

Sent by email to: susanna.zagar@oeb.ca

June 6, 2024

Susanna Zagar
Chief Executive Officer
Ontario Energy Board
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P.O. Box 2319
Toronto, ON M4P 1E4

Dear Susanna Zagar,

The Association of Municipalities of Ontario (AMO) is pleased to share feedback to support the ongoing work of the Ontario Energy Board (OEB) in reviewing financing options for local electricity distribution infrastructure.

Municipalities recognize the important role of electricity distribution infrastructure in growing our communities. We must ensure that this infrastructure is available when needed to power new homes and economic development opportunities. This infrastructure will also play a central role in the electrification of Ontario's power grid, helping ensure that our residents have access to clean, sustainable, and affordable energy.

AMO is pleased to support the OEB's review of the financing model for new residential distribution infrastructure. This review tackles a key question: who should pay for growth, and how do we ensure funding is available when it's needed? Municipalities, on the frontlines of Ontario's growth, understand this challenge well. Municipalities across Ontario are actively planning, funding, and leading major infrastructure development projects to support housing and economic development opportunities. We're building the water systems needed to support new communities, and we're investing in the roads that will connect them.

Similarly, local distribution companies (LDCs) are building the electricity distribution infrastructure to power these new developments. To ensure the right infrastructure investments are made at the right time, strong collaboration between LDCs and municipalities is crucial. Aligning planning assumptions ensures infrastructure is in place to support growth.

Principles for Assessing Funding Models

The recent Energy Distributor Association report "Solving Grid Lock" estimated that LDCs need to spend as much as \$120 billion by 2050 to support electricity distribution infrastructure expansion. Strategies to fund this infrastructure are critical parts of growth and electrification and will have direct implications for municipalities. As the majority owner of LDCs, municipalities have a direct interest to ensure that LDCs can recover the costs of infrastructure expansion and remain financially stable.

AMO recommends having a broader discussion about how to pay for this growth. We encourage the OEB to consider the following principles when assessing potential financing approaches:

- **Fairness:** The up-front costs of new electricity infrastructure should be balanced between existing and new residents.
- **Coordination:** New capacity should be available when needed, and coordinated with local growth and electrification planning.
- **Consistency:** LDCs should have flexibility to fund infrastructure and set rates based on local needs, but the same funding model should apply to all LDCs across the province to ensure that communities are using the same approach to pay for growth.
- **Decarbonization:** Funding models should facilitate and incentivize the increased use of clean energy where possible.

OEB Proposed Revisions to the Current Financing Model

AMO understands that the OEB will be reporting back to the Minister of Energy on possible changes to the current electricity distribution funding model. We share concerns with other energy partners about the fairness of the current horizons used to recover the costs of infrastructure. The current five-year connection horizon is misaligned with the actual timeline to build and connect new homes. The 25-year revenue horizon is misaligned with the timeline to maintain the infrastructure over its lifecycle.

The current model places a disproportionate financial burden and risk on the first homebuyers connected in a new development. It is also misaligned with the 40-year revenue horizon in place for new residential natural gas connections which can result in uneven incentives for homeowners to adopt lower carbon producing energy options.

AMO is supportive of the OEB's proposal to extend the cost recovery horizons, provided the province takes responsibility for backstopping any financial risk of full cost recovery not being achieved. We understand that this approach could lower energy rates and increase fairness to homebuyers, but that it would likely increase the time until LDCs can recover all capital costs of new infrastructure, and the risk that cost recovery is not fully realized.

As the majority shareholders of LDCs, municipalities are concerned that if cost recovery cannot be achieved under the OEB's proposed approach, the financial burden of covering shortfalls may fall to municipalities. This could threaten municipal financial sustainability and ability to deliver local services.

OEB Alternative Options for Future Consultation

In addition to the proposed revisions to the current model, we understand the OEB is also considering exploring alternative options for future review. These include exploring the use of fixed development charges (DCs) or stand-alone rates for new development. Municipalities have experience with both funding models which we have outlined below to inform the OEB's consideration of alternative infrastructure financing models.

We understand that the DC option would allow LDCs to set DC rates for energy growth to fund the full cost of new electricity distribution infrastructure. In recent years, sharp increases in DCs associated with accelerated local growth, high interest rates, and increasing construction costs are calling into question elements of the DC model.

As well, we have seen provincial legislation such as Bill 23 intended to limit the use of DCs. With this increased scrutiny, it may be challenging to add new costs through DCs to support electricity distribution infrastructure. It is also important to note that while municipal DCs cover a significant portion of the costs associated with growth, they do not fund the full amount. Prior to the introduction of Bill 23, DCs only covered the cost of 60-80% of new growth, with the balance being contributed by existing property owners, provincial and federal funding, and borrowing.

Municipal DC rates are determined based on criteria set by the provincial government and are subject to a local public consultation process. Detailed background studies and asset management plans must be completed to identify what new infrastructure is needed based on local growth plans. Additional questions would need to be answered to implement a new electricity distribution infrastructure DC include how and when DCs would be collected. Without ensuring that any new process is working in tandem with the existing municipal DC framework, there is the potential to add significant complexity for builders, slowing the rate of growth.

Finally, municipalities have long used 'special area rates' to fund municipal services. However, these are only available where the services are provided in some parts of a municipality, but not others. For example, in rural areas where only part of a municipality has access to a municipal wastewater system while others rely on private septic systems, a special rate may be in place for only those residents who benefit from the municipal system. This approach differs from the one the OEB is considering for electricity distribution infrastructure where all energy customers would be receiving the same level of service, but paying different rates depending on the cost of the infrastructure for that area. This approach could lead to a lack of fairness between energy users in different parts of the same municipality depending on factors such as the size, timing, and type of an infrastructure expansion.

Conclusion

We understand that the OEB is early in the process of considering changes to how electricity distribution infrastructure is funded in Ontario. The outcome if this work is central to the growth and electrification of Ontario's energy grid and will have direct implications for municipalities. We are pleased to see that attention is being given to this important topic and are available to work with the OEB to provide additional feedback as your work progresses.

Sincerely,



Colin Best
AMO President

cc: Brian Hewson, Vice President, Consumer Protection & Industry Performance
Karen Moore, Assistant Deputy Minister, Strategic Network and Agency Policy Division