



May 1, 2024

Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON
M4P 1E4

Dear Ms. Marconi,

**RE: EB-2024-0092 Electricity Distribution System Expansion for Housing
Development - CCMBC Comments**

Attached are the comments of the Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC) in the EB-2024-0092 Electricity Distribution System Expansion for Housing Development engagement.

Respectfully submitted on behalf of CCMBC.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Catherine Swift (CCMBC)

EB-2024-0092

Electricity Distribution System Expansion for Housing Development

Comments of

The Coalition of Concerned Manufacturers and Businesses of Canada

May 1, 2024

Executive Summary

The Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC) believes that the proposal to extend the connection horizon from 5 years to 15 years for residential real estate developers is a reasonable proposal if it also applies to the connection horizon for commercial and industrial businesses.

CCMBC is opposed to the proposal to extend the revenue horizon for residential housing developers from 25 years to 40 years while leaving it unchanged at 10 years for commercial and industrial businesses. CCMBC believes that the revenue horizon for all new customers should be the same and be set at 25 years.

CCMBC believes that the Stand-alone Rates for New Developments is the best alternative for cost recovery because it has been used by gas distributors for many years without any problems.

Background

By letter dated March 13, 2024, the OEB announced that it was starting a policy review of electricity distribution system expansion for housing development, with specific focus on the connection and revenue time horizons related to recovery of expansion costs. This review is being undertaken in response to the Minister's request in his letter of November 2023 which highlights the importance of ensuring the balance between growth and ratepayer costs remains appropriate. The final report must be submitted to the Minister by June 30, 2024.

The OEB engaged stakeholders and invited them to a meeting on April 3, 2024, to gather input on the existing rules pertaining to the customer attachment and revenue horizons, exploring various options that have been identified by OEB staff and identifying any associated considerations for each option. After the meeting, stakeholders were invited to submit written comments on the issues discussed and options that were presented. CCMBC attended the April 3rd meeting, and these are CCMBC's comments.

Current Connection and Revenue Horizons

As explained by OEB Staff at the April 3rd meeting, the OEB has established rules for electricity distributors regarding customer connections. These rules are based on the principle of beneficiary pays such that the person who benefits from a connection should pay for the connection. Where there is no clear beneficiary, the cost may be recovered more broadly through rates. The rules set out how costs and benefits are to be assessed, including setting out economic evaluation models and the parameters to be used in applying the models. The rules also provide for payments of capital contributions, expansion deposits, and expansion rebates.

Time horizons for customer attachment and customer revenues for housing development are used in a discounted cash flow calculation to determine if a housing developer will be required to pay a contribution-in-aid of construction or not. A development project whose revenues are not great enough to pay for the costs of construction on a present value basis is deemed to be not feasible. For that project, the developer is required to pay a contribution large enough to make the project feasible. The contribution is paid to the distribution company to offset the cost of connecting the development project to the distribution system.

The current time horizons for customer attachment and customer revenues for housing development are specified in Appendix B of the Distribution System Code.

- a) *“A maximum customer connection horizon of five (5) years, calculated from the energization date of the facilities. (DSC footnote 1)*
- b) *A maximum customer revenue horizon of twenty-five (25) years, calculated from the in-service date of the new customers. (DSC footnote 2)*
- c) *A discount rate equal to the incremental after-tax cost of capital, based on the prospective capital mix, debt and preference share cost rates, and the latest approved rate of return on common equity.*
- d) *Discounting to reflect the true timing of expenditures. Up-front capital expenditures will be discounted at the beginning of the project year and capital expended throughout the year will be mid-year discounted. The same approach to discounting will be used for revenues and operating and maintenance expenditures. (DSC footnote 3)*

DSC Footnotes:

1. *For customer connection periods of greater than 5 years an explanation of the extension of the period will be provided to the Board.*
2. *For example, that the revenue horizon for customers connected in year 1, is 25 years while for those connected in year 3, the revenue horizon is 22 years.*

3. *For certain projects Capital Expenditures may be staged and can occur in any year of the five-year Connection Horizon."*

Distributors have the discretion to assign the revenue horizon to different customers, based on external & internal business risks (e.g., 25 years for residential homes, 10 years for an industrial facility).

Therefore, for projects of equal costs and revenues, industrial customers will be required to pay a greater contribution than residential developers or pay a contribution where residential developers would not have to pay any. Since both are customers of the same distributor, under the current system industrial customers are forced to subsidize residential developers.

If a capital contribution is required, it may be up to 100% of forecasted revenues as the Expansion Deposit of up to 100% of capital costs. Once facilities are energized, the distributor is required to annually return a portion of the Expansion Deposit in proportion to the actual connections (number of homes for residential developments) or actual demand (commercial/industrial developments) over the connection horizon.

Distributors can keep 10% of the Expansion Deposit for a warranty period for at least two years. The 2-year warranty period begins with the last forecasted connection or at the end of the connection horizon.

Un-forecasted customers that connect to the distribution system during the customer connection horizon will benefit from the earlier expansion and are required to contribute their share. In such an event, the initial contributors are entitled to a rebate from the distributor. Distributors have discretion, on a case-by-case basis, to extend the customer connection horizon that is used in distribution system expansions.

One of the problems with the current system is that initial developers may have to pay the contribution while later developers may not.

Proposal to Extend the Connection Horizon

OEB Staff presented a proposal to extend the connection horizon to up to 15 years or to the completion of all phases of a residential housing subdivision development, whichever comes first. Subsequent customers connecting to the system expansion within the next 15 years will be required to contribute. The initial developer(s) would still cover the capital contribution for the initial system expansion. There would be no change if the entire subject area is developed within 5 years. If the period is extended beyond 5 years, initial developers would receive an expansion rebate from subsequent developers. Initial developers may face higher expansion deposit payments if forecasted revenue increases due to additional homes are not achieved. Expansion

deposit return period would be extended to the end of the last subdivision phase or 15 years.

OEB Staff also asked if the distributors should continue to have the discretion to determine the connection horizon for each project, or should it be standardized across the province, and what sections of the DSC should be reviewed and/ or changed if the connection horizon were extended.

CCMBC Comments

CCMBC believes that the proposal to extend the connection horizon from 5 years to 15 years for residential real estate developers is a reasonable proposal if it also applies to the connection horizon for commercial and industrial businesses. A manufacturer that is building a new plant in several phases over 15 years should be treated the same as a residential housing developer building a residential subdivision or a condominium development in phases over a 15-year period.

Residential housing developers are in the business of building homes to make a profit. They are not a charity. Commercial businesses and manufacturers are also in business to make a profit. CCMBC submits that they should not be forced to pay subsidy in rates to subsidize residential housing developers for even more years than they do now. CCMBC believes that all profit-making businesses should be treated equally. It is unfair that profits of companies that are not in the housing development business should be reduced to increase the business profits of housing developers.

If the OEB decides to extend the connection horizon to 15 years, it should be standardized across the province and it should apply to all businesses, not just housing development businesses. It is likely that some sections of the DSC may have to be revised but CCMBC does not have the resources to conduct a comprehensive review of the DSC and will rely on OEB Staff to do it.

Proposal to Extend the Revenue Horizon

The DSC sets out a maximum customer revenue horizon of 25 years, calculated from the in-service date of the new customers. Distributors have the discretion to assign the revenue horizon to different customers, based on external & internal business risks (e.g., 25 years for residential homes, 10 years for an industrial facility).

The longer the time horizon, the greater the influence of the discount rate on the NPV calculation. While extending the duration increases the nominal amount of cash flows, the present value does not increase linearly due to the compounding effect of the

discount rate. Longer time horizons introduce more uncertainty and risk into NPV calculation.

OEB Staff believes that 25 years is considered short for residential customers because average life of residential homes is generally much longer. Board Staff proposed that the revenue horizon be extended to up to 40 years for residential customer connections.

CCMBC Comments

CCMBC is opposed to this proposal. Under to current rules the revenue horizon for commercial and industrial customers is 10 years while it is 25 years for residential housing developers. This means that all customers, including commercial and industrial customers will be forced to subsidize residential developers of marginal residential housing developments for an additional 15 years for up to 40 years. Moreover a 40-year horizon would expose current customers to a significant increase in uncertainty and risk.

Increasing the revenue horizon for residential housing developers to 40 years will be even more unfair than the current revenue horizon of 25 years when compared to the 10-year revenue horizon applied to other profit-making businesses. CCMBC believes that the revenue horizon for all customers should be the same and be set at 25 years.

Proposals for Cost Recovery

OEB Staff presented three alternative proposals for cost recovery:

- 1.Fixed Development Charges
- 2.System Enhancement
- 3.Standalone Rates for New Developments

Fixed Development Charges alternative proposal is like the up-front fees collected by municipalities from land developers to cover the capital costs of infrastructure required for new development, such as water and sewer systems, schools, and roads. Municipalities establish a set of fixed development charges for different types of housing/commercial development based on studies that project growth, necessary services, and infrastructure costs, in accordance with legislation. Payment is made by developers upon issuance of building permits. Development charges could be established by each distributor as an alternative to the current DSC approach to cost recovery for housing development. The charges would be set for a specified period and for a type of housing, The charge would be paid by a developer or new homeowner regardless of the costs involved in connecting that consumer and these amounts would be used to pay for all expansions.

Under the System Enhancement alternative proposal, the definition of “enhancement” in the DSC could be revised to allow for initial system expansions that are intended to facilitate large new planned multi-year residential development areas. The cost of this enhancement work would be recovered through the distributor’s delivery rates. Subsequent expansion work could follow existing cost allocation methods (e.g., 5-year connection horizon, 25-year revenue horizon). According to the OEB Staff, this approach would lower costs and therefore facilitate subdivision connections in new development areas. Defining “new development area” or qualifying a “project” would be a key challenge.

Under the Stand-alone Rates for New Developments alternative proposal special rates are set for a designated project requiring substantial initial system expansion for housing development. A similar approach has been used in natural gas community expansions. Expenses for connecting residential and business customers will be offset by special local rates for the customers connecting to the designated expansion. These rates will remain in effect until the capital contribution has been fully paid. According to OEB Staff, this could reduce upfront costs for subdivision connections in the new development area. Distributors may face administrative challenges in managing various “rate zones”. Defining the boundary of such an area could pose difficulties due to interconnected electrical systems.

CCMBC Comments

Of the three alternative proposals, CCMBC believes that the Stand-alone Rates for New Developments is the best alternative. It has been used by natural gas distributors and has worked well. It reduces the potential for cross subsidies between current and future customers and is easy to administer.