FOR WORKING GROUP PURPOSES ONLY

# Ontario Energy Board
# Commission de l'énergie de l'Ontario

## Regional Planning & Cost Allocation

***Working Group Meeting #3: OEB staff's Current Thinking on Key Issues***

April 25, 2017



IESO-N-0042307

# Purpose

To present OEB staff's current thinking on key issues and obtain Working Group feedback before recommending changes to the Board related to cost allocation (responsibility) to facilitate regionally planned projects



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# Customer Affordability / Rate Mitigation



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# Affordability (1)

As noted in SECTR proceeding, smaller LDCs have noted they have difficulty with providing large capital contributions

- "Lumpy" connection investments vs. "Gradual" load growth
- Usually due to costs associated with excess capacity at the time
- Commonly referred to as an "*LDC Affordability*" issue
  - Sometimes LDCs have expressed concerns about '*Customer Affordability' (i.e., bill impacts)*
  - Staff believes it is primarily a '*Customer Affordability'* issue
- Can be a barrier to RIP Optimal Solution

*Four Options Considered*

1. Rate Adder – *before in-service*
2. Development Charge – *before in-service*
3. Annual Installments (capital contribution) – *after in-service*
4. Capacity Charge



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# Affordability (2)

## *Staff's Current Thinking*

- Rate Adder – *Near term* measure
- Development (Like) Charge – *Longer term* measure

**Rate Adder** – Enable LDCs to build pool of funds ahead of time to reduce capital contribution related to upstream transmission connection investments

- Before in-service (pre-smoothing mechanism)
- Consistent with OEB approach for ICM/ACM and LDC funding of renewable connections / smart meters (for rate mitigation purposes)
- Starts when connection investment identified in DSP / RIP and application approved, with recovery from all customers of LDC
- Target recovery of 'portion' (ensure new customers contribute)
- Would require change to DSP filing guidelines



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# Affordability (3)

**Development 'like' Charge** - Lump sum charge paid primarily by new customers (in new homes) like Municipal Dev. Charges

- Creates pool of funds before asset in service (like Rate Adder)
- Builds on municipal development charge approach used to fund all other 'hard' infrastructure services (water, wastewater, roads)
- Unlike Rate Adder:
  - Intended to offset LDC's capital contribution to transmitter
  - Mitigates rate impacts for *existing* customers but increases impact on *new* customers (relative to status quo)
  - Based on *estimated* costs rather than *actual* costs
- *Any reason this approach would work for all other 'hard municipal' infrastructure services but not electricity infrastructure services?*

Smaller LDCs with low load growth may not generate sufficient revenue to substantially reduce capital contribution



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# Affordability (4)

**Annual Installments** – Transmitter required to allow for remaining capital contribution to be provided in annual 'installment' payments by LDC, where customer bill impacts too high due to 'lump sum' capital contribution

- After in-service (post-smoothing mechanism)
- 5 year cap (to limit additional interest costs)
  - Formulaic approach to determine # of years, with bill impact less than 10%
- LDC pays transmitter interest, so transmitter not negatively impacted
- LDC option maintained to provide lump sum
- Staff prefers Rate Adder as it avoids additional interest costs
- *However, should OEB staff consider proposing as a 'back-stop / contingency' smoothing mechanism?*
  - *For example, if Rate Adder (and/or Development 'like' Charge) adopted but did not build up sufficient pool of funds, option available if bill impact for average residential customer over 10%*



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# Affordability (5)

**Capacity Charge** – Customer (e.g., LDC) pays for only capacity currently required, while all Ontario consumers in connection pool are responsible for cost of excess capacity related to dedicated asset

- **Staff not planning to propose for reasons below**
- Does not align with 'beneficiary pays' principle (while other options available that do align)
- Cost allocation rules should be based on principle (not size of LDCs)
- Approach used for Transmission 'Enabler' Lines to facilitate renewable generation
- Large customers have opposed socializing connection asset costs since initial OEB Tx Cost Allocation proceeding (RP-1999-0044)
  - Concern - Some have already paid for own connection assets and therefore would be double-charged
  - Staff shares that concern (i.e., non-beneficiary pay twice)



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# Upstream Investment Apportionment to Distribution-connected Customers



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# Inconsistent approach to Large Customers

*Distribution-connected* customers not required to provide a capital contribution for upstream transmission connection upgrades they cause

- Cost now recovered from *all* of LDCs customers
- *Transmission-connected* customers pay

## *Staff's Current Thinking*

- Ensure Large Distribution-connected customers responsible for cost related to their required incremental capacity – not any excess (if not dedicated connection asset)
- Define size of 'large' customer as *500 kW or higher*
  - Alignment with recent Global Adjustment related Class A threshold

Note: Economic evaluation performed to determine if any capital contribution is required to cover the cost for which they are responsible.



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