

By RESS

February 13, 2026

Mr. Richard Murray, Acting Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

Subject: EB-2025-0108 Spending Pattern Analysis Report Hydro Ottawa Comments

Dear Mr. Murray:

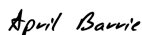
Hydro Ottawa Limited (Hydro Ottawa) appreciates the opportunity to comment on the Ontario Energy Board's (OEB's) Spending Pattern Analysis Report released on January 8, 2026.

Appendix A provides Hydro Ottawa's written response to Pacific Economics Group Research LLC, January 8, 2026, entitled "Report on Spending Patterns and Capitalization Policy" ("PEG's SPA Report" or the "Report").

Hydro Ottawa looks forward to continued dialogue with the OEB on its Next Generation Framework.

Sincerely,

Signed by:



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April Barrie

Director, Regulatory Affairs

Directeur, Affaires réglementaires

AprilBarrie@hydroottawa.com

Tel./tél.: 613 738-5499 | ext./poste 2106

Cell.: 613 808-3261

APPENDIX A

On January 8, 2026, the Pacific Economics Group Research LLC (PEG) released its “Report on Spending Patterns and Capitalization Policy” (SPA Report).¹ In 2025, the OEB commissioned the Report to investigate whether its multi-year rate plan (MRP) framework leads distributors to use financial engineering to increase capital additions and operating costs in the later years of rate terms, with the intention of influencing rebasing applications. The study aimed to identify whether this incentive problem exists and, if so, recommend regulatory remedies. The study also investigates whether capitalization policies are being misused to inflate utility ratebases.

PEG’s analysis is structured into five sections: an empirical study on Ontario spending patterns, a review of academic literature on ratemaking, a summary of capitalization policy, a jurisdictional review of spending and capitalization policies, and a summary of the SPA survey it conducted in 2025. Based on the analysis evidence, PEG provides recommendations.

Although PEG found that “skewed patterns have not occurred in quite a few plans, including many those for larger distributors,” they ultimately conclude that there is evidence of “skewed spending patterns” in Ontario, and that the OEB should take action to remedy it.² However, PEG’s primary recommendations to the OEB appear minimal. PEG states that “the introduction of complicated and novel mechanisms is probably not warranted solely to reduce spending pattern skewness.”³

Hydro Ottawa interprets PEG’s SPA Report analysis as providing limited value and recommends that the OEB do no more than to take into advisement PEG’s recommendations. The empirical study does not conclusively establish a relationship between increased distributor spending and rebase timing, dispelling the notion that cost-containment incentives diminish as the MRP term ages. The fact that PEG does not account for major drivers such as COVID-19, which has been a well-documented driver of spending volatility across the utility sector, represents a significant oversight. An analysis that disregards such an impactful variable cannot be considered a comprehensive reflection of current spending patterns.

Hydro Ottawa has identified several shortcomings in PEG’s SPA analysis that led to inconclusive takeaways. Foremost, among these is the empirical section, which provides the only quantitative evidence of a spending relationship, has data issues and unclear results. No other section of PEG’s SPA Report provides direct evidence supporting its conclusion of skewed spending patterns in Ontario. The conclusions are theoretical and situational, and do not apply to the Ontario context.

¹ Pacific Economies Group Research LLC, *Report on Spending Patterns and Capitalization Policy* (January 8, 2026).

² *Ibid.*, page 4.

³ *Ibid.*

Based on the inconclusiveness of PEG’s 123-page SPA Report, Hydro Ottawa recommends that the OEB do no more than to take PEG’s recommendations into advisement and that the Report should rather prompt further investigation of the matter.

In the sections that follow, Hydro Ottawa discusses the critical issues with PEG’s empirical section, literature review framing, and reflection of intervenors’ comments.

1. EMPIRICAL STUDY

a. DATA ISSUES

PEG’s empirical study suffers from data constraints when constructing its sample period, which diminishes the quality of the statistical analysis. These issues include: a small number of identifiable rate cycles, the use of American deflators (Handy Whitman Index) as a proxy for Canadian price indexes, distributors changing their accounting practices or capitalization policies during the sample period, amalgamations and acquisitions, and issues accounting for variable distributor rate term length.

PEG itself acknowledges the limitations of the data. The study began in 2014 because PEG identified that Ontario distributors “did not annually report their gross additions to the OEB” before 2013. Consequently, to extend the sample period would have been complex.⁴

PEG also states that the number of completed rate cycles is fairly small (45), which “diminishes the statistical significance of research results.” The larger utilities and utilities using Custom Incentive Ratemaking suffer from less frequent rate renewals.⁵

Further, PEG acknowledges data consistency and accounting issues. Ontario distributors shifted from Canadian GAAP to IFRS around 2017, creating increases in operational expenses and decreases in capital expenditures.⁶ These changes distort real trends, weakening the statistical model. The electrical distribution sector also went through increased consolidation during the sample period. Although PEG adopted an approach to sort this data, distortions to trends may have occurred as a result.

The study does not establish a consistent trend across all distributors that indicates poor cost-containment incentives in the later stages of an MRP. While the Report provides a helpful view and may generate further analysis, its results do not meet a threshold that would necessitate OEB intervention.

Ultimately, PEG’s SPA Report concludes that “[i]n addition to looking for skewness, the issue of divergence from distribution system plans can receive increased emphasis and these matters can loom larger in OEB decisions” and “[g]iving more attention to skewed spending patterns in

⁴ Ibid., page 8.

⁵ Ibid., page 9.

⁶ Ibid., page 46.

rebasing proceedings can help to discourage these patterns as well as to identify patterns that do occur.”⁷ Hydro Ottawa maintains that this level of scrutiny is already a core component of the current rate application process, where both Intervenor and OEB staff rigorously challenge expenditure variances. PEG’s proposed reliance on quantitative data analysis in isolation fails to recognize the value of the broader evidentiary record and prior OEB decisions, which are already subject to Intervenor and OEB staff scrutiny, as well as OEB oversight.

b. STATISTICAL RESULTS

PEG’s empirical results conclude that operational expenses are variable and do not demonstrate increased spending near the end of rate terms. The capital addition results show a statistically significant relationship between spending and the rebasing period. Given the data issues, neither result proves anything conclusive about the MRP design. However, with respect to operational expenses, it does not lend further credence to the existence of a structural cost-containment issue.

Aside from data issues, the capital additions result is not clear-cut. PEG’s finding - that about half of the utilities that increased capital addition spending in the later years of their MRP also underearned⁸ - suggests that these investment decisions are driven by essential operational requirements rather than profit motives. This indicates that utilities are making prudent decisions to address system needs and maintain service levels, often balancing financial stability and customer performance impacts at the expense of their own financial returns. Consequently, the data suggest that deliberate spending manipulation is not the underlying cause of the observed statistical results.

2. ACADEMIC LITERATURE

Hydro Ottawa does not view the literature review as adding substance to PEG’s conclusion that there is a skewed spending problem amongst Ontario distributors. The findings cited in the literature are theoretical and discuss possible MRP outcomes. It does not produce an empirical assessment of Ontario’s MRP framework and therefore does not constitute direct evidence of skewed spending in the province.

3. PEG’S USE OF INTERVENOR COMMENTS

Intervenor comments, reviewed by PEG, do not constitute evidence of misaligned spending behaviour by distributors. It is unclear if Intervenor had intended for some distributors to be singled out in list format or if they were simply providing a possible direction for which PEG could focus their analysis.⁹

Hydro Ottawa finds the presentation used by PEG to be highly irregular, specifically regarding the naming of individual distributors within the main body of the SPA Report without substantiated evidence. To highlight specific distributors based on perceived spending

⁷ Ibid., page 95.

⁸ Ibid., page 21.

⁹ Ibid., page 77.

anomalies - only to discreetly concede in a footnote that these patterns were not fully reviewed or even founded - is not appropriate. Hydro Ottawa suggests this approach is unnecessarily inflammatory and poses a risk of reputational harm, as the context provided in the footnote is important - namely that the specific patterns were not reviewed and not wholly confirmed.

Hydro Ottawa also finds it concerning that PEG's SPA Report includes commentary regarding a rate application (which it identifies) that, as of the date of the report, was still before the OEB and under active consideration by the OEB, staff and intervenors. Third-party experts engaged to support OEB policy initiatives should refrain from commenting on active OEB proceedings as their commentary could interfere with the integrity of the adjudication process.

4. CONCLUSION

PEG's SPA Report does not provide robust evidence of skewed spending patterns occurring in Ontario as a result of the OEB's MRP design. The empirical section of its analysis provides limited evidence of skewed spending patterns, and by the admission of PEG, the analysis is flawed due to data challenges.

Hydro Ottawa respectfully recommends that the OEB give limited weight to this Report other than to inform the OEB as to where more reliable analysis could be performed. The OEB may also find it helpful to explore areas where PEG identified deviation in utility treatment of certain expenditures. However, Hydro Ottawa suggests that such review be utilized for gaining improved understanding rather than drive changes. Any substantive policy changes should be weighed against overall consequences, including potential incremental cost burden and subsequent impacts on customer services and ratepayer affordability.