Paliare Roland

Daniel Rosenbluth
Paliare Roland Rosenberg Rothstein LLP
155 Wellington St. West, 35th Floor
Toronto, ON M5V 3H1

daniel.rosenbluth@paliareroland.com
T. 416.646.6307 / F. 416.646.4301

June 27, 2025

VIA RESS FILING/ EMAIL

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mr. Murray:

Re: EB-2024-0129- Advancing Performance-based Rate Regulation (PIMs)

We are counsel for the Power Workers' Union. Enclosed are the Union's comments regarding the above-noted matter.

Yours very truly,
Paliare Roland Rosenberg Rothstein LLP

Daniel Rosenbluth
DR:AB

Encl.

Power Workers' Union Comments on

Advancing Performance-based Rate Regulation – Performance Incentive Mechanisms (PIMs) (EB-2024-0129)

OEB Staff distributed a discussion paper on Performance Incentive Mechanisms (EB-2024-0129) in May 2025. This discussion paper described four proposed performance inventive mechanisms ("PIMs") and a high-level implementation process. The four PIMs are System Utilization, SAIDI, SAIFI, and Efficient DER Connections. As requested in the discussion paper, the PWU is providing stakeholder feedback on the proposal.

The PWU's view, which is discussed in more detail below, is that the proposed PIMs should not be implemented.

The PIMs, as proposed, are unlikely to achieve the stated goals because they rely on statistics that are largely outside of each LDC's control. The two reliability PIMs – SAIFI and SAIDI – could potentially lead to better outcomes for ratepayers in the future, however, they have not been sufficiently developed at this time. The PIMs will create additional regulatory burden on LDCs, which will create additional costs for LDCs that may outweigh any perceived benefit of the PIMs.

A. Proposed PIMs

A.1. PIM 1 – System Utilization

The System Utilization PIM is proposed to be a reward-only PIM based on LDCs' historical performance. The System Utilization PIM is proposed to be based on each LDC's load factor, which is total consumption in a year divided by the peak demand times the number of hours in the year. Alternatively, this can be expressed as the average hourly demand in a year divided by the peak demand in the year.

Both figures in this equation, annual consumption and peak demand, are based on the needs of the LDC's customers and almost entirely outside of an LDC's control. The

change in load factors from year to year are primarily caused by weather and the change in the composition of customers served by LDCs.

Peak demands are generally driven by peak weather conditions, either high cooling loads for summer-peaking LDCs or high heating loads for winter-peaking LDCs, which fluctuate from year to year. Annual consumption is largely driven by how prolonged those weather conditions are in each year. The load factor is therefore largely a function of peak weather conditions to average weather conditions, over which LDCs have no control.

Load factors are also largely a product of the composition of customers in a service territory. Residential customer loads are more weather-dependent, so they have higher load factors. Industrial customers tend to have more consistent demands on a day-to-day basis, so they have lower load factors. An LDC that is connecting relatively more residential loads can be expected to have increased load factors over time while an LDC connecting more industrial loads can be expected to have lower load factors.

Electrification can be expected to have different impacts on different LDCs for reasons that are outside of their control. For example, the electrification of space heating will cause an increase in peak demands of winter-peaking LDCs. Since there is very little space heating in the summer months, the increase in peak demands will likely be higher than the increases in annual consumption so the load factor will decrease. The opposite situation would occur for summer-peaking LDCs that will have an increase in overall consumption without an increase in peak demands, causing higher load factors.

LDCs do not have adequate control over DER connections or eDSM programs that may influence load factors. The number of DERs and the capacity of DERs within an LDC's service area depends on customer decisions that are outside of an LDC's control. Potential energy and demand savings within the eDSM framework could influence load factors, but the administration of those programs is within the control of the IESO. Those programs would not necessarily improve load factors because there are both energy savings and demand savings associated with most programs. A project with proportionate demand and energy savings would not impact the load factor. Those programs are based on total cost savings, and it is possible that some projects have more energy savings than demand savings, which would reduce system utilization.

For any eDSM projects that would proportionally reduce demand more than energy consumption, this would create benefits to LDCs based on where the IESO chooses to administer programs, with little or no influence from the rewarded LDCs.

Given the load factor formula, rewarding high utilization creates a disincentive for LDCs to reduce consumption and demands during the LDC's peak. Each LDC's peak is not necessarily during the regional or provincial peaks, particularly for winter-peaking utilities. This PIM unintentionally creates a situation in which an LDC could cause higher regional and provincial peaks, creating additional costs for the system as a whole, while being rewarded for creating a higher load factor for itself.

Additionally, the load factor is not currently a reporting requirement so implementing this PIM would add an additional requirement to the RRR process. Also, increasing system utilization is not one of the top outcomes that consumers value, so it is not appropriate for ratepayers to pay additional costs to achieve this.

The PWU's view is that the OEB should not implement the System Utilization PIM.

A.2. PIMs 2 & 3 – SAIDI & SAIFI

The two Reliability PIMs, SAIDI and SAIFI, are proposed to be penalty-only PIMs based on targets set relative to each LDC's peers. LDCs do not have control over all aspects of SAIDI and SAIFI as reliability is significantly influenced by weather. Weather significantly impacts reliability metrics even when major event days are excluded.

If the OEB moves forward with implementing the Reliability PIMs, LDCs need to have the confidence they will get approval of investments intended to improve reliability. The OEB must be willing to approve reasonable spending proposals tied to meeting reliability targets. Each LDC faces unique challenges and differences between LDCs remain, even among LDCs within the peer groupings outlined in Appendix A of the January 28, 2025

Setting Reliability Performance Targets letter.[1] Weather-related impacts can be substantially localized that they do not impact many or all LDCs within a peer grouping.

Creating a penalty-only PIM that uses peer benchmarking necessarily means that some LDCs will be penalized. This will effectively result in lower revenue requirements than what has been approved or agreed in settlement on an aggregate basis. LDCs that are penalized will respond by reallocating this effective disallowance in costs within its spending program, which is unlikely to result in improved performance among those LDCs.

It is premature to establish Value of Lost Load as the basis for a penalty related to the SAIDI and SAIFI PIMs before that methodology has been developed. Value of Lost Load metrics typically have different values assigned to different rate classes. SAIDI and SAIFI as currently reported in RRR filings do not include details required to determine the Value of Lost Load for any interruptions by rate class. The SAIDI and SAIFI PIMs may require additional reporting requirements, however, the proposed methodology and implementation of these PIMs are not sufficiently developed at this time for this to be known.

As the methodology of the Value of Lost Load has not been developed and the method for determining any potential penalty has not been proposed, stakeholders are not able to provide meaningful comments on whether it is appropriate to use in these PIMs.

The PWU does not support implementing the SAIDI and SAIFI PIMs at this time. If the PIMs are implemented in the future, the PWU's view is that they should not be implemented unless the OEB explicitly recognizes that LDCs may increase spending in order to achieve reliability improvements.

A.3. PIM 4 – Efficient DER Connections

The Efficient DER Connections PIM is proposed to be reward-only or symmetrical. As noted in the discussion paper, LDCs do not have control over all aspects of the connection

[1] OEB Letter, Re: Setting Reliability Performance Targets (Reliability and Power Quality Review EB-2021-0307), January 28, 2025, Appendix A

process. A considerable part of the connection process depends on the customers themselves. The information and data required to track and report DER connection timelines is expected to be beyond current reporting requirements. The specific reporting requirements need to be carefully considered to minimize regulatory burden while ensuring the information is tracked consistently among LDCs. The Staff discussion paper notes that delays caused by customers would be excluded but the classification of customer-caused delayed has not yet been defined.

Not all LDCs have similar opportunity to benefit from the incentives. LDCs do not have the same or similar potential for DER penetration due to reasons beyond their control. Some LDCs may substantially benefit from this PIM because of legacy systems, geography, environmental restrictions, and opportunities in load growth. Other LDCs with limited or no such opportunities would be deprived of the proposed rewards, again because of reasons not within their control.

The PWU notes that within the discussion for why a “System Capacity – DERs” PIM was considered but was ultimately not included, Staff explained that distributors are not in control of how many customers wish to connect DERs.[2]

There are already a number of measures that have been taken to facilitate DER connections in Ontario, such as the DER Connection Procedures, DSC amendments and clarifications, and the Non Wires Solutions guidelines as well as other incentives that DER proponents have already enjoyed.

Moreover, as indicated in the Discussion Paper, despite the large number of initiatives, efficient DER connections are not an outcome that all consumers value highly at this time. These measures are driven by policy at the provincial level and, therefore, it is the PWU’s view that LDCs should not be rewarded for DER opportunities they have not created in the first place.

---

[2] EB-2024-0129, Performance Incentive Mechanisms, page 27, Table 10

B. Implementation of the PIMs

B.1. Targets

If the Board chooses to implement Reliability PIMS, the PWU's view is that each LDC's own past performance is generally the best approach to setting targets for reliability. Peer utilities may provide a useful reference point but there will always be differences between LDC service territories that warrant a more precise target than an average of peers.

If peer group averages are used as the basis for setting targets, then approximately half will already have metrics that are better than the target and will not have an incentive to improve. Some LDCs may have substantially worse metrics than a peer group average which would set a target that may be unrealistic to achieve.

In effect, LDCs that historically have had high reliability achievements in the past would be punished because they have little room to improve. A possible solution would be to group LDCs based on the average of their past performances, instead of the size and geographical basis that forms the peer groupings in Appendix A of the January 28, 2025 letter, and apply a reasonable margin of improvement for each group. The OEB could apply the margin of improvement that has been achieved among LDCs with high past performance to LDCs with lower past performance, and expect continuous improvement from each group.

If the OEB moves forward with the Efficient DER Connections PIM, the OEB should not implement the PIM until there is sufficient data gathering following the introduction of additional reporting requirements to understand reasonable targets and how those targets may differ among utilities.

B.2. Incentive Level Setting

The working paper states that the financial reward or penalty should be set proportionate to the value of achieving the performance outcome. The OEB proposes to create stakeholder working groups to determine appropriate incentive levels. In the PWU's view, setting penalties should recognize that those penalties would typically result in lower

spending and may work against achieving the desired outcomes. As the methods to set incentive levels has not been established, it is the PWU's view that stakeholders should be offered the opportunity to comment on the methodology once it has been determined.

B.3. Administration of the PIMs

The PIMs are proposed to be calculated and disposed of annually as part of the IRM processes. The IRM process is typically a more mechanistic process that does not include substantial submissions from LDCs or stakeholders. When reliability and other scorecard metrics are evaluated as part of a cost of service proceeding, LDCs have the opportunity to provide the proper context for their results, including explanations of any extenuating circumstances.

Likewise, intervenors have the opportunity to inquire about the results and evaluate the context LDCs have provided. Evaluating and disposing of PIMs within IRM processes would make PIMs overly mechanistic. Implementing PIMs on an annual basis would require LDCs to revaluate their spending budgets on an annual basis depending on the level of PIMs being disposed in each year and would harm customer rate stability.

In the PWU's view, rebasing applications are more appropriate processes for determining the total level of PIMs and an appropriate disposition period to maintain rate and bill stability.

B.4. Implementation Time Frame

The PWU agrees that, if PIMs are to be implemented, implementing them only in rebasing applications and introducing them in a phased approach is appropriate. The PIMs that have additional reporting requirements should not be implemented until there is sufficient historical data to inform appropriate targets.