers from local distribution companies to contribute towards the expansion cost of the electrical infrastructure for various projects. This is unreasonably coupled with the lack of readiness and planning from the local distribution companies to provide supply within the expected timelines of

the project. There does not appear to be a direct link between development planning and long term planning by local distribution companies.

As an example, we are now seeing that local distribution companies are requesting large infrastructure requirements to meet the needs of large Secondary Plan areas, at the time of the initial individual applications. BILD members are also faced with the situation of having all of their approvals in place, only to receive late notifications from the local distribution company that there are challenges associated to the availability of electricity for their projects or developments, which were not communicated during the due diligence or approvals process.

These financial impacts, as illustrated in the previous section, are becoming too onerous, particularly recognizing that such costs benefit lands beyond the applicants' lands and for which there is not a timeline for recovery or adequate compensation. Furthermore, this will impact new homebuyers, while existing ratepayers will benefit from energy system improvements.

When contemplating the need for a new approach to electrifying new communities:

- It must be paired with a complete evaluation of who should pay for what, and how.
- Local distribution companies must be part of the municipal planning process and incorporate long-term housing plans into their long-term system planning,
- It must also be coupled with an examination of responsibilities, accountability, transparency and fairness. Existing local distribution companies, existing residents, new local distribution companies, new resident, system-wide ratepayers and taxpayers should all be part of the equation.
- The question remains as to how a proponent pays and if it is upfront, in the form of rates, or in the form of taxes.
- Payment issues for “first payer” (i.e. the first phase of a development project, the first builder in a subdivision, the first building of a larger site plan, etc.) versus the entire future development must be contemplated and solved for.
- It must be determined what is being paid for. For example, is it the enhancement of the distribution system reinforcement of assets versus the expansion of assets; or trunk lines to a new community versus a connection to a subdivision for that community.
- It should be noted that local distribution companies are for-profit organizations that only stand to benefit financially from the current approach on the backs on new homebuyers and businesses.

Transparency: Implementation and Interpretation

BILD members have also indicated that significant challenges are apparent regarding transparency in different OEB practices:

- The implementation and interpretation of the OEB rules and regulations vary throughout the GTA by the local distribution companies. The Ontario Energy Board's Distribution System Code sets the minimum conditions that a local distribution company must meet in carrying out its obligations to distribute electricity, however, there is no unified interpretation by them.
- There is little to no transparency from the local distribution companies, or public information made available, regarding the available or existing capacity of the electrical system for both the existing rate payers and new developments.
- The local distribution company's formulas for what triggers an addition of assets and the charges for these assets do not appear transparent.
- There is also uncertainty regarding who is responsible for regulating and confirming the existing electrical system capacity when a conflict arises.

Disconnect with Municipal Planning: Impact on Development Timelines

Through the traditional planning process of Secondary Plans and/or Official Plan Amendments at the Regional and municipal level, the local distribution companies are included as an impacted stakeholder. For profit local distribution companies are often owned by the very municipalities that are conducting the municipal development approval process. However, compared to the delivery of other infrastructure for new developments, the local distribution companies claim to be surprised by and unprepared for the size and scope of new developments which leads to unplanned energy infrastructure and delays with occupancies. There is a fundamental disconnect which must be examined and solved for prior to and/or with an examination of alternative solutions to electrify new communities. The local distribution company needs to be more than a stakeholder and must be engaged in the detailed long-term planning of these communities.

Also, the length of time that it takes for local distribution companies to plan, design and construct their infrastructure to support proposed residential, commercial and employment developments make it extremely challenging to meet occupancy timeframes.

A new and improved, and upfront consultation and planning process should be contemplated to address this within the current municipal development application approvals process.

Relation to Provincial Objectives

The provincial Housing Supply Action Plan identifies "(a)... confusing and broken housing development system that's impossible for people and home builders to navigate and this has led to a housing shortage and skyrocketing housing prices and rents. The people of Ontario deserve better. We cannot fix the housing shortage on our own, but we can cut red tape to make it easier to build new housing for people to rent or own. We will give the

people of Ontario more choice and make housing more affordable. We believe people right across Ontario and in every stage of life should be able to find a home that meets their needs and their budget.”

All of the above identified challenges will have a negative impact on these provincial objectives. We are in housing crisis, in a landscape where it takes too long and costs too much to build communities, in an environment of red tape, unexpected changes and government fees that add time to deliver and tens of thousands of dollars to the cost of an average home and employment space.

The expansion of energy infrastructure is essential to accommodate the increasing demands of a growing population and to meet the Province’s housing targets. However, the stringent regulations and inconsistent implementation by the local distribution companies are becoming cost prohibitive, are impacting timelines, discouraging investment, and deterring land developers from undertaking crucial projects that would enhance infrastructure and housing supply.

To help meet the province’s mandate of building 1.5 million homes by 2031 and the associated commercial and employment lands to provide Ontarians jobs, we must collectively tackle the above noted challenges to electrifying new communities.

Ontario’s housing supply crisis is a problem which has been decades in the making. It will take both short-term strategies and long-term commitments from all levels of government, agencies and the private sector, to drive change. This now also includes the Ontario Energy Board and local distribution companies. All of these entities will have to do their part to be part of the solution to this crisis.

ASSESSMENT OF OPTIONS PRESENTED BY THE ONTARIO ENERGY BOARD & RECOMMENDATIONS FOR NEXT STEPS

BILD believes that we all have a collective part to accelerate supply of all housing and employment types in Ontario as we prepare for current and future residents. This includes other agencies and stakeholders such as Regions and municipalities (often the owners of the local distribution companies), the Ontario Energy Board, local energy distribution companies, as well as the provincial and federal government. There must also be an understanding of the various roles, responsibilities, functions and realities of all of these parties involved.

At its stakeholder session of April 3rd, the Ontario Energy Board identified a range of potential options related to distribution system expansion for housing development and cost recovery options. These related to the extension of customer connection and revenue horizons and OEB proposed alternative cost recovery approaches such as a development

charge model, stand-alone rates for new developments, and a revised system enhancement model to facilitate large new planned communities.

Prior to the removal of the 'Upstream (development) Charge' in 2012, developers paid a charge for every kilowatt of existing capacity consumer through a new connection made to the electrical distribution system. This upstream revenue allowed the local distribution company to contribute toward new infrastructure (i.e., enhancement of the bulk distribution system and transformer stations). This allowed the local distribution company to fund new enhancements ahead of the request for connections by developers. The planning for any enhancement work by the local distribution company was not tied to any one particular 'Offer-To-Connect (OTC)' application, but rather forecasted through the local distribution company's capital planning based on early, often and effective communication with the municipalities and regions.

However, times and systems have changed, have become much more complex, and more financially onerous. To suggest the reintroduction of a development charge model alone would not be workable or be sustainable without the examination of a full cost recovery model, including a solution associated to compensating front-end infrastructure costs. Not to mention that development charge models are used by not for profit agencies, such as municipalities. This also means that new electricity supply used for "uses" other than new residential also have a role to play in contributing to an upgrade system.

Related to extending the connection and revenue horizons, a discussion on this would be welcome by BILD and its members, and there is merit to extending both. However, it must be noted that it alone is not sufficient to solve the challenges already described. What is also required is more appropriate delineation between enhancements/expansions, system reliability and true connections to sites and subdivisions. Both local distribution companies and the development industry have a shared interest to increase supply, but it must be noted that the longer the horizon is, demand will grow so the local distribution company will also need to provide and plan for the long term supply.

Regarding expansion costs, this requires a complete discussion on who should bear the enhancement and expansions costs, but also associated to this should be an examination of other tools for funding. Local distribution companies require more flexibility to plan for, and fund new investment to electrify new housing and employment developments.

Another tangent to be explored is the nexus between electricity infrastructure planning and provincial planning documents such as the current Provincial Policy (Planning) Statement, the Growth Plan, and Federal Carbon Tax targets. All provide comprehensive, integrated, and 'whole-of-government' policy direction on land use planning matters including:

- Growth management, housing and economic development;

- Infrastructure planning and investment, such as sewage, water and storm-water management services, transportation, transit, corridor protection and **energy supply**; and,
- The reduction of the overall carbon use within a new company.

Energy infrastructure must be delivered on time to meet demand. Ontario is behind on infrastructure planning and building, and in theory, must ‘catch up’ to the plans for growth in the provincial Growth Plan. We must align with provincial goals as outlined in overarching policies. Therefore, as part of arriving at alternative solutions to electrify new communities, **BILD recommends that the province conduct an economic and infrastructure delivery review based on, and in alignment with, the current provincial Growth Plan.**

BILD also recommends that the provincial government contemplates its own role and responsibility to support electrifying new communities and considers delivering on the need for provincial investment.

It is challenging to arrive at one clear solution when recognizing the degree of challenges associated to electrifying new communities. It is also difficult to assess options when understanding that many have significant cost implications for the new homeowner, and/or potentially unfair and unequitable cost burdens on the first entity required to provide power to the initial phase of a development or project. Costs for existing and new ratepayers must be balanced. Fairness and affordability for ratepayers and homebuyers must be contemplated. Any alternative to the current connection approach must recognize, and move to eliminate the above noted burdens.

BILD believes there is merit to discuss a financial mechanism where a developer can invest and is assured of the return of their investment towards the expansion work required by local distribution companies. However, this is not to suggest that the developer is leading long-term planning with the local distribution companies. The goal should be that municipalities and the local distribution companies lead the planning of its infrastructure, in consultation with the industry to ensure alignment of these long term growth plans.

To reiterate, we suggest an Industry Roundtable for meaningful dialogue and for quick action in partnership with the province and all stakeholders. This forum could begin to examine a collective solution that (but is not limited to):

- allows the local distribution companies to plan regarding the expansion of their infrastructure to accommodate growth in a timely fashion and meet provincial housing mandate
- begins to examine a financial mechanism where a developer can invest and is assured of the return of their investment towards the expansion work required by local distribution companies

- could provide a forum to discuss concerns within the Distribution System Code that includes: enhancement, expansion, general load growth, and connection horizon definitions
- could be a forum for discussions around a transparent funding model that includes initial and long-term financial impacts for all stakeholders through the assessment of new infrastructure costs

We believe that a solution can be achieved that strikes a balance between consumer protection and the long-term growth and sustainability of the energy sector.

BILD, therefore, recommends that the Ontario Energy Board continue its discussion with the industry to examine the probability of identifying which solutions are appropriate in various scenarios, which may include the establishment and implementation of various options at the same time.

BILD also recommends that these continued discussions on a development of a new approach to electrify new communities are guided by a transparent, accountable, predictable and timely process with outcomes that are fair, affordable and commercially manageable. All of these principles will help to ensure that energy infrastructure is delivered on time to meet demand.

We recognize the complexity of this conversation, and recommend that BILD, its members, the appropriate Ministries such as Energy and Municipal Affairs and Housing, as well as local energy distribution companies and municipalities where appropriate, and the OEB engage in regular dialogue through the creation of a formal Industry Roundtable.

Closing Sentiments

Ontario's housing supply crisis means too many people are unable to find a home that meets their needs and budget. BILD members agree with the government's goal of significantly increasing the supply of all housing types in the province and reducing the regulatory burden that increases costs and delays for future residents. A solution in addressing this crisis and improving affordability is to ensure more supply is created and readily available, and looking for alternative solutions to electrify new communities for Ontario's residents must be a part of that conversation.

The Ontario Energy Board's consultation as related to the new provincial Letter of Direction is a welcome one. BILD and its members are significantly interested and effected stakeholders who are eager to work with the Ontario Energy Board and all interested parties. We are committed to being a part of both short and long term solutions, recognizing that this is the start of what we hope are effective and productive conversations.

Thank you again for the opportunity to submit these preliminary comments. We trust that you will take them into careful consideration and we look forward to additional conversations and additional stakeholder input as we collectively move forward to finding sustainable alternative solutions to electrifying new communities for future residents of Ontario.

Sincerely,



Paula J. Tenuta
Senior Vice President, Policy & Advocacy

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With more than 1,100 member companies, BILD is the voice of the home building, land development and professional renovation industry in the Greater Toronto Area. The building and renovation industry provides more than 231,000 jobs in the region and \$26.9 billion in investment value. BILD is proudly affiliated with the Ontario and Canadian Home Builders' Associations.