

BY EMAIL AND RESS

February 13, 2026

Mr. Ritchie Murray
Acting Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. Murray,

Re: EB-2026-0002/EB-2025-0108 – An Integrated Approach to Utility Remuneration – Next Generation Rate Framework – HONI comments on Spending Pattern Analysis (SPA)

On January 8, 2026, the Ontario Energy Board (OEB) released Pacific Economics Group (PEG)'s draft¹ Report on Spending Patterns and Capitalization Policy (the Draft SPA Report) and invited stakeholders to provide written feedback by February 13, 2026. The Draft SPA Report kicks off the third phase of this consultation and outlines PEG's analysis from the engagement sessions, surveys and analysis conducted in Spring 2025. The Minister's Letter of Direction to the OEB, issued December 18, 2025, outlined the expectation for the OEB to continue its work to "ensure that the utility remuneration framework remains fit for purpose" and to "establish a single portfolio that integrates all projects related to utility remuneration".²

GENERAL COMMENTS

The Draft SPA Report offers few definitive conclusions and relies on empirical analysis that is not sufficiently clear to support meaningful findings. The OEB has indicated that the Draft SPA Report is intended to be used as an input to the OEB's Next Generation Rate Framework (NGRF) consultation (EB 2026-0002). However, given the Draft SPA Report's limited probative value and the range of substantive issues that will necessarily require consideration in the NGRF consultation, Hydro One submits that further exploration of spending pattern analysis is neither necessary nor warranted as part of the subsequent process.

Fair and transparent procedure lend legitimacy to administrative decisions. In this consultation, the OEB declined to provide parties with the underlying analysis supporting its Draft SPA Report. This would have allowed consultation participants to provide comprehensive feedback on PEG's work within the broader context. Without PEG's working papers and analysis, it was difficult to respond to and test the assumptions, analysis and conclusions underpinning the report. This testing and deeper consultation will be an essential input for the OEB to ensure that the NGRF, like the current Renewed Regulatory Framework (RRF), is grounded in the context utilities operate in, built on assumptions that have been tested and vetted by the sector, and aligns with sound economic theory.

¹ As indicated by PEG at page 6 (paragraph 4), the report is PEG's draft report on its research.

² December 18, 2025, Letter of Direction to the Ontario Energy Board MC-994-2025-1954

Recommendation: Revisit the Draft SPA Report once the objectives of the Next Generation Rate Framework proceeding have been established

A primary observation in the Draft SPA Report is that some Ontario electricity distributors operating under I – X rate frameworks have weighted their capital spending to accelerate in the later plan years of their rate terms. This trend was noted as being more pronounced amongst small and medium-size distributors, and less pronounced amongst larger distributors and those operating under approved Custom IR plans.³ The Draft SPA Report provides some analysis to substantiate this primary conclusion, but neither the report nor the other consultation documents leverage strong evidence about the significance of these spending patterns, with the respondents to the SPA Survey providing a range of perspectives on the drivers of observed spending patterns and the relevance of these patterns to the operation of performance based rate making.⁴ Further, the OEB has not released the data, analysis or working papers to support the report and thus the sector is not able to assess or comment on the assumptions or analysis underlying the report.

Given the range of perspectives offered in the report, the limited consultation with stakeholders about how the Draft SPA Report's conclusions should be interpreted or used, and the numerous other active consultations ongoing at the OEB whose scope overlaps on these topics, Hydro One believes that it would be inappropriate for the Draft SPA Report to serve as a basis for imposing the spending pattern remedies discussed at Section 8 of the report.⁵ The proposed remedies, which include efficiency carry-over mechanisms and multiple historical test years, entail significant and potentially disruptive changes to existing ratemaking processes and substantive new regulatory requirements for distributors. Additionally, any implementation of remedies listed in Section 8 of the report would be made in the absence of the OEB setting out its overarching goals and objectives related to the NGRF Consultation. If the report findings are to be considered at all, they should be considered as part of the NGRF and prioritized relative to the other important substantive issues that require analysis and discussion in that proceeding. The report findings should only be considered if the underlying analysis is provided to parties, and the report must be given appropriate weight in light of its inconclusive findings.⁶

Recommendation: Evaluate the I – X rate framework according to the objectives of the Renewed Regulatory Framework

Evaluation of utility spending, including those performed as part of the NGRF consultation, should be considered alongside the guiding principles and incentives laid out by the RRF. This would ground the analysis in the performance-based ratemaking framework in place during the study period. The RRF seeks for utilities to achieve performance outcomes benefiting existing and future customers, including by decoupling revenue from costs and by controlling utility spending below inflation over the course of a multi-

³ Draft SPA Report, page 19. Hydro One notes that despite PEG's general findings with respect to distributors operating under Custom IR plans, a footnote on page 77 of the Draft SPA Report states that Hydro One exhibited skewed opex and capex. The footnote provides no information in support of this finding and in fact does not even provide the years with respect to which this statement has been made. The only reference provided is to Hydro One's most recent rebasing proceeding, EB-2021-0110. Hydro One looks forward to receiving PEG's analysis and working papers so that it can respond to the statement made in this footnote.

⁴ Draft SPA Report, section 6.1, Spending Patterns of Ontario Distributors Identified Spending Patterns.

⁵ Draft SPA Report, section 8, Spending Pattern Remedies.

⁶ OEB Letter to All Rate-Regulated Electricity Distributors, "RE: An Integrated Approach to Utility Remuneration – Next Generation Rate Framework" (EB-2026-0002), page 2.

year rate plan.⁷ The Draft SPA Report characterizes utilities' spending patterns under multi-year rate plans with an I – X rate framework as evidence of weak performance incentives near the end of plans. However, it does not provide analysis showing that these spending patterns compromise the objectives of the RRF.⁸ The Draft SPA Report also found that late plan capex surges were especially prevalent when distributors underearned, thus eliminating any potential financial motive for the observed spending pattern.⁹ This finding indicates that certain elements of I – X, including annual inflation escalations based on the OEB's inflation index, could be more finely calibrated to ensure sufficient funding for utilities to meet the objectives of the RRF rather than a skewed spending pattern.¹⁰

Recommendation: Any benchmarking requirements should account for the changing policy and environmental factors occurring within the electricity industry

The Draft SPA Report includes discussion of new benchmarking, including itemized benchmarking of OM&A expenses and capex, as a potential recommendation to improve utilities' cost containment.¹¹ As noted above, any changes contemplated to benchmarking under the RRF should be considered holistically in the NGRF consultation. Hydro One also notes that utility spending is impacted by new government and OEB policies, and the pace of policy changes has been increasing over the last few years. As a result, benchmarking, which is a backward-looking analysis, needs to be calibrated to account for policy changes that require distributors to materially influence spending patterns. For example, as required by OEB policies, there are new requirements for distributors to leverage non-wires solutions, which shifts funds from capital to operations, and to enable economic and housing growth through system expansion, in line with the OEB's new economic growth mandate.¹²

Further, changing environmental factors that impact supply chains and materials costs (e.g. COVID-19, geopolitical disruptions) materially impact utility spending patterns through longer lead times for procurement, high materials and equipment inflation, and evolving supply chain directives. Taken together, these constitute significant changes to distributor's operating circumstances and necessitate careful consideration and calibration to ensure that historical benchmarking can continue to be used to appropriately evaluate utility's current cost profile and spending needs.

⁷ Ontario Energy Board, "Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach", sections 2.3 and 2.4.

⁸ Draft SPA Report, page 89.

⁹ Draft SPA Report, page 21.

¹⁰ Draft SPA Report, page 21; Ontario Energy Board, "Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach", pages 9-10.

¹¹ Draft SPA Report, page 98.

¹² Non-Wires Solutions Guidelines for Electricity Distributors, Government of Ontario 2031 Municipal Housing Targets, Bill 40 amendments to the *Electricity Act, 1998*, and the *Ontario Energy Board Act, 1998*.

CONCLUSION

Hydro One thanks the OEB for the opportunity to comment on the Draft SPA Report and looks forward to collaborating with the OEB in the various initiatives to achieve the Ontario government's economic development and electrification goals in a manner that aligns with the expectations of our customers.

An electronic copy of the comments has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in black ink, appearing to read "Raegan Bond". The signature is written in a cursive style and is contained within a light grey rectangular box.

Raegan Bond
Director, Energy Policy
Hydro One Networks Inc.