By RESS

June 27, 2025

Ritchie Murray
Acting Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

Dear Ms. Marconi:

Subject: Advancing Performance-based Rate Regulation – Performance Incentive Mechanisms (PIMs) (EB-2024-0129)
Issuance of a Discussion Paper on Proposed PIMs for Electricity Distributors and Invitation to a Stakeholder Meeting

---

Hydro Ottawa Limited (Hydro Ottawa) appreciates the invitation to comment on the OEB's Discussion Paper on Proposed PIMs for Electricity Distributors and Stakeholder Meeting.

Please see Appendix A attached, which provides Hydro Ottawa's comments on the Discussion Paper on Proposed PIMs for Electricity Distributors and Invitation to a Stakeholder Meeting, sent by OEB staff on May 14, 2025.

Hydro Ottawa looks forward to continued dialogue with the OEB on this important initiative.

Sincerely,

Signed by:
April Barrie
1E403775748B4CB...

April Barrie
Director, Regulatory Affairs
Directeur, Affaires réglementaires
AprilBarrie@hydroottawa.com
Tel./tél.: 613 738-5499 | ext./poste 2106
Cell.: 613 808-3261

APPENDIX A

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?**
3. **IS THE DEFINITION OF A PIM 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 Ottawa suggests that as an additional criterion, the OEB assess PIM achievability and whether distributors are feasibly able to achieve meaningful improvements as a result of the PIMS. If the thresholds and targets are unachievable or set too high, utilities may be unable to achieve the desired outcomes without making unreasonable investments. This could inadvertently disincentivize utilities from pursuing the very improvements the PIMs are designed to encourage.

5. **WHAT ADDITIONAL INFORMATION, IF ANY, IS NEEDED ABOUT EACH OF THE PROPOSED PIMS IN THE FINAL PIMS FRAMEWORK?**

The OEB Discussion paper purposefully leaves the actual target and threshold setting mechanisms, remuneration process, and PIM structure incomplete. It is unclear how the rewards/penalties will be calculated and administered. It is also unclear as to whether certain PIMs will be assigned a higher monetary value, ultimately emphasizing greater importance. All of these issues will need to be consulted on and finalized before implementation. Regardless, any PIM should be contemplated in light of the LDCs roles and responsibilities and should not overly drive outcomes that put a financial focus on an immaterial result (for example, due to lack of activity).

It is unclear to Hydro Ottawa how the proposed PIM framework aligns with the OEB's existing Renewed Regulatory Framework (RRF). The customer survey and a jurisdictional scan heavily influence the OEB's proposed PIMs. However, Hydro Ottawa is concerned about whether the approach fits within the Ontario context, given that other jurisdictions have different policy

objectives, regulatory environments, and operational considerations. For example, the OEB has not provided evidence of a systemic issue in its framework that disincentivizes reliability in a manner that requires a financial incentive to fix. The proposed PIMs may therefore not achieve sustainable improvement over time without additional investment as utilities are already prioritizing reliability in their planning.

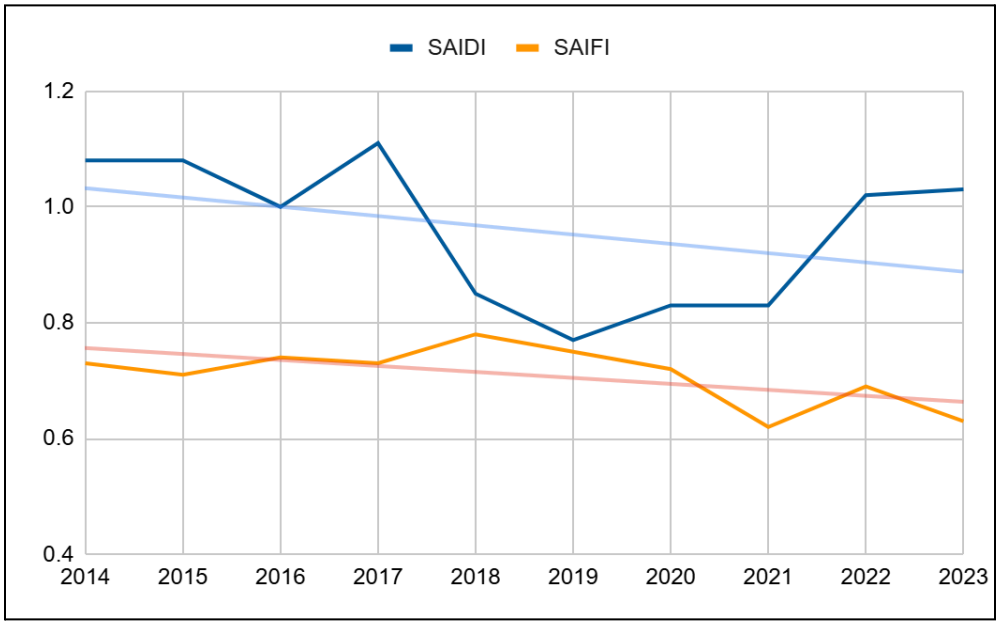
Furthermore, Hydro Ottawa contends that its custom incentive rate-setting framework, and consequently the RRF, promotes improving PIMs such as SAIDI and SAIFI through benchmarking and the rate-setting process. In addition, a plan is put forward based on many elements including customer preferences, where customers consider reliability and bill impacts. Lastly, rates are set based on a funding envelope, as such, will PIMS be a factor in establishing funding in order to achieve PIMS that are established?

Table 1 and Figure 1 below demonstrates that Hydro Ottawa's SAIDI and SAIFI have trended downward since 2014.

Table 1 - Hydro Ottawa Historical SAIDI and SAIFI results

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Hydro Ottawa	**SAIDI**	1.08	1.08	1.00	1.11	0.85	0.77	0.83	0.83	1.02	1.03
	SAIFI	0.73	0.71	0.74	0.73	0.78	0.75	0.72	0.62	0.69	0.63

Figure 1 - Hydro Ottawa SAIDI and SAIFI Results Trend



It is also unclear how the OEB will ensure that LDCs, that for example, have already invested significantly in the area of reliability will not be measured as being less effective than its peers who may not have invested as heavily and therefore may have the ability to more readily achieve noticeable results.

Furthermore, while the OEB has identified improved efficiency and DER adoption as favourable outcomes to pursue, it has not yet provided explicit evidence demonstrating the need for specific PIMs related to DER connection or system utilization. The current discourse does not assess whether existing capacity planning practices are suboptimal, nor does it delve into how the current rate-setting framework might contribute to such outcomes.

As an alternative example, Australia clearly defines the need for its SAIDI and SAIFI PIMs as an offsetting incentive in its rate framework. Without these PIMs, the incentive would be to reduce

costs at the determinant of reliability.[1] Therefore, the SAIDI and SAIFI PIMs become a feature of its rate-making framework, not an add-on to align with consumer feedback.

Hydro Ottawa generally supports PIMs, particularly a reward-based approach that incent behavioural shifts while allowing utilities to share in economic benefits. However adoption must be preceded by identifying a clear need for improvement in the existing RRF. Hydro Ottawa suggests the OEB's framework should articulate the specific need, this will create better understanding and outcomes rather than a view that the proposed PIMs as adding regulatory red tape with unclear benefits.

6. ARE YOU SUPPORTIVE OF APPLYING A STANDARD SET OF PIMS TO ALL ELECTRICITY DISTRIBUTORS IN ONTARIO? IF NOT, WHY NOT?

Hydro Ottawa supports a flexible application of PIMs. The PIM framework should allow distributors to opt in or modify PIMs based on their unique circumstances. Distributors should also be given the option to propose alternative PIMs during their rate application process that may better serve their customers and align with the OEB's primary objective for PIMs.

Hydro Ottawa advocates for PIM flexibility, recognizing the diverse operational considerations and unique strengths across Ontario's many electricity distributors. A "one-size-fits-all" approach risks favouring some utilities while disadvantageing others. Notably, the proliferation of DERs varies across the province. As such, a distributor operating in a territory with many DER connection opportunities may more readily realize financial rewards compared to one operating in a territory with limited DER options.

The PIM remuneration process should be proportionate to the size of the economic benefit realized by the distributor for achieving certain outcomes. For example, PIMs should not reward or become a disincentive when activities are in smaller volumes that result in disproportionate reward or penalty. In that sense, an empirical and replicable process should be standardized for the treatment of outcomes.

[1] Australian Energy Regulator, *Issues paper Reviewing the Service Target Performance Incentive Scheme and Establishing a new Distribution Reliability Measures Guidelines*, (January 2017), page 33. https://www.aer.gov.au/system/files/AER%20Issues%20paper%20-%20Reviewing%20the%20Service%20Target%20Performance%20Incentive%20Scheme%20and%20Establishing%20a%20new%20Distribution%20Reliability%20Measures%20Guidelines.pdf

Lastly, as noted in response to question five, investments already made need to be considered in the context of PIMs. Not every LDC has the same ability to make noticeable improvements as large investments may have already been made. An LDC that is already achieving positive outcomes for their customers should not be penalized for having previously invested in enhancing those outcomes.

a. ***Which PIMs should be applied to which distributors?***

Hydro Ottawa believes that distributors are best positioned to understand their operational needs and customer preferences and therefore their PIM structure.

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

Hydro Ottawa does not support an approach that pre-defines distributor characteristics as a method for assigning PIMs. But rather suggests characteristics be proposed as part of an LDC's rate application. Hydro Ottawa believes that distributors are best positioned to understand their needs and advocate for PIMs that best achieve the objectives set out by the OEB as part of the rate application.

7. IN THE CONTEXT OF A STANDARD PIM FRAMEWORK, SHOULD ELECTRICITY DISTRIBUTORS CONTINUE TO BE ABLE TO PROPOSE CUSTOM PIMS IN ADDITION TO BEING SUBJECT TO "STANDARD" PIMS?

Hydro Ottawa strongly supports the concept of utilities being able to propose custom PIMs as part of its rate-setting framework. Allowing custom PIMs considers LDCs unique situations and customer expectations, while contemplating previous investments made. Allowing customer PIMs also allows for innovation and growth in the use of PIMs.

8. ARE YOU SUPPORTIVE OF IMPLEMENTING A PIM RELATED TO SYSTEM UTILIZATION/LOAD FACTOR? IF NOT, WHY NOT?

Hydro Ottawa does not support the system utilization PIM as proposed by the OEB due to several concerning features, including:

- The PIM appears to contradict the Ministry of Energy and Mines policy goals for building future housing developments as detailed in the Minister's recent Directive to the OEB.[2]
- Distribution System Planning includes spare capacity as a feature. Customers may also request spare capacity to manage their demand needs.
- Capacity requirements also incorporate locational considerations, which must be tailored to the specific needs of a region. While capacity may be available in one area, technical constraints in extending the distribution system might necessitate additional capacity elsewhere to meet system demands.
- The PIM incentivizes operating the distribution system closer to its limits. The assets are loaded at a higher level on a more consistent basis, which may lead to reduced life cycles and increased maintenance and replacement costs.
- The OEB's RRF includes a total cost benchmarking mechanism (stretch factor), which is designed to promote utility efficiencies by distributors operating with less funding. Hydro Ottawa is unsure how the system utilization PIM fits into this structure.
- Distributors cannot control demand on their network and, therefore, system utilization. Exogenous variables such as weather, economic conditions, policy changes, provincial programs (such as ICI) and technology advancements, to name a few, can all affect system utilization.
- Hydro Ottawa was unable to find a comparable PIM from another jurisdiction that had been implemented, despite the OEB paper citing other jurisdictions as having adopted such a PIM. It would be helpful to know where Hydro Ottawa can read further on this PIMs and where it is being used.

Hydro Ottawa reiterates that it generally supports PIMs where there is a clear need to incentivize specific behaviour. PIMs should emphasize rewards, allowing the utility to share in the economic benefit of its improvements. The utility should not be financially penalized if no economic benefits have been realized. In other words, the utility should not regress financially as a result of a PIM; it either shares in the monetary efficiencies or returns those benefits to customers if that efficiency is lost. If the utility realizes no economic benefit based on each distributor's starting point, then no penalty should arise.

[2] Ministry of Energy and Mines, *Directive regarding the implementation of the Government of Ontario's Integrated Energy Plan*, (June 11, 2025), page 4.

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 alternative characteristics if possible.

The definition of peak demand in the OEB's proposed system utilization formula is not clear. It does not identify if the reported value is the coincident peak or the non-coincident peak. This distinction is crucial from an asset utilization perspective, as it significantly impacts how capacity is assessed and managed.

If adopted, Hydro Ottawa requests that the peak demand align with its current Reporting and Record Keeping Requirements (RRR) and the Pacific Economics Group's capacity proxy. In addition, the OEB should consider that some customers request standby power and/or back-up supply. These customer requests should not negatively impact an LDC.

$$\frac{Total\ consumption\ \left[\frac{kWh}{yr}\right]}{(Peak\ demand\ [kW]) * \left(8760\ [\frac{hours}{yr}]\right)}$$

10. ARE YOU SUPPORTIVE OF IMPLEMENTING A PIM RELATED TO SAIDI? IF NOT, WHY NOT?

Hydro Ottawa supports SAIDI and SAIFI PIMs that: (1) allow distributors to share the economic benefit of increased reliability through a reward, and (2) are not financially regressive, penalizing distributors beyond the economic benefits they have accrued (based on the level of economic benefits or reward achieved by the distributor once the PIM is in place). In this way, the PIMs are asymmetrical.

Hydro Ottawa has concerns with exogenous variables beyond its control, which can affect SAIDI and SAIFI scores. If the OEB implements these PIMs, the utility requests that SAIDI and SAIFI be modified to exclude the following conditions: Major Event Days, Loss of Supply outages, and failure of electrical installations owned by customers.

Any SAIDI or SAIFI PIM must also consider equity issues related to a utility's current performance and the extended timelines required to achieve improvements. A utility that has consistently invested heavily in reliability may be disproportionately disadvantaged, as it faces diminishing returns in achieving significant PIM rewards. Conversely, another utility would have considerably more opportunities for gains at a lower incremental cost. This inherent design flaw presents a valid concern for utilities already demonstrating strong performance in reliability, as substantial improvements will also require considerable time to yield measurable gains.

11. ARE YOU SUPPORTIVE OF IMPLEMENTING A PIM RELATED TO SAIFI? IF NOT, WHY NOT?

Please refer to the response to question 10.

12. ARE YOU SUPPORTIVE OF IMPLEMENTING A PIM RELATED TO DER CONNECTIONS? IF NOT, WHY NOT?

Hydro Ottawa does not support the proposed structure of the DER connection PIM due to externalities influencing outcomes, the vagueness of the PIM definition, and an unclear understanding of how it complements other policies.[3]

Foremost, the proposed PIM may be influenced by third-party and/or customer-driven DER actions, outside distributor control. Hydro Ottawa foresees scenarios where it may be difficult to determine where delays in projects have occurred where the utility is not involved. For instance, it is often the case that a customer may request a DER connection, but decide to delay their project for various reasons. For this reason, Hydro Ottawa believes this PIM should be a reward, only so as not to harm a utility for reasons beyond its control.

It is also unclear how the OEB intends to calculate "average time to connect" across projects of varying sizes and complexities. The current definition, which measures time from a DER customer's initial "request" to connect, fails to account for external factors. Hydro Ottawa contends that controls are necessary to ensure that third parties are prepared to receive a

[3] Such as *Filing Guidelines for incentives for Electricity Distributors to use Third-Party DERs as Non-Wires Alternatives,* and the Benefit Cost Analysis Framework (EB-2023-0125).

connection once their request is submitted. Furthermore, utilities should have latitude to assess the complexity and needs of a request *before* the timeline begins. The "time to connect" should formally begin only once both parties have mutually agreed to proceed.

Finally, the OEB must carefully consider the opportunity cost of implementing a DER connection PIM. By emphasizing third-party DERs, distributors may inadvertently be incentivized to prioritize these connections over other critical customer needs, including housing connections. This outcome would be regressive to the Ministry's stated policy goals of reducing housing barriers.

During the OEB presentation of PIMs, it was suggested by one stakeholder that cost per DER connection could replace this PIM. Hydro Ottawa does not support this suggested change as it appears to encourage a shift in the user pays principle. Often customer decisions are the factors that drive variability in the cost. Should a cost driven PIM be established, the intended outcome of the user pays principle should be contemplated.

13. 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?

See the response to question 12.

14. SHOULD ALL DER CONNECTIONS BE CONSIDERED THE SAME? SHOULD DIFFERENT SIZES OF DERS HAVE DIFFERENT REQUIREMENTS?

No, DER connections should not all be considered the same. The complexity of the connection time will vary based on the type and size of the project. Hydro Ottawa recommends that the OEB considers targets based on the many variables that accompany DERs. Factors such as the type of generator (synchronous versus inverted based) as well as protection requirements (transfer trip versus monitoring only) contribute to the complexity of a project in addition to the size of the DER itself. For these reasons, Hydro Ottawa requests that it is given time to assess the connection request complexity before the timeline begins.

15. WHAT ASPECTS OF THE DER CONNECTIONS PROCESS AND TIMELINE SHOULD BE CONSIDERED IN THE DEVELOPMENT OF THE PIM?

See responses to questions 12 and 14.

16. LOOKING AT THE PIMS CONSIDERED BUT NOT INCLUDED (TABLE 10 IN THE DISCUSSION PAPER), WHICH OF THESE PIMS DESERVE FURTHER CONSIDERATION?

Hydro Ottawa does not favour pursuing any other proposed PIMs for the same reasons listed by the OEB.

17. 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 Ottawa does not believe there is a need to pursue a housing connection PIM at this time, as its new housing connection policies are in their infancy.

18. 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?

Hydro Ottawa is generally supportive of basing target setting on a distributor's past performance and based on quotas or levels set by policy. Hydro Ottawa does not support targets based on distributor performance in comparison to its peers because distributors are all uniquely structured within the Ontario context. In Hydro Ottawa's case, service territory and customer composition are very different from its nearest-sized peers, both above and below it in the rankings. For this reason, Hydro Ottawa believes that its targets should be based on its historical performance, promoting improvements over time, or a policy-based level set by the OEB.

19. 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?

Hydro Ottawa questions the appropriateness of being placed in a cohort group with Toronto Hydro and Alectra for setting SAIDI and SAIFI targets. Hydro Ottawa is unique in Ontario in that it is the fourth largest distributor in Ontario in terms of customer count, with large rural and urban sections. It is also the only distributor that services twice as many customers as the utility immediately below it in the rankings, while also serving less than half as many customers as the utility immediately above it. Consequently, the urbanness of Toronto Hydro and Alectra, including differences in tree cover for example, is concerning for Hydro Ottawa when considering SAIDI and SAIFI targets.

20. 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 Ottawa agrees that the incentive levels should be proportionate to the economic benefit derived from achieving a certain target. However, further empirical work is necessary to quantify these benefits or processes, such that Hydro Ottawa cannot comment at this time.

Hydro Ottawa has concerns with establishing a separate working group to develop target and incentive levels. Working groups exclude stakeholders and limit feedback. The process also runs parallel to the proceedings, but with less transparency. For an important policy change, such as implementing PIMs, Hydro Ottawa requests that the process for developing targets and incentive levels remain in Proceeding EB-2024-0129 and that all materials be available for public examination.