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BY EMAIL AND RESS

June 27, 2025

Mr. Richie Murray
Acting Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. Murray,

EB-2024-0129 – Hydro One Networks Inc. – Advancing Performance-based Rate Regulation: Performance Incentive Mechanisms

On May 14, 2025, the Ontario Energy Board (OEB) released a Staff Discussion Paper presenting draft performance incentive mechanisms (PIMs) for electricity distributors as part of its performance-based approach to rate regulation. The OEB held a stakeholder meeting on June 3 to discuss the proposals with stakeholders.

Hydro One is pleased to provide comments on the OEB's proposal in two parts: first, general comments below, followed by responses to OEB's discussion questions in the Appendix. Hydro One's detailed comments on each of the four proposed PIMs are provided in the Appendix.

GENERAL COMMENTS

OEB's Renewed Regulatory Framework is performance-based

Striving for high performance is a long-standing feature of Ontario's regulatory framework. Since the introduction of the Renewed Regulatory Framework (RRF) in 2012, utilities have been subject to a "comprehensive performance-based approach to regulation that is based on the achievement of outcomes that ensure that Ontario's electricity system provides value for money for customers."

Hydro One is a performance-driven organization

Like the RRF that regulates us, utilities are performance-driven organizations. Hydro One operates a robust performance-driven organization and publicly reports a variety of performance metrics, including:

- **Corporate Performance:** As a publicly traded company and public debt issuer, Hydro One has robust reporting requirements to make financial performance fully transparent.[1]

[1] Hydro One | Financial Reporting

- **Regulatory Performance:** As per the OEB Scorecard, Hydro One reports on 20 specific measures of performance within the following four areas: customer focus, operational effectiveness, public policy and responsiveness and financial performance.
- **Storm Response Performance:** Hydro One files reports to the OEB regarding the restoration performance after significant power outages caused by major events, including actions prior to, during, and after the storm.[2]
- **Environmental Performance**: Hydro One publishes an annual Corporate Sustainability Report and ESG Data Index, both of which are publicly available.[3,4]

These reports convey a tremendous amount of evidence detailing various performance-based evidence, which we respectfully submit to demonstrate how performance is already deeply entrenched at Hydro One. Performance objectives are detailed, integrated and aligned to the expectations of our customers, shareholders and broader stakeholder community. Hydro One is supportive of performance continuing to be a vital component of the RRF, and notes that any changes proposed to the RRF must be done with robust analysis to ensure any updates fit within the landscape of other, pre-existing forms of performance measurement.

The OEB proposed PIMs are mis-aligned with the Minister's objectives

Utilities are expected to facilitate housing and industrial development, modernize the grid to integrate distributed energy resources and smart technologies, facilitate electrification (including for transportation), improve reliability, and enable economic development, while maintaining affordable rates. At a time when "Ontario's energy system must not only expand — it must expand faster and smarter, especially in regions experiencing rapid population and economic growth"[5], any changes to the RRF must be carefully considered and backed by robust analysis to ensure regulatory stability necessary for utilities to achieve these goals.

On June 12, 2025, the Minister of Energy and Mines issued the government's new integrated energy plan, *Energy for Generations: Ontario's Integrated Plan to Power the Strongest Economy in the G7.* This plan outlines a coordinated, holistic approach to energy planning that focuses on Ontario's emerging energy needs, with a clear message to the sector to "act decisively to secure our energy future."[6] The Minister indicates that the "plan will modernize the grid to support a smarter, more flexible system – one that can better integrate and manage new technologies…"[7] and acknowledges that "LDCs[8] will need to strengthen their infrastructure, adopt new technologies and deliver services more efficiently and affordably. This includes making significant capital investments in substation, transformers, and digital grid management tools."[9]

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[2] Hydro One | Reports and Scorecards
[3] Hydro One's 2024 Sustainability Report
[4] Hydro One's 2024 ESG Data Index
[5] Page 123, Energy for Generations
[6] Page 4, Energy for Generations
[7] Page 5, Energy for Generations
[8] Local Distribution Companies
[9] Page 80, Energy for Generations

These expectations are not new. In the 2024 Letter of Direction to the OEB, the Minister notes that the OEB must ensure "regulated utilities critical to Ontario's growth can earn a fair rate of return to enable rational expansion and maintenance of the electricity [...] systems." The Minister has outlined a clear vision for the energy sector to support a growing population and economy and made clear his expectation that the OEB take action to support this vision.

Hydro One has reviewed the four proposed PIMs (reliability (SAIDI & SAIFI), system capacity and DER connections) and respectfully submits that the proposed framework will not support the government's objectives, on the basis that it introduces risk and uncertainty when the opposite is required for the sector to "meet the moment." This submission details these risks with respect to the structure of the framework. Staff would have also heard many other pertinent questions amid a tone of confusion at the June consultation session – the proposed PIMs individually lack the robust analysis required to build confidence that the regime will encourage enough incremental performance (above what the sector is already delivering under the RRF) to offset those risks.

When the RRF was initially established in 2012, the OEB undertook a multi-year process with a variety of productive, in-depth working groups to deeply consider the options and impacts of each of the elements of the RRF. In November 2024, the OEB outlined a roadmap that would allow, at most, one year to consider changes to elements of the RRF in a piecemeal manner. However, the initiatives were launched in the second quarter of 2025, reducing those timelines to roughly months. While Hydro One acknowledges that the OEB must move quickly to ensure it keeps pace with the changes in the sector, the consultation processes must ensure sufficient time for robust analysis and consideration and reflect the importance and implications of the policy changes it is considering and mitigate the risk of unintended consequences that destabilize Ontario's regulatory stability.

Penalties for PIMs should <u>not</u> be included

The OEB stated in their June 2023 Report to the Minister[10] that "setting and calibrating incentives can be challenging and require considerable deliberation and consultation. Also required is a firm understanding of how performance-based incentives interact or overlap with other elements of rate-setting, such as the cost of capital and the fact that earning is based on the value of capital investments in-service." Hydro One agrees with these statements and encourages the OEB to carefully consider and consult on the interaction between the different elements of its Advancing Performance Based Regulation (Advancing PBR) initiative prior to finalizing any elements to ensure the resulting framework will align with the government's objectives.

Currently, the OEB's productivity framework, supported by the Total Cost Benchmarking (TCB), is a negative-only framework, where the industry productivity factor is set above measured industry performance (creating an implicit expectation for improved productivity, i.e. a stretch factor) and the distributor specific productivity expectations (i.e. stretch factors) are set at or below zero based on an econometric model.

[10] Pages 39-40, Report to the Minister of Energy - Improving Distribution Sector Resilience, Responsiveness and Cost Efficiency, June 29, 2023

Further, under the Advancing PBR initiative on TCB, the proposals presented at the April 24th stakeholder meeting would drastically escalate the negative incentive of the productivity framework based on parameters entirely outside of the utility's control (i.e. comparison to other economies). PIMs should be considered alongside this work on TCB and the recent decision on Cost of Capital to ensure that both individually and collectively, regulatory incentives are appropriately calibrated to maintain a constructive regulatory framework and a reasonable opportunity for a utility to recover prudently incurred costs.

When paired with these other initiatives, penalty-only PIMs create the risk of systematically underfunding a utility. For example, if a utility fails to meet the reliability target under the proposed PIMs, their revenue would be reduced, further reducing the funds available to improve reliability and achieve other outcomes important to its customers. This process would also not allow for the context or rationale for why a target was missed to be considered prior to issuing the penalty. Missing the target one year would increase the risk of failing to achieve the target in subsequent years, and putting at risk the ability for the utility to achieve other outcomes that are important to customers. This risk is increased in the current environment and misaligned with the Minster's objectives.

Utility customer engagement findings are relevant to PIMs

The OEB's RFF is a performance-based approach to regulation that ensures that "services are provided in a manner that responds to identified customer preferences".[11] Utilities, including Hydro One, have undertaken comprehensive customer engagement. Customers have demonstrated an ability to express sophisticated preferences on weighing tradeoffs among competing objectives, and between objectives and associated rate impacts. These preferences shape investment plans, enabling utilities to align with customers preferences and willingness to pay, and deliver on the mandate of the RFF.

The OEB noted that their PIMs proposal was informed by "a review of the outcomes consumers value from customer surveys filed as part of recent cost-of-service applications filed by electricity distributors."[12] However, an aggregation of outcomes that customers value does not reflect the trade-offs customers would make nor their willingness to pay for that outcome, and thus an appropriate incentive level.

To meaningfully fulfill the customer focus mandate of the RRF, the OEB's revised PIM proposal should consider a utility's in-depth customer engagement. Setting PIM targets and incentive levels without informed customer engagement risks incenting investments of outcomes or investment levels that are out of line with customer expectations and willingness to pay.

The proposed PIMs framework risks creating unintended consequences

Electricity utilities are facing increasing business risk in the form of US tariffs, timing risks associated with growth-oriented policies, changing technologies, evolving customer expectations, and financial risks due to a recent OEB decision to reduce utility Return on Equity. Introducing PIMs in this environment must be done carefully and with full consideration of the consequences and likely outcomes in these uncertain times.

[11] Page 6, Renewed Regulatory Framework for Electricity
[12] Page 4, Performance Incentive Mechanisms (Advancing Performance-based Rate Regulation), May 2025

In considering any changes to regulatory incentives or requirements, Hydro One encourages the OEB and the sector to review them from the lens of a 'rational actor', especially where there are financial incentives. Utilities are required to meet their fiduciary obligations to shareholders, while also meeting policy objectives and our customers' expectations. The discussion paper proposes to gradually introduce PIMs in Ontario. Rational actors respond to financial penalties in a rational manner. By proposing to target individual PIMs and developing these piecemeal, the OEB should expect rational actors to prioritize outcomes tied to PIMs over other outcomes. Hydro One respectfully submits this would not be in the public interest and believes it is the reason the OEB previously highlighted the importance of PIM design and calibration. Regulatory requirements and incentives should be calibrated to enable the utility to balance these objectives and not introduce untenable tradeoffs.

While Hydro One understands the desire to roll out the PIMs quickly, the proposal to put penalty only PIMs out first, followed later by incentive PIMs will create an unbalance in the RRF by artificially over-prioritizing some outcomes. The OEB correctly stated that "the design of incentives themselves is crucial. How quickly the value of an incentive increases or decreases (based on results achieved) can alter its power and can sometimes lead to unintended consequences."[13] If instead the PIMs were all implemented at the same time, utilities, as rational actors, would be able to understand and balance investments among the different outcomes being incented.

Hydro One believes that the proposed PIMs tabled by OEB staff carry significant risk due to insufficient time to develop robust analysis and explore and mitigate unintended consequences, and the order of implementation, creating an unbalanced framework.

The proposed implementation timelines are inadequate

Hydro One foresees challenges with the timelines proposed by the OEB for the introduction of PIMs. For PIMs to encourage desired behaviours, utilities must have sufficient notice to consider and incorporate PIMs into their planning cycles. Large utilities that file sophisticated rebasing applications have multi-year planning processes. Once the planning is complete, usually the year before filing, it is generally not possible to reconsider the planning framework to account for new regulatory instruments (e.g. PIMs) without risking a significant delay in filing, and thus the effective date for rates. If a PIM is introduced after a planning cycle has been completed, any penalty or reward that arises from the PIM during the rate cycle would be incidental at best and punitive at worst.

Hydro One is scheduled to file a rebasing application for 2028 rates in 2026, meaning that the majority of the planning work would be completed in 2025 – well before any opportunity to embed expectations of an OEB Decision in this matter. Hydro One submitted similar comments in the OEB's Vulnerability Assessment and System Hardening consultation.[14]

[13] Page 40, Report to the Minister of Energy - Improving Distribution Sector Resilience, Responsiveness and Cost Efficiency, June 29, 2023
[14] Hydro One Submission for VASH Project

Further, some of the metrics proposed in the OEB Staff Discussion Paper for reliability (i.e. SAIDI and SAIFI) are lagging indicators. The impacts of investments in, for example, enhanced vegetation management would not be seen in the SAIDI and SAIFI results for three to four years and thus would penalize the utility during the rate term despite taking appropriate action.

The OEB must reconsider the implementation timelines proposed in the discussion paper to address these concerns.

RECOMMENDATION

In light of the concerns outlined above, Hydro One recommends that OEB Staff issue an updated Discussion Paper to better address the risks introduced by this first proposal. OEB Staff could consider a framework that entrenches:

- PIMs developed on a voluntary, distributor-led, bottom-up process
- Reward-based incentives-only to balance against existing cost efficiency incentives
- Reconsider the Ontario Energy Association's (OEA) proposal for PIMs tied to incremental government objectives, accounted for outside the traditional rate-making framework (see the OEA's January submission).
- Realistic implementation timelines, particularly for 2026 applicants filing for 2028 rates.

These considerations are aligned to the RRF, customer expectations, and both the letter and clear policy intent of the government's *Energy for Generations*.

OTHER CONSIDERATIONS

Utility consolidation

The OEB must consider how PIMs will be treated in utility consolidations, both in terms of targets and incentives during deferred rebasing and how to reconcile any differences in custom PIMs. The OEB's Handbook to Electricity Distributor and Transmitter Consolidations should be revised to clarify that applicants have the flexibility to maintain, dispose of, or augment existing PIMs to avoid them becoming a barrier to utility consolidation. Consumers are already sufficiently protected within the merger and acquisition process through the "No Harm" test, making this flexibility a reasonable approach to avoiding this potential issue.

Regulatory complexity

Due to the structure of Ontario's distribution and transmission systems, upstream and downstream impacts of PIMs are relevant. For example, a distributor electrically embedded within the distribution service territory of another that wishes to increase its DER connection capacity would need to consider the capacity for the upstream assets in setting its targets and incentives to ensure that unintended technical and cost impacts are avoided.

As the largest provincial transmitter and host of many embedded LDCs, Hydro One will be significantly impacted by PIMs of embedded LDCs and recommends that guidance be provided on the impacts of PIM-enabled activity in capital contributions, load forecasting, and Hydro One's own rate filings and obligations. Hydro One reinforces that it will support the achievement of utility-specific PIMs within the parameters of its existing regulatory obligations under the System Codes. As required by our license and legislative obligations, Hydro One will continue to operate in fidelity with the Codes, notwithstanding the commitments individual LDCs may have with respect to their PIMs.

Measurement and Data

Introducing PIMs requires access to accurate, timely and comparable data. Where data is not available today or where data is not accurate or comparable, effort and cost will be required to establish the necessary processes to gather and report the data. The OEB should consult LDCs on the availability or cost/effort required to collect the data to ensure there will be a net benefit for customers for introducing any new requirements. Hydro One encourages the OEB to consult LDCs on approaches to measure desired outcomes.

Deferral and Variance Account (DVA)

The OEB should establish a DVA for the purpose of tracking the costs associated with PIMs. The DVA will track the annual incentive payments or recoveries to be incorporated in rate-setting proceedings.

Earnings Sharing Mechanism (ESM)

The revenue from PIMs should be excluded from any calculation for Earnings Sharing Mechanisms (ESM). The benefits of improved performance would have already accrued to customers, and any associated PIM incentive should not be captured through an ESM.

CONCLUSION

Hydro One thanks the OEB for the opportunity to comment on the Staff Discussion Paper on PIMs, part of the broader review of performance-based approaches to rate regulation. Further responses to the OEB's engagement questions are included in the Appendix below.

Hydro One looks forward to engaging with the OEB on PIMs and across those many related initiatives to advance a regulatory framework aligned to the Ontario government's economic and electrification goals in a manner consistent with the expectations of our customers.

Sincerely,

Kaleb Ruch
Director, Regulatory Policy & Strategy
Hydro One Networks Inc.

APPENDIX: RESPONSES TO OEB ENAGEMENT QUESTIONS

Objectives

1. Which secondary objectives, if any, are missing from the list presented in Section 1.3?
2. Which secondary objectives, if any, are not appropriately addressed by the proposed PIMs?

Hydro One Response:
As noted in detail in the General Comments section above, the consideration of the following key objectives is missing in establishing PIMs:

- Alignment with overarching government policy objectives
- Interplay with other existing and proposed regulatory and legislative changes (e.g. Bill 40)
- Alignment with utility mandates and customer expectations (based on utility customer engagement results)
- Weighing the benefits of PIMs against implementation costs and effort

PIM definition and design criteria

3. Is the definition of a PIM employed in the Discussion Paper fit for purpose? If not, why not?
4. Are the criteria used to evaluate the proposed PIMs appropriate? If not, why not?

Hydro One Response: Hydro One does not have any concerns with the definition of a PIM as described in the Staff Discussion Paper. Hydro One recommends that the OEB consider additional criteria related to the key objectives outlined in response to question 1 above, such as alignment with RRF, benefit-cost analysis for implementation of PIMs, adjudicative certainty, etc.

Proposed PIMs General

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

Hydro One Response: As noted earlier in this response, Hydro One recommends that the OEB reconsider the current PIMs proposal having regard for the objectives outlined in the Minister's *Energy for Generations*. Once the proposal has been revised, Hydro One recommends that the OEB reengage the sector.

6. Are you supportive of applying standard PIMs to all electricity distributors in Ontario?
a. Which PIMs should be applied to which distributors?
b. What characteristics of distributors should be used to define if PIMs framework should apply?

Hydro One Response: As noted in the January 2025 submission of the Coalition of Large Distributors and above, Hydro One is not supportive of a standard set of PIMs for all utilities. Standardized PIMs significantly reduces the value of the PIM in driving outcomes that customers value, as they cannot be set in a manner that meaningfully considers customer desired outcomes and willingness to pay in individual service territories.

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?

Hydro One Response: Hydro One recommends the OEB reconsider its proposed framework in light of the many risks outlined in this submission.

PIM 1 – System Utilization

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

Hydro One Response:
While Hydro One understands the theoretical basis for this proposed PIM, in practice, the proposed framework is unlikely to create conditions that support the attainment of many government priorities and inadequately considers how electricity systems are built or operated. *Energy for Generations* sends a clear message to the sector "Ontario is entering a period of unprecedented energy demand and there is no scenario where Ontario can meet this growing demand without building new energy infrastructure."[15]

General utility planning practices require utilities to forecast and consider future use of their systems to inform near-term investments. This ensures that capacity is ready when customers need it and customers can be connected quickly. This also means that there is a lag between building an asset and the load materializing. Recognizing the value of right-sizing capacity so it is ready for future customer demand, and to ensure the electricity system is not a barrier to house or economic growth, the government and OEB have been exploring ways to not only enable but incent utilities to build capacity before loads come online (e.g. *Energy for Generations*, Housing file, economic zones, Bill 5). The proposed PIM on system utilization is at odds with these objectives.

The 'extra' capacity on the system serves practical purposes, for example, allows utilities with networked distribution lines to transfer load to improve reliability and resilience. If the system is instead too fully loaded (as per the incentive of the PIM proposed), a utility would have reduced flexibility to operate their system in this manner, potentially leading to reduced system reliability and resiliency (and impacting the PIMs related to SAIDI and SAIFI). Another example for rural utilities, such as Hydro One, there are also technical limitations to fully loading a feeder, such as the inability to support voltage when loading of long feeders is increased.

System loading is largely driven by the growth in demand and beyond a utility's control. In areas experiencing high growth, assets will become more heavily loaded, whereas the loading will be lower in areas not experiencing growth. Hydro One does not support this PIM for the reasons above.

PIM 2 – System Average Interruption Duration Index (SAIDI) & PIM 3 - System Average Interruption Frequency Index (SAIFI)

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

[15] Page 12, Energy for Generations

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

Hydro One Response:
Hydro One notes that reliability of supply is a core objective for utility performance. The customer engagement results that informed Hydro One's 2023 to 2027 rate application demonstrated that customers across all customer segments prioritized reasonable rates, reliability, safety and customer services as the most important outcomes, specifically prioritizing reliability related to extreme weather events and improvements for those with the worst reliability[16]. When asked about the pace of investments considering the associated rate impacts, customers supported reasonable investment that would keep pace with or slightly improve reliability, rather than an accelerated pace of investment.

The reliability PIMs as proposed in the OEB's Staff Discussion Paper will result in utilities seeking to improve overall reliability performance, which cannot be guaranteed without significant cost to customers and thus be out-of-step with customer expectations. A 'rational actor' would allocate funds up to the value of the penalty to mitigate the financial penalty, increasing the importance of reliability over other investment categories (e.g. system expansion to support load growth) when conducting investment planning.

In addition, as noted above, SAIDI and SAIFI are typically lagging reliability metrics, such that investments made today are likely to take three to four years to materialize in enhancing performance. There is a decoupling between in-period expenditures and in-period performance, which limits the ability of a utility to influence these metrics within a five-year rate cycle. Reliability metrics are also heavily influenced by weather in a given year, factors outside a utility's control. The proposed PIMs do not appear to consider utility programs that improve customer experience using behind the meter technologies, which is not aligned with the OEB's and government's Non-Wires Solutions mandate for utilities.

Setting targets and incentives for reliability metrics should be done carefully to fully consider the outcomes that are being incented. Hydro One, along with the other members of the Coalition of Large Distributors, filed unsolicited feedback[17] with the OEB in response to the launch of the new framework on Setting Reliability Performance Targets, noting that due to the limitations of the benchmarking methodology, many utilities may have reasons to propose custom reliability benchmarking targets. The OEB should ensure that the PIMs associated with reliability align with the custom reliability targets proposed by that utility.

[16] JRAP 23 Schedule A-3-1 Attachment 1 (page 168 & 169 of the PDF). EB-2021-0110 – Custom IR Application (2023-2027) for Hydro One Networks Inc. Transmission and Distribution – Application and Evidence
[17] Letter by Coalition of Large Distributors to the OEB – EB-2021-0307 – Setting Reliability Performance Targets (Reliability and Power Quality Review), April 2, 2025

Hydro One seeks clarity on the OEB's proposal to use value of lost load (VOLL) as an input to the penalties associated with the reliability PIMs, including the linkage between the target and this value, and the customer segment(s) that would use VOLL. VOLL and the new reliability benchmark are currently unrelated frameworks, making OEB staff's intent to link them unclear.

PIM 4 - Distributed Energy Resource (DER) Connections

14.Are you supportive of implementing a PIM related to DER connections? If not, why not?
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.
16.Should all DER connections be considered the same? Should different sizes of DERs have different requirements?
17.What aspects of the DER connections process and timeline should be considered in the development of the PIM?

Hydro One Response:

Hydro One recognizes the value of ensuring DER connections are considered in a timely manner, and supports the work done by the OEB's DER Connections Review Working Group (WG) to standardize the timelines and processes for DER connections. The Distributed Energy Resources Connection Procedures (DERCP) document, which was developed by the DER Connections Review WG, facilitates the communication and implementation of a standardized procedure, including timelines, for the connection of DERs to distribution systems. The provisions of the DERCP are given force by requirements of Chapters 3 and 6 of the Distribution System Code (DSC), with which the distributors in Ontario are expected to comply with as a license condition.

Through the work done in this forum, utilities are already required to comply with the streamlined process and timing expectations for DER connections. Hydro One also has a robust Connection Process for DER Facilities[18], with detailed steps and timelines clearly outlined on its website, aligned with the expectations laid out in the DERCP and DSC. Considering this, it is unclear what additional behavioural changes are being encouraged by the OEB through the PIMs proposal.

There's also further interplay expected between the new initiatives being reviewed in the DER Connections Review WG and the DER Connections PIM proposed by the OEB. The DER Connections Review WG is currently examining how increasingly detailed estimates can be provided to DER proponents during the connection process. Providing these more detailed estimates will take time and resources to develop and be at odds with the proposed PIM.

Further, there are factors beyond a utility's control that can impact the total connection time. Customers frequently require additional time to develop and provide information required by the utility to assess the connection. In addition, not all connection requests result in connected DERs, with customers frequently change their plans. This was true even for the lucrative Feed-in-Tariff contracts, where not all customer connection requests resulted in a completed project.

[18] Hydro One | Connection Process

Hydro One encourages the OEB to exercise caution to ensure that the targets and incentives drive the right behaviours. The DERCP outlines different required timelines for each stage of the process for each project's size and type. As noted above, the total time is largely out of utility's control. Further complications to timelines arise when system upgrades are required, or customers cause long delays. In addition, in setting incentive levels, it will be important to consider what behaviours the OEB is seeking to incent over and above what is required in code. The OEB should work with the industry to identify the priorities related to DERs and then set those priorities in the context of the broader suite of electricity sector priorities to help define what guidance for a DER PIM may make the most sense.

Hydro One submits the proposed PIM for DER Connections should not be considered within this framework.

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.*

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?

Hydro One Response: OEB Staff's report provides insufficient information to provide a response that is adequately detailed and calibrated to the other proposals. We encourage staff to develop PIM proposals in a systematic and calibrated fashion.

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?

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?

Hydro One Response: Insufficient information was provided to offer full comment. Hydro One is not convinced that the targets, as proposed, would drive outcomes aligned with policy direction – the risk of unintended consequences is palpable. As noted above, any targets set through the OEB's Reliability Benchmarking Framework should allow for custom benchmarking targets brought forward in rate applications, as permitted under that Framework – PIM targets should be aligned with proposed custom targets.

If the OEB considers moving forward with any standardized PIMs, it should reconsider its proposal in light of *Energy for Generations* that ensure that the risks, benefits, and unintended consequences are considered. Hydro One does not support the use of working groups as described, as the approach appears to delegate substantial authority to yet to be announced working groups to finalize all material details of PIMs, including setting of financial incentives, without providing any further public consultation. Hydro One will consider its position on Working Groups subsequently, based on further proposals from OEB staff.

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?

Hydro One Response: As noted in question 20, there is not enough information to provide complete comments. Hydro One recommends that the OEB reconsider its proposed framework before considering the next steps. Hydro One does not support the use of working groups as described as the approach appears to delegate substantial authority to yet to be announced working groups to finalize all material details of PIMs, including the setting of financial incentives, without providing any further public consultation.

Administration of PIMs

23.Please provide feedback on the proposed process for administering the PIMs presented.
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?

Hydro One Response: There is insufficient detail provided in the proposal to provide a complete response. Hydro One would benefit from clarity on the rate mechanisms that would be used, including if a rate rider would be used, DVAs, etc.

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?

Hydro One Response: As noted in our previous comments, the proposed timing for implementation poses several challenges, including insufficient time to develop the proposed PIMs, implementing penalty only PIMs first. For Hydro One, the timing challenges are compounded as the reliability (penalty-only) PIMs would be in place for a prospective 2028 rate application (risking unbalanced incentives), and the details of the PIM would not be known until after the planning cycle has been completed (likely resulting in the PIMs being purely punitive).