

**BY EMAIL AND RESS**

December 12, 2024

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

**Hydro One Networks Inc.**

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**Jason Savulak**

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Dear Ms. Marconi,

**Re: Hydro One Networks Inc. (HONI) Response to Notice of Proposal to Amend the Distribution System Code**

On November 18, 2024, the Ontario Energy Board (“OEB”) issued a Notice of Proposal to amend the Distribution System Code (“DSC” or the “Code”) to address certain challenges and concerns identified in its Report to the Ministry of Energy and Electrification (“MOEE”) on System Expansions for Housing Developments (the “Report”), which may be impeding the connection of housing developments in the Province (the “Notice”). Hydro One Networks Inc. (“Hydro One”) largely agrees with and supports the two main proposed amendments in the Notice, that is, to extend:

- The current connection horizon for qualifying housing developments from 5 to a maximum of 15 years and
- The maximum revenue horizon for all residential customers to 40 years from the current 25 years.

For Hydro One’s comments in response to the Notice, please refer to Attachment A. For the most part, Hydro One’s comments are intended to ensure a clear understanding of the new requirements and the OEB’s expectations for implementing these requirements. Accordingly and where appropriate, Hydro One has offered recommendations to address these issues. Since the amendments to the DSC refer to the Code’s Appendix B (the methodology and assumptions for a distribution economic evaluation), Hydro One’s comments are focused on the changes proposed to the section titled “Specific Parameters/Assumptions” within the appendix.

An electronic copy of this response has been submitted using the Board's Regulatory Electronic Submission System. Please do not hesitate to contact myself or Carolyn Russell ([carolyn.russell@HydroOne.com](mailto:carolyn.russell@HydroOne.com)) if you have further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason Savulak", written in a cursive style.

Jason Savulak

# Attachment A

**EB-2024-0092 NOTICE OF PROPOSAL TO AMEND A CODE  
PROPOSED AMENDMENTS TO THE DISTRIBUTION SYSTEM CODE TO  
FACILITATE THE CONNECTION OF HOUSING DEVELOPMENTS AND  
RESIDENTIAL CUSTOMERS**

**ATTACHMENT A**  
**EB-2024-0092 NOTICE OF PROPOSAL TO AMEND A CODE**  
**PROPOSED AMENDMENTS TO THE DISTRIBUTION SYSTEM CODE TO**  
**FACILITATE THE CONNECTION OF HOUSING DEVELOPMENTS AND**  
**RESIDENTIAL CUSTOMERS**

**HYDRO ONE COMMENTS**

Hydro One appreciates the opportunity to comment on the OEB's proposed amendments, which will help facilitate and reduce connection costs for housing development projects. Overall, Hydro One agrees with the proposed changes to the connection and revenue horizons for these projects but is concerned with certain aspects and details related to these proposals.

Hydro One submits the following comments in response to the OEB's Notice:

- Definition of a "Housing Development"

In the Notice, the OEB has proposed to include the following definition for a "housing development" in Appendix B of the DSC:

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;

Hydro One requests that the OEB provide clarification as to whether the proposed definition also includes a plan for building a single condominium building, which would be sited on a single parcel of land?

- Criteria for a "Qualified Housing Development"

To avoid the need for project re-designs (or re-runs of a project's economic evaluation should an extension be requested several years into a project's construction), Hydro One recommends that the criteria for "qualified housing development" be amended as follows:

(a) the developer for the housing development has requested a customer connection horizon that exceeds five (5) years prior to the distributor's finalization of the project design;

To effect this change, Hydro One suggests that, upon receipt of an application to connect a project that meets the criteria for a qualified housing development, distributors should be required to inform the developers of their ability to seek an extension to the connection

horizon in their early communications with them. Distributors should not be expected to entertain requests to renegotiate the terms of the connection horizon once the project is initiated. If a developer requests an extension to the connection horizon after the project has been initiated, a distributor should be permitted to grant an extension only in limited and specific circumstances, which the OEB should define or clarify. Please refer to the section “Guidance for Extending the Customer Connection Horizon in “Appropriate Cases” below for further comments in respect of this issue.

As the connection horizon begins on the date of the development’s energization, Hydro One also suggests a correction to part (b) of the definition for a “qualified housing development,” as follows:

(b) the connection of the last residential customer in the housing development is forecast to occur more than five (5) years from the date of the ~~request to connect~~ energization of the expansion;

- Extending the Customer Connection Horizon to 15 Years for Qualifying Housing Developments

In establishing the customer connection horizon, the OEB has developed the rules below:

(b) Subject to paragraph (c), the customer connection horizon for a qualifying housing development shall be based on the date on which the last residential customer is forecasted to connect to the expansion, provided that the customer connection horizon shall not exceed fifteen (15) years.

(c) Where an expansion is being constructed to connect a qualifying housing development and one or more other customers, the customer connection horizon for all such customers shall be the longest customer connection horizon applicable to any one of them.

Hydro One recommends that requirement (c) of the customer connection horizon rules also include the phrase “provided that the customer connection horizon shall not exceed fifteen (15) years.” Even if the “one or more other customers” are considered “unforeseen customers” and were not included within the original project plan for a qualified housing development, the connection horizon for that original development should not extend beyond 15 years.

- Guidance for Extending the Customer Connection Horizon in “Appropriate Cases”

Developers will be incented to request that their project be treated as a qualified housing development. If refused based on the proposed criteria being established, they may continue to request and negotiate for extensions under the regular rules. The OEB has

stated that it will provide guidance and criteria for considering “appropriate cases” that may qualify for extensions of the five-year connection horizon. Hydro One requests that this guidance be very clear to avoid complaints and disputes, as distributors will not undertake any action where the risk of cost recovery is questionable. Certainty as to what comprises “appropriate cases” is needed.

- Management of Rebates

Hydro One agrees that subsequent customers who benefit from an expansion investment made by the first-mover customer (the developer) should pay their share. However, due to the compounding effects of the rebates process (that is, each unforeseen customer rebating all the prior contributors to the relevant infrastructure), the numbers of customers providing and receiving rebates could rapidly become unmanageable for distributors that must build large expansions subject to a connection horizon of up to 15 years.<sup>1</sup> To reduce the administrative complexity in such situations, the OEB may want to consider removing the requirement for unforeseen customers who are individual homeowners to rebate the first-mover developer of a project with a demand greater than a defined threshold.

As Hydro One understands, one of the intended aims of extending the customer connection horizon for residential housing developments is to facilitate the construction of new housing by reducing the cost of expansion investments that must be incurred by ‘first-mover’ developers. In Hydro One’s view, increasing the connection horizon may reduce the overall cost paid by first-movers because it would increase the potential to receive rebates from unforecasted customers, who benefit from an expansion funded by the first-mover. However, there is no guarantee that any unforecasted customers will benefit from the expansion built by the first-mover and a first-mover developer must be prepared to assume the full financial burden and risk associated with an expansion investment, which presumably would be factored into the sale price of their homes. While the extension of the connection horizon has the potential to reduce the expansion costs to first-movers through the receipt of additional rebates, these rebates will flow to the first-mover (if the development remains a registered company after all homes have been eventually sold) and will therefore not lower the housing costs for people who purchase homes from the first-mover. Hydro One would like to simply point out that any potential benefits from extending the connection horizons will accrue to the first-move developer and not home purchasers, who are paying for the first-mover’s expansion investment when they bought their home.

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<sup>1</sup> The total number of processed rebates by the time of the nth customer equals  $n(n-1)/2$ . With the 20th customer, an LDC would have processed 190 rebates. By the 30th customer, the number has risen to 435 rebates and so on.

- Time Value of Money Based on a 15-Year Connection Horizon

The OEB should take into consideration the time value of money in the context of a 15-year connection horizon. Most load customers provide Letters of Credit (“LC”) for their expansion deposits. If a load customer’s forecast is not fulfilled, the remaining value of the LC is converted into a payment to the distributor at the end of the connection horizon. However, an LC converted to a payment 15 years after project energization (instead of the current 5 years) would increase ratepayer exposure without a revision to the calculation of the expansion deposit amount. Therefore, LCs must reflect the time value of money. While Hydro is less concerned about expansion deposits collected for residential developments, there is a greater level of concern associated with other non-residential customers, who could be eligible for a 15-year customer connection horizon. Hydro One recommends that this issue be given further consideration by the OEB and discussed with distributors.

- Need for Variance Accounts

The proposed changes to the DSC are likely to accelerate the already high pace and volume of new connections. Since distributors are legally obligated to facilitate customer connections, any increases in those expenditures beyond the levels forecasted and approved in Hydro One’s last rate application will require it, and other utilities, to make difficult decisions to either defer work to stay within OEB approved envelopes or to finance work that is not recoverable through rates in the current rate period. If other critical work is deferred, this would mean that assets, which should be renewed and replaced, are not renewed and replaced until the next rate period. This can result in reliability impacts and further delay important system renewal investments on which the health of the grid relies and is needed for the electrification to come.

Hydro One requests the OEB to mitigate these risks by establishing an industry deferral and variance account (the “DVA”). This will enable Hydro One and other utilities to complete incremental connection investments and also invest in the health of the electricity grid. The account should record the revenue requirement associated with new connections work provided the utility has exceeded its OEB-approved level of connection expenditures.

The DVA should also allow distributors to record the revenue requirement associated with incremental work and processes necessary to implement the changes proposed in the DSC in respect of qualifying housing development projects in the distributor’s service area, as defined in Appendix B of the DSC, once the approved Code amendments are published and come into force. Below, Hydro One has drafted suggested language for the DVA:

1. The DVA will account for:
  - a. the incremental capital costs incurred by the distributor to apply the amended connection and revenue horizons to projects that meet the criteria for qualified housing developments;
  - b. the incremental non-capital costs incurred by the distributor in respect of such projects, including operational, maintenance and all related administrative costs;
  - c. any other incremental costs incurred by the distributor to enable the projects;
  - d. contributions toward costs and any other amounts paid to the distributor by the project developer or any other person in respect of the projects; and
  - e. the interest costs incurred on the principal balance of the account, as the Board may direct.
  
2. Balances recorded in the deferral account may not be recovered unless the Board is satisfied that:
  - a. the costs incurred and amounts paid are accurately recorded in the account and
  - b. the recorded costs are material and were prudently incurred.
  
3. This account would be needed until the distributor's approved revenue requirement has been rebased.

- **Transitional Matters**

The OEB has stated that, once approved, these amendments will come into force two months following the date of their publication in the DSC. This period is intended to provide a transitional period for utilities to update their processes and models accordingly. Nonetheless, the Notice states that the new revenue and customer connection horizons would apply where an initial offer to connect had not been accepted by the customer as of Nov. 18, 2024. In short, this would require a distributor to re-run and re-issue economic evaluations of all projects for which contracts based on the current connection and revenue horizons were issued but not executed by the customer as of that date.

While Hydro One appreciates the OEB's desire to implement these changes expediently, we respectfully question whether unapproved Code amendments may be implemented in this manner and how this approach provides distributors with a sufficient transition period to implement these changes. From a work management and customer service perspective, this approach is extremely problematic.

First, utilities have been issuing contracts for projects under the existing rules, both before and after November 18, based on the premise that proposed amendments would not become effective until sometime after the date of the Notice once the amendments are approved and a reasonable implementation period has been provided. If Hydro One



correctly understands the proposed amendments, distributors would need to re-do and re-issue all project contracts issued (a) after November 18, which would be subject to the new proposed amendments, and (b) before November 18, which would be subject to the new proposed amendments, if the contracts have not been executed.

Second, distributors will require time to revise and update their systems, processes and economic evaluation models to reflect the proposed amendments, which still have not received final approval. In terms of establishing the compliance enforcement date for the proposed amendments, Hydro One will need to dedicate significant effort to update its models and customer integration systems, which would mean that considerable manual effort or other workarounds may be required to comply with a near term effective date.

It should also be noted that Hydro One processes a high volume of expansion contracts, including those for multi-service developments. Therefore, the need to manually re-do evaluations and contracts, as of the November 18 date, will immediately create delays in processing other applications that are currently underway, as well as new applications.

Accordingly, Hydro One strongly recommends that:

- Distributors be provided with a reasonable amount of time to implement the proposed Code amendments, from the date that they are approved. The approval date for the Code amendments should establish the date that they are published in the DSC. Distributors should be provided with four months to comply with the proposed Code amendments from the date that they are approved.
- During the implementation period, distributors may elect not to issue contracts to qualified housing developments, unless they are able to update their processes and models in a shorter time period to comply with the proposed amendments. Distributors should inform these customers that their contract will be issued once the distributor's processes and economic evaluation models have been updated.
- At the end of the implementation period, distributors shall be required to run economic evaluations for qualified housing development projects in accordance with the proposed amendments.