

July 1, 2025
Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Dear Mr. Murray:

**EB-2024-0129 – Advancing Performance-Based Rate Regulation – Performance Incentive Mechanisms-
Submissions of the Consumers Council of Canada**

Please find, attached, the Submissions of the Consumers Council of Canada pursuant to the above-referenced consultation process. We apologize for the delay.

Please feel free to contact me if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: EB-2024-0129 – ADVANCING PERFORMANCE-BASED REGULATION - PERFORMANCE INCENTIVE MECHANISMS

INTRODUCTION:

On May 14, 2025, the Ontario Energy Board (OEB) released a Staff Discussion Paper (Discussion Paper) presenting draft performance incentive mechanisms (PIMs) for electricity distributors as part of its consultation to advance its performance-based approach to rate regulation. The Discussion Paper proposes four PIMs with the goal of strengthening the link between what electricity distributors earn and the achievement of outcomes consumers value.

On June 3, 2025, the OEB hosted a stakeholder meeting to present the Discussion Paper and to obtain feedback on the proposed PIMs. These are the comments of the Consumers Council of Canada (CCC) regarding the PIM proposals.

SUBMISSIONS:

The PIMs work is part of the OEB's Advancing Performance-Based Regulation consultation. The Discussion Paper sets out the overall objective of the PIMs component of the APBR consultation:

- To strengthen the link between what electricity distributors earn and the achievement of outcomes consumers value, such as cost-effectiveness, reliability and customer service, while ensuring alignment with government policy.¹

The Discussion Paper sets out four proposed PIMs:

1. System Capacity/Electrification – Load Factor
2. Reliability – System Average Interruption Duration Index (SAIDI)
3. Reliability – System Average Interruption Frequency Index (SAIFI)
4. Efficient Connections – Average time it takes between when a customer requests a Distributed Energy (DER) connection and when the distributor connects them.²

Implementation details have not been worked out, but there is a proposal for a high-level implementation process for stakeholder consideration:

- Initial individual targets, penalties and rewards will be established for PIMs through further consultation with stakeholders via working groups (leveraging targets already

¹ OEB Discussion Paper – Performance Incentive Mechanisms – Advancing Performance-based Rate Regulation (EB-2024-0129)

² Discussion Paper, p. 2

developed through other OEB consultations). This would take place as a second phase of this APBR-PIMs consultation;

- PIMs will be implemented on a rolling basis at each distributor's next rebasing. Depending on PIMs, this may start in 2026 for 2027 rates;
- Deferral accounts will be used to track and disburse penalties and rewards each year as part of Incentive Rate-setting Mechanism filings;
- Going forward targets will be updated, consistent with the established methodology, as part of rebasing applications.³

CCC acknowledges that this initiative is in direct response to the 2023 Letter of Direction to the OEB from the Minister of Energy. That Letter of Direction asked the OEB to consider whether utilities' remuneration based on traditional capital infrastructure deployment remains the most cost-effective model. That Letter of Direction also endorsed the OEB's plan to develop a performance incentive regime that considers aspects such as customer service, resilience or managing peak loads to defer distribution needs, and working with the sector to develop principles, generic designs and other criteria for performance incentives.

The OEB undertook a jurisdictional scan on utility remuneration and reported back to the Minister of Energy noting the following:

- Diverse remuneration approaches may be used to achieve fundamentally similar goals. As there are no one-size-fits-all solutions a made in Ontario solution is needed;
- The current rate-setting framework provides the opportunity to, at a minimum and on a short timeline, introduce PIMs. PIMs can strengthen the link between what utilities earn and the achievement of outcomes that consumers value;
- PIMs have had only limited success in motivating optimal non-traditional utility activities and there is not assurance that PIMs alone in Ontario will optimize the potential benefits of demand management, DERs and other non-wires solutions. It is possible that a more fundamental changes will be required. Comprehensively, reconsidering the fundamental approach to rate regulation may provide a more complete and enduring realization of desired outcomes in the long run. However, fundamental change would require lengthier, more complex design and implementation processes.⁴

These conclusions have led to the proposals set out in the Discussion Paper.

³ Discussion Paper, p. 2

⁴ Discussion Paper, pp. 7-8

CCC is not opposed to the introduction of PIMs for Ontario electricity distributors. Establishing a link between what electricity distributors earn and the achievement of outcomes consumers value, such as cost-effectiveness, reliability and customer service is a positive thing as long as there is balance and a verifiable link. CCC questions, however, whether the proposals advanced in the Discussion Paper will achieve this objective. From CCC's perspective there are too many uncertainties regarding the proposals:

- The specific implementation details for each PIM have not been established. In the absence of these details it is difficult to determine whether the PIMs could, or would be effective in incenting the electric distributors and obtaining the desired outcomes;
- OEB Staff has indicated that initial individualized targets, penalties and rewards will be established for PIMs through further consultation with stakeholders via working groups and leveraging targets already developed through other OEB consultations.⁵ Setting individualized targets with a limited group of stakeholders raises more questions – How would input from those not represented be incorporated? What process would be undertaken to finalize those targets, penalties and rewards? Would the working group be consensus based? If not, what if consensus could not be reached?
- Administratively, implementing PIMs across Ontario for each electricity distributor could be complex and cumbersome;
- It may be very difficult to find the “sweet spot” associated with a particular PIM. What specific level of reward or penalty would be appropriate and required to achieve the targets?
- How can the OEB be certain that the established individualized targets, penalties and rewards will “strengthen the link between what electricity distributors earn and the achievement of the outcomes value, such as cost-effectiveness, reliability and customers service while ensuring alignment with government policy”?
- What would be the overall costs and benefits associated with the establishment of PIMs? Specifically, from a customer perspective what would be the annual cost of the rewards paid out to electric distributors? Without knowing what these costs might be it would be difficult to assess the reasonableness of the PIMs;
- If the amounts are cleared on an annual basis what process should be put in place to assess prudence? How would the outcomes be assessed and monitored?
- Could the goals associated with the proposed PIMs not be achieved through other means? From CCC's perspective there are mechanisms in place focussed on reliability like the scorecard requirements for all electric LDCs. DER connections are governed

⁵ Discussion Paper, p. 2

through the application of the Distribution System Code. Efficient system utilization should be the focus of a utility's Distribution System Plan (DSP) which is considered and assessed during each rebasing application? In effect, do we need to layer on new mechanisms within the context of the existing performance-based rate-setting model?

With respect to the four specific proposed PIMs CCC has the following comments:

- Greater system utilization is an appropriate goal for electric distributors. From CCC's perspective this can be assessed in the context of DSPs that are typically reviewed in the context of rebasing applications. It is not clear to what extent rewarding a utility for achieving a load factor metric is required or whether achieving a load factor target benefits customers and encourages cost control and efficiency;
- Reliability is very important to energy consumers. Utilities typically focus on maintaining reliability and are subject to reliability targets through their scorecards and the Reliability and Power Quality Review framework. A reliability PIM may incent electric utilities to improve reliability, but this can also come with a significant cost impact for customers. It would be important to balance reliability and affordability if reliability PIMs were put in place. CCC notes that in the Discussion Paper it states that, whether reliability PIMs have been a success in other jurisdictions is difficult to say with certainty.⁶
- CCC questions the need for a PIM regarding DER connections. Is there currently a problem with respect to the timing of DER connections? Should there be standard DER connection time given the size and complexity of a DER could differ from project to project? As noted earlier there are provisions in the DSC regarding DER connection timelines⁷. It is unclear why adding additional financial incentives, funded by ratepayers, should be required.

CONCLUSIONS:

CCC has acknowledged that to strengthen the link between what electricity distributors earn and the achievement of outcomes consumers value, such as cost-effectiveness, reliability and customer service, while ensuring alignment with government policy is a positive goal.⁸ However, at this time, in the absence of specific details regarding the proposed PIMs CCC cannot support their introduction broadly across Ontario. Whether these PIMs can achieve the desired goals is unclear. The overall cost to customers is unknown and would have to be assessed in the context of assessing overall the benefits.

⁶ Discussion Paper, footnote 6, p. 20

⁷ Discussion Paper, p. 24

⁸ OEB Discussion Paper – Performance Incentive Mechanisms – Advancing Performance-based Rate Regulation (EB-2024-0129)

If the OEB intends to move forward, CCC suggests starting with the reliability PIMs as reliability is valued by customers. Much of the background work has been done by the Reliability and Power Quality Review Working Group (RPQR WG). The work of that group could be continued.