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Registrar
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Re: An Integrated Approach to Utility Remuneration – Next Generation Rate Framework (EB-2026-0002) – Comments of Toronto Hydro-Electric System Limited

Toronto Hydro-Electric System Limited ("Toronto Hydro") is the local electricity distribution company for the City of Toronto. It serves over 790,000 customers and delivers approximately 18% of the electricity used in Ontario. Toronto Hydro's customers range from single family dwellings and neighbourhood shops to multi-use skyscrapers, and some of the province's largest commercial, institutional, and industrial facilities. The utility powers non-residential customers from a variety of sectors, including dozens of hospitals and healthcare operations; hundreds of schools, colleges, and universities; data centres; and large industrial and manufacturing facilities. Each of the thousands of multi-unit residential condominium and apartment buildings served by Toronto Hydro can have dozens or hundreds of units behind-the-meter. All told, every day, more than three million people are served by Toronto Hydro's electricity distribution system.

On January 8, 2026, the Ontario Energy Board ("OEB") launched the Next Generation Rate Framework ("NGRF") consultation as a successor to four earlier stand-alone utility remuneration-oriented consultations. The NGRF consultation is intended to ensure continuous improvement in the OEB's rate-setting framework, and address issues of utility remuneration through a single integrated approach. As a preliminary step, the OEB has invited stakeholder feedback concerning objectives, scope, and proposed elements for consideration under the NGRF. Toronto Hydro offers the following comments for the OEB's consideration.

Ontario's regulated electricity distribution sector has reached a pivotal moment. After years of stagnant and declining electricity demand, the landscape is shifting dramatically as federal, provincial, and municipal governments actively pursue growth-oriented agendas. These goals have been formally

reflected at multiple levels of government, including by the Prime Minister through a stated intent of doubling Canada's grid capacity,[1] as well as forecasts issued by the IESO as part of its October 2025 Toronto Integrated Regional Resource Plan (peak demand is expected to nearly double by 2043)[2] and most recent Annual Planning Outlook (net annual energy demand to grow 75 per cent by 2050).[3] Further, *Bill 40, Protect Ontario by Securing Affordable Energy for Generations Act, 2025* expanded the OEB's mandate to consider "economic growth" as a new objective to consider in the OEB's planning and regulatory processes. These developments all point in a single direction, and lead to a strong foundational alignment in terms of government and industry goals and objectives: the public interest imperative is growth.

The 2013 Renewed Regulatory Framework ("RRF") has provided many positive regulatory elements to the energy sector. Multiple rate plan options for utilities, the incremental capital module, and a robust framework of deferral and variance accounts facilitated utilities' infrastructure investments and operations that aligned with the expectations of customers and the necessary stewardship of energy systems. These elements continue to be broadly fit-for-purpose in a growth era and the OEB is right to propose a path forward for these and other well-performing elements that involves retention, and "light-handed renovation" through NGRF.

By stark contrast, the extraordinary actions and calls to action by all levels of government – the generational reset of the public interest imperative as one of growth – require much more than incremental evolution from the Canadian economy and the energy sector that powers it. Regulatory reform through NGRF must meet this moment to enable utilities to evolve and meet their moment. At this inflection point, regulatory certainty remains a high priority for all stakeholders, but just as RRF itself was a step-change, step-changes from RRF to NGRF will in some cases be appropriate: situations where the status quo will predictably produce outcomes that are misaligned with the growth imperative.

RRF's regional planning fell short of meeting this moment, and thus the Ontario Government took step-change action through the Integrated Energy Plan.[4] Toronto Hydro expects that OEB ratemaking may

[1] https://www.pm.gc.ca/en/news/speeches/2026/02/05/prime-minister-carney-announces-new-strategy-transform-canadas-auto
[2] https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/Toronto/toronto-IRRP-Report-20251031.pdf
[3] https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/2025/2025-Annual-Planning-Outlook.pdf
[4] https://www.ontario.ca/page/energy-generations

also require some RRF-like regulatory reform step-changes to effectively address the growth imperative and other outcomes in the public interest. NGRF offers a prime opportunity to re-evaluate and reset, by introducing tools and mechanisms that will enable and promote the achievement of the government objectives and the public interest, while fundamentally reconsidering the use of mechanisms from earlier eras that may no longer be appropriate, effective, or helpful in the present reality.

Of primary concern within the OEB's proposed NGRF scope is the OEB's apparent intent to continue its heavy reliance on econometric benchmarking as a fundamental feature of the NGRF. The draft NGRF scope goes as far as to suggest "enhancing" and expanding the use of econometric benchmarking even further and incorporating Activity and Program Based Benchmarking directly within rate setting. As stated in detail within its submission in the OEB's predecessor Total Cost Benchmarking Update consultation,[5] Toronto Hydro respectfully submits that this would be a directionally flawed approach for the industry to pursue. Econometric benchmarking is limited because of its reliance on historical data and struggles to account for regional differences or reflect and adapt to emerging trends. Expanding the use of benchmarking within OEB regulatory frameworks at a time when various levels of government and stakeholders are expecting substantial growth of the energy grid is in many ways counterintuitive and counterproductive.

Additionally, the complexity of econometric benchmarking remains a significant barrier to its usefulness and acceptance, especially amongst the public. It runs counter to the objective of achieving greater administrative simplicity and efficiency—goals that been championed by stakeholders and government alike through ongoing efforts to reduce red tape and lower costs. Toronto Hydro reiterates its concern that the traditional econometric benchmarking model—long used in energy regulation—has become outdated, reflecting paradigms of a) a future that is similar to the past and b) strict cost containment in the absence of load growth. Neither aligns with today's realities. Toronto Hydro submits that the OEB's NGRF should prioritize the most optimal regulatory approach to support growth, rather than expanding complex algorithms that depress funding below what is needed for public interest priorities such as housing connections, system expansion for new businesses, and mass transit projects.

[5] Total Cost Benchmarking Update (EB-2025-0102) - Comments of Toronto Hydro-Electric System Limited, May 26, 2025

Whereas econometric benchmarking is an example of a potential step-change removal of an element of ratemaking, Performance Incentive Mechanisms ("PIMs") is an example of an opportunity to make a step-change addition within the NGRF. PIMs offer a substantively more sophisticated, transparent, and modern approach to regulation, offering an evidence-based approach to monitoring and regulating utility performance, while balancing the costs and benefits to ratepayers. PIMs also offer an opportunity to more closely link utility outcomes in a manner that is more direct and easily understood by the industry, and most especially the public. Toronto Hydro encourages the OEB to prioritize the use of PIMs over traditional econometric benchmarking within the NGRF and consider viewing the two through the lens of an evolution; benchmarking as a historical construct that is increasingly outdated in meeting the challenges of the present and future, and PIMs as an alternative approach that is far more suitable to an environment of rapid growth and rising infrastructure investment.

Toronto Hydro also submits that the NGRF should consider the expansion of the rate plan options currently available to utilities as an additional step change, namely through the introduction of a multi-year cost of service ("MYCOS") option in which funding and performance are matched year-by-year rather than disconnected by performance-based regulation in all but the rebasing year. The current options are in most part predicated on a future that looks like the past, out of sync with growth forecasts and Ontario Government objectives. A MYCOS approach would allow utilities to plan and operate based on a future that accounts for the fundamental shifts in expected growth and expansion patterns. It would provide the regulator, customers, other stakeholder, and even utilities themselves with a more transparent line of sight into the relationship between desired outcomes, the costs to deliver those outcomes, and the rates that pay for that performance. As customer and government outcome expectations expand, and the complexities and costs of delivering the outcomes also increase, utilities should have the opportunity to bring forward MYCOS applications in making the case for just and reasonable rates. In RRF the OEB did not provide for MYCOS, largely with a view to limiting the size of 5-year rate applications. With a decade of experience, Custom Incentive Ratemaking (CIR) applications are consistently in the 5,000-page range, and both the applications and proceedings produce extensive evidence pertaining to costs in the outlying years. OEB Panels, intervenors, and utilities have frequently commented that CIR has come to resemble MYCOS, but with additional layers of evidence and testimony to achieve "CIR status" that would not be required under MYCOS. The time has come for the OEB, through NGRF, to establish a MYCOS option for utility applicants.

In summary, Toronto Hydro submits that the NGRF should be fundamentally guided in its approach, scope, and form by the clear, current objectives of multiple levels of government and the energy sector at large, namely the electrification and growth of the grid for the benefit of customers, communities, and the broader economy. Prioritizing these objectives within the NGRF is the appropriate approach to align the public interest and the goals of the sector. It should include "light-handed renovation" along with step-changes, modifying, adding and removing regulatory tools and mechanisms as appropriate. Balancing regulatory certainty remains a high priority, but only insofar as it allows for growth and other imperatives that meet the moment.

Respectfully,

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