



Ontario
Energy
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BY EMAIL and WEB POSTING

January 8, 2026

**To: All Rate-Regulated Electricity Distributors
All Rate-Regulated Electricity Transmitters
All Rate-Regulated Natural Gas Utilities
Ontario Power Generation Inc.
Registered Participants in Advancing Performance-based Rate Regulation
(EB-2024-0129), Spending Pattern Analysis (EB-2025-0108), Total Cost
Benchmarking (EB-2025-0102) and Evaluation of Incremental Capital
Module Policy (EB-2024-0236)
All Other Interested Parties**

**Re: An Integrated Approach to Utility Remuneration – Next Generation Rate
Framework (EB-2026-0002)**

What You Need to Know

- The OEB is proceeding with an integrated approach to addressing utility remuneration.
- The new policy consultation aims to develop an updated rate-setting framework for utilities that supports a reliable, affordable, clean and secure electricity system.
- Stakeholders are asked to provide written comments on the proposed objectives, scope and topics presented in Appendix A of this letter by February 27, 2026.
- Stakeholders are also asked to provide comments on the Spending Pattern Analysis report by February 13, 2026.

The OEB is moving forward with an integrated approach to work related to utility remuneration. The impetus for this work is to ensure continuous improvement in the OEB's performance-based approach to utility remuneration so that the rate-setting framework continues to drive outcomes consumers value and is fit for purpose in a changing energy sector.

The new policy consultation will bring together the following OEB initiatives under a new comprehensive policy consultation known as the Next Generation Rate Framework (EB-2026-0002):

- Advancing Performance-based Rate Regulation (EB-2024-0129)
- Spending Pattern Analysis (EB-2025-0108)
- Total Cost Benchmarking (EB-2025-0102)
- Evaluation of Incremental Capital Module (ICM) Policy (EB-2024-0236)

The OEB is adopting this integrated approach to utility remuneration in response to stakeholders' feedback that these topics should be considered in a holistic fashion. This work will also provide distributors with a clear and comprehensive understanding of how they will be remunerated as they build out their systems for electrification and economic growth.

The Next Generation Rate Framework consultation will build on the Renewed Regulatory Framework (RRF), which has been in place for over a decade. The RRF was designed to be an enduring framework, and this update is intended as an evolution of performance-based rate regulation in response to a changing energy and policy landscape.

Since the RRF generally applies to all rate-regulated utilities, this consultation will seek to understand the impacts of potential changes on all types of utilities. However, the OEB anticipates that some changes to the rate framework, such as the incorporation of performance incentive mechanisms, would apply, at least initially, only to electricity distributors. To support effective stakeholder engagement, the OEB will aim to be clear about the applicability of any proposed changes and/or new mechanisms throughout the consultation process.

Next Steps

The OEB intends to defer the majority of work on the Next Generation Rate Framework consultation to make way for engagement on time-sensitive initiatives related to the OEB's work in response to the Integrated Energy Plan Directive. However, in the near term, the OEB will seek stakeholder feedback on three items:

- **Next Generation Rate Framework Consultation (EB-2026-0002)** – The objectives, scope and issues for the integrated consultation on updating the rate framework. Proposed objectives, scope and issues can be found in Appendix A of this letter and are intended to give stakeholders an opportunity to provide input on the questions being asked and the issues to be addressed, before considering a draft proposal or solution. Stakeholder responses on these proposed objectives, scope and issues are due on February 27, 2026.
- **Spending Pattern Analysis (EB-2025-0108)** – The report by Pacific Economics Group outlining the results of the spending pattern analysis. The report has been issued for comment in tandem with this letter to the sector. Please visit the

Spending Pattern Analysis [Engage with Us site](#) to view the report and cover letter with an invitation to submit comments. Comments on this report are due on February 13, 2026. This research report and the comments received will be used as an input in the Next Generation Rate Framework consultation.

- **Evaluation of ICM Policy (EB-2024-0236)** – A draft OEB report proposing narrow updates to the ICM policy. This report, to be issued for comment in the coming weeks, will outline housekeeping updates to the ICM. Broader questions about the ICM policy raised during this consultation will be considered as part of the Next Generation Rate Framework consultation.

Further steps for this new consultation will be communicated after we have considered stakeholder feedback on the items above. The OEB is committed to also considering stakeholder feedback already received as part of the individual consultations, and the feedback to come on the items noted above, to develop proposals for the Next Generation Rate Framework consultation. When developing these proposals, the OEB will also consider any forthcoming recommendations of the Government's Panel for Utility Leadership and Service Excellence (PULSE) on how to best fund and deliver the next generation of electricity infrastructure.

Cost Award Matters

For EB-2026-0002, cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998*. Costs awarded will be recovered from all rate-regulated entities and apportioned amongst them based on relevance to the consultation, with for the duration of the consultation 70% of the costs being recovered from rate-regulated electricity distributors and 30% from the other rate-regulated entities. Cost awards for EB-2025-0108 and EB-2024-0236 will continue to be recovered from all licensed rate-regulated electricity distributors. Further information regarding cost awards is included in Appendix B to this letter. Filings to the OEB in relation to cost award eligibility must be made in accordance with the filing instructions set out in Appendix B below.

Participants eligible for cost awards for the following consultations are automatically eligible for this consultation (EB-2026-0002) and need not reapply for cost awards (see list of participants in Appendix B):

- Advancing Performance-based Rate Regulation (EB-2024-0129)
- Spending Pattern Analysis (EB-2025-0108)
- Total Cost Benchmarking (EB-2025-0102)
- Evaluation of ICM Policy (EB-2024-0236)

Any other eligible persons can apply for cost awards for this new consultation (EB-2026-0002).

Only those eligible under EB-2025-0108 are eligible to receive cost awards for comments submitted regarding the Spending Pattern Analysis report, and only those

eligible under EB-2024-0236 are eligible to receive cost awards for comments submitted regarding the ICM report. Those seeking cost awards for EB-2026-0002 are not eligible for cost awards for comments on these reports unless they are also eligible under EB-2025-0108 and/or EB-2024-0236.

Any questions relating to this letter should be directed to nextgenPBR@oeb.ca. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Ritchie Murray
Acting Registrar

Appendix A

Proposed Objectives, Scope and Topics for Comment

Below the OEB presents proposed objectives, scope and topics for the Next Generation Rate Framework consultation for stakeholder feedback. Stakeholders are encouraged to consider the questions below when preparing their feedback.

Questions for Stakeholder Feedback:

- Are the proposed objectives and goals of this consultation clear and appropriate? Why or why not?
- Is the proposed scope of the consultation to build on the OEB's current rate-setting framework, the RRF, clear and appropriate? Why or why not?
- Have the right proposed topics been identified as this next generation rate framework is developed? Why or why not?
 - What other topics, if any, should the OEB consider?
- Is there anything else the OEB should consider as it develops proposals for a next generation rate framework?

Proposed Objectives

The overall objective of the Next Generation Rate Framework consultation is to develop an updated rate-setting framework for utilities. The impetus for this work is to ensure continuous improvement in the OEB's performance-based approach to utility remuneration so that the rate-setting framework continues to drive outcomes consumers value and is fit for purpose in a changing energy sector.

The specific goals for developing an updated rate-setting framework are to:

- Strengthen incentives for achieving outcomes consumers value, including improved or maintained service quality.
- Help level the playing field for solutions (e.g., non-wires solutions, shared services, etc.), whether they be capital investments or operations, maintenance and administration expenses.
- Support timely system buildout for electrification and economic growth and ensure that risk remains appropriately shared between utilities and consumers in the context of a changing energy landscape.
- Explore opportunities for the rate-setting framework to address uncertainty about future energy use (e.g., the pace of electrification, and the impact of other energy resources such as hydrogen or district energy systems) and information asymmetry.

As always, any changes to the rate-setting framework will also need to ensure the OEB's legislative objectives and core regulatory principles are maintained. Even as its policies evolve to reflect a changing energy landscape, the OEB will continue to ensure that consumers are protected with respect to price, reliability and adequacy of supply, rates are just and reasonable, and the opportunity for utilities to earn a fair return and the financial stability of the sector are maintained.

This update is timely given the changing context in which utilities are operating (building for electrification and economic growth), the length of time the existing framework has been in place and the individual updates to framework elements that have been taking place (e.g., ICM, Total Cost Benchmarking, performance incentive mechanisms, etc.).

Proposed Scope

The Next Generation Rate Framework consultation will build on the OEB's current rate-setting framework, the RRF (see Table 1 below from the RRF for an overview), established by the OEB in 2012, and first implemented for 2014 rates. The RRF was designed to be an enduring framework, and this update is intended as an evolution of performance-based rate regulation.

Since the RRF generally applies to all rate-regulated utilities, this consultation will seek to understand the impacts of potential changes on all types of utilities.

The OEB anticipates that some changes to the rate framework, such as the incorporation of performance incentive mechanisms, will apply only to rate-regulated electricity distributors. To support effective stakeholder engagement, the OEB will aim to be clear about the applicability of any proposed changes and/or new mechanisms to rate-regulated utilities throughout the consultation process.

Table 1: From the RRF: Rate-Setting Overview

| | 4 th Generation IR | Custom IR | Annual IR Index |
|-------------------------|---|---|---|
| Setting of Rates | | | |
| "Going in" Rates | Determined in single forward test-year cost of service review | Determined in multi-year application review | No cost of service review, existing rates adjusted by the Annual Adjustment Mechanism |

| Form | | Price Cap Index | Custom Index | Price Cap Index |
|--------------------------------------|--------------|---|---|--|
| Coverage | | Comprehensive (i.e., Capital and OM&A) | | |
| Annual Adjustment Mechanism | Inflation | Composite Index | Distributor-specific rate trend for the plan term to be determined by the OEB, informed by: (1) the distributor's forecasts (revenue and costs, inflation, productivity); (2) the OEB's inflation and productivity analyses; and (3) benchmarking to assess the reasonableness of the distributor's forecasts | Composite Index |
| | Productivity | Peer Group X-factors composed of: (1) Industry TFP growth potential; and (2) a stretch factor | | Based on 4th Generation IR X-factors |
| Role of Benchmarking | | To assess reasonableness of distributor cost forecasts and to assign stretch factor | | N/A |
| Sharing of Benefits | | Productivity factor | | |
| | | Stretch factor | Case-by-case | Highest 4 th Generation IR stretch factor |
| Term | | 5 years (rebasings plus 4 years). | Minimum term of 5 years. | No fixed term. |
| Incremental Capital Module | | On application | N/A | N/A |
| Treatment of Unforeseen Events | | The OEB's policies in relation to the treatment of unforeseen events, as set out in its July 14, 2008 EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, will continue under all three menu options. | | |
| Deferral and Variance | | Status quo | Status quo, plus as needed to track capital spending against plan | Disposition limited to Group 1 Separate application for Group 2 |
| Performance Reporting and Monitoring | | A regulatory review may be initiated if a distributor's annual reports show performance outside of the ± 300 | | |

| | |
|--|--|
| | basis points earnings dead band or if performance erodes to unacceptable levels. |
|--|--|

Proposed Topics

Considering the objective and goals identified above, the OEB proposes to explore the following topics during the Next Generation Rate Framework consultation. The OEB is committed to considering stakeholder feedback already received on these issues, as part of individual OEB consultations, and examining them in a holistic way going forward.

1. Enhance Benchmarking
 - a. Update the Total Cost Benchmarking and Total Factor Productivity models
 - b. Consider the role of a Global Stretch Factor to understand Ontario electricity distributors' cost-efficiency and incentivize improved cost-performance
 - c. Consider the role of Activity- and Program-Based Benchmarking in rate-setting
2. Incorporate performance incentive mechanisms for electricity distributors
3. Update the Incremental Capital Module
4. Consider merits of refinements to the Price Cap Incentive Regulation (IR), Custom IR and/or Annual IR Index rate-setting methods to strengthen incentives, level the playing field for solutions, share risk and/or mitigate risk due to uncertainty
5. Consider the merits of additional or alternative approaches to determining the revenue requirement, such as TOTEX (which allows a return on portions of both capital expenditures and operational expenses), that can help strengthen incentives, level the playing field for solutions, share risk and/or mitigate risk due to uncertainty

The RRF was designed to be an enduring framework, and this consultation is intended as an evolution of performance-based rate regulation. For example, the four overarching performance objectives set for utilities under the RRF (customer focus, operational effectiveness, financial performance and public policy responsiveness) are expected to remain in place. Similarly, retaining a menu of rate-setting methods and appropriate flexibility within the rate framework to address utility diversity also, in the OEB's opinion, remains appropriate.

Appendix B

Cost Award Matters

Cost Award Eligibility

The following participants were eligible for cost awards for at least one of the individual consultations and therefore are automatically eligible for this consultation (EB-2026-0002) and need not reapply:

- Association of Major Power Consumers in Ontario
- Building Owners and Managers Association
- Canadian Manufacturers & Exporters
- Consumers Council of Canada
- Distributed Resource Coalition
- Energy Probe
- Environmental Defence
- Industrial Gas Users Association
- Pollution Probe
- Quinte Manufacturers Association
- School Energy Coalition
- Vulnerable Energy Consumers Coalition

The OEB will determine eligibility for costs in accordance with guidelines outlined in the Practice Direction on Cost Awards. Anyone seeking to request an award of costs for EB-2025-0002 must submit a written request to the OEB by **January 21, 2026**.

The submission must outline the reasons why the person believes they qualify for a cost award, addressing the OEB criteria for cost eligibility as specified in section 3 of the Practice Direction on Cost Awards. Additionally, the submission must include an explanation of any other available funding sources accessible to the person. Furthermore, it should include the name and qualifications of any lawyer, analyst or consultant the person intends to retain, if known.

All requests for eligibility for cost awards will be published on the OEB's website. As stated above, costs will be recovered from all rate-regulated entities. Therefore, if a rate-regulated entity objects to any of the requests for cost eligibility, those objections must be submitted to the OEB by **January 28, 2026**. All objections will be published on the OEB's website. The OEB will subsequently make a final decision regarding the eligibility for costs of the participants who have made requests.

Eligible Activities

The activities eligible for cost awards for EB-2026-0002 are:

| | |
|--|---------|
| Review of issues list and submission of written comments | 4 hours |
|--|---------|

Further information regarding any subsequent consultation activities for EB-2026-0002 eligible for cost awards will be communicated later.

For the eligible activities for [Spending Pattern Analysis \(EB-2025-0108\)](#) and [Evaluation of ICM Policy \(EB-2024-0236\)](#) please refer to the linked cost eligibility decisions for these consultations.

When calculating the amount of the cost awards, the OEB will adhere to the principles outlined in section 5 of its Practice Direction on Cost Awards. The maximum hourly rates set out in the Cost Awards Tariff will also be applied. The OEB expects that groups representing the same interests or class of persons will make every effort to communicate and co-ordinate their participation in this process. As per section 12 of its Practice Direction on Cost Awards, the OEB will serve as the central entity for all disbursements of cost awards in this process. For further details about this process, please refer to the OEB's [Practice Direction on Cost Awards](#).

How to File Materials

Please ensure that all materials filed include the file number **EB-2026-0002** and the file number of the individual consultation (**EB-2025-0108** or **EB-2024-0236**) if **applicable** and submit them in PDF format with a digital signature through the OEB's online filing portal.

- Please ensure that the sender's name, postal address, telephone number and email address are clearly stated in the filings.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Stakeholders are encouraged to use RESS. Those who have not yet set up an account or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File Documents online page](#) of the OEB's website for more information.

- All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the Practice Direction on Cost Awards.

Stakeholders are responsible for ensuring that any documents they file with the OEB **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

All communication should be addressed to the Registrar and must be received by the close of business, 4:45 p.m. on the required date.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll-free)