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NOTICE OF PROPOSAL TO AMEND A CODE

PROPOSED AMENDMENTS TO THE DISTRIBUTION SYSTEM CODE TO ESTABLISH A CAPACITY ALLOCATION MODEL

BOARD FILE NO. EB-2024-0092

To: All Licensed Electricity Distributors
All Participants in Consultation EB-2024-0092
All Other Interested Parties

The Ontario Energy Board (OEB) is giving notice under section 70.2 of the *Ontario Energy Board Act, 1998* (Act) of proposed amendments to the *Distribution System Code* (DSC). These proposed amendments are intended to establish a Capacity Allocation Model (CAM) to support a fair allocation of capacity and costs associated with system expansions to accommodate multiple residential subdivisions and other customer connections in a qualifying development area. Comments from stakeholders are due by May 9, 2025.

Summary

The proposed CAM addresses one of the OEB's recommendations to the Minister of Energy to facilitate housing developments in Ontario. The CAM is intended to tackle the specific concerns of developers when significant system expansions are necessary to connect new large development areas that involve multiple developers and other customers over multi-year periods. Under the OEB's existing rules, the initial customer (often a developer) may bear the entire upfront cost of the expansion to serve the new development area, with the potential for rebates from additional connecting customers, even though it will only require a portion of the capacity needed to supply the area. While the existing rules provide for contributions from connecting customers over a defined period, the financial burden to the initial customer can be a barrier to

development. The proposed approach is expected to facilitate housing by removing the requirement that the initial customer bear the upfront cost of that expansion.

The OEB's proposed CAM will allocate costs of these large expansions based on a customer's requested capacity needs and recognizes that connections in a qualifying development area, to which the CAM applies, will occur over the term of the CAM (the OEB is proposing a maximum of 15 years). In designing the CAM-related expansion, the distributor will take into consideration the capacity needs of the customers that have committed to connections, and a forecast of future connections based on plans for the defined development area, such as municipal official plans and secondary plans, and the timing of those connections. All connecting customers will be required to contribute to the cost of the CAM-related expansions based on their allocated share of the capacity. Any customer connecting after the first year will be required to pay a financing charge. This financing charge will reimburse the distributor (and ultimately the ratepayer) for the carrying costs related to the expansions, which will become part of the distributor's regulated assets. The proposed CAM continues to adhere to the beneficiary pays principle that underlies the existing cost responsibility framework.

The OEB's existing rules related to expansions would continue to apply to non-CAM-related expansions, and to any subsequent expansions to connect individual developments to the CAM-related infrastructure.

To implement this new approach, the OEB is proposing to amend the DSC to establish the criteria for when a CAM may be used and a new Appendix that sets out the detailed rules and mechanics for applying the CAM to a qualifying development area.

A. Background

In the November 2023 Letter of Direction, the OEB was asked to undertake a review of the cost responsibility framework for housing connections. This request was made in light of the government's commitment to building 1.5 million homes and a desire to remove barriers. In response the OEB held a consultation regarding the cost recovery framework for electricity distribution expansions for housing developments.

The cost recovery framework in the DSC follows the beneficiary pays principle. Where an expansion of the distribution system is necessary to connect a new customer, the distributor is required to undertake an economic evaluation to determine whether the project pays for itself based on future revenues from the customer. If not, the customer will need to provide a capital contribution equal to the difference between the net present value of the cost of the expansion work and the future distribution revenues from the customer.

During the consultation, stakeholders raised concerns about the current framework in the context of large new developments where substantial distribution system expansion is required to reach a new development area. Stakeholders pointed out that the DSC did not provide a clear mechanism for allocating the costs of expansion among customers connecting at different times. Under the existing DSC rules, the initial developers may bear the entire upfront cost of the expansion even though they only require a portion of the expansion's capacity that is required to connect the new development area. While future customers connecting to the same expansion will pay a contribution through the expansion rebate process, which reimburses the initial contributors, the initial financial burden can be a barrier to development. Developers (the DSC states that developers are customers for the purpose of the connection and expansion provisions) were of the view that the current approach does not align with subdivision connections in a new development area, where phased connections by multiple developers or other customers are common. Developers also expressed the view the current rules are creating a barrier to development and that the current approach does not support planning for development.

On June 28, 2024, the OEB submitted its Report to the Minister. The Report recommended specific changes to the cost recovery framework to address challenges related to housing developments, which included:

1. Extending the connection horizon for housing development projects to up to 15 years and extending the revenue horizon for residential customers to 40 years.

2. Developing a method to allocate capacity and expansion costs to facilitate large developments with multiple customers / developers requiring a significant system expansion, which maintains the "beneficiary pays" principle for allocating costs.

In the Minister's October 21, 2024 letter endorsing the recommendations, he noted that these amendments should reduce expansion costs for homebuilders and other new customers – making housing more affordable, while simultaneously ensuring the burden will not be placed on existing ratepayers. In his December 19, 2024 Letter of Direction, the Minister requested that the OEB implement its recommendations expeditiously by amending the DSC to extend the horizons and establish a capacity allocation model for multi-phased housing projects by March 2025.

The OEB amended the DSC on December 23, 2024 to extend the two horizons after consulting with the sector. In the same month, the OEB established the CAM Advisory Group (CAMAG) to provide technical advice and support OEB staff in developing a CAM. CAMAG membership includes a cross-section of developers, development consultants, utilities and consumer groups. The CAMAG met 11 times as it considered the overall design and mechanics for a CAM. CAMAG meeting materials are posted on the OEB's consultation page. The OEB thanks the members of the CAMAG for their efforts and has carefully considered their advice in preparing the proposed amendments to the DSC.

B. Overview of the Capacity Allocation Model and Proposed DSC Amendments

In order to implement the CAM recommendation from the Report to the Minister, the OEB proposes to amend the DSC to establish rules that apply to certain qualifying housing developments, which were the focus of concerns in the consultation, based on the provisions of a new section in the DSC (Section 3.2A) and a related DSC Appendix (Appendix I - Methodology for Implementing a Capacity Allocation Model) that sets out the rules for implementing a CAM. The OEB is adopting this approach to avoid any changes to the current rules for system expansion, which stakeholders have stated generally function well for the majority of system expansions. Further, many provisions of the DSC will continue to apply to customers who are part of a development area covered by a CAM.

Developer representatives at the CAMAG were very supportive of the proposed CAM, believing it will positively impact housing development. However, distributors and ratepayer representatives have raised concerns that the CAM may inadvertently lead to overbuilding systems where additional capacity is not required. The OEB expects to monitor the implementation of these new provisions and, if necessary, will make adjustments to the CAM to ensure the goals of supporting housing development and maintaining the fair allocation of costs between new and existing electricity customers are achieved.

Section 3.2A of the DSC sets out the criteria for determining when a CAM should be employed for a development area and requires the distributor to follow Appendix I to determine customer cost responsibilities for system expansions under the CAM. The detailed eligibility criteria are explained in section B.2 below. Appendix I provides the detailed methodology and requirements for a CAM, which include the following key components:

a) **CAM Scope**: The scope of the CAM defines the geographical boundaries of the development area, and the extent of the system expansion required to serve the development area, including capacity that developers and other customers have committed to, a forecast of future connections, and the distributor’s planned constructed capacity under a CAM.

b) **Cost Sharing Mechanics**: Costs of the CAM-related expansion will be shared among customers who paid their capital contribution or otherwise provided a commitment to require capacity in the new development area and customers that request available capacity that has been constructed as part of the CAM-related expansion.

c) **Customer Capital Contribution Calculation Methodology**: The new Appendix specifies how each customer's capital contribution is calculated, taking into account their requested capacity, the total cost of CAM-related expansion, and the actual capacity constructed as the result of CAM-related expansion.

d) **Financing Charge**: Distributors will be required to collect a financing charge as part of the payment required from future connecting customers within the CAM term to recover the costs for funding the unpaid portion of the expansion capacity.

During CAMAG discussions, members analyzed various sample development areas and scenarios to determine the appropriate criteria for CAM eligibility and the level of detail in the CAM methodology. Each scenario presented unique characteristics and challenges. Distributors advocated for very detailed rules or thresholds to avoid potential disputes in the future, while other members preferred fewer limitations to avoid inadvertently creating barriers to certain residential developments.

The OEB believes that, although the establishment and management of a CAM should be a collaborative effort between the distributor and customers, the distributor is ultimately in the best position to make the final decision on the model. Therefore, the OEB is proposing amendments that focus on the overall framework for capacity and cost sharing, without addressing individual scenarios, thereby allowing distributors sufficient flexibility to apply the framework to specific situations.

Under the proposed amendments, the distributor, in consultation with developers, will determine the need for and scope of a CAM. The distributor will then be required to prepare a plan for the expansion that will provide the capacity required to meet the needs of any developer or other customer that has committed to their capacity needs, along with a forecast of expected new customer connections within the CAM term and development area.

Distributors will also be expected to identify necessary system requirements, such as additional capacity for energy transition and electrification, as well as additional infrastructure for enhancing reliability and system operating characteristics. The cost responsibility for any such system capacity is specified in section 3.3 of the DSC and is not included under the CAM cost sharing.

By mandating the consideration of future connections and overall system requirements, the CAM is specifically designed to facilitate optimized system planning by distributors for a defined development area. The OEB anticipates that this forward-looking approach, grounded in reliable and reasonable forecasts, will ensure the distribution system is adequately prepared for forecasted growth, based on municipal official plans and official plan amendments (secondary plans), and developers' forecasts shared with the distributor. This proactive planning directly addresses a key concern raised by developers in both the consultation and CAMAG meetings regarding the often lengthy lead times associated with securing necessary electricity supply.

Consistent with the DSC requirements, and maintaining a reasonable forecast period, the term of a CAM will be limited to a maximum of 15 years, after which any connecting customers will not be required to contribute to the CAM-related expansion and will be subject to the expansion provisions set out in section 3.2 of the DSC.

Under the proposed CAM requirements, distributors will be required to ensure capacity is available for customers who have committed to their capacity needs and manage requests from uncommitted and unforecasted customers on a first-come, first-served basis. Customers will be required to pay a capital contribution based on the allocated share of the CAM-related expansion costs. To maintain the beneficiary pays principle and a fair allocation of costs between the developers or other new customers and existing customers, customers who have not fully paid their applicable capital contribution amount at the beginning of the CAM term will be required to pay a financing charge to reimburse the financing costs related to the distributor's CAM-related expansion costs as part of its rates until their contributions are paid in full.

Given that some customers will have provided contributions upfront or financial commitments to support requests for capacity in the CAM development area they will need assurance that capacity will be available when they are ready to connect. The proposed CAM requires the distributor to manage any requests for connection by other customers to ensure that capacity is available for the committed customers.

In proposing these amendments, the OEB is guided by its objectives as set out in section 1 of the Act. The OEB believes that the proposed amendments will support the province's priorities for housing development while maintaining the underlying principles of the DSC expansion provisions and protecting the interests of existing ratepayers. Interested parties are encouraged to review the OEB's Report to the Minister and CAMAG meeting materials in conjunction with this Notice, for a better understanding of the stakeholder input and analysis that have informed the proposed amendments.

Appendix A to this Notice sets out the text of the proposed amendments to the DSC. Appendix B to this Notice provides the proposed new appendix to the DSC, detailing the methodology and requirements for the CAM. These amendments and the OEB's reasons for making them are discussed in subsections below.

B.2 New DSC Section 3.2A – Expansions to Serve Qualifying Development Areas

The OEB is proposing to add a new section 3.2A to the DSC that will address expansions to serve qualifying development areas. Section 3.2A.1 will contain definitions of CAM-related terms used in section 3.2A and in the new Appendix I. Section 3.2A.2 will identify the circumstances in which a distributor may establish a CAM. Finally, section 3.2A.3 will emphasize that the CAM expansion to serve a qualifying development area, and the corresponding capital contributions payable under the CAM, are distinct from the expansions addressed in section 3.2 of the DSC. Subsequent expansions from the CAM expansion infrastructure to serve individual subdivisions and other customers will still be subject to the provisions of the DSC related to expansions. For example, a developer paying for a portion of the CAM-related expansion infrastructure may also be required to make a capital contribution in respect of the subsequent distribution infrastructure needed to deliver power from the CAM expansion to their own subdivision.

In developing the criteria for the application of a CAM, the CAMAG members discussed several approaches for determining when to apply a CAM to a development area and expressed differing views. Distributors noted that the application of a CAM should be strictly limited to large development areas with a significant number of developers ready to make financial commitments. They suggested that the model should not be applied when there is only a small group of connections, and therefore, some numerical thresholds should be established. However, other members raised concerns that such thresholds might inadvertently exclude certain areas that should be subject to a CAM.

The OEB agrees that setting specific thresholds could be problematic but also acknowledges distributors' concerns about the ambiguity arising from eligibility criteria without limits and specifications. Therefore, the OEB proposes that a distributor should have the discretion to determine, in collaboration with developers or other customers, if a CAM should be applied, based on the eligibility criteria for a qualifying development area provided under Section 3.2A.1.

Proposed section 3.2A.1 will define a “qualifying development area” as an area that meets the following criteria:

a) Significant Residential Load Growth: The distributor forecasts, based on information from a municipality’s official plans and/or an applicable official plan amendments (or secondary plans) and the distributor’s distribution system plan for the area, significant residential load growth will occur in the area;

b) Planned Capacity: The distributor intentionally plans and constructs more capacity than the capacity required to accommodate the paid committed capacity and agreed committed capacity for the initial customer(s) requesting connection(s) for the purpose of accommodating the significant residential load growth in the area; and

a) Paid Committed Capacity and Agreed Committed Capacity: A significant portion of the constructed capacity consists of paid committed capacity and/or agreed committed capacity.

Section 3.2A1 will include the following definitions of terms referred to in the definition of “qualifying development area”:

“agreed committed capacity” means capacity allocated to customers who have not fully paid the capital contribution amount determined under a capacity allocation model, but have provided binding financial commitments, such as agreements, letter(s) of credit from a bank as defined in the *Bank Act*, S.C. 1991, c. 46 or surety bond(s), to commit to their future capital contributions;

“capacity allocation model” means a model established in accordance with the methodology and requirements set out in Appendix I to allocate capacity and costs associated with system expansions to accommodate multiple residential subdivisions and other customer connections in a qualifying development area;

“constructed capacity” means the total capacity that will be built by the distributor under a capacity allocation model, excluding any capacity that is considered an enhancement as described in this Code;

“paid committed capacity” means capacity allocated to customers who have fully paid their applicable capital contribution amount as determined under a capacity allocation model;

Appendix I will include definitions of certain terms applicable to the model itself.

B.3 Appendix I - Methodology for Implementing a Capacity Allocation Model

Proposed new Appendix I to the DSC sets out the methodology and detailed requirements for implementing a CAM once a distributor has determined, under section 3.2A, a CAM should be applied to a particular development area. As previously explained, the OEB believes that the CAM rules must offer flexibility to allow a distributor to adapt to the unique characteristics of individual development areas and the varying levels of information available at the time of CAM establishment, thereby preventing unintended obstructions to project progression.

The following sections explain the methodology and requirements outlined in the proposed new Appendix, and the OEB’s rationale for these provisions.

B.3.1 Definitions

The following definitions are provided in the proposed Appendix I specifically for the CAM methodology to ensure consistent application of the model. All other terms used in

Appendix I, such as “customer”, have the meaning set out in the DSC, including the new terms proposed in section 3.2.A to the DSC.

“CAM term” means that term over which CAM capital contributions are forecasted to be paid by customers. This period shall begin on the date on which the expansion under a CAM begins construction and end on the date on which the last capital contribution payment under the CAM is expected to be made for the expansion, provided that the CAM term shall not exceed 15 years.

“uncommitted capacity” means capacity that remains available for future customer connections, and not yet allocated or committed through capital contribution payments or binding financial commitments under the CAM. This includes unforecasted customer connections.

B.3.2 Scope

Finding a balance between accuracy and simplicity has been one of the key challenges throughout development of the CAM. Distributors may wish to implement a single CAM for the entire new development area. Where they have confidence in the forecasts and plans from developers and customers. CAMAG members agreed that plans can change, and since the CAM is intended for large expansions likely to be constructed over multiple years for many customers connecting over time, the accuracy of the estimation on capacity and costs would naturally suffer without constant adjustments to the model. However, members also requested that the model not be overly complex, ensuring that a distributor can establish and manage it over a long period of time.

CAMAG also discussed a phased CAM, which is based on constructing the planned expansion over time. This approach was seen to allow distributors to establish a CAM for a smaller area that covers the connections occurring in the near term and address subsequent expansions and connections under another CAM. While this approach provides flexibility for distributors to manage variances and associated risks, it also increases the complexity of the model, as distributors may need to manage multiple CAMs for a single new development area.

The OEB acknowledges the challenge in finding the right balance and believes that distributors, based on their understanding of the forecast and plan for the area, are in the best position to determine the most appropriate approach. Therefore, the OEB proposes that the scope of the CAM should be determined based on paid committed capacity, agreed committed capacity, and the distributor’s planned constructed capacity under a CAM. A distributor may establish multiple CAMs for expansions connecting different portions of the qualifying development area. Alternatively, a distributor may establish a single CAM for the entire qualifying development area.

Since a CAM area would be established for the purpose of capacity and cost sharing regarding the CAM-related expansion assets, all customers, including non-residential customers, who will be connected to the CAM-related expansion assets, regardless of whether they are inside or outside the CAM defined development area, would be required to share the cost of the CAM-related expansion.

B.3.3 Cost Sharing Mechanics

Stakeholders in the consultation and CAMAG members generally agree that customers should pay for their share of the expansion cost based on their required capacity. In large development areas, developers explained that connections do not occur all at once. Instead, some customers will require capacity several years after an expansion has been constructed. Stakeholders agreed that these customers, who will also benefit from the earlier expansion, should pay their share of the expansion cost.

The OEB proposes that the total cost of system expansion under the CAM will be shared among:

a) Customers with paid committed capacity. This includes customers who have fully paid the applicable capital contribution amount under the applicable CAM;

b) Customers with agreed committed capacity. This includes customers who have not fully paid the capital contribution amount under the CAM, but have provided binding financial commitments in respect of their future capital contributions. These customers will make any remaining capital contribution payments in later years, prior to connecting to the expansion and before the end of the CAM term; and

c) Customers with uncommitted capacity. This includes the distributor's projections for future customer connections, other than the customers under a) and b), to the same expansion over the CAM term. These customers will be charged capital contribution payments prior to connecting to the expansion.

For customers in categories b) and c) above, the distributor will initially finance the unpaid costs of the expansion through rates. These costs will be recovered through a financing charge as described below, will be charged as part of the capital contribution payments received from those future customers as they connect.

B.3.4 Customer Capital Contribution

The capital contribution charged to developers or other customers in an area subject to a CAM is determined based on the following formula:

$$Total\ Cost\ of\ CAM\ Expansion \times \frac{Requested\ Capacity}{Constructed\ Capacity}$$

Total Cost of CAM-related expansion

The OEB proposes that the total cost of a CAM-related expansion shall include all the costs for the distributor to construct, operate and maintain (O&M) the distribution expansion infrastructure over the CAM term, calculated using Net Present Value. The distributor may at its discretion consider the relative line length in proportion to the line length being shared by the customers in determining the capital contribution amount.

CAMAG members agreed that the capital costs of the expansion should be included in the cost sharing. However, some questioned the need to include O&M costs, as these costs would be covered in subsequent expansions servicing end-use customers within individual subdivisions or other customer connections supplied by the CAM-related expansion, as calculated under the economic evaluation model. Concerns were raised about the risk of double counting. The OEB does not believe there will be double counting, as the infrastructure constructed under the CAM will not be part of any economic evaluation for subsequent expansions. The O&M costs included under the CAM should be the distributors' costs to operate and maintain the CAM-related expansion assets, such as repairs and tree trimming during the 15-year CAM term.

Although the OEB understands that factoring relative line length into cost sharing would provide greater accuracy in the calculation, this may be overly complex for a large area CAM. Therefore, the OEB will not mandate consideration of line length in the determination of capital contributions, and proposes to leave this to the distributor’s discretion.

During the CAMAG discussion on risk mitigation and cost controls, it was suggested that developers should still have the option of constructing CAM-related expansions under the alternative bid option as set out in the DSC. This was seen to provide developers with the ability to exercise control over the CAM-related expansion costs. Distributors indicated that in their view the alternative bid option only allows a single connecting customer to construct certain expansions using their contractors. Distributors indicated that this option would be complicated under the CAM due to the overall timeframe for constructing expansions and the involvement of multiple customers under the same CAM.

The OEB understands the concerns regarding complexity but believes that the alternative bid option should at least be available as a means of giving developers and other customers the opportunity to control the cost of the expansion. Therefore, Appendix I includes the requirement to allow customers to choose the alternative bid option, as described in the DSC, for constructing the expansion work under the CAM. The OEB also takes this opportunity to clarify for all stakeholders that the alternative bid option, available under section 3.2 of the DSC, is not limited to a single customer connection and has always been available to a group of customers who decide to use a qualified contractor for the construction of an expansion.

Requested Capacity

The OEB does not intend to change the current practices for determining a customer’s capacity needs. However, based on comments from developers in the CAMAG, it is clear that there is value in using consistent assumptions among all customers and developers within a CAM. Therefore, the OEB will require that distributors make available information on the typical demand values for different building types, including but not limited to: detached homes, other housing types, and commercial buildings, for the purpose of ensuring consistent forecasting by the developers and other customers for requested capacity, by posting this information on the distributor’s website.

Constructed Capacity

During CAMAG discussions, members debated what should serve as the denominator for calculating a customer's share of the total expansion cost. A higher denominator value leads to lower cost sharing. Section 3.2.1 of the DSC ties an expansion to a customer connection request and thus requires that the expansion be sized for the customer connection requirement.

Distributors highlighted that, due to the nature of electrical infrastructure design, they often cannot build the exact capacity required by the customer. For instance, if a customer needs 16 MW of capacity, the distributor will construct a feeder rated at 20 MW, which is the smallest infrastructure that can accommodate this connection, also known as minimum build. Distributors suggested that “constructed capacity” should be based on the total required capacity for the development area, so the cost of the capacity resulting from the minimum build is shared among connecting customers. They noted that the cost difference between required capacity to meet the customer’s needs and constructed capacity is often minimal, primarily due to the cost of materials selected.

Developers, on the other hand, believe that customers should only pay for the capacity they require, not the capacity that the distributor decides to build, even if it is the minimum reasonable build. They argue that the connecting customers will not benefit from any additional capacity provided due to the distributor's design standards and therefore should not be paying for this additional capacity.

The OEB has considered the CAMAG comments and proposes that for the purpose of the cost allocation, “constructed capacity” should be used. As defined above, this is the total capacity built by the distributor, excluding any capacity identified specifically for system requirements. This approach recognizes that, as is the case today, the distributor will be required to consider the best design for the CAM-related expansion to meet system and electrical design requirements. It also considers the importance of simplicity and clarity in establishing a workable CAM. For a single expansion to accommodate one customer connection, the size of the required capacity, including any minimum build due to design standards, can be easily confirmed. However, for a large development area requiring significant expansions for multiple customer connections, the required capacity may not be easily determined. For example, if developers have a total of committed capacity of 15 MW, and the distributor forecasts additional development of 10 MW capacity and 5 MW for enhancement purposes based on the available information, the distributor may decide to build two feeders providing a total capacity of 40 MW. If the constructed capacity is based on 25 MW, some may challenge the accuracy of the distributor’s 10 MW forecasted future connections, as forecasts can be inherently subject to inaccuracy.

Payment Options

To address developers' concerns about the financial burden of providing a large capital contribution for all phases of a subdivision, the CAM will allow customers to contribute as each phase of the subdivision is connected. Customers who choose not to make a full capital contribution payment in the first year of the CAM term will be required to pay a financing charge in addition to the capital contribution.

Surplus Revenues from Subsequent Expansions

Given the CAM is for the purpose of allocating the cost of a significant expansion to connect a new development area, the economic evaluation is not expected to include forecasted revenues. CAMAG members noted that for certain developments, there might be surplus revenues from the subsequent expansions for end-use customers (i.e., within the individual subdivisions). Developers expressed the view that these customers should not lose the surplus revenues, as they have contributed to the CAM-related expansion. The OEB agrees that, to maintain consistency with the current rules, any surplus revenues calculated from the economic evaluation in Appendix B may be credited toward the customer’s capital contribution paid under the CAM. In addition, the customer may request that the distributor combine the expansions constructed under a CAM with subsequent expansions for individual subdivision build-outs to determine the total capital contribution required from the customer, provided that the costs of both expansions can be determined concurrently.

Uncommitted customer connections

Another important issue under the CAM is the process of responding to uncommitted customer connections. These connections can include the distributor's forecasted load connections based on the municipality's official plan or secondary plan, as well as any unforecasted customer connections, either inside or outside the qualifying development area, connecting to the same CAM expansion. Distributors noted that these uncommitted connections, especially commercial developments, can easily consume the remaining capacity built under the CAM-related expansion.

Under the CAM, a customer requiring capacity in future years may choose to commit to their capacity needs earlier. Appendix I requires distributors to ensure capacity availability for customers who have committed to their capacity needs and to manage requests from uncommitted and unforecasted customers on a first-come, first-served basis. This involves assessing any uncommitted customer connections based on the remaining capacity from the CAM-related expansion, after factoring in the committed capacity. If the remaining capacity cannot accommodate the uncommitted customer connection, additional expansion work, such as constructing a new feeder, would be required. The uncommitted customer would be responsible for paying a capital contribution for the additional expansion, calculated based on Appendix B of the DSC. The distributor may also establish a new CAM for the additional expansion.

During CAMAG discussions, distributors raised concerns about overbuilding, as some uncommitted customers may request connections before customers with committed capacity are connected. The OEB proposes that distributors determine the timing of any additional expansion based on the planned connection dates of the committed loads, which may occur after the uncommitted customer connection. In this scenario, the uncommitted customer will be required to pay a deposit to cover the risk that the actual cost of the future expansion will differ from the estimate. That deposit will be established based on a forecast of the expansion cost and will be returned to the customer if the additional capacity is not needed or if the actual cost of the future expansion is lower than the initial estimate. Distributors will also be expected to engage in ongoing discussions with the committed customers to assess the need for any expansion of capacity as a result of uncommitted customer requests.

The OEB acknowledges the potential complexity and challenges for distributors in responding to uncommitted customer connections under the CAM, as well as the uncertainty regarding the capital contribution and deposit requirements for these uncommitted connections. However, the OEB believes that these factors may incentivize customers to pay their contribution or commit to their capacity needs at an early stage. This, in turn, will help reduce costs and mitigate the risks that distributors will need to fund the expansion costs over the CAM term.

Also, regarding the issue of uncommitted capacity, questions arose in the CAMAG about whether this includes individual homes or small businesses. Some members suggested that all customer connections, regardless of size, should be charged a capital contribution for the CAM-related expansion. Distributors were concerned this would create an unnecessary administrative burden in managing a CAM. Some distributors proposed establishing a threshold for these types of customer connections such that below the threshold they do not need to contribute to the CAM. The OEB has considered this suggestion but is of the view that setting a threshold would not be practical given the many different scenarios for a customer addition and therefore distributors are expected to follow their current practices in determining how to address such individual connections.

B.3.5 Financing Charge

Financing an expansion related to a CAM will involve some important differences from the current approach, due to the expectation that an expansion for a CAM development area will include forecasts for uncommitted customer connections, meaning the costs related to this capacity will be carried by the distributor (and ultimately by the ratepayer) until a customer connects and pays the required contribution. Although these costs are ultimately recovered from later connections, distributors (and ultimately ratepayers) incur financing expenses until payments are received from future connections. The stakeholders were generally of the view that the proposed model should not create a financial burden for ratepayers. The OEB is also of this view given the Minister's expectation in the October 2024 letter.

The OEB believes the financing costs for the distributor to fund the remaining expansion capacity should be borne by the beneficiaries – the connecting developers or customers – not by ratepayers. The CAM-related expansion is providing distribution service once the first customer connects to it and such investments are added to the distributor's rate base and ultimately paid for by ratepayers. By setting the financing charge equal to the cost of financing the investment in rates, connecting customers after year one will reimburse the rate base for those costs, that the ratepayers have already paid for during the period that the remaining expansion capacity has gone unused, meaning ratepayers will be kept whole.

Therefore, the OEB proposes a financing charge for connecting customers who pay their capital contribution after the first year of the CAM term. The amount of the financing charge for a connecting customer will be equal to their allocated share of the cost that the distributor (and ultimately ratepayers) has paid to finance the project until the contribution is made. This amount will be based on the distributor's weighted average cost of capital plus applicable taxes. This financing charge will ensure the CAM will not create a financial burden to ratepayers and will incent developers and other customers to pay their share of expansion costs sooner, reducing the reliance on distributors for extended funding period and preventing the shifting of financial burdens to ratepayers. This is the same rate used in Appendix B of the DSC for all other expansions. This approach will minimize any impact on ratepayers and is in keeping with the Minister's expectation that implementation of a CAM would balance the interests of new customers and developers with those of existing electricity consumers.

Some distributors in the CAMAG suggested that this approach to a financing charge could shift the financial burden from early movers, which the CAM is designed to address, to later movers, particularly those who connect close to the end of the CAM term. They noted that the approach may incentivize customers to delay their connections until after the CAM term ends to avoid capital contribution payments, potentially resulting in ratepayers absorbing the remaining costs of the expansion. While other CAMAG members acknowledge the financial impacts on later movers, they maintain that ratepayers or distributors should not bear the costs of this financing, adhering to the beneficiary pays principle.

Developer members of the CAMAG generally expressed the view that most developers will be willing to pay upfront to ensure the expansion project moves forward and secure their capacity needs. There was also an acceptance that the financing charge to later contributions would maintain fairness between the connecting customers and existing ratepayers.

Some CAMAG members suggested that investments made for future customer connections should be included in a deferral account until the connecting customers pay their contribution and the expansion is used to serve those customers. These members expressed concerns that adding large amounts of CAM-related expansion costs to rates could have significant impacts on customers and affordability. On the other hand, distributors raised concerns about the financing implications of carrying expansion costs in a deferral account and the fairness of this approach. Distributors noted that, under the current rate-setting practice, the cost of an expansion is considered an investment in assets for the purpose of serving consumers and would be added to the distributor's rate base.

The OEB is of the view that the proposal to use a deferral account would not be consistent with its approach to ratemaking given a portion of the expansion serving the initial customers is immediately used in the distribution of electricity and should therefore be considered an asset for the rate base. The OEB does not have a policy to allocate portions of assets to rate base; an asset is either used and useful or it is not. Distributors also pointed out that managing a deferral account to recognize the cost of the CAM-related expansion would also create financing issues as these amounts would be financed at a lower amount than the distributor's return on assets which may not be feasible.

B.3.6 Offers and Agreements

CAMAG members discussed various risks associated with the changes due to developers altering their committed capacity needs and distributors modifying the expansion plan over the CAM term, thereby affecting the total expansion cost.

Distributors noted that under the current DSC rules, customers would not receive a refund if the actual customer connections in a subdivision or the actual demand for other load customers falls below the committed number or demand. Distributors suggested that this rule should still apply to CAM, as they should not be held accountable for customers' inaccurate forecasts. However, if the actual value significantly exceeds the committed value, the customer would be expected to make an additional contribution for the incremental capacity required.

Developers on the CAMAG expressed the view that they should be able to benefit from any additional connections a distributor may accept due to the reduction in the developer's number of connections or demand for the CAM-related expansion. In the developers' view, the distributor would be earning additional revenue from assets that the developer had paid for.

Members also debated the necessity for true-up calculations related to the distributor's estimated expansion cost versus the actual cost. Distributors noted that for large system expansion projects, costs can vary significantly. Therefore, if the CAM is not based on actual costs, ratepayers may have to absorb the cost variances. Not charging customers based on the actual project cost may also lead to overestimations in the distributor's offer.

The OEB is of the view that true-up on customers' actual demand can be overly complicated for a CAM, especially when the project is constructed over multiple years with multiple customer connections occurring over those years. For this reason, distributors will not be required to perform true-up calculations on actual customer connections or demand. For any incremental customer connections or demand from a customer who has previously committed to capacity needs, the incremental portion of the capacity will be considered uncommitted under the CAM.

The OEB is proposing that distributors retain the discretion to provide customers with a firm or estimated offer. Further, if the distributor's offer is an estimate, it shall carry out a final assessment of the customers' CAM contributions once the expansion facilities are energized based on the actual cost of the expansion. If the capital contribution amount resulting from the final assessment differs from the initial capital contribution amount, the distributor shall obtain from the customer, or credit the customer for, any difference between the two calculations.

Lastly, since the CAM may require distributors to establish more detailed processes and working models based on their own operating and business parameters, distributors may post additional information to help customers better understand the process and requirements specified in Appendix I.

C. Anticipated Cost and Benefits

The proposed amendments are expected to facilitate housing developments through a more structured, transparent, and equitable approach to allocating the cost of significant electricity distribution system expansions to areas involving multiple developers with phased developments. By allowing distributors to implement a CAM, the amendments address long-standing concerns under the existing framework, including the financial burden placed on initial developers, while protecting ratepayers and ensuring that developers continue to pay their fair share.

Customers who defer capital contribution payments to later years will be required to pay financing charges. These charges are designed to recover the costs incurred by distributors (and ultimately ratepayers) during the interim, thereby protecting both ratepayers and early contributors from subsidizing future connections. The financing structure also encourages early participation as a cost-avoidance strategy and reduces the load forecasting risk. The OEB acknowledges the risk that distributor’s forecast regarding uncommitted load may not materialize, and that the costs of any unassigned capacity after the end of the CAM term will be part of rate base. The OEB expects that this risk will be monitored and managed by distributors and will be reviewed as part of the distributor’s rate application.

For distributors, a CAM provides greater planning certainty and flexibility. With defined contribution pathways and supporting planning evidence, distributors can size and stage expansions based on committed and forecasted load, reducing the risk of under- or over-building. Distributors may incur additional administrative and planning responsibilities in implementing CAM; however, these are expected to result in more efficient and coordinated investment, better aligned with municipal growth.

For developers, a CAM offers flexibility in how contributions are made. Developers may choose to pay a capital contribution upfront or in phases as subdivisions connect, with financing charges applied only to deferred amounts. While this may result in higher costs for developers who delay connections, it ensures fairness to those who invest early and avoids cost-shifting to ratepayers.

Overall, the proposed amendments are expected to promote fair and efficient cost recovery, enhance transparency in expansion planning, and support timely housing development. By embedding risk mitigation tools and cost accountability measures into the distribution system planning process, the CAM is intended to improve the long-term financial and operational sustainability of the electricity distribution system.

D. Coming Into Force

The Code amendments will come into force 90 days after the date the OEB posts the final Code amendments on its website. This time is provided to allow distributors to develop the necessary process modifications and models to support the implementation of a CAM.

As a transitional matter, the OEB proposes that the amendments may apply where the distributor has not entered into a final agreement with the developer(s) and expansion plan has not been finalized as of the date of the amendments come into force. This approach is intended to avoid the administrative complexities and potential financial challenges associated with applying a CAM to expansions that are already under construction or completed. At the same time, this approach aims to ensure that development areas in the early stages of their development can benefit from the amendments.

E. Invitation to Comment

The OEB invites comments from all interested parties on the proposed amendments to the DSC set out in Appendix A and B. Comments are due on **May 9, 2025**.

Filing Instructions
Persons filing materials with the OEB are responsible for ensuring that any documents they file with the OEB **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2024-0092** for all materials filed and submit them in a searchable/unrestricted PDF format with a digital signature through the OEB's online filing portal.

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.
- Please use the document naming convention and documentation submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found on the Filing Systems page of the OEB's website.
- Stakeholders are encouraged to use RESS. Those who have not yet setup an account or require assistance using the online filing portal should contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the OEB's website for more information on how to file documents online. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the Practice Direction on Cost Awards.

All filings must be received by **4:45 pm** on the required date.

F. Cost Awards

Cost awards will be available under Section 30 of the Act to eligible participants in relation to written comments provided on the proposed DSC amendments set out in Appendix A to this Notice. Any participant previously found eligible for an award of costs in the OEB's April 2, 2024 Decision on Cost Eligibility and December 31, 2024 Supplemental Decision on Cost Eligibility is eligible for an award of costs in relation to comments on these proposed DSC amendments and need not reapply.
Costs will be recovered from all rate-regulated licensed electricity distributors apportioned based on their respective customer numbers.

Appendix C contains important information regarding cost awards for this Notice and comment process, including in relation to eligibility requests, objections and the maximum number of hours for which cost awards can be claimed. The deadlines for filing cost eligibility requests and objections will be strictly enforced to facilitate a timely decision on cost eligibility.

This Notice and all other project materials, including all written comments and filings relating to cost awards received by the OEB, will be available for public viewing on the System Expansion For Housing Developments page on the Engage with Us website.

If you have any questions regarding the proposed amendments to the DSC described in this Notice and set out in Appendices A and B, please contact Mansi Modi, Senior Advisor, Distribution Policy & Compliance at Mansi.Modi@oeb.ca.

The OEB's toll-free number is 1-888-632-6273.

DATED at Toronto, April 17, 2025

ONTARIO ENERGY BOARD

Nancy Marconi

Digitally signed by Nancy Marconi
Date: 2025.04.17 15:14:21 -04'00'

Nancy Marconi
Registrar

Attachments:
Appendix A – Proposed Amendments to the Distribution System Code
Appendix B – Proposed DSC Appendix I – Methodology for Implementing a Capacity Allocation Model
Appendix C – Cost Awards

Appendix A

to

Notice of Proposed Amendments to the Distribution System Code

April 17, 2025

EB-2024-0092

Proposed Amendments to the Distribution System Code – Comparison Version

Note: Black underlined text indicates additions to the Distribution System Code and strikethrough text indicates deletions from the Code.

3.2.1 Subject to section 3.2A, below, if a distributor must construct new facilities to its main distribution system or increase the capacity of existing distribution system facilities in order to be able to connect a specific customer or group of customers, the distributor shall perform an initial economic evaluation based on estimated costs and forecasted revenues, as described in Appendix B, of the expansion project to determine if the future revenue from the customer(s) will pay for the capital cost and on-going maintenance costs of the expansion project.

3.2A Expansions to Serve Qualifying Development Areas

3.2A.1 In this section 3.2A and in Appendix I:

"agreed committed capacity" means capacity allocated to customers who have not fully paid the capital contribution amount determined under a capacity allocation model, but have provided binding financial commitments, such as agreements, letter(s) of credit from a bank as defined in the *Bank Act*, S.C. 1991, c. 46 or surety bond(s), to commit to their future capital contributions;

"capacity allocation model" means a model established in accordance with the methodology and requirements set out in Appendix I to allocate capacity and costs associated with system expansions to accommodate multiple residential subdivisions and other customer connections in a qualifying development area;

"constructed capacity" means the total capacity that will be built by the distributor under a capacity allocation model, excluding any capacity that is considered an enhancement as described in this Code;

"paid committed capacity" means capacity allocated to customers who have fully paid their applicable capital contribution amount as determined under a capacity allocation model;

"qualifying development area" means an area that meets the following criteria:

a) Significant Residential Load Growth: The distributor forecasts, based on information from a municipality's Official Plan and/or an applicable Official Plan Amendment (or Secondary Plan) and the distributor's distribution system plan for the area, that significant residential load growth will occur in the area;

b) Planned Capacity: The distributor intentionally plans and constructs more capacity than the capacity required to accommodate the paid committed capacity and agreed committed capacity for the initial customer(s) requesting connection(s) for the purpose of accommodating the significant residential load growth in the area; and

c) Paid Committed Capacity and Agreed Committed Capacity: A significant portion of the constructed capacity consists of paid committed capacity and/or agreed committed capacity.

3.2A.2 Where a distributor determines that an expansion of its distribution system is needed to serve a qualifying development area, the distributor may establish a capacity allocation model in accordance with the methodology and requirements of Appendix I to allocate capacity and costs associated with that expansion.

3.2A.3 For greater clarity, the expansion to serve a qualifying development area, and the corresponding capital contributions payable under the capacity allocation model, are distinct from the expansions addressed in section 3.2 of this Code. For subsequent expansions to serve end-use customers within individual subdivisions or other connections supplied by the capacity allocation model-related expansion, the provisions of this Code related to expansions, including without limitation the performance of an economic evaluation based on estimated costs and forecasted revenues, as described in Appendix B of the DSC, will continue to apply.

Appendix B

to

Notice of Proposed Amendments to the Distribution System Code

April 17, 2025

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DSC Appendix I – Methodology for Implementing a Capacity Allocation Model

[see separate document attached]

Appendix C

to

Notice of Proposed Amendments to the Distribution System Code

April 17, 2025

EB-2024-0092

Cost Awards

Cost Award Eligibility

The OEB will determine eligibility for cost awards in accordance with its Practice Direction on Cost Awards. Any participant in this process intending to request cost awards (and has not already been determined eligible for cost awards in the OEB's April 2, 2024 Decision on Cost Eligibility and December 31, 2024 Supplemental Decision on Cost Eligibility) must file a written submission with the OEB by **April 25, 2025**, identifying the nature of their interest in this process and the grounds on which they are eligible for cost awards (addressing the OEB's cost eligibility criteria in Section 3 of the OEB's Practice Direction on Cost Awards). An explanation of any other funding to which the participant has access must also be provided, as should include the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost eligibility will be posted on the OEB website.

Rate-regulated electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If an electricity distributor has objections to any of the cost eligibility requests, those objections must be filed with the OEB by **April 30, 2025**. Any objections will be posted on the OEB website. The OEB will then make a final determination on the cost eligibility of the requesting participants.

Eligible Activities

Cost awards will be available in relation to providing comments on the proposed DSC amendments in Appendix A and B to a maximum of 16 hours.

Cost Awards

The OEB will apply the principles in Section 5 of its Practice Direction on Cost Awards, when determining the amount of the cost awards. The maximum hourly rates in the OEB's Cost Awards Tariff will also be applied. The OEB expects that groups representing the same interests or same type of participant will make every effort to communicate and co-ordinate their participation in this process. Cost awards are made available on a per eligible participant basis, regardless of the number of professional advisors that an eligible participant may wish to retain.

The OEB will use the process in Section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards; i.e., the OEB will act as a clearing house for all cost award payments in this process. For more information on this process, please see the OEB's Practice Direction on Cost Awards and the October 27, 2005 letter regarding the rationale for the OEB acting as a clearing house for the cost award payments. These documents can be found on the OEB website at www.oeb.ca.