Advancing Performance-based Regulation
EB-2024-0129

AMPCO's Comments July 2, 2025

The Ontario Energy Board (OEB)'s Advancing Performance-Based Regulation (APBR) consultation was undertaken 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.

The OEB Staff Discussion Paper issued on May 14, 2025 presents four draft performance incentive mechanisms (PIMs) as follows:

- **System Capacity/Electrification**: Load Factor
- **Reliability**: System Average Interruption Duration Index (SAIDI)
- **Reliability:** System Average Interruption Frequency Index (SAIFI)
- **Efficient Connections**: Average time it takes between when a customer requests a Distributed Energy (DER) connection and when the distributor connects them

AMPCO appreciates the opportunity to provide comments on the proposed PIMs.

Background

The Minister of Energy, in the November 29, 2023, Letter of Direction to the OEB, asked the OEB to consider whether utilities' remuneration based on traditional capital infrastructure deployment remains the most cost-effective model. The Minister asked the OEB to take steps to consider what changes may be required to ensure timely investment is made to support the right outcome and that a report back on this work incorporate a review of models deployed in other jurisdictions.

The Letter of Direction also referenced developing a performance incentive regime that considers aspects such as customer service, resilience, or managing peak loads to defer distribution system needs, and working with the sector to develop principles, generic designs, and other criteria for performance incentives.

In response to this request, the OEB retained consulting firm Christensen Associates to assist in the preparation of a jurisdictional scan to better understand the opportunities in

Ontario related to utilities' remuneration. The OEB provided a report back to the Minister on Utility Remuneration dated September 27, 2024.

The Utility Remuneration report stated with respect to the jurisdictional scan that "while some successes have been achieved, none of these regulatory changes have, at this point, proven wholly effective. Further, it shows there is no clear path or consensus on how to create the right incentives to ensure utilities optimally undertake non-traditional activities that are in the best interests of their customers and energy systems."[1]

The OEB Staff's Discussion Paper further states "PIMs have had only limited success in motivating optimal non-traditional utility activities, and there is no 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 change 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."[2]

The Discussion Paper only covers the short-term approach to advancing performance-based rate regulation, which is incorporating PIMs into the OEB's existing rate-regulation framework. Whether to proceed with a long-term fundamental change to rate regulation is being considered in parallel to this PIMs work.[3]

Comments on OEB Discussion Paper

Overall, AMPCO views the OEB's APBR consultation as responsive to the Minister's directives. The jurisdictional scan which reported on five jurisdictions: Australia, California, Hawaii, New York and Great Britain was informative to this work recognizing that these jurisdictions do not perfectly match industry conditions in Ontario, particularly Ontario's relatively unique distribution sector.[4]

Although PIMs are not strictly necessary for electricity utilities to function, AMPCO supports performance rewards and believes they can be beneficial in the Ontario context if they prioritize and respond to the OEB's stated consumer outcomes and there is a well-defined consumer benefit.

[1] Utility Remuneration Report, September 27, 2024, p. 2
[2] OEB Discussion Paper, p. 8
[3] Ibid.
[4] Utility Remuneration Report, September 27, 2024, p. 2

AMPCO's view is that only the proposed Reliability PIMs directly respond to the OEB's stated PIMs' objective. The other two proposed PIMs (System Capacity/Electrification and Efficient Connections) do not explicitly refer to cost effectiveness or customer service as their stated design objective.

Reliability along with affordability are top priorities for AMPCO members. AMPCO participated in the OEB's Reliability and Power Quality Review (RPQR) consultation. A methodology and timeline for setting targets has already been established as part of t this process. Starting with rebasing applications filed in 2026, the OEB will assign distributors reliability performance targets for both SAIDI and SAIFI. If the OEB determines that Reliability PIMS will be implemented, AMPCO concurs that the Reliability PIMs should incorporate the work of the RPQR process. However, AMPCO notes that the SAIDI and SAIFI targets were not developed in the context of a penalty and reward system which may mean the targets need to be revisited.

With respect to the implementation proposal for the PIMs, AMPCO has concerns that many of the essential details have not been figured out in advance; details that are critical to understanding the design, utility impact, cost and customer benefit of implementing the proposed PIMs. OEB Staff proposes that the initial individualized targets, penalties and rewards be established as a second phase of this consultation via working groups.[5]

AMPCO acknowledges the challenge of having all of these details in place but at the same time it is very difficult for AMPCO to determine the appropriateness and reasonableness of the proposed PIMs in the absence of knowing the configuration, scope and scale of the penalty and reward system.

Further details on the high-level implementation process include:[6]

- PIMs will be implemented on a rolling basis, at each distributor's next rebasing. Depending on the 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 (IRM) filings.

- Going forward, targets will be updated, consistent with the established methodology, as part of rebasing applications.

[5] leveraging targets already developed through other OEB consultations
[6] OEB Staff Discussion Paper, p. 2

AMPCO takes no issue with the above high-level implementation process but as discussed below AMPCO recommends that an evaluation step be included after 5 years.

PIM - Reliability

Of the four PIMs, AMPCO is generally supportive of the proposed Reliability PIMs given their direct link to what all customers value - reliability. They have been implemented in other jurisdictions and the SAIDI and SAIFI PIMs scored well on most of the design criteria. However, AMPCO has concerns that the Reliability PIMs did not score well on ratepayer benefits. The OEB Staff Discussion Paper notes there is a risk that a Reliability PIM may encourage excessive distributor spending, and therefore rates, in an attempt to improve reliability.[7] The OEB Discussion Paper notes that Reliability PIMs have been implemented in other jurisdictions including New York, Hawaii and Australia with the footnote “Whether these reliability PIMS have been a success is difficult to say with certainty.”[8] AMPCO recommends that if the OEB implements reliability PIMs that the OEB implementation process include an assessment after 5 years to evaluate the outcomes and overall success of the process. At the end of the day, AMPCO would not be supportive of Reliability PIMS that resulted in misalignment between utility behavior and customer benefit and unforeseen over-complexity that burdens both regulators and utilities. The jurisdiction scan reported that California previously had PIMs in place but currently California does not utilize PIMs.[9] This change in policy direction reinforces the need to evaluate the PIMs process at a future point in time to ensure it is performing in the way it was intended.

PIM – System Capacity/Electrification

AMPCO values efficient use of the distribution system. AMPCO sees benefit in a System Capacity PIM that incents more efficient system utilization, however, given the lack of information with respect to targets, and penalties and rewards for this PIM, AMPCO is not in a position to agree this PIM as proposed is suitable.

PIM – Efficient DERs

With respect to the Efficient DERs PIM, AMPCO is unclear on the need for this PIM given the expectations regarding maximum connection times already included in the Distribution System Code. In addition, it’s not clear an incentive for timely connection to DERs is required.

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[7] OEB Staff Discussion Paper, p. 22
[8] OEB Staff Discussion Paper, p. 20, footnote 6
[9] Christensen Associates Report September 2024 p. 81

PIM Definition and Design Criteria

AMPCO takes no issue with the PIM definition or design criteria. However, AMPCO's believes the Rate Payer Benefit criterion should be given more weight in the selection and evaluation compared to the other criteria. If the rate payer benefit is weak, this should be emphasized.

Conclusion

AMPCO supports performance rewards and believes they can be beneficial in the Ontario context if they prioritize and respond to the OEB's stated consumer outcomes and there is a well-defined consumer benefit. AMPCO does not believe there is enough information on targets, penalties and rewards to support all four PIMs at this time.

AMPCO is in favour of the Reliability PIMs moving forward with the phase 2 details to be worked out by a Working Group provided there is a review in 5 years to evaluate the success and outcomes of the PIMs.

With respect to implementation timelines, the jurisdictional scan found that across each jurisdiction, changes to utility remuneration often occur over lengthy time horizons to allow for consultation and adoption.[10] In AMPCO's view, more time is needed to flesh out the details of the other two PIMs or potentially consider other PIMs related to cost effectiveness and customer service.

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[10] Utility Remuneration Report, September 27, 2024, p. 4