
SUBMITTED BY:

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(CHEC)**

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CHEC's Submission to the Ontario Energy Board
Spending Pattern Analysis (EB-2025-0108), Next Generation Rate Framework
(EB-2026-0002)

Submitted On:

February 13, 2026

The Cornerstone Hydro Electric Concepts (CHEC) Association would like to make submission to the Ontario Energy Board as requested in their January 8, 2026 Letter.





Executive Summary

CHEC supports the Ontario Energy Board (OEB) advancing the Performance Based Rate Setting initiative. CHEC comments have been developed to inform the Board's consideration of the spending pattern analysis report, while balancing efficiency, customer value, and long-term utility sustainability. CHEC supports approaches that explicitly accommodate the realities of smaller utilities, reflect the current environment, such as infrastructure costs that are significantly higher than historical, and provide a focus on facilitating a financially viable electricity industry.

New rules or formulas should not penalize small utilities but rather build a framework that recognizes the realities facing small utilities. The Next Generation Rate Framework should provide small utilities with greater certainty to support their growth and provide for a fair opportunity to earn an appropriate rate of return throughout a rate plan period.

Introduction

CHEC is a collaborative association of local electrical distribution companies (LDCs) that celebrated its 25th year of operation in 2025. We believe in the importance of keeping local distribution companies in their communities and our support allows our members to serve their customers and their shareholders cost-effectively and efficiently. The strength of our collaborative model is being able to adapt to changes in the industry and that strength has allowed us to effectively navigate and respond to the evolution of the Ontario industry over the last twenty-five years.

CHEC currently represents 16 LDCs with a combined customer count of 205,495. The current members include Bluewater Power, Centre Wellington Hydro Ltd.; EARTH Power Corp.; Fort Frances Power; Grimsby Power; InnPower; Lakefront Utilities Inc.; Lakeland Power Distribution Ltd.; Niagara-on-the-Lake Hydro; Orangeville Hydro Ltd.; Ottawa River Power Corporation; Renfrew Hydro Inc.; Rideau St. Lawrence Distribution Inc.; Tillsonburg Hydro; Wasaga Distribution Inc.; and Wellington North Power Inc.

As stated in the OEB's January 8, 2026, letter:

"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 Ontario Energy Board (OEB) is releasing its Spending Pattern Analysis (SPA) Report, which includes results of empirical and survey work on spending patterns and capitalization policies of electricity distributors. The OEB welcomes input from stakeholders on the report and how the analysis, interpretation of results and conclusions align with their own perspective and experiences. Feedback will be considered as part of the OEB's ongoing work on utility remuneration, helping to shape the evolution of Ontario's performance-based regulatory framework.

This work forms part of the OEB's broader integrated approach to utility remuneration, as outlined in the Letter to the Sector on Utility Remuneration – Next Generation Rate Framework (EB-2026-0002). “

CHEC Submission

General Comments

Most of the CHEC LDCs are in the OEB Productivity Cohorts 1 and 2. They are deemed to be operating their utilities in an effective and efficient manner regardless of the spending in an Incentive Regulatory Mechanism (IRM) period. Neither spending nor spending patterns appear to impact productivity negatively. Small utilities are efficient, have prudent planning processes, and a commitment to sustainable growth as verified through their Cost-of-Service reviews.

Small utilities were singled out as those that tend to overspend the most on Capital Expenditures that are eventually put into rate base later in the rate plan period. At the same time, it was noted that those who overspend also tend to be the ones that under-earn. Many of these same utilities are the ones that are the more efficient utilities and the ones that distribute the least to shareholders.

CHEC suggests that other explanations also need to be further explored. The Spending Pattern Analysis (SPA) report notes that other factors can play a role, but the report does not examine in detail or provide further information. These other factors include external business conditions, such as inflation, demand growth, and regulatory changes, influencing spending patterns and delays in project approvals, regulatory costs, and unforeseen events like severe weather or the COVID-19 pandemic leading to late-plan spending surges.

CHEC would like to note that Test Year and Historical Years Rate Base, OM&A and Capital Expenditures are fully examined in a Cost-of-Service application. This fact does not align with



the report that states that when Capital Expenditures exceed the amounts forecasted in the utility's distribution system plan (DSP), customers may face higher rates without a clear understanding of why the additional spending was necessary. The report goes on further to suggest that this lack of transparency can erode trust in the regulatory process. For the reasons noted above CHEC does not agree with this statement.

Capital Expenditures

The SPA report notes that smaller LDCs tend to spend more CAPEX in the later year of an IRM period. CHEC suggests that it would be prudent to investigate the details of the CAPEX spend in more detail. The CAPEX spending in the IRM period could be further broken down into the four OEB categories: System Access, System Service, System Renewal and General Plant. It is well known that LDCs have little control over System Access expenditures. It may prove insightful to review if that category is contributing in a disproportionate amount to the over-spending not controlled by LDC.

It should also be noted that small projects have a bigger percentage impact on small LDCs given the size of their CAPEX programs. Likewise, similar projects will have a smaller percentage impact on larger LDCs given their size. Some of the percentage change by size may be influenced by the overall size of the CAPEX program alone and not over-all spending.

CHEC would like to observe that CAPEX spending is sometimes dictated by the OEB and/or the Government. For example, government direction on Smart Meters and Grid Modernization. A breakdown of the expenditures into externally driven and internally driven could prove revealing.

CHEC does not agree that the OEB's Advanced Capital Module (ACM) and Incremental Capital Module (ICM) processes work against cost containment. The fact that these mechanisms are rarely used and are used in only critical situations needs to be considered. Once again, an ACM and/or ICM application is thoroughly reviewed by the OEB and Intervenor prior to approval.

Operations Maintenance and Administration

As per the points made above about CAPEX expenditures, OM&A spending can sometimes be required as a result of direction from the OEB and/or Government. For example, the Cyber Security Third Party Assessment, the requirement for detailed system information to be



posted on websites, and Vulnerability Assessment and System Hardening requirements have led to an increase in LDC spending. A breakdown of the expenditures into externally driven and internally driven could prove revealing.

Accounting Policy (Capitalization)

Changes in accounting policies are reviewed as part of every LDC's Cost-of-Service Rates application. Also, an LDC's Capitalization Policy is often filed for review by the OEB and Intervenor as part of a Cost-of-Service Application. CHEC acknowledges that capitalization approaches can be somewhat different between LDCs but is not aware of major changes to capitalization policies that are being implemented by CHEC LDCs mid-IRM period. CHEC would like to understand the scope of this accounting policy impact and would be interested in the evidence that led to this conclusion.

IRM Efficiency Related Mechanisms

CHEC suggests that Efficiency Carryover Mechanisms need to be designed carefully. They should help with cost containment but not stifle needed or mandated investment. CHEC would consider efficiency-based earnings-sharing mechanisms.

The OEB's ICM and ACM processes, particularly the 'Threshold' test formula, should be examined in more detail. Currently it is not always the case that small LDCs are successfully able to recover prudently incurred costs or forecast costs. Several assumptions around load growth and cash capture via depreciation need to be reviewed in more detail.

CHEC would like to note that the IRM period is not solely about cost containment. Utilities still need to make prudent investment decisions for their customers and their shareholders.

Specific Small LDC Related Comments

CHEC has several observations about the comments made by Pacific Economics Group (PEG) about small LDCs. There is a theme that small utilities are making 'strategic investments or changes in investments' for the shareholder's benefit. If this is indeed the conclusion drawn by PEG, then CHEC disagrees.



For example, the section on the implications of these trends on customers assumes that the projects that are added in the later years were known about in the earlier years and were potentially deliberately delayed. All the changes that will occur in the industry cannot be known at the time of a Cost-of-Service rebasing. Many are unexpected when weather-related or are new requirements such as the Distribution System Capacity Information Map and Cyber Security third party assessments.

CHEC is concerned that the Spending Pattern Analysis report implies that small LDC spending behaviour may be driven by weak cost discipline. As noted above small distributors operate efficiently, later-year spending patterns are not necessarily correlated with poor cost management or inefficiency. In addition, spending patterns alone do not fully reflect utility-specific circumstances, particularly for small utilities. Without qualitative context, any recommendations or decisions could penalize utilities with legitimate cost drivers. Spending patterns should not be interpreted in isolation or used prescriptively.

LDCs don't always have a choice to spend money, and there isn't always a way to cut costs when unexpected costs come in. When investment needs present themselves or the risk profile changes, a diligent LDC must react and be proactive. Those circumstances don't always align with the timing of a Cost-of-Service application.

As an example, in the IT realm many investments or replacing of older equipment are moving to subscription based. As a result, many software applications cannot be capitalized. Those items may not be big investments, but they add up, especially for smaller utilities, and can't be delayed until an LDC can include the costs in a Cost-of-Service.

The report states that procurement is rushed, and thus costly, in later years. This is not the experience of CHEC members. Also, the report says that double payment may be made by customers. The report states, "Double Payment: Customers may effectively pay twice for deferred capex—once through higher rates in the next plan and again through reduced service quality or increased maintenance costs during the current plan." Once again, this is not the experience of CHEC members.

Conclusion

CHEC appreciates the work the OEB is doing to refine its approach to performance-based regulation and assess aspects of its ratemaking approach. As stated by PEG, spending patterns are not the only or even the biggest problem in Ontario ratemaking, and the report serves as an analysis of a specific area within the overall process. We have responded



accordingly and have highlighted several conclusions within the report that do not align with the experiences of the smaller LDCs.

CHEC LDCs have a strong history of operational performance and customer service. They make prudent investment decisions for their customers and their shareholders throughout the IRM period, beyond cost containment. Later-year spending patterns do not necessarily correlate with poor cost management or inefficiency, and we encourage examining the patterns within the larger context, as there are often external factors that dictate spending requirements and timing.

Thank you for the opportunity to provide feedback on the report. We would be pleased to discuss the submission further.

Yours truly

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