May 1, 2024

Mr. Brian Hewson
Ontario Energy Board
2300 Yonge St, 27th Floor
Toronto, ON M4P 1E4

Dear Mr. Hewson:

Re: **System Expansion for Housing Developments Consultation**

As part of the Minister of Energy's 2023 Letter of Direction and full endorsement to proceed on ambitious goals for housing, transportation, and job creation to build highways, subways and improved rail transportation, the Ontario Energy Board (OEB) was asked to review its electricity distribution expansion connection horizon and revenue horizon to ensure that the balance of growth and ratepayer costs remain appropriate.

On April 3, 2024, the OEB held a virtual stakeholder meeting to discuss the existing rules for connection and revenue horizon, facilitating a conversation between stakeholders and consumer group representatives regarding electricity infrastructure costs in relation to new subdivision developments. A briefing on existing policies was presented to the broader stakeholder community including local distribution companies (LDCs), as well as OEB slides for 'potential options for changes to both horizons' with limited supporting analysis. As Ontario's independent energy regulator, the OEB must balance changes to the current beneficiary pays process, with its obligation to set fair, just, and reasonable rates, allocating costs responsibly amongst those who are directly benefitting from those investments.

The scope of the consultation unfortunately was limited to the Minister's letter for connection and revenue horizons and did not explore further the concern expressed by multiple stakeholders during the virtual meeting, particularly **that first mover developers,** in multi-phase/multi-developer projects where there is no distribution infrastructure nearby (greenfield developments)**, must incur a disproportionate share of the costs to bring that infrastructure to the greenfield development location (trunk line)** with no guarantee of future recovery of costs from follow-on developers. **In some instances, this has created upfront barriers to growth**. Costs to current customers is a critical consideration that should not be overlooked by narrowing the focus to these two items.

The Electricity Distributors Association (EDA) represents local hydro utilities across Ontario. Ontario's electricity customers know that LDCs are their frontline representative to the electricity system. LDCs hold insights into customers' existing and future needs for electricity and delivery services which support LDCs in appropriately planning their distribution systems

Electricity Distributors Association
3700 Steeles Ave. W., Suite 1100, Vaughan, Ontario L4L 8K8 Tel/Fax 647.EDA.5300 1.877.262.8593 email@eda-on.ca www.eda-on.ca

and deploying technology. LDCs are essential partners in the successful development of the infrastructure necessary to build 1.5 million housing units. Whether traditional poles-and-wires, supported by the enabling infrastructure or innovative technologies coupled with the enabling or foundational infrastructure, LDCs have the technical skills, experience, and ability to responsibly plan and build the system that will provide the distribution service(s) customers need and want, reliably and at an appropriate level of quality. LDCs intend to meet their customers' expectations both operationally, and from a rate consideration perspective, while contributing to being 'part of the solution'.

This submission provides the comments of our members on matters arising in the above-named stakeholder consultation. Our members will be directly affected by the outcomes of the OEB staff recommendations in its report to be submitted to the Minister of Energy by June 2024, as it will impact the current cost recovery principle, and the risk profile of distributors' cost recovery approach for expansion. The following submission is organized by the OEB's three areas of interest during the consultation:

(1) Connection Horizon,
(2) Revenue Horizon, and
(3) Alternative Rate Designs.

(1) <u>Connection Horizon:</u>

We believe that extending the connection horizon to all expansions is not the practical or feasible option to address the issues which were identified by stakeholders. The process generally does not appear to be an issue for subdivisions where infrastructure is nearby, and the average development is attached quickly and completed before the five-year horizon expires. <u>The current default connection horizon of five years for residential housing expansions should remain as is where capacity is existing alongside the development</u>. We understand that in many regions across the province where infrastructure is near developments, changing the connection horizon would do very little to assist developers in the connection process.

We support the current default connection horizon of five years for residential housing expansions and suggest that it remain unchanged where capacity is existing alongside the development. The current connection horizon does not appear to be an issue for subdivisions where infrastructure is nearby, and the average development is attached quickly and completed before the five-year horizon expires.

We are concerned that the connection horizon (and revenue horizon) has not been presented as areas for change that can address the main issue, bringing infrastructure to greenfield developments and supporting housing development fast. We also question the contradiction of extending the horizon beyond five years, during a time when the government is focused on building homes faster.

Additionally, the administrative burden that comes with the extension of the connection horizon would be increased significantly for distributors. Using the current five-year connection horizon extends the resources of the LDCs for tracking, particularly in high growth areas. If the horizon is extended, LDCs would need more designated resources to track, analyze, rebate, and hold connections to account. Increasing the connection horizon would become very complex as infrastructure is built and would establish significant asset utilization risks that have the potential to create intergenerational rate impacts.

That said, we recommend targeted change to the connection horizon policy to address specific scenarios that have occurred in greenfield developments. While we believe that changing the connection horizon would do very little to assist developers in the connection process, we suggest that LDCs be able to extend connection horizons for specific projects at their discretion.

Specifically, we suggest, in situations such as greenfield developments, that LDCs be given continued discretion and flexibility for applying an extended connection horizon up to ten years, with an explanation of the extension given to the OEB [1]. We believe that a fixed and firm change is not practical**, and distributors should continue to have the discretion to determine the connection horizon for each project.** Moreover, we encourage the OEB to engage with the industry to evaluate collective understanding for when a longer connection horizon is warranted, such as project cost or scope.

The section of the Distribution System Code (DSC) that could potentially be reviewed and updated regardless of the determination of the connection horizon extension is *'Appendix B – Methodology and Assumptions for an Offer to Connect Economic Evaluation*'. We suggest that developers and customers be provided with clear information regarding the economic evaluation and/or expansion deposits to be added. This will provide a better understanding of the differences between initial capital contribution estimated calculations, and the impact of making changes to the development during the project, or delays in decision making that could have on the final costs or energization date and the variations that can occur due to timing. This clarification will also provide appropriate forecasting incentives to developers and would be an informative step towards building an understanding about cross-subsidization between connecting customers and the general rate base.

Similarly, changes to either the connection or revenue horizons will also likely impact LDCs' budgets and the amount to be funded through rates. We recommend that *Section 3.2.27- Unforecasted Customers* of the DSC be re-reviewed and defined for collective understanding and consideration of unforecasted customers. If the unforecasted customers were separated from the connection horizon with an adjustment mechanism to the years for unforecasted customers (such as 10 +years), this could benefit the allocation of the costs for a development and allow costs to be allocated to the customers and growth to the development fairly.

[1] As per the OEB Letter to all licensed electricity distributors dated December 22, 2022, distributors have discretion, on a case-by-case basis, to extend the customer connection horizon that is used in distribution system expansions.

There are some risks and concerns from our perspective to extending the connection horizon for both developers and distributors. The risk to existing ratepayers who are already paying a portion of the costs of these developments is that they will end up paying an even larger portion if the connection horizon is extended. **The Minister's letter clearly states that customers must be protected, and energy must be affordable, but a risk will occur if there is a shift in costs away from the new customers to existing customers.**

There is also the risk of added complexity if an increasing number of customers (developers) connect to an expansion over an extended connection horizon and the risk to developers is that they will get their expansion deposit returned over a longer period. For these reasons, we do not support extending the connection horizon, and continue to support a flexible solution with granted exceptions.

(2) <u>Revenue Horizon:</u>

Longer revenue horizons aligned with the gas distribution sector is feasible for electricity distributors and could decrease upfront capital contributions needed from housing developers, resulting in lower upfront costs. While it will not resolve the first mover (developer) issue, extending the revenue horizon for residential customers and aligning with gas distribution will ensure consistency and application to the LDC rate base and has the potential to reduce capital contributions moving forward. This change to revenue horizon takes very little effort to change in the distribution expansion process and will require updates to the Economic Evaluation process currently used, and consideration for a transition period.

If adjusted, the revenue horizon may achieve the best benefit through an adjustment of length to reflect the life of the distribution assets. This would allow revenue to be considered with the appropriate costs associated with the revenue. Changes to the revenue horizon may also impact LDCs' capital budgets and the amount of funding necessary through rates if a smaller capital contribution to the overall project is required of the developer.

Any increase to the revenue horizon should be considered for residential projects only, as it may not be logical to extend a commercial customer's revenue horizon beyond 25 years as a default. Commercial customers have a different risk profile with respect to ongoing revenue. Consideration could also be given to adjusting the revenue horizon if the project plan timeline is amended during the process. **We support extending and aligning the revenue horizon to facilitate distribution expansion.**

(3) <u>Alternative Cost Recovery Approaches:</u>

We do not support the alternative cost recovery approaches <u>as presented by the OEB</u> staff and do not recommend that staff propose any of these three options in its report to the Minister. <u>However, we have a willingness to explore the other options with better illustrated solutions and expert review.</u>

The comments provided in slides 20 -23 of the OEB presentation were provided to stakeholders at the highest level and conceptual basis. In this briefing there were three varying alternatives provided as alternative cost recovery approaches: (1) Fixed Development Charges, (2) System Enhancement, and (3) Standalone Rates for New Developments. There are some immediate concerns for each of the approaches, such as customer confusion, and administrative burden.

Most importantly, without a detailed design review we do not feel confident that these options have been examined appropriately, and we urge the OEB as an economic regulator to review them more thoroughly. To appropriately examine the benefits of any of these approaches, we suggest that there be further context, and illustrative examples provided to balance approaches to be considered. There should also be separate scenarios examined for large greenfield developments with no nearby infrastructure against the current process for expansions which generally have connecting hydro alongside their developments.

As noted above changing the policy for connections and revenue horizons will not resolve the issue of primary expansions or “trunk lines”. That is the main concern among stakeholders for developing housing faster where there is not any infrastructure nearby. The extension of infrastructure to the edge of the development location results in the first mover (developer) being charged 100% of the cost to build the primary expansion with no guarantee of future cost recovery from follow-on developers.

Given the pressures to develop housing and infrastructure quickly to support the government’s ambitious goals, LDCs believe that there is a need to consider an alternative approach to address this set of circumstances, which is the main barrier today to some development. We strongly encourage the OEB to scope the impacts on all LDC customers (both new and existing) to be considered when evaluating alternative system expansion rate design, as we are unsure if there was enough consideration given to consequences of these new ideas and the associated risks or unintended consequences they may introduce if they were pursued.

Conclusion

Given the potential implications of this consultation for distribution system expansion for housing developments, we believe that the consultation should not be narrowly scoped. We also suggest investigating a mechanism for predevelopment of infrastructure as more pressure is put on our businesses to develop faster. What was clearly presented is that the first mover has to pay for the costs of extending service for the whole planned community, and extending the connection horizon will not make the burden financially viable, and changing the connection horizon and revenue horizon alone will not address these issues.

For the most part, the current rules are reasonable for most circumstances, and the main issue occurs when there is development of new communities to greenfield areas that are not near existing infrastructure. What is needed is flexibility and exemptions from the DSC to facilitate growth and protect customers.

LDCs are essential partners in the successful development of the infrastructure necessary to build 1.5 million housing units. While we believe that change will be needed to address these challenges, we also need to consider the balance of cost to current customers not using the infrastructure in rate base and the balance of this decision is either the new customers through the costs of their homes, or the existing customers, through higher rates, neither of which was examined in the presentation.

To develop more housing, and faster, we need to reduce barriers. We request consideration be given to the issues identified above. LDCs and their customers will benefit from addressing the issues expressed in the stakeholder session, clear communication materials, and thorough examination.

We look forward to working with the Ontario Energy Board to find the most appropriate Distribution System Expansion for Housing Development structure that LDCs can successfully implement in the future. Please do not hesitate to contact Brittany Ashby, Senior Regulatory Affairs Advisor, at bashby@eda-on.ca or at 416.886.4420, if you have any questions or require anything further.

Sincerely,

Ted Wigdor
Vice President, Policy, Government & Corporate Affairs