

Ms. Nancy Marconi
Registrar
Ontario Energy Board
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Toronto, ON M4P 1E4

December 9, 2024

EB-2024-0092 – Consultation on System Expansions to Connect Housing Developments
Pollution Probe – Comments on proposed amendments to the Distribution System Code

Dear Ms. Marconi:

On November 18, 2024, the Ontario Energy Board (OEB) provided notice under section 70.2 of the Ontario Energy Board Act, 1998 of proposed amendments to the Distribution System Code (DSC). These proposed amendments are intended to facilitate the connection of housing developments by extending the Connection Horizon to a maximum of 15 years for qualifying housing developments and extending the revenue horizon to 40 years for all residential customers. Below are comments on behalf of Pollution Probe.

First off, there is a large number of OEB initiatives currently underway and several of these relate to System Expansion to Connect Housing Developments. This has the potential to create confusion between initiatives and it is recommended that the OEB (perhaps in coordination with the Ministry of Energy and Electrification, as appropriate) create a table (or simple diagram) that shows all the different initiatives related to connecting housing developments and illustrate the distinct purpose of each and how they fit together as a whole. This is also important for proposed DSC changes to ensure that the impacts of those changes are fully understood in combination with the broader set of policy changes proposed. For example, Pollution Probe is aware that the Ministry of Energy and Electrification is developing regulatory changes to address appropriate allocation of costs for system expansions to connect new housing and we understand that a posting related to this is expected shortly. This appears to be related directly to cost treatment and allocation of costs related to residential customers and housing developments. It would be helpful to ensure that the linkages and alignment between these activities are well understood and communicated. This will help ensure an efficient coordinated approach and increase the likelihood of delivering coordinated, sustained outcomes.

Any increase in Connection Horizon and Revenue Horizon has the potential to increase risks. It is important to consider the long-term impacts of any changes meant to address shorter term policy objectives. More specifically, does this approach make sense regardless of the short-term policy objective to create more housing in Ontario, or is it being narrowly assessed on that basis. If it has not been fully assessed, what are the long-term implications? As the Energy Transition continues and integrated energy planning increases, it is important to consider intended outcomes across the broader range of energy policy. The DSC for electricity utilities has been more conservative than the same set of rules applied to natural gas infrastructure in Ontario. For example, the Revenue Horizon and amortization period for Capital assets has historically been 40 years for expansion of natural gas assets serving new communities. That may not be appropriate for the future and needs to be assessed more thoroughly¹. Why is the Revenue Horizon and Connection Horizon different values for electricity, but the same for natural gas? Which is more appropriate and why? These are important questions to be considered for the longer term as the Energy Transition continues to progress and energy silos are broken down to provide better customer choice and lower overall energy bills based on modern technology options.

The Energy Transition has brought forward technology advancements that can reduce costs and emissions by using electricity for both heating and cooling of new homes (e.g. cold climate air source heat pumps). Given that essentially all homes in Ontario need electricity, compared to an option to use natural gas for certain energy uses, it does not appear to be logical to use longer time horizons for natural gas than for electricity. Taking a broader consideration from an integrated energy perspective leads to a more logical decision from a customer perspective. After all, Ontario consumers pay the (gas and electricity) energy bills which are impacted by the time horizons used. The Province's desire to move toward more objective integrated energy planning will require removing cross-subsidies that distort real consumer choice based on the full lifecycle costs of energy and technology choices². Cross subsidising costs has the potential to decrease initial developer costs, but actually increasing Ontario consumer costs for those that purchase the homes being developed.

Optimizing for a developer to reduce up-front costs, can lead to consumers paying more over the long term since the cross-subsidies are recovered from the future rate payers. Is it typically better to pay the costs up front and pass them along to consumers buying the home, or subsidize the upfront costs for developers and charge the consumers over the next 15-40 years

¹ The OEB is planning a generic review in the future and the scope is to be determined.

² For example, the lifecycle costs of an electric cold climate air sourced heat pump is more cost effective than the traditional gas furnace and electric air conditioner.

to recover those subsidies, plus additional costs³. However, given the policy direction from the Minister, it could be reasonable for the OEB to enable flexibility to use a higher Connection Horizon, up to 15 years. One of the challenges with using an optional approach (e.g. per the conditions outlined in the notice) is that there will be difference in treatment across new projects which adds extra administration and complexity. Using a more common approach could reduce the administrative burden and complexity for utilities.

There is a series of principles that the OEB can apply to validate risks related to time periods for revenue horizons and recover periods. One principle that the OEB appropriately applies is “beneficiary pays”, which aligns the costs with where the benefits are flowing. Under the proposal, the cost reduction flows to the developer (and perhaps a portion of the savings may flow to the home buyer), and the costs flow to the utility, plus current and future ratepayers. As long as the expected life of the Capital assets is equal to or greater than the accounting assumptions, it is reasonable to assume that the assets will remain in service for that period of time. An assessment related to stranded assets is also prudent to avoid inclusion of Capital in rate base that does not have a reasonable likelihood of recovery. This risk is typically lower for electricity assets compared to new natural gas assets. The longer the Revenue Horizon is beyond the Connection Horizon, the more risk is possible. This assumes that revenues will accrue for a longer period than the recovery period from the connection.

It is recommended that the OEB consider feedback from LDCs on the implementation time related to these changes, including any IT system changes. Tracking subsets of customers on a different basis can be challenging and often takes time for implementation.

Respectfully submitted on behalf of Pollution Probe.



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³ E.g. carrying costs and utility return on Capital.