



Ontario Energy Board
2300 Yonge Street, 27th floor,
P.O. Box 2319, Toronto, ON, M4P 1E4

Submitted via RESS

December 9, 2024

RE: EB-2024-0092 – Feedback on Proposed Amendments to the Distribution System Code to Facilitate the Connection of Housing Developments and Residential Customers

Dear Ms. Marconi,


On November 18, 2024, the Ontario Energy Board (“OEB”) issued a Notice of Proposal to Amend a Code. The Notice proposed amendments to the Distribution System Code (DSC) to facilitate connection of housing developments and residential customers 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. Stakeholders were invited to provide comments on the proposed amendments.

Elexicon Energy (Elexicon) delivers safe, reliable, and affordable electricity to more than 180,000 homes and businesses including communities in the Durham Region, as well as Belleville, which are all experiencing significant growth. We look forward to working with the OEB to implementing the proposed amendments to the DSC changes in facilitating the connection of housing developments.

Elexicon appreciates the opportunity to provide the comments below for the OEB’s consideration.

Sincerely,

DocuSigned by:


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Elexicon Energy Comments
Feedback on Proposed Amendments to the Distribution System Code to Facilitate the Connection
of Housing Developments and Residential Customers
Ontario Energy Board File Number: EB-2024-0092
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Background – Elexicon

Elexicon is keenly interested in supporting housing development. Elexicon's service territory is experiencing tremendous growth. The majority of Elexicon's service territory is within the Region of Durham, the population of which currently sits at 699,460 people will increase to 1.3 million by 2051. Additionally, in the city of Belleville, forecast housing development is expected to average 350 units annually between 2021 and 2051, substantially higher than the historical average of 200 housing units annually over the past 15 years along with significant growth in the commercial and industrial sector.

Elexicon Energy (Elexicon) generally supports the proposed changes to the connection and revenue horizons and has included a few questions or requests for clarity / guidance from the OEB related to implementation of these changes.

Background – OEB Consultation

Further to the November 29, 2023 Letter of Direction, the Ontario Energy Board (OEB) undertook a review of different cost recovery approaches to support the province's ambitious housing, transportation and economic goals. Following a consultation process involving consumers, developers and distributors, the OEB submitted its Report to the Minister of Energy and Electrification. In that Report, the OEB recommended that it move ahead with specific changes to the current cost recovery framework to address challenges related to large developments, including:

- Proposing new provisions for the DSC to clarify for distributors and customers how extended connection horizons beyond the standard five years should be employed.
- Extending the revenue horizon used in the evaluation of expansion projects to 40 years, to recognize the life of assets used in connecting and serving residential customers.
- Developing a capacity allocation model that specifically addresses multi-year, multi-party developments and ensures a fair allocation of costs among connecting parties.



In a letter to the Chair of the OEB on October 21, 2024, the Minister of Energy and Electrification endorsed the above recommendations and expressed an expectation that the OEB further consider extending the connection horizon for housing development projects to 15 years.

The proposed amendments to the Distribution System Code (DSC) and Appendix B – methodology and assumptions for an offer to connect economic evaluation - were issued to facilitate the implementation of these changes to the horizons for residential housing developments.

Ellexicon Feedback on Proposed Amendments

Definitions

Appendix B to the DSC – methodology and assumptions for an offer to connect economic evaluation – includes a proposed definition for housing development as follows:

“housing development” means a project to construct multiple residential accommodations on a piece of land that will be divided into multiple parcels and offered for sale, and that will be comprised predominantly of residential accommodations but may also include public buildings, industrial and commercial buildings or space appropriate for such buildings;

The above definition does not appear to contemplate a situation where multiple developers (in one case 14) have established a single landowner group for the purposes of coordinating discussions with the distributor about enabling the core infrastructure required to serve a large greenfield development area. Working with a landowner group, along with their designated representative, on this planning is an effective and efficient means of identifying the needs for the overall area. Working with each individual developer within a larger development area has the potential to create inefficiencies and delays with competing developer requirements, system designs and connection timelines.

Ellexicon encourages the OEB to ensure this definition also takes into account these situations to avoid an unintended consequence of dis-incenting developers from forming landowner groups meaning a significant increase in workload for each developer as well as distributors in dealing with each developer separately. We encourage the OEB to consider how this, and other potential unintended consequences, can impact developer and distributors’ costs and workload.

In order to ensure consistency between distributors, Ellexicon encourages the OEB to provide additional clarity how “predominately” should be interpreted. Is it related to the number of structures or the load attributed to residential uses versus other purposes? What proportion would meet the criteria of “predominantly”? It is 50% and above?



Customer Connection Horizon

Overall Elexicon is supportive of the proposed amendment to extend the customer connection horizon for a “qualifying housing development” to a maximum of 15 years. This change will, however, add increased complexity to the process and has the potential to require additional resources and system changes for which the distributor should be held whole.

As an example, the proposed amendment states that:

The connection horizon for a qualifying housing development would be determined based on the forecasted connection date of the last residential customer within the development area, to a maximum of 15 years.

Elexicon interprets from the statement above that the range of connection horizons would vary between 5 and 15 years, depending on the last residential customer’s forecast connection date (i.e. could be 5, 6, 7, 8...15). Current economic evaluation models may require additional changes to accommodate a non-static number of years for the connection horizon.

On page 5 of the Notice, the OEB states:

The connection horizon for a qualifying housing development would be determined based on the forecasted connection date of the last residential customer within the development area, to a maximum of 15 years. Where an expansion is being constructed to connect both a qualifying housing development customer and one or more other customers, such as a school or a commercial customer, the connection horizon for all of the connecting customers will be the longest connection horizon applicable to any one of them.

Elexicon suggests that the provision noted above should also include that, overall, the number of customers connecting (qualifying housing development and other customers) to the expansion should also be subject to the “predominantly residential” criteria.

It should also be noted that a longer customer connection horizon also extends the period of time for which the distributor retains 10% of the customer’s expansion deposit for the two-year warranty period in section 3.2.24 of the DSC, where the alternative bid option was chosen, and the last forecasted connection does not materialize within the connection horizon.



Customer Revenue Horizon

Ellexicon is supportive of the change in the customer revenue horizon for residential customers to align with the useful life of the assets.

As OEB staff noted in their Report to the Minister, lower capital contributions will result in increased capital costs for distributors upfront, the impacts of which are discussed in the Anticipated Costs and Benefits section below.

Ellexicon encourages the OEB to provide additional guidance on a methodology to be used for mixed use multi-unit developments that contain both residential units (40 years) and non-residential units (25 years). Using two different revenue horizons will add complexity to the methodology and require more detailed information from developers up front.

Anticipated Costs and Benefits

The OEB acknowledges in its Report to the Minister and in the Notice that *“the changes to the connection and revenue horizons are expected to lower the capital contribution required for a new connection, thus increasing the upfront costs that distributors will be paying towards funding an expansion project. These increased upfront costs would need to be financed through a distributor’s capital budget. This may trigger a need for the OEB to address changes in a distributor’s capital needs through existing mechanisms such as the Incremental Capital Module and the Advanced Capital Module”*

Requiring distributors to cover the full costs of the initial construction of the infrastructure with no capital contribution from the developers will also increase borrowing costs and could lead to higher carrying charges. It is expected that distributors will need to forecast larger budgets for connections, expansions, and stations growth investments at rebasing to accommodate these changes and avoid penalizing the shareholder for policy shifts that increase pressure on capital budgets.

For distributors who are not immediately approaching a rebasing year, the reduction in capital contributions will impact the distributor’s ability to fund other capital programs related to reliability, replacement of assets at or near end of life, or grid modernization. Connection of new load is an obligation per the existing rules, which could result in System Renewal and System Service investments being deferred, especially if the distributor is recovering significantly lower capital contributions.

With respect to addressing changes to a distributor’s capital needs via the Incremental Capital Module or the Advanced Capital Module, Ellexicon submits that these are not the appropriate mechanisms to address these needs for the following reasons:



- recovery is not allowed for programs, only projects, and each project must be material relative to the overall capital program.
- ICM revenues are only received in the year the assets are in-serviced, such that even a successful ICM provides only partial aid to a distributor given the revenue is collected well after the expenditures are incurred. This is especially true for some long-lead items (e.g. transformers) distributors need to order and pay long before the asset is in service.

The application of the ACM/ICM eligibility criteria to connections-related projects may unnecessarily restrict availability of incremental funding which creates a barrier to supporting policy objectives regarding housing development. In addition, the ICM does not help address the cash-flow impact of a reduction in capital contributions which will increase borrowing requirements, all other things equal.

Optimally, a mechanism for distributors experiencing significant housing growth to collect some revenue in advance from all customers would be beneficial in funding these upfront costs, without the need to delay already planned capital projects. It would also reduce the amount of borrowing required, incurring interest to be recovered at a later period in time. Recovery from all customers would also reduce the potential cross-subsidization between rate classes.

In addition, Elexicon proposes the OEB establish a generic deferral account for recovery of distributors' capital and OM&A costs related to implementation of the changes to the connection and revenue horizons, until the appropriate costs are included in their next rates application. This would be akin to the generic deferral account that the OEB approved for distributor costs incurred to advance the implementation of the provincial government's broadband deployment project. Materiality should be for the accumulated costs of the policy impact, not assessed on an annual basis.

Coming into Force

The Notice proposed that the amendments to the DSC come into force two months after the date that the OEB publishes the final amendments and that distributors are expected to continue with the current customer connection process and perform recalculations (where applicable) once their economic evaluation models have been updated.

Elexicon requests that the OEB provide confirmation that, until such time that the amendments come into force, distributors are to continue to use the current customer connection and revenue horizons. Further, that the OEB clarify that it is its expectation that distributors will recalculate capital contributions based on the new values once in force and refund any paid contributions where there is a difference.



Conclusion

Elexicon's service territory is experiencing tremendous growth, and we recognize the importance of ensuring supply is available to support that growth. The balance between lowering connection costs for developers to more quickly build housing while protecting existing ratepayers is of fundamental significance.

Elexicon is generally supportive of the proposed amendments to the DSC but encourages the OEB to identify specific measures to ensure distributors are held whole for additional administrative and capital costs these amendments will bring to ensure distributors are fully equipped to support meeting public policy objectives.