

ONTARIO ENERGY ASSOCIATION

# System Expansion for Housing Infrastructure Consultation

OEA Response to EB 2024 0092

Submission Date: May 1, 2024

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 recommendations and positions contained in OEA submissions represent the advice of the OEA as an organization. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of individual members and their organizations may not be reflected in this document.

## **Introduction:**

The Ontario Energy Association thanks the Ontario Energy Board for the opportunity to provide input into the EB-2024-0092, Connecting Housing and Infrastructure policy proceeding. The range of issues covered by this proceeding is critical to the socio-economic development of Ontario and sits on the intersection of economic and energy policy. We in Ontario have the opportunity to relook at the factors that sit between growth and energy and right-size our approach to balance meeting the government's broader societal outcomes, while ensuring fairness in balancing the cost-responsibility between connecting customers (e.g. developers) and existing ratepayers.

Outlined below is our member informed submission, which we trust will be received in the collaborative spirit in which it is submitted.

## **Background:**

The provincial government has put in place a goal to build 1.5 million homes by 2031 to meet Ontario's housing needs. This goal is reflected in the government's Letter of Direction to the OEB, which references the government's economic and infrastructure goals in the "Housing, Transportation and Job Creation" section. The letter specifically calls for a review of the "electricity distribution system expansion connection horizon and revenue horizon direction to ensure that the balance of growth and ratepayer costs remain appropriate."

In response the OEB announced a new policy proceeding to meet this objective and held a policy review in April 2024. At the review, the materials were presented that outlined the existing cost allocation rules as well as several potential regulatory cost allocation solutions to address Ontario's growth objectives while remaining financially viable for ratepayers. These included:

- New Development Charges
- Redefining System Enhancements
- Fixed Development Charges

## **OEA Response:**

In general, the OEA is supportive of the existing cost-allocation rules within the DSC and considers them largely adequate for development projects that are close to the existing grid. We do not believe the rules nor the costs associated with such projects are particularly onerous for developers and therefore should not be changed.

However, the OEA is of the opinion that the existing rules may be onerous for projects that are several kilometers away from the closest connection point. For example, there is a development in the North Brooklin area in Elexicon Energy Inc.'s service territory. The project is currently 14 kilometers away from the capacity available at the nearest station and any build-out to bring infrastructure to the edge of the development will likely cost tens of millions of dollars.

The Distribution System Code is explicit that “increasing the length of the distribution system” is considered an expansion and requires that distributors seek a capital contribution from the connecting customer. This significant additional cost may hinder the progress of the initial development when the expectation in time is that this region will develop further. Good planning practice demands that the utility plan appropriately for that future potential load; beyond just the requirements of the initial developer. In service territories with green belts running through them, developers may have no choice but to build in more remote locations and be faced with the same problem – funding large expansions with assets beyond their specific requirements.

Under these circumstances, the cost allocation rules may pose a prohibitive cost-barrier to future infrastructure and housing developments given the multi-stage development plans. This can be further exacerbated by multiple developers. The first developer is technically responsible for the complete cost of the initial build out under the “first in pays” principle, even though they may only utilize a portion of the total capacity of the build out and the line will benefit subsequent future connecting customers as construction continues within the development.

Fundamentally, the OEA views these as a three-part challenge:

1. How can we create a framework that incents the most cost-effective approach to servicing new developments?
2. How to ensure all new benefiting connections contribute to the new development costs when there it is a multi-phased development? Including unexpected new commercial connections.
3. What is going to be split of costs between existing rate payers and developers? Does this need to be recalibrated in some manner?

Given the very complex nature of the challenges we are trying to solve for, it is likely that the full spectrum of optimized solutions will require engagement with a broader range of stakeholders such as the Ministry of Municipal Affairs and Housing (MMAH), municipalities as well as the developer community.

### **Solutioning:**

*Incenting Cost-Effectiveness:* As a general principle, the OEA believes that the OEB should incent the most cost-effective solutions in terms of connecting new developments.

The current framework defines which investments are “enhancements” versus “extensions”, thereby determining what is paid for by the ratepayer versus the developer. In circumstances where either an enhancement or an expansion would work, it becomes an exercise in determining who pays for the cost, as opposed to determining what is the most-effective option and then determining what is fair allocation mechanism between ratepayer and developer. The rules do not incent utilizing the most cost-effective solution first.

*Smart growth and Smart Planning:* Smart growth requires smart planning. In the context of supporting the government’s broader economic goals, this will require stronger linkages between municipal planning/zoning and distribution system planning. OEA discussion with

both the municipal and developer communities have shown a need for earlier and more interaction between the electricity planning and municipal planning. Developing processes that allow the planning frameworks to inform each other will have several benefits:

- It will allow municipalities to have conversations with LDCs on infrastructure and connection costs for planned growth
- Utilities will have better insights into upcoming growth which should be factored into the DSP
- Municipalities could incent/zone growth based on the least cost scenario.

Given the scope of the energy transition ahead of us, better planning between the municipal sector and energy systems (including coordination between gas and electric utilities) will help detect potential concerns earlier and enable time to identify solutions to those concerns. Current rules may need greater flexibility to allow reasonable pre-building of infrastructure by utilities to align with the timing of execution of municipal plans and mechanisms to ensure appropriate cost sharing. As such, although many LDCs already work with municipalities, we would encourage the OEB to support closing the gap between the two planning frameworks.

*Connection Horizons:* The OEA is supportive of the high-level OEB staff proposal to extend the connection horizon out from 5 years to potentially 10 years. The connection horizon is an important threshold for the electricity LDC at which costs above the estimated revenues will be fully borne by the developer. A short connection horizon too is “gameable” whereby future load could simply wait out the connection horizon so the initial developer can bear the full cost.

Extending out the connection horizon would be appropriate to ensure that future developers pay for their fair share of the development costs. Extending the connection horizon does place incremental administrative burdens on a distributor, particularly with multi-phase and multi-developer projects, and suggests a horizon no longer than 10 years which aligns with the gas connection horizon of 10 years as outlined in EBO 188. That said, the extension of the connection horizon will not fully address the issue of need for first mover developers to outlay a significant amount of capital to fund expansions to the edge of a new community development as discussed further above. The introduction other mechanisms, such as the hourly allocation factor (see below) in combination of extending the connection horizon may better support a stronger solution.

*Revenue Horizon:* The OEA is supportive of the OEB staff proposal to consider extending the Revenue Horizon for connecting projects. It should be noted that there are three elements that need to be taken into account when trying assess the proper Revenue Horizon;

- 1) The lifespan of the asset - the asset lifespan may be longer than the revenue horizon
- 2) the lifespan of the structure underpinning the load - Residential housing may survive for several decades if not longer, in many cases the assets that service these houses may have a shorter lifespan

- 3) the customer type driving the load - the certainty of revenues is higher from certain customer classes (e.g. residential) than from others (industrial or commercial).

The OEA is supportive of amending the Revenue Horizon to more accurately reflect the revenue potential and risk of the qualifying customer and should also strive to take into account the lifespan of the utility asset serving the load. The revenue horizon for residential projects could be increased from 25 years to 40 years, to more accurately reflect the revenue stream associated with the customer infrastructure underpinning the load while not extending it where assets are now holistically being replaced.

*Alternative Cost-Allocation Rules:* Under certain circumstances, with the appropriate check and balances in place, it may be appropriate to consider or allow alternative cost-allocation principles between the developer and the rate-base. This issue is one that we consider to be a pure policy determination as to the appropriateness of which entity should be responsible for which costs. That being said, the overall objectives of any determination should balance the need for rate-payer protection against the larger societal and economic objectives of the government, while also incenting smart and cost-effective planning and growth.

There is precedent for a policy-based approach to socializing certain costs; specifically investments needed to support renewable energy. This direction was made to ensure that broader policy and societal objectives are met.

As such, the OEA offers the following cost-allocation options for consideration:

1. Redefining System Enhancements: Under the current rules, developers may be responsible for 100% of an expansion while existing and future rate-payers are responsible for enhancements. Moving forward the OEB should look at ensuring all connecting and connected customers support the existing assets that are readily available and require to be built. Which includes allowing utilities to pre-build infrastructure to the edge of new communities, where warranted and cost effective (this in line with the System Enhancement proposal by the OEB).
  - For example, in circumstances where a trunk line needs to be built out to the edge of a development, the cost allocation of the line could benefit from updated ways of sharing costs that support growth while ensuring neither first movers nor existing rate payers are not unfairly burdened. Further connection costs to the line and immediate costs associated with the project could be borne by the developer.
    - Up to 2018, the wording of the DSC afforded LDCs more flexibility to pre-build.
2. Hourly Allocation Factor: One possible approach could be to utilize a system similar to the Hourly Allocation Factor on the gas system, where costs outside the developers' immediate liability is put into rate base, but future load growth is apportioned its share of the costs if and when it materializes. This might be possible in conjunction with amended connection horizon policies.

3. Allowing pre-investments: Ensuring that the LDC are allowed to pre-invest in assets and infrastructure to support growth. This could be achieved through approval of larger growth investments within the DSP and further supported through a mechanism such as the hourly allocation factor. There is a pre-investment process in place for gas expansions in Ohio, where using a rate rider applied to all ratepayers for cost recovery of infrastructure development. However this ability is tied to specific government legislation related to economic development (Jobs Ohio)<sup>1</sup>.

### **Conclusion:**

The OEA does not expect a firm determination to be made on this issue on the basis of one discussion. Nor does the OEA firmly endorse any position due to the compressed nature of the consultation. The OEA is simply bringing forward other options for deeper consultation sometime in the near future. Notwithstanding the widely held imperative to facilitate housing growth across the province, the “beneficiary-pays” concept remains important and any potential solutions for situations where connection is several kilometers away from the development site must be clearly defined so that existing rate payers are not burdened with inappropriate subsidization of costs.

The OEA looks forward to working with all stakeholders to ensure that full range of factors are considered as a part of any future policy consultations on this issue.

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<sup>1</sup> As part of Bill 201: [hb201\\_05 EN \(state.oh.us\)](https://legis.state.oh.us/hb/201-300/hb_201_05/hb201_05_en)



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