Advancing Performance-based Rate Regulation

EB-2024-0129

LIEN Comments in Response to Questions in the May 14, 2025 OEB Letter to Stakeholders

The OEB letter to stakeholders of May 14, 2025 ("May 14th Letter"), regarding EB-2024-0129 provides the opportunity for stakeholders to submit written responses to the OEB's discussion questions contained in **Appendix A** of the May 14th Letter. The OEB's questions arise from and refer to specific sections in the OEB Discussion Paper titled: "Performance Incentive Mechanisms Advancing Performance Based Regulation", EB-2024-0129, May 2025 ("OEB Discussion Paper"). Responses will help inform the OEB's work in developing Performance Incentive Mechanisms (PIMs). The Low-Income Energy Network ("LIEN") has prepared responses below to these discussion questions in the order in which they appear in **Appendix A** of the May 14th Letter.

Objectives

1. **Which secondary objectives, if any, are missing from the list presented in Section 1.3 of the OEB Discussion Paper**?

Consumers value quality customer service, including but not limited to assistance with special needs such as helping low-income customers with emergency financial support, ongoing rate support, effective arrears management and tools to better manage energy consumption; affordable electricity rates; environmental protection; climate mitigation; reliability and resiliency in their electricity supply; and opportunities and support to better manage their own electricity use through solar PV, storage, vehicle-to-grid opportunities and other two-way electricity supply options.

The secondary objectives listed in the OEB Discussion Paper including: reliability, resiliency, customer service/satisfaction, efficient connections, cost control/efficiency and affordability, cover, at a high level, most of what consumers value. The list should also include a secondary objective for clean energy and for greater customer assistance in wise use of their energy.

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

The four PIMs: (i) increasing load factor, (ii) reducing the duration of outages (SAIDI), (iii) reducing the frequency of outages (SAIFI), and (iv) the DER connection time, may reduce grid costs in the long run and thereby improve general affordability. However, these PIMs do not directly address the most vulnerable energy consumers – the low-income energy consumers.

The OEB Discussion Paper states: "Less emphasis was placed on developing PIMs addressing the secondary objectives of cost control/efficiency and affordability as these objectives are addressed by other OEB regulatory and rate-making tools." [1]The extensiveness of the other ongoing related OEB activities (as listed on the OEB slide, Other OEB Activities, and Table 1: OEB Initiatives and Processes Considered in the Development of the Proposed PIMs (pp. 9-12), provide substantiation for reaching the same conclusion regarding the other secondary objectives, that these other secondary objectives are already being addressed by other regulatory and rate-making tools. As a result, it is not clear why the OEB has chosen to place less emphasis on cost control/efficiency and affordability than the other secondary objectives.

LIEN supports moving forward with the four PIMs proposed by the OEB as a starting point. However, in parallel to ensure that the affordability objective is properly addressed, LIEN suggests that OEB create a working group to propel development of PIMs for affordability tied more closely to affordability matters of low-income energy consumers. This Affordability Working Group would be set up at the same time, collaborating as necessary, with the working group set up to move the four PIMs forward.

PIM Definition and Design Criteria

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

The OEB Discussion Paper defines a PIM as: "A revenue adjustment mechanism that ties financial rewards or penalties to the achievement of pre-defined targets."

OEB intends to allow PIMs to be penalty-only, reward-only, or symmetrical, with both a reward and penalty component. To increase clarity of the definition to encompass these options, LIEN suggests the definition be modified as follows: "A revenue adjustment mechanism that ties financial rewards, penalties, or both to the achievement of pre-defined targets."

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

The OEB has proposed nine evaluation criteria: consistency, distributor control, existing data, outcome, policy alignment, proportionality, ratepayer benefits, regulatory burden, and simplicity. These criteria are a good starting point but may need to evolve, adding specificity and/or criteria as work continues on their development within a working group setting.

[1] The OEB Discussion Paper at p. 6.

Proposed PIMs

General

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

PIMs must be appropriately sized, have symmetry/asymmetry in design (reward and/or penalty) matched to the metric, as appropriate, and be measurable and straightforward to measure in an agreed upon protocol for transparent calculation and reporting.

The OEB framework includes establishing and documenting the approach for setting targets, incentives and penalties. In addition, the framework should include how success in the design and implementation of each of the PIMs will be measured and evaluated (e.g. what metrics will be tracked, how to ensure consistency and data quality). This should include measuring the impact of the PIM on an annual basis at the utility and aggregate level (e.g. regional, provincial), and obtaining utility customer and stakeholder feedback on PIM implementation.

In implementing the PIMs, there is a danger that electricity distributors may focus on the performance metrics to the detriment of other important actions, such as providing quality programs and services for their low-income energy customers. The achievement of PIMs needs to be balanced by the distributor's achievement of other objectives. Updates to the OEB's Chapter 5 filing requirements to address this balancing explicitly should be considered. At minimum, the OEB should provide guidance in the PIMs framework on how distributors should accomplish this balancing.

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

LIEN is supportive of applying a standard set of PIMs to all electricity distributors as a baseline for distributors to meet. LIEN also supports OEB's proposal to develop individualized utility targets, penalties and rewards that take into account relevant distributor factors (e.g. utility size, geography, distributor's customer base, baseline situation regarding the metric). This flexibility in approach should aid in addressing individual situations of particular LDCs in meeting the standard set of PIMs.

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?**

LIEN agrees that electricity distributors should be able to continue to propose custom PIMs in addition to being subject to the standard PIMs. The OEB should permit electricity distributors to propose their own PIMs to cover off areas that are not duplicative of the standard PIMs. For example, this could include a PIM for 60% of their low-income customers participating in low-income DSM and 90% participating in Ontario Electricity Support Program.

PIM 1 - System Utilization

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

The OEB Discussion Paper indicates[2] that the purpose of the System Utilization PIM is to incentivize more efficient use of electricity distribution systems by providing financial reward for aligning the electricity demand in each hour with maximum capacity of the system. LIEN supports this objective and providing a financial reward for its achievement. However, LIEN is not persuaded at this time based on the information provided, that measuring this objective through increasing load factor alone is the appropriate metric.

Load factor is not within the total control of LDCs. It may conflict with the objective of adding DERs in a timely manner and it may be too narrow an approach for achieving the system utilization objective. For example, encouraging distributors to add storage and demand response with appropriate customers combined with steps to increase load factor that do not conflict with the objective of adding DER connections in a timely manner may achieve the system utilization objective more effectively.

9. **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.**

As stated above in LIEN's response to Question 8, load factor is not within the total control of LDCs, it may conflict with the objective of adding DERs in a timely manner and it may be too narrow an approach for achieving the system utilization objective. A metric which is less prescriptive allowing for multiple ways (e.g. DR, storage, increasing load factor) for better alignment for each hour to achieve a more efficient distribution grid should be considered. For example, the metric could set a 5-10% increase in system utilization efficiency and provide a methodology for setting the utility baseline and measuring the incremental efficiency.

PIM 2 – System Average Interruption Duration Index (SAIDI)

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

LIEN supports implementation of a PIM related to SAIDI. It is an internationally recognized standard and is measured and reported publicly by the OEB. However, there is no target set for LDCs to meet.

Reliability is very important to all electricity distribution customers. LIEN understands that the OEB and stakeholders have expended extensive efforts through the RPQR process and lost load work under VASH consultation regarding this metric. However, LIEN is concerned about this

[2] OEB Discussion Paper at p. 16.

metric encouraging excessive spending in attempt to improve reliability. LIEN would like to avoid "overbuilding" that increases costs to the distribution system and the electricity grid as a whole, and by extension to low-income energy customers of distributors. Also, there is a danger that electricity distributors will especially focus on this performance metric, because of the penalty implications, to the detriment of things like the programs that serve our clients.

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 alternatives characteristics if possible.**

One way to discourage "overbuilding" is to eliminate the penalty in the first two years of the LDC implementing the SAIDI PIM to gather data and feedback from distribution customers and the LDC on impacts with implementation. LDCs would be required to report annually through the scorecard on achievement of the SAIDI PIM targets that would be set, but there would be no penalty or reward. After this test period, the OEB would review compliance and determine the final target and penalty/ incentive level of the PIM.

LIEN recognizes that the OEB has built a strong foundation with a methodology and timeline for setting SAIDI targets already established as part of its RPQR consultation. Setting the SAIDI targets should continue on this course. Taking LIEN's suggested 'testing' approach would provide additional time to determine and achieve broader consensus on the methodology to value lost load, and to set any penalty, reward or both for target achievement for the LDC.

PIM 3 – System Average Interruption Frequency Index (SAIFI)

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

LIEN supports implementation of a PIM related to SAIFI. It is a commonly used reliability index by electricity distributors and is reported to the OEB by LDCs as part of the LDC scorecard. It complements the SAIDI PIM and provides another metric for measuring a characteristic of reliability/resiliency. However, there is no target set for LDCs to meet.

As with the SAIDI PIM, LIEN is concerned about this metric encouraging excessive spending in an attempt to improve reliability. LIEN would like to avoid "overbuilding" that increases costs to the distribution system and the electricity grid as a whole, and by extension to low-income energy customers of distributors. Also, there is danger electricity distributors will place undue emphasis on this performance metric, because of the penalty implications, to the detriment of things like the programs that serve our clients.

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 alternatives characteristics if possible.**

LIEN suggests the OEB take the same approach for discouraging "overbuilding" as suggested by LIEN for the SAIDI PIM. This approach is to eliminate the penalty in the first two years of the LDC implementing the SAIFI PIM to gather data and feedback from distribution customers and the LDC on impacts with implementation. LDCs would be required to report annually through the scorecard on achievement of the SAIDI PIM target, but there would be no penalty or reward. After this test period, the OEB would review compliance and determine the final target and penalty/ incentive of the PIM for the LDC.

PIM 4 – Distributed Energy Resource (DER) Connections

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

LIEN supports a DER Connections PIM to incentivize timely connections to the distribution system. A DER Connections PIM is consistent with government policy and encourages cost-effective non-wires solutions (e.g., solar PV and storage, DR) to 'poles and wires' distribution infrastructure.

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 alternatives characteristics if possible.**

A PIM based solely on number of days to connect, does not take into account the range of characteristics of DERs and the local grid restrictions that may affect timely connection to a particular LDCs' distribution grid. Capacity provided by the DER (e.g. days to connect/kW connected), the type of DER and its proposed location on the local distribution grid, may have a significant bearing on time needed to connect. LIEN suggests OEB conduct further data gathering and analysis to determine how these and possibly other important characteristics related to DER distribution grid connection should be taken into account in the finalization of the structure, targets, and reward/penalty for this PIM.

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

DERs are not all the same and therefore DER connections should not be considered the same. The type, size and location of the DER on the distribution grid may have a significant bearing on the time required for connection, among other characteristics. The OEB should further investigate how these different characteristics should be addressed in setting the features for this PIM.

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

LIEN suggests initial targets be set for different DERs factoring in size and location on the distribution grid based on collection and analysis of LDC data regarding their historical performance and government policy considerations. The OEB should track this initial target achievement for an interim period as part of the LDC scorecard but without either applying a reward or penalty. This would enable the OEB to obtain data on to what extent the type, size and location of the DER affects the time needed to connect. The OEB, with the working group, could then use the analysis of this data and the historical data as well as government policy considerations to finalize targets, and any reward or both reward and penalty for this PIM.

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.**

There are two PIMs listed in Table 10 of the Discussion Paper that the OEB should continue to consider in parallel as the OEB focuses on its four proposed PIMs. The Feeder Experiencing Sustained Interruptions metric should continue to be explored. LIEN suggests the OEB should obtain more data and conduct further analysis to provide a stronger basis for the development of this metric into a PIM.

The OEB should also encourage electricity distributors with such feeders to track these interruptions and investigate ways to address these interruptions more effectively (e.g. investigate non-wires solutions targeted at these feeders). Discussion regarding this metric, including developing options to reduce these feeder interruptions through a PIM, could take place in the SAIDI/SAIFI working group or in another working group whose purpose is to address potential PIMs (beyond the four PIMs) and scorecard additions.

Regarding resiliency, Customers Experiencing Long Interruption Durations measured by the difference between average estimated time of restoration and actual restoration time should continue to be considered by the OEB. This would include but not be limited to the OEB obtaining more data and carrying out further analysis in order to provide a stronger basis to avoid incentivizing the wrong behaviours and encouraging desired ones. As with the Feeder Experiencing Sustained Interruptions metric, discussion regarding this resiliency metric, including those to develop options to reduce restoration time through a PIM, could take place in the SAIDI/SAIFI working group or in another working group whose purpose is to address potential PIMs (beyond the four PIMs) and scorecard additions.

19. **Does a housing connection PIM discussed in Section 4.5 require further consideration in advance of OEB's other planned work in this area? Why or why not?**

It does not appear necessary to further consider the housing connection PIM described in Table 10 of the OEB Discussion Paper (average time frame between when a customer requests new electricity connection for housing and when the distributor actually connects them) before the OEB advances other planned work in this area. Work regarding the development of this PIM should progress in parallel.

There are certain timelines already required for these customer connections. In addition, the OEB points out that the underlying issue causing connection delay happens between the distributor and developer before a customer requests a connection. The OEB should conduct further work to identify what would be needed to address these types of delays in the housing connection process and what the appropriate metric(s) is to track and value (reward, penalty or both) to encourage desired behaviours**.**

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?**

LIEN concurs with the three target setting methodologies described in the Discussion Paper based on (i) distributor's own performance, (ii) distributor's performance in comparison to its peers, or (iii) quotas or levels set by policy, while recognizing that using both own performance and peer comparison may be appropriate. LIEN suggests that even where one approach is dominant to set the target, the OEB should consider both past performance and peer comparison to inform target setting, wherever possible.

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?**

The OEB proposes to use the past performance method as a basis for the System Utilization PIM (PIM – 1). If the PIM remains load factor only, this may be sufficient, although over time, the OEB should consider also adding peer comparison to inform target setting. If the OEB adopts LIEN's suggestion of using a broader metric for PIM-1, then the OEB should use both past performance and peer comparison to establish the target.

LIEN concurs with using the OEB reliability benchmarking methodology along with the distributor's own past performance to establish the targets for SAIDI (PIM-2) and SAIFI (PIM-3), with the PIM tied to each distributor's specific target rather than the benchmarking. This

approach is appropriate as it recognizes distributor-specific factors, while encouraging enhanced performance through peer comparison data.

Regarding PIM-4, as discussed in 17. above, LIEN suggests initial targets be set for different DERs factoring in size and location on the distribution grid. Target-setting would be based on collection and analysis of LDC data regarding their historical performance and government policy considerations. The OEB would track this initial target achievement for an interim period as part of the LDC scorecard but without either applying a reward or penalty. This would enable the OEB to obtain data on to what extent the type, size and location of the DER affects the time needed to connect. The OEB with the working group, could then use the analysis of this data and the historical data as well as government policy considerations in setting the PIM.

If the OEB does not adopt LIEN's suggested approach for developing PIM-4, then LIEN concurs with using the policy approach for setting the DER connections target, since there is a paucity of data.

Incentive Levels

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

LIEN supports the proposed OEB methodology for setting incentive levels for the PIMs. LIEN agrees that the financial penalty or reward should be proportionate to the value of achieving the outcome and that the most economically efficient approach involves quantifying the marginal benefit of performance improvements to consumers as well as the marginal cost to the distributor. The difference between the costs and benefits, the net marginal benefit, would be the incentive, providing an efficient market signal.

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?**

LIEN supports the administration process for the PIMs proposed in Figure 3 of the Discussion Paper. This process relies on existing and proven OEB processes. In this case, working group(s) would set the PIM targets and incentive levels, and the LDC would apply them at the LDC's next rebasing cost-of-service application, and track performance in a variance account. The OEB would dispose of the incentives in the variance account annually via the OEB's established

process. The LDC would collect the incentive amounts through a rate rider, and the OEB would review targets and incentives at the next LDC rebasing application.

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?**

LIEN supports the time frame for the implementation of any SAIDI and SAIFI PIMs to apply to distributors' scorecards when they submit rebasing applications starting with 2026 applications for 2027 rates. However, to discourage "overbuilding" and provide for more informed decision-making, the OEB should use the first two years of the LDC implementing each PIM to gather data and feedback from the distributor and its distribution customers on impacts with implementation to achieve the target. The OEB should require the LDC to report annually through the scorecard on achievement of the SAIDI and SAIFI PIM targets, but there would be no penalty or reward during these two years. After this test period, the OEB would review compliance and finalize the target and incentive levels for each of these PIMs.

LIEN concurs that the other two proposed PIMs require more work than the SAIDI and SAIFI PIMs do prior to implementation and supports the proposed timetable of implementing the remaining two PIMs in rebasing applications filed no earlier than 2027 for 2028 rates. The design of the metric for each of System Utilization PIM and DER Connection PIM is not as advanced as for the SAIDI and SAIFI PIMs. LIEN has made suggestions for further research and analysis for the OEB to carry out to improve the design of the metrics for each of these PIMs. Starting implementation in 2027 would give the OEB sufficient time to carry out the additional analysis and consultation with the working group on these PIMs. In addition, to help to avoid overbuilding and to improve the basis for decision-making, LIEN suggests that the OEB adopt the testing approach described above for the SAIFI and SAIDI PIMs for the first two years of implementation by the LDC of the System Utilization PIM and the DER Connection PIM.