May 1, 2024

VIA RESS

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Dear Ms. Marconi:

Re: System Expansion for Housing Developments Consultation; OEB File: EB-2024-0092

On March 13, 2024, the OEB initiated a consultation to inform its policy review of electricity distribution system expansion for housing developments, with specific focus on the connection and revenue horizons related to recovery of expansion costs. A review and report on the topic was requested by the Minister of Energy ("Minister") in the November 2023 Letter of Direction, in which the OEB is directed to ensure the balance between growth and ratepayer costs remains appropriate.

On April 3, 2024, the OEB hosted a virtual meeting with stakeholders in order to gather input on the existing rules pertaining to the two horizons, as well as to discuss alternative cost recovery approaches identified by OEB staff. The OEB invited stakeholders to submit written comments by May 1, 2024.

Alectra Utilities ("Alectra") has considerable experience in this domain and is pleased to provide its perspectives in this consultation for the OEB's consideration.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

Christine E. Long
Vice President, Regulatory Affairs & Privacy Officer
Alectra Utilities Corporation

Alectra Utilities Comments on System Expansions

Alectra Utilities ("Alectra") has a great amount of experience in supporting new developments through the system expansion process. Alectra completes approximately 20 expansion projects per year on average. Alectra has worked with, and continues to work with, most of, if not all of, the major developers in the province.

In Alectra's experience, the current processes that support expansions overall tends to work well. From the economic evaluation process through the offer to connect contracting, to the application of expansion deposits, warranties and unforecasted customers, the process is generally fair to all parties and represents an efficient way of incrementally expanding the system. It is a system that has served Ontario well over the past many decades for electricity distribution and is similar to processes used in other areas of the energy sector. That said, the priority that the province is placing on building new homes and the forthcoming energy transition and electrification are new. As a result, it is reasonable for the OEB to examine the processes and features of expansion policy to ensure that they are reasonable and fair.

Alectra's interest in this consultation is to assist the OEB in examining the policy to determine if certain changes might improve the system expansion process for new developments, and what the consequences of those changes could be. Alectra is interested in helping the province achieve its objectives for building homes, and also ensuring that ratepayer interests are maintained. This generally means that issues of fairness, minimization of cross subsidization, and good customer service are the lenses through which Alectra examines and evaluates any potential change.

As a first step, it is important to understand what issues, if any, require resolution or improvement. Unnecessary changes should be avoided. Based on the stakeholder comments made in the OEB's April 3, 2024 stakeholder meeting (the "April Meeting"), it is not clear to Alectra that there is any material shortcoming in respect of processes, timing, or capital contributions related to new developments. There appear to have been two main concerns expressed in the April Meeting, as follows:

1. In order to facilitate growth in an efficient and timely manner, developers require a greater level of certainty that capacity will be available when development projects require it.

2. In order to facilitate growth in a fair manner, the initial contributor in a new development should only pay for the capacity which they are proportionally responsible for, where feasible.

In the past it has typically been the case that capacity has been available at, or close by, a new development. However, now, with the number of new developments triggering system expansions, issues of capacity availability and variability have increased. Population growth,

energy transition, and electrification are using spare capacity in the distribution system faster than was previously the case. It is this increased need for capacity that may necessitate consideration of certain changes.

Below, Alectra responds to the OEB's questions on this file and offers its own comments. Alectra believes it is important that policy review or formulation, and the processes intended to carry out the policy, are guided by principles that promote good planning, good governance and fairness among stakeholders.

Key Principles underlying System Expansion Policy

The following key principles should guide and govern examination of the issues, as well as the processes and rules for system expansions in general:

- Fairness.
  Those who benefit from an expansion should be the ones to pay for it. Whether framed as the 'beneficiary pays' principle, or as was stated by Developers during the April meeting, "growth funds growth", to the extent possible or reasonable, it should be those that cause a cost to be the ones to pay for it. Extending the concept, the policy should seek to minimize cross subsidization between existing and new ratepayers.

- Flexibility.
  The current process allows for some flexibility to expand connection horizons beyond 5 years, if necessary or if circumstances warrant. The concept of flexibility should be integrated into the process to allow utilities and developers some latitude to address unique or complex scenarios as, or if, they arise going forward.

- Allowing for Effective Transition.
  If any changes are implemented to processes as a result of a change to the policy, then it may impact other aspects or processes as a result, and as such, care should be taken to ensure parties are kept whole. For example, changes could impact any number of supplementary issues, such as: the terms and conditions which impact offers to connect, agreements, or conditions of service; administrative processes, steps, requirements, and timelines; and capital contributions (and therefore utility capital budgets, expectations, and work planning) and expansion deposits. Utilities should have the opportunity to manage through changes so as to not impact other important work that will help facilitate energy transition and electrification. To this end, if any changes are considered, then utilities and stakeholders should be given sufficient lead time and regulatory tools necessary to address changes to financing, agreements, and risks (i.e., legal terms and conditions of agreements) as necessary.

- System Planning.
  Electrification and the energy transition are and will result in a material shift in demand, and the infrastructure necessary to supply that demand. Planning will require effective coordination among parties and agencies, including developers, municipalities, and utilities among others. Developers are encouraged to work together, and to the extent possible form consortiums in specific regions in order to ease planning and administrative challenges, and to promote cost efficiencies.

With these key principles in mind, Alectra responds to each of the OEB's questions from the April Meeting in the commentary that follows.

Connection Horizons

In the April Meeting, OEB staff sought to examine the consequences of extending the connection horizon. OEB staff have posed several questions in this regard for stakeholder comment. Below are Alectra's responses to OEB staff's questions.

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

Extending the connection horizon may be a reasonable option. Alectra is not opposed to lengthening the connection horizon to a period of up to ten years. Alternatively, the existing model that permits flexibility to extend the connection horizon for up to ten years is also suitable. During the meeting, the existing feature that permits flexibility for utilities to adopt longer connection horizons was discussed, and it was confirmed that this option, which has existed for decades, has been rarely used. It may simply be the case that employing a longer connection horizon more often could address any perceived deficiency in the policy. As explained below, Alectra believes that reserving or holding capacity for a specific development project beyond ten years should be dismissed altogether.

An extension of the connection horizon would, in theory, permit a greater number of connecting customers to a particular development, which would increase the associated revenues, which would (all else equal) reduce capital contributions. On the other hand, it would also impact other features of the process. For one, the amount or level of capital costs and OM&A would also increase and need to be reflected in the evaluation. The expansion deposit should be aligned with the connection horizon since its purpose is to ensure that either costs or revenues are kept in line with forecasts at the time of evaluation. This would increase both the amount and duration of expansion deposits developers would be required to pay, and for utilities the time horizon over which these need to be measured and accounted for (i.e., returned to developers in accordance with the load or connections materializing).

In Alectra's view, extending the connection horizon to 15 years (as contemplated by OEB staff in the April Meeting) is too long. This amount of time would be very difficult for utilities to implement from a tracking and administration perspective. In addition, holding the requested capacity for 15 years is unreasonable, as the needs of the development and surrounding area may change considerably over that time period.

For these reasons, Alectra views an extension of the connection horizon of up to 10 years as a reasonable option. The policy could remain at 5 years for the standard connection horizon, with an extension of up to 10 years available as an option in certain circumstances (i.e., generally for exceptional cases). In order to justify such an extension, the number of connections expected beyond the fifth year should be material and would be based on discussions between the developer and utility and reflected in the economic evaluation and other relevant documentation, such as the offer to connect and connection agreement. Alectra notes that this is consistent with the flexibility that already constitutes part of the policy today, and that as a result, no other distinct changes to the policy or processes would be required.

As noted by OEB staff in the April Meeting, such a change would result in an extended period for initial contributors to receive an expansion rebate from subsequent customers / developers. The rebate period from unforecasted customers who connect after the original expansion could be extended to ten years to remain consistent with the connection horizon.

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

As noted above, an extension of the connection horizon to 15 years is not reasonable in Alectra's view. While an extension to 10 years in certain circumstances may be a reasonable option, even a 10 year connection horizon would entail a number of transitional issues for which the OEB should give utilities time to accommodate any changes, if necessary. If 10 years remains optional in the circumstances, then no additional changes to processes or administration are required.

For example, if a change is made to implement a 10 year connection horizon for all projects going forward, then this will change the future forecast for capital contributions. If the change is significant enough, this could present a capital budget challenge for utilities. The impact of such a change would be even more challenging for utilities several years away from their next rebasing. This may not be a material issue for all distributors, however, in the context of the energy transition and the incremental challenges that will be made on utility capital budgets, it may be prudent to offer utilities some relief through a deferral or variance account if the impact were material enough.

From an administrative perspective, changes to the connection horizon would affect the calculation and timing of the expansion deposit and necessitate a longer tracking period and more annual reviews for utilities to conduct. Also, holding capacity for an extended period of time would add incremental risk and add complexity to system and capacity planning.

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

As noted above, Alectra's view is that the policy could allow for a 10 year connection horizon, or to continue as currently constructed, allowing utilities the flexibility to extend the connection horizon up to 10 years as circumstances may warrant.

In the latter case, an extension of the connection horizon to 10 years could be contemplated if the number of connections beyond 5 years would materially impact project economics. Developers would also have to agree to expansion deposits that align with the connection horizon. Alectra is concerned that some developers may not want a connection horizon for longer than 5 years, and/or may not want the expansion deposition to be administered over an extended period.

For these reasons, Alectra believes that staying the course with a standard 5-year connection horizon with the flexibility to assign a connection horizon of up to 10 years makes the most sense for all parties involved. Determination of the connection horizon up to 10 years would be based on discussions between the developer and the utility and reflected in the economic evaluation and other relevant documentation.

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

Alectra has not undertaken a detailed review of the DSC to determine which sections of the DSC would require review or change if the connection horizon were extended.

<u>Revenue Horizons</u>

OEB staff also posed several questions related to the revenue horizon for stakeholder comment.

1. Does extending the revenue horizon seem feasible?

An extension to the revenue horizon is not unreasonable, however, as a matter of principle the revenue horizon should be closely linked with the useful lives of assets used to service the expanded territory in a meaningful way. This makes intuitive sense since the new customers are paying for the new assets used to service the expansion. By the time the assets used to service that territory are due to be replaced, these customers would be in the pool of "existing customers", whose rates have been established in part to pay for the replacement of those assets.

A variety of different assets are used in the service of system expansions, so it's necessary to derive a reasonable composite. In Alectra's experience some assets such as poles or

underground cable can last up to 40 years, while transformers may only last 15 years. Therefore, in Alectra's view a revenue horizon of up to 40 years is quite reasonable.

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

As noted above, the revenue horizon should be closely matched to the life of the assets being used to service the expansion area. This would allow for a logical and appropriate transition from 'new customer' to 'existing customer'. That is, the project would appropriately evaluate and match the life cycle of the assets, including the revenues and associated costs that they entail. When the assets have reached the end of their useful life, the replacement and continued servicing of the expanded area would be appropriately funded by customer rates.

Conversely, extending the revenue horizon in a manner that ignores the life cycle of assets would increase the risk for the cross subsidization of rates.

Alectra also notes that there is sometimes a difference in the revenue certainty associated with different types of expansion projects. For example, for a residential subdivision with many smaller and consistent loads, the risk of load not materializing as expected is fairly low. Conversely, projects that forecast large, lumpy, or singular loads contain a greater risk that it may not materialize as expected. The OEB may wish to consider tying the revenue horizon to the type of load being attached.

If any changes to the revenue horizon are contemplated, stakeholders should be given the opportunity and sufficient time to amend processes such as contracts, agreements, conditions of service and other impacted features.

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

Alectra has not undertaken a detailed review of the DSC to determine which sections of the DSC would require review or change if the revenue horizon were extended.

Alternative Cost Recovery Approaches for Discussion

In the April Meeting, OEB staff introduced the following alternative cost recovery mechanisms for discussion.

1. 'Fixed Development Charges' – implement an upfront fee ("development charge") to cover the capital costs of infrastructure required for new development.

2. ‘System Enhancement’ – revise the definition of an enhancement in the Distribution System Code (“DSC”) to allow for initial system expansions that are intended to facilitate large new planned multi-year residential development areas.

3. ‘Standalone Rates for New Developments’ – Create stand-alone rates for a designated project requiring substantial initial system expansion for housing development.

OEB staff sought input regarding these approaches. Alectra provides preliminary thoughts below.

Alectra does not support the ‘Fixed Development Charges’ or ‘Standalone Rates for New Developments’ proposals.

In the case of the Fixed Development Charges proposal, the development charges would not be tied to the project specifics and instead based off averages from pools of customers, which could result in inequities of cost allocation between projects, which in many cases would not align well with the beneficiary pays principle. Larger projects would inherently be cross subsidized by smaller projects.

In the case of the Standalone Rates for New Developments, creating and administering standalone rates for designated projects would be administratively complex and result in a confusing system of rate designs and outcomes that depend on where customers live within a distributor’s service territory. Managing standalone rates would be burdensome and difficult for distributors whose service areas are large and/or undergo many new development projects.

<u>System Enhancement Approach</u>

In Alectra’s view, a redefinition of the concept of system enhancement is not needed, however, its application may require new emphasis. The current definition of an enhancement describes it as “a modification to the main distribution system that is made to improve system operating characteristics such as reliability or power quality or to relieve system capacity constraints resulting, for example, from general load growth…”. Due to the effects of electrification and the increased need for reliability (due to both electrification and climate change, including extreme weather impacts), the need for enhancement capital is expected to increase going forward.

Electrification will create capacity constraints in certain areas, and as such, the entire system may benefit from an effort to bring capacity to the “doorstep” of new developments. Similarly, while it has yet to be quantified consistently in the industry, there is a reliability benefit to such investments in capacity.

As these needs increase and continue to absorb existing capacity or to create capacity shortfalls, utilities will need to bring forward appropriate funding requests to address these needs through

their DSPs. The OEB will need to stand ready to support and to approve greater capital funding levels.

Global investments that assist with alleviating capacity constraints throughout the system and that seek to ensure capacity is available nearby to new developments will help to ensure that new developments can be dealt with efficiently. Alectra also believes there may be merit for the OEB to consider amendments to how development projects are managed. While Alectra believes the current system generally works well, an evolution the OEB may wish to consider further could be the assignment of some portion of development costs that exceed the immediate capacity needs of a developer to the larger pool of existing ratepayers where or if circumstances warrant.

That is, if an expansion project is built beyond the needs of the current development, then it's reasonable that the portion of the project built over or above the immediate needs of the development could be borne by all ratepayers. There may be several ways to accommodate this, for example either at the time of the development project evaluation or perhaps after the connection horizon. One way or another, a methodology would need to be constructed to determine how costs would be apportioned and also to determine the mechanism by which those costs would be recovered (e.g., perhaps through a deferral account).

Another Approach to Consider

After listening to the parties in the stakeholder session, Alectra was of the view that the issue at hand is not one solved by changing connection or revenue horizons. In Alectra's view, the issue which developers seem to want to have resolved is the ability to ensure capacity is available when and where they want it. It may make sense, therefore, for the OEB to consider the following concept to mitigate risk associated with holding capacity for those who request it.

If a requestor (e.g., developer) requires that capacity is reserved for longer period of time than an agreed to connection horizon, then a capacity reserve charge could be applied for the subsequent period of time. An expansion deposit should still be aligned with the connection horizon, but if the load fails to materialize, the requestor can still hold the capacity by paying the necessary reserve charge. Alectra notes that this concept would require further scrutiny and input from stakeholders and developers.

Concluding Remarks

In Alectra's view, this consultation revealed that the process of expansions and connections is generally working well. While cost is always a concern, no party seemed to indicate a material flaw with costs, processes, or in working with utilities in general. The main concerns seemed to be around capacity utilization – both ensuring capacity is available as needed and that developers pay for the capacity that they would like access to for their projects.

Alectra's review indicates that expansion projects that are geared towards new residential communities seem to work especially well. The costs and load generally materialize as expected. Projects that facilitate industrial, commercial, or institutional load tend to be more risky as they rely on specific, less diverse load. Alectra also sees a tendency on the horizon for more new developments to include mixed use type connections. Thus, managing the system through continued enhancement spending will continue to be necessary in the future.

While Alectra has offered its views on the tweaking of connection and revenue horizons as within the bounds of appropriate, Alectra believes that increased focus and attention on system enhancements will be necessary going forward.

The organic growth of electricity needs due to electrification, paired with the governments goals of mitigating the effects of climate change impacts and building at least 1.5 million new homes, new highways, subways and improved rail transportation, and attracting new jobs to the province, cannot be achieved without greater enhancement capital for utilities. Utilities should be given access to enhancement capital as needed and defined in their DSPs in order to meet the needs of its customers and the system. Whether the definition of an enhancement is revised or the thinking behind what constitutes an enhancement is reconsidered, or even if there is no change at all, there is a need for the OEB to allow for and support greater access to enhancement capital in utility applications.

Alectra appreciates the opportunity to provide these comments and looks forward to continuing to work with stakeholders on this important policy file.