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Mr. Ritchie Murray
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June 27, 2025

**EB-2024-0129 – Consultation on Advancing Performance-based Regulation**
**Pollution Probe Comments**

Dear Mr. Murray:

In the November 29, 2023, Letter of Direction, the Minister of Energy asked the OEB to consider whether utilities' remuneration based on traditional capital infrastructure deployment remains the most cost-effective model. The Minister asked the OEB to take steps to consider what changes may be required to ensure timely investment is made to support the right outcome and that a report back on this work incorporate a review of models deployed in other jurisdictions. The Ontario Energy Board (OEB) initiated a consultation to advance its performance-based approach to rate regulation. The stated objective of this initiative is to strengthen the link between what electricity distributors earn and the achievement of outcomes consumers value, such as cost-effectiveness, reliability and customer service.

On May 14, 2025 the Ontario Energy Board (OEB) released a Discussion Paper presenting draft performance incentive mechanisms (PIMs) for electricity distributors as part of its consultation to advance its performance-based approach to rate regulation. The Discussion Paper proposed four PIMs for stakeholder feedback, with the goal of strengthening the link between what electricity distributors earn and the achievement of outcomes consumers value. The OEB also held a virtual stakeholder meeting on June 3, 2025 to discuss the Discussion Paper. In accordance with the OEB request, please find Pollution Probe's comments below.

Utility response to requirements and incentives can vary and this has resulted in a variances in action and results across utilities in Ontario. Why is it that some utilities are more proactive to make the required changes and pursue results while others do not. There is a long list of influencing factor that include:

- Utility ownership (e.g. municipal ownership with a vested interest to maximise rate payers benefits in the service territory in alignment with energy and emission objectives)

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- Utility leadership and staff competencies – some leaders are better at supporting the change needed and attracting the talent with the required skills.
- Legacy system decisions – some utilities have done a better job at building their system to meet future needs while others are struggling with routine operational issues that become a barrier to change.

Of course, there are many other factors. Ratepayers should receive the same service regardless of the factors. The more targeted the approach, the more likely it will achieve the intended outcomes. Utilities are driven by certain incentives that include carrots, sticks and specific regulatory requirements (with consequences if they are not followed. Generally speaking, a carrot and stick approach has a better change of success over just carrots or sticks. It is also important to recognise that monopoly utilities in Ontario are expected to meet baseline requirements even without the use of incremental incentives. Selecting areas for incentives needs to be assessed against utilities expectations to deliver outcomes as a part of their monopoly requirements. A recent example is the requirement for electric distributors to publish capacity maps to support Distributed Energy Resources (DERs). This is a requirement and utilities need to do this as a core requirement. It was appropriate for the OEB to make this a firm requirement rather than use incentives which make the requirement appear optional. PIMs are not a good fit for requirements that are mandatory. Pollution Probe has routinely heard from electric distributors that firm requirements are generally easier to implement than optional requirements, since it does not require additional prioritisation and management decision making.

There is a large number of OEB initiatives/proceedings currently underway and several of these have the potential to impact (directly or indirectly) this PBR initiative. In the Discussion Paper for this initiative, the OEB included a table showing linkages between initiatives. This is a best practice and recommended for all OEB initiatives. This helps avoid unintended consequences between initiatives and explicitly indicate where initiatives need to be linked. Examples include the interaction of this initiative with the OEB's Cost of Capital Decision[1] and other initiatives which require changes to the way electric distributors operate (including changes to the DSC). The only change Pollution Probe recommends to that table is to recognise that Distribution System Operator (DSO) Capabilities (EB-2025-0060) could have a relationship to this initiative. As electric distributor continue to develop and deliver DSO capabilities, there could be a link to some of the incentives set up, now or in the future.

[1] EB-2024-0063

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Using utility rates cases as the approach to review progress in relationship to the full utility plans and budgets is critical. This worked well in the Toronto Hydro 2025-2029 rate case which enabled system development (including DERs) in one of the heavily growing municipalities and in alignment with the most demanding goals in Ontario, Net Zero by 2040[2]. There are other utilities at the back of the pack who despite having the same access to similar resources, have fallen behind on keeping their system current and able to meet future needs including DERs. This is where the value of benchmarking and holding utilities accountable through their rate cases holds strong value. The rate case is the single most important regulatory event for each utility and leveraging that process to reward leaders and mitigate laggards aligns existing processes with expected outcomes. Using the rate cases to assess performance and apply the carrots and sticks incentives is recommended, rather than a separate process.

As part of the May 14, 2025 notice issued by the OEB, a set of Discussion Questions were included. Below Pollution Probe provides specific responses to those questions.

**Objectives**

1. Which secondary objectives, if any, are missing from the list presented in Section 1.3?

   Avoided Capacity is missing from the list. This is discretely different from the other factors in the list and would track non-emitting DERs (number and MW). Tracking this would show which DERs are helping avoid peak loads that in turn reduces peak system demand by reducing demand or exporting locally during peak periods. It is expected that the electricity grid will continue to become more distributed in the future and tracking its progress is critical.

   Emissions reductions (measured in carbon intensity) due to local deployment of DERs is missing from the list. The most recent Ontario policy document Ontario's Energy for Generations plan (Energy for Generations | ontario.ca) includes four core policy principles with emission reductions as one of the four principles. Adding this to the criteria for OEB initiatives is critical to be aligned with the most recent policy documents (also includes the recently released Ontario Ministry of Energy and Electrification's Cost Effective Energy Pathways Study for Ontario (Cost Effective Energy Pathways Study for Ontario ) and related directives.

[2] Summary of the details is available in EB-2023-0195 dec_order_Partial_THESL_20241112

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2. Which secondary objectives, if any, are not appropriately addressed by the proposed PIMs?

Neither of the objectives noted above are appropriately addressed by the proposed PIMs.

**PIM definition and design criteria**

1. Is the definition of a PIM employed in the Discussion Paper fit for purpose? If not, why not?

The PIM definition is fit for purpose.

2. Are the criteria used to evaluate the proposed PIMs appropriate? If not, why not?

The criteria proposed to evaluate proposed PIMs are appropriate. It is critical that the criteria are also robust enough to apply to future PIMs, which they also appear to do.

**Proposed PIMs**

**General**

5. What additional information, if any, is needed about each of the proposed PIMs in the final PIMs framework?

The efficient connections of DER PIM is not likely to get the desired outcomes. There are requirements in the DSC related to the time required to connect DERs and those have been strengthened through the DER Connections initiative. It is actually equally or more important to measure the increase in non-emitting DERs (number and MWs) that can contribute to the grid.

6. Are you supportive of applying a standard set of PIMs to all electricity distributors in Ontario? If not, why not?

Yes.

a. Which PIMs should be applied to which distributors?

b. What characteristics of distributors should be used to define whether the PIMs framework should apply?

N/A, since they should apply to all distributors.

7. In the context of a standard PIMs framework, should electricity distributors continue to be able to propose custom PIMs in addition to being subject to “standard” PIMs?

Yes. This will continue to promote necessary innovation which can eventually be used to expand PIMs as appropriate.

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**PIM 1 – System Utilization**

1. Are you supportive of implementing a PIM related to system utilization/load factor? If not, why not?

It is difficult to assess the potential impacts without first tracking this metrics to see how it changes over time for a typical utility and how it varies across different utilities (e.g. urban vs. rural). System utilization/load factor are important and need to be tracked in a consistent and visible manner. As investments are made to support the system, they may be lumpy and result in material swings to this metric. It is recommended to track this for one to two years before tying it to a formal incentive and/or penalty.

2. Are there any specific characteristics of the system utilization/load factor PIM as presented in the Discussion Paper that you have issues with? If so, which characteristics?
   a. Please describe the issues and present alternatives characteristics if possible. Please see above.

Noted under other sections.

**PIM 2 – System Average Interruption Duration Index (SAIDI)**

10.Are you supportive of implementing a PIM related to SAIDI? If not, why not?

Yes, this is a well known and understood metric.

11.Are there any specific characteristics of the SAIDI PIM as presented in the Discussion Paper that you have issues with? If so, which characteristics?

a. Please describe the issues and present alternative characteristics, if possible.

No change proposed.

**PIM 3 – System Average Interruption Frequency Index (SAIFI)**

12.Are you supportive of implementing a PIM related to SAIFI? If not, why not?

Yes, this is a well known and understood metric.

13.Are there any specific characteristics of the SAIFI PIM as presented in the Discussion Paper that you have issues with? If so, which characteristics?

a. Please describe the issues and present alternative characteristics, if possible.

No change proposed.

**PIM 4 – Distributed Energy Resource (DER) Connections**

14.Are you supportive of implementing a PIM related to DER connections? If not, why not?

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The efficient connections of DER PIM is not likely to get the desired outcomes. There are requirements in the DSC related to the time required to connect DERs and those have been strengthened through the DER Connections initiative. It is actually equally or more important to measure the increase in non-emitting DERs (number and MWs) that can contribute to the grid.

15.Are there any specific characteristics of the DER connections PIM as presented in the Discussion Paper that you have issues with? If so, which characteristics?
a. Please describe the issues and present alternative characteristics, if possible.
Mandated connection timelines can be addressed through the DSC and distributors can be incented to increase non-emitting behind-the-meter DERs by having the PIM incent % of DERs attached compared to peak demand (MWs) and secondly, use of attached DERs to address peak demand. This will not only incent efficient attachment of DERs, but also programs that leverage them to meet peak demand needs.

16.Should all DER connections be considered the same? Should different sizes of DERs have different requirements?

The PIM should include only non-emitting DERs for generation or storage. This aligns with the recent Ontario policy document Ontario's Energy for Generations plan (Energy for Generations | ontario.ca) which includes four core policy principles with emission reductions as one of the four principles. Including emitting DERs is counter to current provincial policy.

17.What aspects of the DER connections process and timeline should be considered in the development of the PIM?
Please see above.

**PIMs Considered but not Included**
18.Looking at the PIMs considered but not included (Table 10 in the Discussion Paper), which of these PIMs deserve further consideration?
a. Please describe why the PIM deserves further consideration and what the characteristics of this PIM may be.
System Capacity – DERs requires further consideration. It was deferred based on the assumption that distributors have no ability to influence DERs in their service areas. This is not accurate. Leading distributors have demonstrated that they have influence on DERs development and use in their service territory. One example is the recent Toronto Hydro plan which has increased its DER targeting by 30 MW based on success of its previous efforts. It is

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recommended that this PIM be included to incent all distributors to follow the leadership demonstrated by Toronto Hydro.

19.Does a housing connection PIM discussed in Section 4.5 require further consideration in advance of the OEB's other planned work in this area? Why or why not?
No, this is best dealt with through the DSC.

**Target setting**

20.Do you agree with the three target setting methodologies described in the Discussion Paper? If not, which aspects of these target setting methodologies do you disagree with and why?
Yes.

21.Has the most appropriate target setting methodologies been proposed for each of the proposed PIMs? If not, which target setting methodologies would you recommend for each of the proposed PIMs?

Using a target setting methodology based on the distributor's performance in comparison to its peers would drive the most progress over time. It would also raise the average which is part of the purpose of implementing PIMs.

**Incentive levels**

22.Do you agree with the methodology presented for setting the incentive levels for the PIMs? If not, which aspects of the incentive setting methodology do you disagree with and why?
Yes.

**Administration of PIMs**

23.Please provide feedback on the proposed process for administering the PIMs presented in the Discussion Paper.
a. What aspects of this process work and why?
b. Which aspects of this process do not work and why?
c. Do you have an alternative process or parts of the process that you would like to propose?

Pollution Probe generally agrees with the approach outline by the OEB. The Working Group should be broad based to include a wide variety of stakeholders and distributors. The scope and timelines should be specific to ensure results within the desired timeframe. Time should be included to share Working Group recommendations for pubic review and comments.

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It is recommended that PIMs for each distributor be reviewed and cleared as part of their rebasing rates case to ensure that broader results and impacts are understood. A narrow assessment of results could be misleading, but if done as part of the broader rates case any questions and issues are more likely to be visible in the assessment of results.

**Time frame for implementation**

24.Do you agree with the proposed time frame for the implementation of the PIMs? If not, which aspects of the time frame do you disagree with?

The timeframe seems appropriate, but may be a bit tight. Timelines will depend on the ability of the OEB to finalise the targeted PIMS and the ability of the Working Group to be established and deliver according to required timelines. The OEB should publish an updated Gantt chart to illustrate timing.

Respectfully submitted on behalf of Pollution Probe.

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