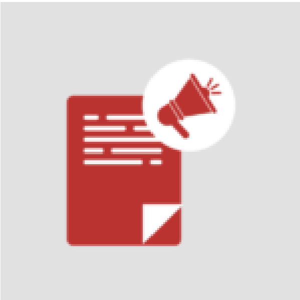
Regulatory Changes To Reduce Grid Connection Costs For Housing Development Projects



On December 23, 2024, the Ontario Energy Board (OEB) released amendments to the Distribution System Code (DSC) to reduce grid connection costs for housing developments by lowering the capital contribution that developers must pay if their project triggers a grid expansion. These changes were signaled in the government's vision for Ontario's energy future, released in October 2024 alongside Bill 214 (the *Affordable Energy Act, 2024*[1]), which grants the Minister of Energy and Electrification the power to enact future regulations to amend the DSC and the Transmission System Code (TSC) cost allocation and cost recovery rules for grid expansions, reinforcements, and connections. Developers, investors, and utilities should take note of these changes and how they will affect future costs and regulatory requirements for grid expansions, reinforcements and connections.

What you need to know

- The DSC amendments modify the economic evaluation for a grid expansion, which assesses the shortfall between the cost to construct an expansion to connect a customer and the revenues expected from the connection over a prescribed timeframe known as the "revenue horizon". Any such shortfall is recovered from the connecting customer through an upfront capital contribution.

- The amendments extend the revenue horizon for all residential connections from 25 years to 40 years. This reduces the potential shortfall between expansion costs and revenues associated with the connection and lowers or eliminates the capital contribution that must be paid by the developer and other connecting customers.
- These changes only apply to "housing development" projects to construct residential accommodations. However, commercial and industrial customers can also benefit from these amendments if they are part of a new development which is "predominately" residential.
- The amendments came into force on December 23, 2024, but the OEB has allowed for a two-month transitionary period for electricity distributors to comply with the new requirements. All distributors must comply with the amendments starting March 3, 2025.
- Bill 214, which received royal assent on December 4, 2024, may yield future regulatory changes because it grants the Minister of Energy and Electrification authority to enact regulations to amend, or exempt persons or things from, the DSC and the TSC cost allocation and cost recovery rules relating to the construction, expansion or reinforcement of distribution systems or transmission systems, or of connections to those systems.

Key changes to the DSC

Extended revenue horizon

An expansion of the distribution grid may be required to connect a development to the grid. To determine whether the expansion is economic, the DSC requires distributors to assess whether the future expected revenues from the connection will be sufficient to pay for the cost of the expansion. If there is a shortfall, it means that the expansion is not economic, and the connecting customer(s) must pay the distributor an upfront capital contribution to cover the difference between the expansion cost and the expected revenues.

The revenue horizon refers to the timeframe for the expected revenues which will be considered in the economic evaluation. With DSC amendments to extend the revenue horizon for residential housing developments from 25 to 40 years, 15 more years (a 60% increase) of revenues are included in the economic evaluation, thereby increasing the revenue stream, and reducing or eliminating a potential shortfall payable by the customer to the distributor as a capital contribution.

Extended connection horizon

The DSC amendments extend the maximum connection horizon for a “qualifying housing development” from five years to 15 years. The connection horizon is the time period over which the customers’ electrical load, which triggered the system expansion, must materialize.

Currently, a new development only has five years to complete construction and connect the last customer. If the requested load has not materialized in five years, the distributor may access the expansion deposit and the development may lose access to a portion of the newly built system expansion. By extending the connection horizon to 15 years, the amendments enable larger housing developments to be planned, constructed, and connected more efficiently.

The extended connection horizon applies only to “qualifying housing developments”, which refers to housing projects where (i) the connection of the last residential customer is expected to occur more than five years past the date of energization; and (ii) the developer has provided an approved plan of subdivision for the development and evidence of land ownership or authorization from the landowner to build the development on that land.

Applicability and enforcement

The amendments are designed to reduce grid connection costs and remove regulatory barriers for "housing developments", a newly defined term in the DSC which refers to projects to construct "multiple residential accommodations on a piece of land that will be divided into multiple parcels and offered for sale". Municipal, commercial, and industrial customers can also benefit from these amendments if their facilities are part of a new development which is "predominately" residential.

The amendments came into force on the date of their release on December 23, 2024, but electricity distributors have until March 3, 2025 to comply. The extended horizons do not apply where the initial offer to connect the development has been accepted by the developer or other customers on or before November 18, 2024 (the date the OEB issued the draft amendments).

Bill 214 and potential future changes to cost allocation and cost recovery rules

The DSC amendments were signaled in the government's vision for Ontario's energy future released in October 2024 (see our previous bulletin) alongside Bill 214, *Energy Affordability Act, 2024*, which may yield future regulatory changes to the cost allocation and cost recovery rules via new regulation.

Released on December 19, 2024, the Minister's Letter of Direction to the OEB states that, if approved, the proposed regulation would "reduce the upfront capital cost burden on first-mover connection customers and enhance site readiness and investment attraction at strategically significant (non-network asset) locations where future load is highly likely to materialize". These comments signal that the forthcoming regulation may be targeted to support electricity grid expansions, reinforcements, and connections in areas of province earmarked for economic growth and development.

Footnote

1. https://www.ontario.ca/laws/statute/s24026.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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