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BY EMAIL AND RESS

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Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

Re: EB-2024-0092 - Hydro One Networks Inc. (HONI) Response to Notice of Proposal to Amend the Distribution System Code

On April 17, 2025, the Ontario Energy Board (OEB) issued proposed amendments to the Distribution System Code (DSC or Code) that will require distributors to consider the implementation of a CAM where significant system expansion investments are needed to bring capacity to a large residential development area (CAM Proposal). These amendments respond to the Letter of Direction from the Minister of Energy, dated December 19, 2024, which requested that the OEB work expeditiously to establish a CAM for multi-phase housing development projects, as recommended in the OEB's Report to the Minister on System Expansions for Housing Developments. The CAM is intended to support a fair and equitable approach for allocating capacity and costs for system expansions that facilitate the connection of several large planned residential subdivision projects and other customer connections that will occur over a period. As part of the CAM Proposal, the OEB has created a new Appendix I that establishes the methodology and requirements for the CAM.

In December 2024, the OEB established the CAMAG which included representatives for residential developers, consultants, electricity distributors and customer advocacy groups, to advise on the development of its CAM Proposal. The OEB's objective in establishing the framework for the CAM was to promote a coordinated and efficient approach for building system capacity to meet the supply needs of a large residential development area that would allow: (i) subdivision developers to secure capacity in advance; and (ii) ensure that costs are allocated based on their specific capacity needs. Hydro One was a member of the CAMAG and was active in providing advice and comments in respect of the OEB's proposed CAM framework at CAMAG meetings. In addition, Hydro One provided comments in writing via email to the OEB in response to various iterations and the overall evolution of the CAM framework. The process to develop the CAM was paused for the Provincial election and resulted in a "catch-up" period to complete the CAM which in Hydro One's view, has resulted in a process that does not properly consider the consequences of the CAM.

Hydro One is committed to facilitating the build-out of its distribution system in an efficient and cost-effective manner to facilitate large-scale, multi-phase housing development projects and alleviating the financial burden on “first-mover” developer customers. This is an important policy objective and Hydro One would like to highlight some of its concerns with the CAM Proposal which should be addressed through the CAMAG and in the final iteration of the amendments to the DSC:

- **Distributors need assurance that they may exercise flexibility and discretion to determine, in collaboration with developers or other customers, whether and how a CAM should be established**

  Subject to the confirmation of a municipality’s official and secondary plans and interest from key developers of the area, the distributor reserves the right to make the final determination as to whether a CAM is appropriate for serving a large development area and how the CAM should be established. In making such determinations, a distributor should clarify its requirements and criteria for implementing a CAM so that this is well-understood by its customers.

- **While the CAM addresses issues faced by “first movers” or “initial movers”, the proposed CAM methodology will result in increased costs for any “second movers” who connect to the CAM expansion. This approach for treating “second movers” is unfair to these customers and inconsistent with the DSC’s current rules for addressing “second mover” connections to a previously built expansion. More importantly, instead of ensuring that costs are apportioned fairly to all customers that connect to a CAM expansion, this approach has the potential to result in unequal cost treatment for customers who connect to a CAM expansion and those who do not.**

  The OEB has sought to establish a fair and equitable approach for allocating expansion costs to customers under the proposed CAM. This objective will not be achieved by requiring customers, who do not commit to capacity or pay for their capital contribution in full at the beginning of the CAM term, to pay for financing costs associated with the portion of the CAM expansion that they will later use. This approach for treating the unreserved capacity of an expansion is unfair and punishes future connecting customers so that “first mover” customers only pay for the capacity that they need. Since future connecting customers have no control over whether they are connecting to an expansion where a CAM has been adopted or not, this policy has the potential to result in the inequitable treatment of connection costs for future customers who connect to a CAM expansion versus those who connect to an expansion that is not covered under a CAM. This requirement will, in fact, deter second movers from connecting in a CAM area, thereby undermining the purpose of this proposal.

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- **The CAM provides a single methodology for allocating costs to customers. However, since the CAM Proposal provides distributors with the flexibility to determine when a CAM should be implemented,[1] it should also provide distributors with flexibility to consider other acceptable and suitable methods to allocate these costs more equitably between customers, where appropriate.**

  The methodology for calculating capital contributions for CAM customers in Appendix I should not prevent a distributor from allocating costs in a manner that may be more appropriate for a development area. At CAMAG meetings, several stakeholders urged the OEB to consider other approaches, such as development charges, to allocate CAM expansion costs to customers. Hydro One believes that the CAM should provide overriding principled requirements (such as keeping the distributor whole, cost minimization and fairness for all customers through effective planning and minimizing potential ratepayer cross-subsidization). This would enable a distributor to consider other cost allocation approaches (such as development charges) that may more appropriately (and simply) support a distributor's plan for serving a specific development area. Failing to provide such flexibility is at odds with the OEB's decision to provide distributors with discretion to apply the CAM in appropriate situations.

- **Distributors will need to create decision rules, establish processes and tools, and update their Conditions of Service to implement all aspects of the CAM methodology. For Hydro One, this will require five to six months and will require material cost to operationalize and administer.**

  Providing distributors with 90 days from the enforcement date of the CAM Proposal is insufficient time to implement the CAM methodology, which will require distributors to establish CAM eligibility criteria, financial agreements for CAM participants, a new or revised economic evaluation model for this purpose, and other CAM-related processes (such as the determination of financing charges, if approved). The proposed implementation period underestimates the effort required to complete these activities. When the OEB extended the revenue and connection horizon for qualified housing developments, almost the same amount of time was provided to implement these changes, whereas the scope associated with developing the CAM is far more significant. Most distributors face significant pressure to implement their work programs within their established budgets while also working to comply with other recently approved regulatory obligations. Distributors have repeated this message to the OEB on several occasions in response to new regulatory amendments. Hydro One therefore expects that the OEB will provide distributors with the ability to recover their costs associated with developing the CAM methodology through an appropriate variance account.

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[1] "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," Ontario Energy Board, EB-2024-0092, "Notice of Proposal to Amend a Code, April 17, 2025, p. 5.

Please refer to Appendix A for Hydro One's detailed comments in response to specific details and requirements established under the CAM Proposal.

Hydro One supports the overarching objectives that the OEB is trying to achieve through the establishment of a CAM for large development areas but would share that:

(i) there were opportunities to better organize the process to develop the CAM (ii) alternative and simpler approaches proposed by stakeholders were not adequately explored by the OEB, including a preference expressed by all parties to consider a development charge approach – a concept which was never adequately discussed as part of the consultation and (iii) the solution arrived at by the OEB is complex and may be costly for some utilities to implement. Hydro One is committed to actively and collaboratively participating in OEB consultations, which support meaningful consideration of stakeholder recommendations, and contributing to the development of regulatory policy and requirements that will result in practical, fair, efficient and cost-effective solutions.

Sincerely,

Kathleen Burke

Kathleen Burke

Appendix A – Hydro One's Comments Regarding Specific Details of the CAM Proposal

Please find below Hydro One's comments in response to specific details of the CAM Proposal. Hydro One's comments below are intended to call attention to specific implementation details related to the CAM methodology that require further clarification, review or additional modifications.

1) DSC Sections 3.2A.1 & 3.2A.2 – Definition of a "Qualifying Development Area" and a distributor's right to establish a CAM

In the CAM Proposal, the OEB states:

> *"… 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" (page 5).*
>
> *"...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" (page 7).*

Hydro One agrees that the distributors should consult with developers of large multi-phase residential projects and/or other large customers before implementing a CAM. That said, a distributor must consider various factors, such as the size of the residential development area, the number of customers who have agreed to pay for committed capacity relative to the constructed capacity proposed, its confidence in the long-term load forecast, the plan for serving the area, etc., in making the final decision to implement a CAM. The OEB's statements above, acknowledge distributors' expertise in such decision-making and their discretion to exercise their judgement accordingly. However, the proposed DSC amendments do not explicitly substantiate this view.

Hydro One therefore, strongly recommends that the OEB adopt the EDA's proposed revisions to the DSC's Sections 3.2A.1 and 2.3A.2 and to Appendix I. This will provide distributors with the assurance that they will have the necessary discretion to make the final determination in these cases.

2) DSC Section 3.2A.1 – Definition and requirements associated with "agreed committed capacity;" need for expansion deposits

It is Hydro One's understanding that a distributor has the ability to establish the terms of a "binding financial commitment" from a customer who has not fully paid their capital contribution amount determined under a CAM. However, if a customer does not pay their capital contribution in full, an agreement alone may not be sufficient, and legal proceedings may be needed to recover the remaining funds if the customer decides not to connect. Hydro One believes that an agreement, *together with* a letter of credit or surety bond is necessary to establish a binding financial commitment.

Hydro One assumes that a distributor maintains the ability to collect expansion deposits from all customers who are part of a CAM, in accordance with Section 3.2 of the DSC. Therefore, if a customer does not pay their required capital contribution in full, Hydro One assumes that a distributor can request an expansion deposit equal to the CAM costs that are offset by revenues associated with their load when they connect. Similarly, if a capital contribution is required from a customer, Hydro One believes that a distributor should also have the ability to set the requirements for the minimum amount that must be collected. This would discourage customers from potentially delaying their connection in-service date in order to pay their capital contribution at a later date. Since distributors must make expenditures towards expansion investments well ahead of the construction start date, *the expansion deposit and initial capital contribution payment must be provided when the binding financial commitment is executed and prior to the construction of the CAM expansion.* Suggested re-wording of this requirement is provided in section 3) below.

3) DSC Appendix I – Definition of CAM Term

As currently drafted, this definition is somewhat circular and ultimately would imply that the CAM term ends in the year in which the last payment from a forecasted customer is collected. Since a CAM is also intended to allocate costs to unforecasted customers, the CAM term should consider connection requests from unforecasted customers until all capacity built by the CAM expansion has been allocated, up to a maximum of 15 years. Also, as noted previously, distributors will incur costs before the construction start date of an expansion project. For this reason, Hydro One states above that the first portion of the capital contribution and expansion deposit (if needed) are required on the date that the contract between the distributor and the customer is executed. Therefore, Hydro One suggests a simpler definition of the "CAM term" as follows, with all revisions in **bold**:

> "CAM term" means that term over which CAM capital contributions are forecasted to be paid by customers. This period shall begin on the **execution** 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 fifteen years~~ of the contract between the distributor and those customers who have made a capacity commitment and end on the earlier of 15 years or when all capacity has been allocated."**

4) DSC Appendix I, Section 2.3.1 – CAM Cost Sharing Formula

While the CAM Proposal clearly states that enhancements and their associated costs are excluded from consideration within a CAM, only the proposed DSC definition for “Constructed Capacity” states this. Hydro One believes that clarity regarding the exclusion of both enhancement cost and enhancement capacity from the CAM expansion is important. This point should be reinforced in Appendix I with a footnote to the formula confirming that system enhancements, which provide additional capacity, should be excluded from consideration under a CAM.

Hydro One would also support establishing a Deferral & Variance Account (“DVA”) for the purpose of tracking the CAM expansion costs associated with any unallocated capacity. In Hydro One’s view, due to the various factors that need to be considered and the mechanics of a distributor’s normal planning process, it could be difficult for some distributors to predict or forecast when a CAM will be implemented to address a large development area. For this reason, it may be appropriate for these distributors to simply track CAM expansion costs related to any unallocated capacity as part of a DVA and seek approval for these costs (and the revenue requirement) at the appropriate time.

5) DSC Appendix I, Section 2.3.3 – Alternative bid options under a CAM

Hydro One does not support the proposal to offer alternative bid options to multiple developers and other potential customers with differing in-service requirements, in accordance with Sections 3.2.15 – 3.2.19 of the DSC. Distributors will spend considerable time and resources negotiating costs, connection dates or construction phases, changing timelines and other details between several parties. A first mover customer who exercises the alternative bid option may delay their energization date, which in turn could disrupt connection in-service dates. There is also the potential risk that a first mover customer may go bankrupt during construction, in which case, the semi-constructed distribution assets remain the property of the first mover until a transfer is negotiated, which could further delay completion of the project. Even after a transfer is negotiated, additional work and cost may be required to in-service the assets and bring them up to standard, which would result in subsequent connection delays.

Hydro One believes that Section 2.3.3 of Appendix I does not provide sufficient detail to address requests for alternative bid under a CAM, which could cover multiple development phases over several years, nor does it provide sufficient guidance for addressing the risks associated with alternative bids. For example, it is unclear whether the alternative bid option is available only at the beginning of the CAM term or throughout the CAM term as different phases of the expansion work are completed. Furthermore, Section 2.3.3 does not clarify rules for transfer pricing, the timing of transfer payments and whether or how true-ups should be performed.

For the above reasons, it is only logical that the distributor should build the expansion under a CAM and Hydro One strongly recommends that the OEB *not* make the alternative bid process available to any customers who are part of a CAM.

Should the OEB disagree with this recommendation, Hydro One requests that the OEB, at minimum, establish restrictions for CAM expansion work eligible for alternative bid to address the potential risks. Accordingly, where an alternative bid request is made, Hydro One recommends that the DSC must direct the distributors to:

a) require the developers/customers to come together in a consortium when making such a request and

b) make the consortium option available only to committed customers (those who have paid a capital contribution, as currently required by Section 3.2.14 of the DSC for "regular" expansions).

Also, despite the measures recommended above, the DSC should also give distributors the right to terminate a contract and transfer the subject assets to the distributor for a reasonable payment in response to unexpected situations which could occur, thereby delaying the completion of the CAM expansion above.

6) DSC Appendix I, Section 2.3.4 – Requirement for distributors to publish typical demand values for different building types

The OEB has proposed that distributors publish typical demand values for various building types "for the purpose of ensuring consistent forecasting for each requested capacity." Hydro One is confident of its ability to estimate demand values for detached homes, townhouses, duplexes, etc., based on historical data. However, demand values for new home loads spurred by increased electrification, such as EV charging, are not yet well established in Ontario. Furthermore, the forecast demand for commercial buildings is more difficult to determine, as the loading for these buildings is driven by the individual nature of the business' operations, associated facilities and equipment. Distributors may sample meter data from a selected customer pool, but this data will not provide an understanding of the connected load (such as square footage, type of heating, number of units, etc.) that results in this demand. Developing this intelligence and knowledge base, even on a best-efforts basis, will take time and, as distributors cannot readily confirm the final result, may lead to questionable accuracy in the long run until standard values are established.

Hydro One therefore recommends that if the OEB wishes to assist developers by providing "rule of thumb" data for the purpose of forecasting demand for certain types of connections that are more difficult to estimate, it would be more efficient to engage a consultant to derive and update unit values, as required, for publication on the OEB's website.

7) DSC Appendix I, Section 2.3.8 – Application of surplus revenue to support CAM and non-CAM expansion costs, distributor discretion and need for expansion deposit

Hydro One agrees that any surplus revenues remaining after performing an economic evaluation for non-CAM expansion work should be credited toward the capital contribution that the customer must pay for its CAM expansion costs. Hydro One believes that Section 2.3.8 should clarify:

- that this choice is at the discretion of the distributor, rather than the customer, to avoid the need for the distributor to have multiple processes,
- that all unforecasted customer connections that are allocated CAM costs (including subsequent connections of "lie along" customers), must be treated as expansion. They, therefore, require an economic evaluation (of both the connection and CAM costs) and must contribute their share to the initial investment (even where additional expansion work for their own connection is not required) and
- the requirement for the customer to provide an expansion deposit, where necessary, to protect ratepayers from any risks associated with the construction of the expansion and the customer's revenues not materializing.

Hydro One therefore, recommends the following wording changes, with all revisions in **bold:**

> "2.3.8 ~~A customer may request that the~~ **A** distributor **may** combine the expansion**(s)** constructed under a CAM with subsequent **connections or** non-CAM expansions ~~for individual subdivisions~~ or other connections that will subsequently be supplied by the CAM-related expansion, to determine the total capital contribution payment~~, provided that the costs of both expansions can be determined concurrently~~. If separate calculations are ~~chosen~~ **performed**, any surplus revenues calculated from the economic evaluation in Appendix B may be credited toward the customer's capital contribution payable under the CAM. **For expansions that require a capital contribution, a distributor shall require the customer to provide an expansion deposit, in accordance with the applicable rules of the DSC, section 3.2."**

8) DSC Appendix I, Section 2.4 – CAM Financing Charges

Hydro One continues to strongly disagree with the proposal that customers benefitting from a CAM expansion, who did not pay for their capital contribution in full when the CAM was established or who connect to a CAM expansion after it is established, should be responsible for paying financing charges associated with the CAM expansion. In comments submitted to OEB Staff on April 11 and prior to the issuance of the CAM Proposal, Hydro One argued that allocating financing charges to unforecasted or uncommitted customers is arbitrary and inconsistent with existing provisions under Section 3.2.27 of the DSC.

The DSC should be consistent when allocating expansion costs to unforecasted customer connections and avoid creating situations where a customer must pay higher costs under a CAM than they would if no CAM was established. Unforecasted customers have no control over whether they are connecting to an expansion under a CAM or not and, therefore, it is unfair to subject them to a different method of cost allocation solely on this basis. Finally, the allocation of financing costs to unforecasted or uncommitted customers would create the unusual situation where costs escalate over time, until they drop to zero at the expiry of the CAM period or when capacity for the CAM expansion is fully allocated. This suggests a problem.

Hydro One believes that other options should be considered to ensure that costs associated with providing uncommitted capacity are fairly distributed across all customers who benefit from a CAM expansion. In Hydro One's view, it would be simpler and appropriate for the cost associated with building uncommitted capacity within a CAM to be:

a) funded by ratepayers, if the capacity could facilitate normal load growth forecast for the development area; or

b) estimated upfront and included in the costs allocated to all eligible customers that connect to a CAM expansion.

9) DSC Appendix I, Section 2.5.1 – Agreements

With respect to item (5) above, Hydro One suggested that should the OEB approve the DSC's alternative bid option for individual customers within a CAM, these customers should first be required to form a consortium and pay a capital contribution. It is also possible that other customers with individual projects, (regardless of the availability of the alternative bid option), may find it beneficial to come together in a consortium for connection. In either case, they may choose to manage their projects under one agreement with the distributor. Therefore, Hydro One recommends the following minor edits in **bold** to Section 2.5.1 to support this option:

> "2.5.1 The distributor will establish **either** individual CAM offers and/or agreements with each customer under the CAM, **or one CAM offer and/or agreement for customers who have formed a consortium and paid a capital contribution.**"

10) DSC Appendix I, Section 2.5.3 – Recalculation of customer capital contributions based on the actual demand that materializes; potential "off-ramp" enabling distributors to utilize unused capacity

In the case where the actual number of customer connections of a subdivision or the demand from a non-subdivision connection is lower than the initial estimate, Hydro One believes that a customer should not be permitted to maintain capacity that they requested - but did not use - for the remainder of the CAM term or connection horizon, even if there is no re-calculation of their capital contribution. Such situations could extend for up to 15 years, interfering with the distributor's obligations to plan and manage their system in a responsible manner, to connect "lie-along" customers and other customers in a non-discriminatory manner. This could result in the subsequent over-building of the system to meet new customer needs.

Hydro One, therefore, recommends that the OEB consider a potential "off-ramp" requirement in the DSC that enables the distributor to re-assess the available capacity and assigned capacity at certain intervals, re-negotiate original agreements with such customers and make such capacity available, where appropriate.