

BY EMAIL AND RESS

May 1, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2024-0092 - Engagement on Electricity Distribution System Expansion for Housing Development

OVERVIEW

In his November 29, 2023, Letter of Direction, the Minister of Energy reiterated the Provincial Government's "*ambitious [goal] to build at least 1.5 million new homes*" and noted "*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*".

To that end, the Minister asked the OEB to report on a review of "*electricity distribution system expansion connection horizon and revenue horizon direction to ensure that the balance of growth and ratepayer costs remain appropriate*" by June 30, 2024.

On April 3, 2024, the OEB engaged stakeholders in a meeting to present connection and revenue horizon options and seek feedback. The OEB invited stakeholders to provide written feedback on the issues discussed by May 1, 2024.

Hydro One recognizes the urgent need to build more housing in Ontario, faster, while protecting ratepayers, and is taking steps beyond the scope of this consultation to advance those objectives. In response to a 44% increase in demand for subdivisions in our service territory, Hydro One implemented changes to its connection process, added connections capacity through third-party contractors, and provided enhanced assistance to developers to guide projects through the connections process.

Hydro One is pleased to submit the following written comments to build on steps already taken in pursuit of these important goals for housing.

SUMMARY OF KEY FEEDBACK

The current regulatory framework for distribution system expansions has endured and performed well for new and existing customers. In Hydro One's view, it can continue to perform well during a period of

heightened residential growth through thoughtful, incremental reforms to current cost recovery rules. It was apparent from the April 3 consultation that the current cost recovery framework for distribution system expansions does not require an overhaul, but that, in certain circumstances, the current rules can produce unacceptable outcomes. Hydro One respectfully submits that the proposals contained within can make a meaningful contribution to the Government's policy goals for housing and minimize incremental risk to future ratepayers.

Hydro One's key recommendations for consideration, discussed in further detail below, are as follows:

- **The current regulatory framework for distribution system expansion should evolve:** Hydro One respectfully submits that the current cost recovery framework for distribution system expansions for residential development can evolve to better support the Government's housing policy objectives.
- **Connection Horizon:** Hydro One is supportive of extending the current five-year connection horizon to potentially ten years for housing developments. The OEB may consider using targeted regulatory tools to ensure clear eligibility for a longer connection horizon where the benefits of a longer connection horizon clearly outweigh any incremental administrative effort or other risks.
- **Revenue Horizon:** Hydro One supports extending the revenue horizon for electricity distributors. A longer revenue horizon would decrease the upfront capital contribution needed from housing developers, resulting in lower upfront housing costs.
- **Alternatives proposed by OEB Staff:** Hydro One is open to exploring these alternatives in the future with the benefit of added time, but focus should remain on revenue and connection horizons at this time.

The scope of Hydro One's feedback is limited to the application of cost recovery policies to residential housing connections. To the extent that the OEB considers reforms beyond this scope, Hydro One submits that a more detailed consultation would be required.

COMMENTS IN RESPONSE TO THE DISCUSSION QUESTIONS POSED BY OEB:

Section 3: Connection Horizon

1. Is extending the connection horizon a practical and feasible option?

Hydro One supports OEB Staff's proposal to explore extending the connection horizon for residential developments to up to ten years. At the April 3 OEB consultation, developers expressed how it can take longer for load to materialize for large, multi-stage residential developments and that five years is simply not long enough in those instances. This is consistent with what Hydro One has heard directly from residential developers. Extending the connection horizon for residential developments is a practical and feasible option to support the Government's housing objectives.

2. What risks or concerns are there with extending the connection horizon for both developers and distributors (and existing customers)?

While there are some risks with extending the connection horizon for residential developments, mitigations are available to preserve the desired effect of extending the connection horizon for residential developments and the Government's housing policy objectives more broadly.

Increasing the connection horizon would introduce a degree of additional administrative effort and complexity to the management of rebates, because the number of projects requiring rebate administration would both increase in volume (more projects under administration) and become more complex (higher likelihood of compounding rebates). Extending the connection horizon too far would also discount the value of the expansion deposit to the risk of existing ratepayers. On this basis, Hydro One does not support the option tabled by OEB staff to extend the connection horizon beyond ten years, as these risks increase with the duration of the connection horizon.

Targeted regulatory tools could be looked at to mitigate these risks further. At the April 3 OEB engagement, some residential developers expressed that five years is adequate for "lies along" developments where capacity is already "at the doorstep" of a new development, but that risks are considerable when the connection point is further away. The OEB could consider establishing simple, transparent criteria correlated to these concerns (e.g., a certain length of distribution build-out) to determine eligibility for a longer connection horizon. Such an approach would provide predictability to residential developers, contribute to a more consistent treatment for residential developers across utilities, and preserve the benefit of a longer connection horizon for projects where it is needed most. The OEB could also consider establishing a less frequent refund calculation beyond year 5, similar to the Transmission System Code true-up intervals, to further mitigate administrative burden.

3. *Should distributors continue to have the discretion to determine the connection horizon for each project, or should it be standardized across the province?*

Hydro One believes the standardization provided in responses to Questions 1 and 2 above would contribute to an enduring framework that is fair, transparent, and simple to operate while continuing to protect existing ratepayers during this period of intensive residential development. Hydro One understands that residential housing developers require equitable access to the province's electricity distribution systems. They also require equitable treatment of capital contributions and the related connection and revenue horizons for their projects, to ensure that a fair share of the needed distribution system expansions is paid for – a point residential developers conveyed during the April 3 OEB consultation.

4. *What sections of the DSC should be reviewed / changed if the connection horizon were extended?*

If the connection horizon were extended for residential connections, all sections within the DSC that reference a customer connection horizon of five years and are applicable to *load customers only* would need to be reviewed and revised with new language specific to residential customers. Hydro One

specifically notes sections 3.2.23, 3.2.24 (b), 3.2.27 and 3.2.27 (a) in the body of the Code and within Appendix B of the Code, “Specific Parameters,” p. 4, item (a) and related footnotes 1 and 3.¹

Hydro One also suggests a review and update of relevant OEB Bulletins.

Section 4: Revenue Horizon

1. Does extending the revenue horizon seem feasible?

Hydro One supports an extension of the revenue horizon for residential housing developments as a measure to reduce housing costs. An extended revenue horizon reduces up-front development costs by reducing the capital contribution required at the time of expansion – a step that would provide a meaningful contribution to the Government’s housing policy objective. Hydro One recommends that the OEB prescribe a specific revenue horizon to ensure consistent treatment among distributors across the province, and observes that the revenue horizon for residential connections for gas distributors is 40 years for new connections.

2. What risks or concerns are there with extending the revenue horizon for both developers and distributors (and existing customers)?

An increase to the revenue horizon would reduce capital contributions and increase distributors’ net expenditures on subdivision projects. Hydro One believes that the risk to ratepayers in extending the revenue horizon for residential housing development is minimal, as these residences are expected to remain connected and be supplied by the grid for the long-term.

3. What sections of the DSC should be reviewed / changed if the revenue horizon was extended?

The DSC’s Appendix B, “Specific Parameters p. 4, item (b) states “A maximum customer revenue horizon of twenty-five (25) years, calculated from the in-service date of the new customers.” This section and the related footnote 2 will need to be updated to reflect the new revenue horizon for residential developments.

¹ As an additional consideration, Hydro One observes that for single energy-billed customer connections, the mandated collection of expansion deposits (when capital contributions are required, in accordance with the DSC s.3.2.20), could be eliminated. Hydro One acknowledges that this suggestion falls slightly outside the scope of this consultation, but considers it worthwhile for OEB contemplation at this time. The risk of such connections not materializing is low and will likely remain so, given that the demand for new housing across the province is expected to continue for the next few years.

Section 5: Alternative Cost Recovery Approach for Discussion

The three alternatives are:

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

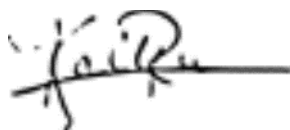
1. Should these approaches be considered for cost recovery?

Not at this immediate time. The OEB should consider exploring these options in the future once more pressing reforms to connection and revenue horizons are addressed.

CONCLUSION

Hydro One thanks the OEB for the opportunity to provide the above comments. Hydro One would welcome the opportunity to engage with OEB staff at any time to contribute to the advancement of this important Government priority.

Sincerely,



Kaleb Ruch
Director, Regulatory Policy & Strategy
Hydro One Networks Inc.