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

Date: June 23, 2025

Subject: Letter of Comment – Performance Incentive Mechanisms (PIMs) and Impact on Very Small Utilities. Board File No.: EB-2024-0129

Sent on behalf of LDCs:

- **Hydro Hawkesbury Inc.**
- **Hydro 2000 Inc.**
- **Cooperative Hydro Embrun Inc.**
- **Hearst Power Distribution Ltd.**
- **Wellington North Power Inc.**
- **Atikokan Hydro Inc.**

Dear Registrar,

In May 2025, the Ontario Energy Board (OEB) released a discussion paper proposing the introduction of Performance Incentive Mechanisms (PIMs) as part of its broader move toward Performance-Based Regulation (PBR). The OEB followed this with a stakeholder meeting on June 3, 2025, to present its proposals, provide additional context, and engage with distributors on the questions posed in the paper. The goal of these initiatives is to tie a portion of a distributor's earnings to outcomes that matter to customers, such as reliability (SAIDI, SAIFI), efficient use of infrastructure (load factor), and timely connection of Distributed Energy Resources (DERs). These incentives, whether in the form of financial rewards or penalties, would begin applying to rebasing applications filed no earlier than 2027 for 2028 rates.

While the objectives, innovation, efficiency, and alignment with policy goals like electrification, are understandable, the proposed framework raises significant concerns for small utilities.

This report outlines why mandatory PIMs are not appropriate for the utilities listed above. It highlights the structural constraints these smaller LDCs face, their limited influence over performance outcomes, and the unintended consequences, financial, operational, and reputational, that could follow. It also offers practical recommendations for a more flexible, locally responsive approach that still supports the OEB's regulatory goals.

1. Structural Constraints and Reliability Realities

Although the PIM framework is designed to avoid adding administrative burden, very small utilities often operate with skeleton crews—where a single individual may oversee operations, regulatory filings, and customer service. Consequently, even a minor task or small outage can disproportionately affect their workload or PIM performance metrics.

Many of these performance measures could be driven by forces outside a small LDC's control. Load factor may be tied with Hydro One's upstream capacity or province-wide weather patterns. Despite increased efforts on preventative work like tree trimming to minimize outages and implemented system renewal plan, an LDC cannot stop an upstream equipment failure, a lightning strike, a wildlife interference, or an errant transport vehicle from taking down a pole or line.

Smaller embedded LDCs often coordinate their maintenance with Hydro One's planned outages to minimize customer disruption. However, in times when Hydro One schedules little to no outages, these smaller utilities may feel they have to defer essential repairs, since any self-initiated outage would be recorded against their own SAIDI and SAIFI scores rather than as a "Loss of Supply." Over time, this dynamic could unintentionally undermine safety, efficiency, and long-term reliability.

2. Customer Trust and Communication Challenges

Mandatory PIMs introduce significant communication challenges for small utilities. Consider having to tell customers that their rates are increasing—not because of higher operating costs or power prices, but because the utility hit a performance target and is now entitled to a reward funded through customer bills. Conversely, imagine explaining a rate reduction after a year of frequent outages or a major storm, simply because the utility failed to meet a reliability threshold and is being penalized for an event completely out of its control.

For very small distributors, where staff wear multiple hats, no dedicated communications team exists, these conversations often fall to front-line personnel or general office staff. In close-knit communities that value transparency and common sense, such regulatory-driven billing adjustments can seem arbitrary, confusing, or unfair. When customers face changes, they neither influenced nor fully understand, their confidence in the utility inevitably wanes. For organizations built on community trust, that loss of credibility poses a significant risk.

3. Uncertainty Around PIMs in the Settlement Process

In Ontario's regulatory framework, Cost of Service applications are reviewed through interrogatories, technical questions, and often a settlement process with OEB Staff and interveners. The goal of that process is to bring spending down to a level deemed "just and reasonable."

Interveners typically come to the table focused on prudent cost reduction such as seeking to defer capital, reduce O&M, and lower rate impacts. In this initiative, it is unclear how performance incentives would be handled. If a utility earns a reward under the PIM framework, will that be respected as an outcome-based achievement—or simply treated as another opportunity to reduce the rates?

If it is the latter, the incentive loses its value—financially and strategically. The risk is that small utilities will avoid pursuing performance rewards altogether, not because they oppose improvement, but because the reward might just get clawed back in settlement.

4. Recommendation for Optional Participation and Customer Engagement

At initial review, it can seem as though smaller utilities may be placed at a disadvantage across almost all proposed metrics from the *Advancing PBR-PIMs-Stakeholder meeting deck June 3 2025_20250527*: **Activity & Program-based Benchmarking** may skew wildly from a single extreme event; **DER Connections Review** could saddle the utility with costly per-project studies and hardware-upgrade fees; **Reporting & Record-Keeping Requirements** may force costly IT customizations and extra staff hours; **Incremental Capital Module Review** could set fast-track thresholds above your usual project sizes; **Total Cost Benchmarking Review** may see unit-cost metrics swing on a very short network.

All proposed metrics assume larger scale that smaller utilities do not have. Small utilities should have the option to opt out during their next rebasing period, based on their capacity and community context. Importantly, any utility considering participation should also be required to engage customers through a local consultation or survey to gauge their support. This ensures that performance-based mechanisms reflect not only regulatory goals but also the values of the communities these utilities serve.

This recommendation also aligns with the Ontario Auditor General's findings, which have emphasized the importance of keeping regulatory costs proportionate for very small utilities. A rigid, one-size-fits-all PIM framework risks adding unnecessary costs and complexity, precisely the kind of regulatory burden the Auditor General urged the OEB to minimize for VSUs

The utilities listed in this letter also encourage the OEB to conduct its own province-wide engagement, with a focus on smaller service territories. Given that ratepayers will ultimately bear the costs or receive the benefits of this framework, it is essential to understand whether they support performance-based regulation and whether they see value in linking rates to metrics like SAIDI, SAIFI, or load factor. A combined approach, local and provincial, would ensure that implementation is grounded in both operational realities and customer expectations.

5.Conclusion

The utilities listed support the intent behind Performance Incentive Mechanisms and agree with the goal of improving outcomes for Ontario's electricity customers. But to work in practice, the framework must recognize the unique realities of very small utilities.

With limited influence over key performance metrics, constrained resources, and tight links to their local communities, small LDCs face disproportionate risks under a one-size-fits-all approach. They also face communication challenges that could harm their credibility with the very customers they aim to serve.

We urge the OEB to adopt a more flexible model—**one that makes PIM participation optional for very small distributors and ties any opt-in to local engagement.** Our utilities are prepared to consult directly with customers, including through surveys or other outreach, to determine whether there is meaningful support for linking rates to performance outcomes. We also believe the OEB has a role to play in gauging province-wide sentiment. Taken together, these actions would support a fair, practical, and outcomes-driven regulatory framework.

Respectfully Submitted. **The undersigned utilities**