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May 26, 2025

Registrar
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Re: Total Cost Benchmarking Update (EB-2025-0102): Comments of Toronto Hydro-Electric System Limited

Toronto Hydro-Electric System Limited ("Toronto Hydro") is the local electricity distribution company for the City of Toronto. It serves over 790,000 customers and delivers approximately 18% of the electricity used in Ontario.

On April 1, 2025, the OEB initiated a consultation to engage stakeholders in a review of the use of Total Cost Benchmarking ("TCB"), including Total Factor Productivity ("TFP"), in the assessment of overall cost performance of rate regulated electricity distributors. The review is aimed at renewing the 2013 benchmarking methodology, with the OEB intending for it to incent distributors towards enhanced productivity. The OEB has retained Pacific Economics Group Research, LLC ("PEG") to support the update and contribute to the associated consultation work. A preliminary stakeholder meeting was held on April 24, 2025, with the OEB subsequently inviting stakeholders to respond to a series of survey questions, in addition to sharing any additional written comments. Toronto Hydro provides the below written comments concerning the broad use of TCB and TFP as an addendum to its survey responses, which it has provided to PEG.

Toronto Hydro is concerned that the focus on expanding the use of TCB and TFP within OEB regulatory frameworks at a time when the Government and stakeholders are expecting substantial growth of the energy grid is unwarranted, and in many ways even counterintuitive and counterproductive. The upcoming decade is expected to require considerable investment in energy infrastructure, to accommodate the Government's plans for economic growth, housing expansion, and electrification, and both PEG's report and survey materials appear to validate these trends. Such a policy direction, however, is not aligned with attempts at scaling back funding. OEB Panels and Commissioners who are reviewing utility evidence of system needs and customer demands, and their implications for housing

connections, environmental sustainability, and economic benefits, are well equipped to make determinations on the appropriate level of funding approval without recourse to TCB. Whatever merit TCB may have had at a historic time when the sector had flat or slightly declining load, during a period of growth and a period when the Government is prioritizing that growth and expansion, the application of TCB lacks justification. Toronto Hydro submits that the energy industry should collectively be prioritizing exploring the most optimal ways to fund growth, rather than divert focus to consider the application of complex mathematical algorithms associated with TCB to subsequently reduce approved funding required for Government priorities like infrastructure investment.

Notwithstanding the waning justification for its use, the complexity of TCB also continues to remain a significant barrier to its usefulness and acceptance, especially amongst the public. It is telling that despite having been utilized within Ontario for over 15 years, there are few within the industry, let alone outside of it, who understand its inner workings or its outputs, to the extent that the OEB and utilities continue to rely almost exclusively on a handful of American firms to produce and challenge each other's TCB methodology and results. These differences and disagreements in methodologies are in turn so complex, that OEB decisions to resolve them frequently conclude by evaluating the outputs rather than the underlying mechanics. Toronto Hydro submits that such tendencies are a clear indication that TCB is an overly complex and complicated mechanism for what little benefit it provides in regulatory value, particularly in a period of growth and infrastructure expansion when its application is all the more questionable.

Toronto Hydro recommends that pursuing Performance Incentive Mechanisms ("PIMs"), which the OEB is also exploring under a recently launched consultation, is a substantively more sophisticated, transparent, and modern option, offering an evidence-based approach to monitoring and regulating utility performance, while balancing the costs and benefits to ratepayers. Unlike TCB, PIMs offer an opportunity to more closely link utility outcomes in a manner that is more direct and easily understood by the industry, and most especially the public. Toronto Hydro encourages the OEB to consider viewing TCB and PIMs through the lens of an evolution; TCB is a historical construct that is increasingly outdated in meeting the challenges of the present and future, and whose very complexity detracts from its own effectiveness. PIMs, as an alternative approach, offer to more directly correlate utility performance expectation and the price customers pay to enjoy those benefits, and is far more suitable to an environment of rapid growth and infrastructure investment.

Toronto Hydro urges the OEB to pause and consider the above recommendations in its formulation of further policy on the TCB framework, particularly at a time when the OEB is itself in a state of transition pending the appointment of a new Chair, CEO, and COO. To the extent the OEB nonetheless decides to continue to pursue and advance the TCB framework, Toronto Hydro recommends that it provide further opportunity for submissions prior to its finalization, once a specific proposal has been developed by PEG and shared with industry stakeholders.

Toronto Hydro appreciates the opportunity to provide comments on the TCB framework, and Performance Incentive Regulation more broadly, and looks forward to further consultative steps as the OEB continues to revise and refine its regulatory instruments to meet the challenges of utility regulation in an era of growth and expansion.

Respectfully,

A handwritten signature in blue ink, reading "Andrew J. Sasso". The signature is fluid and cursive, with the first name "Andrew" and last name "Sasso" clearly legible.

Andrew J. Sasso
Director, Regulatory Affairs & Government Relations
Toronto Hydro-Electric System Limited

AJS/jl