

VIA RESS

February 13, 2026

Ritchie Murray
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ritchie Murray:

**Re: Ontario Energy Board
Spending Pattern Analysis Consultation
Consumers Council of Canada (CCC) Comments on Pacific Economics Group
(PEG) Report
OEB File No. EB-2025-0108**

In accordance with the OEB's letter, dated January 8, 2026, please find attached CCC's comments on Pacific Economics Group's (PEG) Report titled, "Report on Spending Patterns and Capitalization Policy."

Yours truly,

Lawrie Gluck

Lawrie Gluck
Consultant for the Consumers Council of Canada

Background

The OEB initiated a consultation to review electricity distributors' spending patterns. The OEB held a stakeholder meeting on April 25, 2025, and sought responses to a survey developed by Pacific Economics Group Research (PEG). The Consumers Council of Canada (CCC) provided its survey responses directly to PEG on May 12, 2025 and filed a letter suggesting additional analysis on May 30, 2025.

The OEB released PEG's Report on Spending Patterns and Capitalization Policy (PEG Report) on January 8, 2026. The following are CCC's brief comments on the results, conclusions and recommendations set out in PEG's Report. In addition, we provide our view on the important considerations flowing from PEG's Report for the Next Generation Rate Framework review project (EB-2026-0002).

CCC Comments

CCC is not surprised by the findings set out in the PEG report. More specifically, PEG's finding that the capital expenditure growth rate is significantly higher in the latter years of an incentive ratemaking (IR) term relative to the earlier years¹ was expected. This is a pattern that has been witnessed in numerous rebasing applications over many years.²

Similarly, we expected that most large distributors would not display the skewed capital expenditure pattern.³ We strongly believe that this is due to these larger distributors applying a custom approach to rate-setting. In all cases, the custom mechanism applied by these distributors, and as has been approved by the OEB historically, mirrors a 5-year cost of service ratemaking approach for capital. This approach removes the capital containment incentive inherent to the OEB's generic price-cap IR mechanism.⁴ PEG states that the Custom IR approach, which supplements funding for capital beyond a typical price cap IR, is one of the likely reasons that these distributors' capital expenditures do not reflect the back ended pattern that is recognized for most other distributors.⁵

¹ EB-2025-0108, Pacific Economics Group, [Report on Spending Patterns and Capitalization Policy](#), January 8, 2026, p. 3.

² We provided the example of Greater Sudbury Hydro's 2025 rebasing application (EB-2024-0026) in our survey response. There are many other examples.

³ *Ibid.*, pp. 3 and 93.

⁴ We note that a stretch factor is applied to the capital-related revenue requirement in the Custom IR frameworks that have been previously approved by the OEB. However, the stretch factor does not sufficiently incentivize capital cost containment.

⁵ *Ibid.*

While the findings in the PEG Report were not surprising, confirmation, through detailed empirical analysis, that capital cost growth is skewed towards the end of an IR term⁶ is important to quell debate on whether distributors' were actually engaged in this behaviour. We support some of PEG's suggested remedies for this issue, for the reasons discussed in PEG's report, as follows.

- The examination of a utility's spending pattern as part of each distributor's rebasing application should continue.⁷
- A "K-bar" type approach for establishing capital budgets and related funding should be explored further.⁸
- An increased role for statistical benchmarking and yardstick competition should be studied further.⁹

In contrast, we do not believe that an efficiency carryover mechanism (ECM)¹⁰ is likely to materially improve the OEB's ratemaking framework. It is inconsistent with the form of cost of service ratemaking applied in Ontario. In addition, the concept that previous IR term efficiency savings should result in increased recoverable revenues in the next IR term is problematic. Those efficiency savings are properly flowed to the benefit of ratepayers in the next IR term.

We also agree with PEG's analysis of the appropriateness of earnings sharing mechanisms (ESM).¹¹ We do not believe that an ESM is automatically useful in all scenarios. The appropriateness of ESMs can be reviewed on a case-by-case basis as is the current practice. In addition, we agree that extending the duration of IR terms in the current context may be inappropriate.¹²

CCC submits that the spending pattern issue described in the PEG Report is minor relative to the main problem with the OEB's ratemaking approach. The main problem is the

⁶ At least for those distributors not availing themselves of a custom approach to rate-setting.

⁷ *Ibid.*, p. 95. We note that this is already a very common aspect of a rebasing review but increased awareness of spending pattern analysis is beneficial.

⁸ *Ibid.*, p. 96.

⁹ *Ibid.*, pp. 97-99.

¹⁰ *Ibid.*, pp. 102-103.

¹¹ *Ibid.*, p. 105.

¹² *Ibid.*, p. 99.

introduction and expansion of provisions for supplemental capital funding (i.e., availability of the incremental capital module (ICM) and custom IR) have entirely eroded the capital cost containment incentive inherent to performance-based regulation.¹³ PEG acknowledges that the spending pattern issue described in its report is “not the only or even biggest problem in Ontario ratemaking.”¹⁴

CCC submits that a major focus of the OEB’s Next Generation Rate Framework¹⁵ review should be to reinstate effective cost containment incentives in its ratemaking approach. Some potential options (e.g., K-bar approach and yardstick competition), as described above, are set out in the PEG Report and there are many other options available. The OEB will need to consider whether the availability of ICMs and Custom IR (at least as it has been applied in Ontario to date) is appropriate going forward.

¹³ See EB-2025-0236 (ICM Review), [CCC Submission](#), July 2, 2025 for more detailed analysis of this problem.

¹⁴ EB-2025-0108, Pacific Economics Group, [Report on Spending Patterns and Capitalization Policy](#), January 8, 2026, p. 93.

¹⁵ EB-2026-0002.