

ONTARIO ENERGY ASSOCIATION

## CAPACITY ALLOCATION MODEL: EB-2024-0092

Date: May 16, 2025

To shape our energy future for a stronger Ontario.



Ontario Energy Association

# ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

The Ontario Energy Association thanks the OEB for the opportunity to provide feedback on the Capacity Allocation Model consultations currently being held (EB-2024-0092).

The housing file remains a priority for the OEA and we are supportive of the desire to help facilitate the building of housing more quickly and efficiently. However, we have specific concerns about the Capacity Allocation Model solutions proposed by the OEB.

These concerns are as follows:

- **Uncertainty and conflict:** the three point plan to determine whether a CAM is needed or not, establishes a process likely to result in uncertain processes, and this could lead to misunderstandings and/or conflicts on the determination of whether a CAM is necessary in a particular circumstance. Furthermore, as written the proposed amendments are likely to create result in cases where different criteria employed by different LDCs yield different results for developers, causing additional frustration for all parties. If allowed to stand as is, it may also potentially create a position where all developers will seek exemptions from the traditional cost-recovery rules for all projects and have the rate-base pick up the cost. The OEA recommends that the OEB firmly entrench the LDCs' ability to declare when a CAM development area is applicable, or not. The buck must stop with the utilities who's mandate is to ensure equal access to services and must also weigh many other competing priorities.
- **Administrative Burden:** the process outlined by the OEB may be complex to administer by LDCs and will tie up resources and funding, particularly if multiple CAMs are required, which put other project and priorities at risk. Based on the proposed language, LDCs will now have to track geographically specific areas within their distribution systems for a period of 15 years, track new connections against a geographically-defined cost-allocation process and then adjust against the rate-base during cost-of-service filings. Depending on when the rate-filings occur, it could be a 20-year process for rate-payer burden to be reduced. The process adds significant administrative burden on LDCs and (as the OEB itself has noted) has the potential of driving up ratepayer costs over a long period of time when they do not benefit from the investments.
- **Impact on available capital:** In general, shifting the revenue horizon to 40 years stresses the utility revenue flows, by reducing the amount LDCs can charge upfront for new developments, on the assumption that future revenue is stable. However, the decrease in upfront capital contributions means that utilities need to have additional capital and financing tools, at a time when inflation, growth, aging infrastructure, extreme weather events, enhanced resiliency needs and supply chain challenges are already stressing capital budgets. The proposed CAM model further exacerbates this problem by requiring much more upfront capital be available for utilities to cover the cost of the asset build, since developers are now not covering the full-cost of the build. Anecdotally, many utilities are, or may soon, run up against borrowing limits. Utilities already have to make hard choices about where and when it chooses to spend, especially as they have to balance day-to-day management against growth-oriented needs – CAM and longer revenue horizons will exacerbate this problem as capital gets further constrained. The OEA views this to be a leading edge indicator of broader access to capital and financing challenges facing the sector, which is a risk to shareholders and ratepayers, especially as the energy transition intensifies.

**Cashflow to Debt challenges:** utilities rely on their credit worthiness to ensure access to the best borrowing rates. An element in determine the overall credit score is the cashflow to debt ratios. The proposed CAM may impact this ratio negatively, by requiring the rate base to take a greater role in the upfront funding to build out the CAM area. The timing for the associated incoming revenues may be subject to future expansions, whose timing and predictability may not be precisely known at the time of the CAM build. This is a risk and will create a further strain on credit.

- **Other concerns:** The OEA has concerns in terms of the procedural conduct of this consultation.
  - Issues have been raised as to the unwillingness of the OEB to consider alternative approaches to cost-recovery and cost-certainty such as “Development Charges” – particularly as raised by stakeholders within the OEB working group formed in December. In essence the OEB has pre-determined a solution that is unlikely to satisfy any stakeholder based on the overly vague criteria proposed within the Distribution System Code (DSC) and has not allowed for a stakeholder-led approach that could potentially create better solutions in terms of fit, burden and overall acceptability.
  - Furthermore the rushed consultation is in contrast to the OEB’s historical approaches which offered more time for meaningful input, as well as multiple opportunities to engage on a file. A single point of input on an extremely sensitive file does not instill confidence that an appropriately balanced set of solutions can be found. The OEA is particularly concerned that a pattern of rushed consultations is now becoming the norm – as evidenced by similar concerns around the Total Cost Benchmarking (EB-2025-0102), Spending Pattern Analysis (EB-2025-0108) and Incremental Capital Modules (EB-2024-0236) consultations.

We trust that our input is received in the collaborative spirit in which is submitted and we are available for follow up discussions as required.

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## CONTACT

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Ontario Energy Association

Let's unravel complex energy challenges, together.