

BY EMAIL AND RESS

February 27, 2026

Mr. Richie 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 – Hydro One Networks Inc. – An Integrated Approach to Utility Remuneration – Next Generation Rate Framework

On January 8, 2026, the Ontario Energy Board (OEB) released a letter to the sector launching the Next Generation Rate Framework (NGRF) (EB-2026-0002), a new integrated policy initiative that brings together the OEB's recent work (in 2025) related to utility remuneration into a single, coordinated framework.

This integrated consultation responds to the Minister's 2025 Letter of Direction to "*ensure the utility remuneration framework remains fit for purpose improving cost-effectiveness, reliability and customer service. This includes establishing a single portfolio that integrates all projects related to utility remuneration, driving outcomes that benefit ratepayers.*"¹ Hydro One agrees with the need to ensure that Ontario's rate framework continues to support system growth, electrification, and long-term value for Ontario ratepayers.

The OEB requested feedback from stakeholders by February 27, 2026, on the proposed objectives, scope and topics, found in Appendix A of the letter. Hydro One is pleased to provide comments on the scoping of the NGRF consultation in two sections below: General Comments; and Responses to the OEB's Discussions Questions in the OEB's January 8th letter.

Hydro One's key points of feedback are as follows:

- Ontario's energy sector is entering a period of significant growth at the same time that considerable portions of the existing electricity system need to be renewed. Any refinements to utility remuneration must ensure that investor-owned and municipally owned utilities can raise and fund the capital and debt required to deliver both priorities.

¹ Page 4, [Letter of Direction](#) from the Minister of Energy and Mines to the Chair of the OEB Board of Directors, December 18, 2025

- These priorities are being felt globally by utilities, all competing to raise the same capital and make similar investments. Thus this consultation presents an important opportunity to make targeted, incremental improvements to the framework to ensure that it continues to work well, while avoiding broader changes that could introduce unnecessary regulatory uncertainty and undermine regulatory stability.
- The overarching objective and scope of the review is appropriate, however two of the four proposed goals would benefit from further refinement to ensure alignment with sector priorities. Hydro One has proposed alternatives below (see *Responses to OEB Discussion Questions, Question 1*)
- The proposed topics would benefit from refinement. Hydro One has included an alternative, more balanced framing of the consultation topics, including the explicit addition of inflation. (see *Response to OEB Discussion Questions, Question 3*)
- Given the significance of this review, the OEB must employ a transparent, rigorous, and evidence-based process to support high-quality and defensible outcomes. (see *Response to OEB Discussion Questions, Question 4*)

GENERAL COMMENTS

Ontario's energy sector has evolved and is facing transformative change

Ontario's energy sector has experienced multiple cycles of significant change since the current framework, the Renewed Regulatory Framework (RRF), was established in 2012. The government's 2025 Integrated Energy Plan (IEP), *Energy for Generations: Ontario's Integrated Plan to Power the Strongest Economy in the G7*, outlines the onset of the next major cycle of sectoral change. This cycle of change is marked by unprecedented demand growth,² both from a growing economy and electrification, along with significant uncertainty about the pace and location of the anticipated growth. Since 2012, technological advancements have shifted the ways in which we rely on electricity, from hybrid work policies and widespread adoption of smart technologies in homes and businesses, to electrifying personal and public transportation networks. Electricity system reliability and resiliency are increasingly intertwined with - and becoming integral to - Ontario's economic growth, even as they are challenged by the growing frequency of extreme weather events.

The RRF has not remained static since 2012. The OEB has responded to these sector changes over the last 14 years, consulting on and introducing new policies to ensure that the regulatory framework keeps pace with the evolving needs of the sector and its customers. For example, the multi-year effort of the Distributed Energy Resources (DER) Connections Review Working Group has ensured that DER connections and technical requirements keep pace with evolving technologies, while maintaining grid safety and reliability. Other examples include OEB's implementation of new pricing plans for residential and small business customers, such as the Ultra-Low Overnight Price Plan, and the introduction of a new resiliency

² Ontario's electricity demand is projected to increase by 65% by 2050 per IESO's updated demand forecast shared at their [2026 Annual Planning Outlook](#) webinar, November 18, 2025

framework, Vulnerability Assessment and System Hardening initiative, to ensure all utilities are appropriately planning their systems to withstand and respond to climate change.

The statutory objectives of the OEB have also undergone change since the RRF was introduced. In 2012, when the RRF was introduced, the OEB’s objectives included facilitating the implementation of a smart grid and promoting renewable generation. These objectives were removed in 2020 when the OEB’s mandate was expanded to include ‘facilitating innovation in the electricity sector’. Most recently, the passage of the *Protect Ontario by Securing Affordable Energy for Generations Act, 2025* (Bill 40) in December 2025 added ‘supporting economic growth’ in Ontario to the OEB’s mandate, aligning directly with provincial government priorities.

Consider targeted refinements to the current framework to enhance flexibility and strengthen distributors’ ability to respond effectively to this change

The RRF was established to be an enduring framework, and it has stood the test of time. The performance outcomes that the RRF was designed to achieve continue to be relevant today and are appropriate to underpin the NGRF³:

- **Customer Focus:** services are provided in a manner that responds to identified customer preferences;
- **Operational Effectiveness:** continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;
- **Public Policy Responsiveness:** utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and
- **Financial Performance:** financial viability is maintained; and savings from operational effectiveness are sustainable

Ensuring the financial viability of the sector is increasingly important in an environment where Ontario’s electric utilities will increasingly compete globally for capital to deliver on the government’s energy plans. In late 2025, the Ontario Government convened the Panel for Utility Leadership and Service Excellence (PUSLE) in part to provide “recommendations on how to best fund and deliver the next generation of electricity infrastructure.” The OEB must, therefore hold this principle central to the NGRF consultation to ensure that any changes enhance access to capital for utilities under all ownership models and to provide flexibility and regulatory efficiency when seeking funding for policy-driven incremental investments.

As the OEB evaluates the incentive rate setting models under the RRF, the OEB should consider targeted refinements for each rate setting model independently as issues faced by distributors filing under a Price Cap IR approach will differ in many respects from those filing under Custom IR. The consultation should ensure that what has worked under the Custom IR rate setting model is preserved, while enabling refinements that support utilities with funding growing investment priorities.

³ Page 57, [Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach](#), October 18, 2012

RESPONSES TO OEB DISCUSSION QUESTIONS

1. Are the proposed objectives and goals of this consultation clear and appropriate? Why/ why not?

Hydro One Response:

Hydro One supports the overall objective of developing updates to the rate-setting framework, where updates are needed while preserving what has worked, consistent with the OEB's indication that "this update is intended as an **evolution** of performance-based rate regulation in response to a changing energy and policy landscape."⁴ (emphasis added)

The update must be responsive to the sector evolution outlined in the General Comments section and recognize the need to fund the necessary system buildout for electrification, economic growth and system renewal. The consultation and resulting update must continue to maintain core regulatory principles of just and reasonable rates, consumer protection, reliability, adequacy of supply, and a fair opportunity for utilities to earn a return.

Hydro One does not support the first and fourth goals proposed in the Proposed Objectives section of the OEB's letter and has provided alternative goals below with supporting rationale.

The first goal outlined by the OEB is:

"Strengthen incentives for achieving outcomes consumers value, including improved or maintained service quality".⁵

Hydro One agrees that the regulatory framework should align utility incentives with outcomes that customers value. However, this goal is neither clear nor appropriate, as it assumes that the current incentives are not adequately driving the outcomes customers value. The OEB released a draft Spending Pattern Analysis report in January 2026 that inferred that the incentives of the current framework are insufficient.⁶ However, as stated in both Hydro One⁷ and the Electricity Distributors Association (EDA)⁸ submissions, there has been insufficient consultation and transparency with respect to the draft Spending Pattern Analysis report, combined with significant concerns about the methodology and findings. Until these concerns are fully addressed through proper consultation, the draft report cannot be relied upon to support an assertion that the current framework incentives are inadequate.

⁴ Page 2, [OEB Letter Re: An Integrated Approach to Utility Remuneration – Next generation Rate framework](#), Jan 8, 2026

⁵ Appendix A, [OEB Letter Re: An Integrated Approach to Utility Remuneration – Next generation Rate framework](#), Jan 8, 2026

⁶ [OEB Letter to the sector Re: Spending Pattern Analysis](#) and [Spending Pattern Analysis Report](#), Jan 8, 2026

⁷ [Hydro One SPA Comments](#), filed Feb 13, 2026

⁸ [EDA Submission SPA Report Analysis](#) and [Letter](#) filed Feb 13, 2026

Hydro One proposes to replace the first goal with the following:

“Consider whether updates are needed to the current rate-setting options to ensure that they provide appropriate incentives and adequate funding for utilities to deliver the service quality and outcomes customers expect.”

This revised goal removes any embedded assumptions and realigns the focus to incorporate the entire spectrum of the outcomes of the RRF. Further, it is important to ensure that utility shareholders are able to earn a fair rate of return while delivering services and outcomes customers expect.

The fourth goal outlined in the OEB’s letter is:

“Explore opportunities for the rate-setting framework to address uncertainty about future energy use (e.g., the pace of electrification, and the impact of other energy resources such as hydrogen or district energy systems) and information asymmetry.”⁹

Hydro One finds that this goal would benefit from additional clarity and proposes to replace the OEB’s fourth goal with the following:

“Enable all rate setting models to navigate electrification and growth uncertainty along with system renewal needs in a way that protects customers and supports reliable, and timely system buildout”¹⁰.

2. Is the proposed scope of the consultation to build on the OEB’s current rate setting framework, the RRF, clear and appropriate? Why or why not?

Hydro One Response:

Hydro One agrees that the proposed scope of building on the OEB’s current rate setting framework “as an evolution of performance-based regulation” is appropriate.

As a principle, rate-setting frameworks should always be evaluated holistically, as there are interdependencies and interactions between each of the rate setting elements. While not all individual elements of each rate-setting model need review, the holistic approach will ensure that all impacts are fully considered and unintended consequences are avoided. This is aligned with the 2025 submissions by Hydro One¹¹, EDA¹², and the Coalition of Large Distributors (CLD)¹³ that advocated for the interactions of the individual elements of the ratemaking framework to be considered within the broader regulatory context to avoid unintended consequences.

⁹ Appendix A, [OEB Letter Re: An Integrated Approach to Utility Remuneration – Next generation Rate framework](#), Jan 8, 2026

¹⁰ Appendix A, [OEB Letter Re: An Integrated Approach to Utility Remuneration – Next generation Rate framework](#), Jan 8, 2026

¹¹ [Hydro One submission on Performance Incentive Mechanisms](#), June 27, 2025

¹² [EDA submission on Performance Incentive Mechanisms](#), June 27, 2025

¹³ [CLD submission on Advancing Performance Based Rate Regulation](#), January 8, 2025

3. Have the right proposed topics been identified as this next generation rate framework is developed? Why or why not? What other topics, if any, should the OEB consider?

Hydro One Response:

The way in which the proposed topics have been drafted embeds assumptions about the problem statement that have not been articulated or tested through a consultation. For example, the first proposed topic on enhancing benchmarking has an implicit assumption that the current benchmarking models require enhancement to meet the objectives of the rate framework. There has not yet been a sufficient review or consultation to understand the potential gaps or problems with the current model. Given the weight and impact of changes to this fundamental aspect of the rate framework, it is critical that all assumptions and gaps are identified and agreed upon and are based in sound economic theory and evidence, before contemplating changes.

Further, the list of topics propose solutions to the untested assumptions. For example, the second topic listed is to “incorporate performance incentive mechanisms (PIMs) for electricity distributors”. Hydro One acknowledges that the OEB had begun consulting on PIMs over the last 18 months. However, Hydro One respectfully submits that the consultation to date has lacked a clear, evidence-based rationale on the need for PIMs within the regulatory framework. Hydro One recommends that the OEB work with the sector to first assess whether the existing performance incentives are appropriate, and where gaps exist, consult on a full range of regulatory tools that could be deployed. Without this full and transparent consultation, there is significant risk of unintended and highly impactful consequences. Moreover, discussion on PIMs should be grounded in the actual measures proposed and whether the measure is appropriate for the sector. General discussions that are not grounded in proposed actual measures risk wasting valuable consultation time.

As a result, Hydro One does not support the proposed topics as written and has developed a new proposed list of topics for OEB’s consideration

Hydro One has drafted a list below that removes any embedded assumptions or solutions. The remainder of this response identifies the five proposed topics that the OEB should review within the NGRF consultation, including the rationale for each. The discussions in each topic will need to be considered collectively at different points throughout the consultation to ensure that the full impact of any changes and interactions between changes is considered.

Topic 1: Review the OEB’s methodology for the inflation factor to ensure it reflects the inflation experienced by utilities.

The current OEB methodology was established in 2013 and leverages a two-factor Inflation Price Index (IPI). The IPI leverages a weight of 30% labour and 70% non-labour inflation as measured by Statistics Canada data¹⁴. In recent years, the inflation experienced by the electricity sector has been significantly

¹⁴ [EB-2010-0379 Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors](#), issued November 21, 2013, and updated December 4, 2013.

higher. This was articulated in the Total Cost Benchmarking Survey issued by Pacific Economics Group LLC (PEG) in May 2025 on behalf of the OEB:

“PEG has observed unusually rapid inflation in the construction costs of US-based distributors in the years since the pandemic. For example, the Handy Whitman Indexes of Power Distribution Construction costs in the North Atlantic region of the United States have risen drastically in recent years. The summary index for distribution plan in July 2023 was 52% higher than it was in July of 2019 and the line transformers were 86% higher.”¹⁵

Furthermore, when determining the appropriate inflation rate for capex within the Ontario distribution industry, PEG stated in the draft Spending Pattern Analysis report:

“The capex of each sampled distributor was deflated. Various inflation measures were considered as the deflator, and we ultimately chose the Handy Whitman Index of Power Distribution Construction Cost in the North Atlantic region of the U.S.”

Ontario utilities have experienced similar, significant and enduring increases in inflation. As a result, Hydro One strongly recommends that the OEB include a review of the inflation factor as a topic within the NGRF consultation to ensure that the annual inflation escalations reflect the sector-specific experience and provide sufficient funding for utilities to meet the performance outcomes of the regulatory framework.

Topic 2: Review the underlying econometric models and productivity factor

The current productivity or ‘X’ Factor is comprised of an empirically driven industry productivity trend, Total Factor Productivity (TFP), that leverages Ontario data, and a distributor specific Stretch Factor (SF) that leverages the econometric Total Cost Benchmarking (TCB) model. The TFP and TCB models were established in 2013¹⁶ and as such, it is appropriate to review these models and consider updates to reflect the changing business conditions, refine the underlying variables and assumptions embedded in the model, and reexamine the data inputs used for comparability.¹⁷

While Hydro One continues to view TCB as the best approach for assessing relative cost performance,¹⁸ it recognizes that the model’s effectiveness as a reliable benchmarking tool may decline with time. Utility investment patterns in response to the energy transition will differ from historic norms to facilitate fuel

¹⁵ Preamble to question B4 in the Construction Cost section of the [PEG TCB Survey](#), issued May 6th, 2025.

¹⁶ [EB-2010-0379](#), issued November 21, 2013, and updated December 4, 2013.

¹⁷ There currently issues in comparability of data leveraged in the TCB model. For example, length of distribution lines is not consistently reported. As utilities gain grid visibility and are able to measure their secondary lines, their reported line lengths increase substantially. However, other utilities, such as Hydro One, would require significant costs and labour to be able to precisely measure secondary lines and thus only report primary line lengths. The difference in measurement is large (secondary line lengths can be as long or longer than primary) and this inconsistency negatively impacts distributors that are only reporting primary line lengths. To illustrate this, out of the 54 distributors in PEG’s 2024 OEB benchmarking update calculation spreadsheet, 14 distributors have reported 2023 distribution line lengths at 175% or above of their average line length value. Hydro One, as an example, has 2023 reported lines 1% above the 2002-2023 average.

¹⁸ In its recent rebasing applications, Hydro One has filed independent econometric benchmarking studies that utilize a US peer group of utilities that share more key characteristics with Hydro One than other Ontario distributors. This sample enables the incorporation of important explanatory variables and cost definitions that produce a more thorough and accurate benchmarking analysis than what an Ontario-only sample could produce in relation to benchmarking Hydro One.

switching, electrification, economic growth, grid modernization, local flexibility markets and DSO capabilities, and reliability and resiliency improvements – many of which have been a focus of the government and OEB’s recent policy agenda. As the TCB methodology is driven by historical data, these forward-looking factors present direct challenges for the TCB methodology and how stretch factors are assigned.

If the energy transition results in spending patterns that deviate significantly from the historical norm, or diverge significantly across utilities, the current benchmarking regime may no longer align with actual conditions, reducing its effectiveness of measuring real cost efficiency. Hydro One recommends the OEB engage stakeholders further on this issue as part of this topic.

Understanding and engaging with the model requires technical expertise in econometrics. Utilities generally do not have this type of expertise in house, and in recent Ontario rate cases, both OEB staff and utility staff relied on external experts. Hydro One strongly recommends that sufficient time be allotted for utilities to retain experts when consulting on the technical aspects and any proposed changes of the PEG model. The process followed in the early 2010s to develop the current model provides a reasonable reference point as to the level of engagement required.

Topic 3: Appropriately scoped performance metrics and benchmarking

Hydro One’s submission to the government on the Panel for Utility Leadership and Service Excellence (PULSE)¹⁹ outlined that the OEB collects data from utilities through: (i) reporting and record keeping requirements (RRR); (ii) Activity & Program-based Benchmarking (APB) metrics and (iii) annual utility performance scorecards. The OEB also recently introduced a Reliability Benchmarking Framework.²⁰ Taken together, this includes over 300 RRRs; of these reporting requirements, Hydro One includes only 27 measures on its OEB and utility-specific scorecards that we submit annually and manage our operations against.

Conceptually, benchmarking can be a valuable exercise where it can provide meaningful results and actionable insights. However, excessive benchmarking makes it difficult to derive meaningful information from the data and pulls resources away from the important work of running the utility. For benchmarking to provide meaningful results, data inputs must be standardized and comparable, and external factors outside of the utility’s influence must be controlled.

Hydro One recommends that the NGRF consultation establish a work stream to assess all performance metrics and benchmarking to inform what data and mechanisms provide value in the economic regulation of utilities in Ontario. This work must assess the value of the information provided (i.e. how it is used and what benefits customers have received as a result) and the cost of providing the information, to ensure that the framework upholds the principle of regulatory efficiency.

¹⁹ Comments submitted to the Environmental Registry of Ontario on December 15, 2025, to Proposal Number 25-ENDM026

²⁰ [Setting Reliability Performance Targets \(Reliability and Power Quality Review EB-2021-0307\)](#), January 28, 2025

Topic 4: Review utility remuneration related to capital and operating expenditures and explore the need to provide further incentives for certain OM&A work.

The proposed topic 5 in OEB's letter reads as follows:

“Consider the merits of additional or alternative approaches to determining the revenue requirement, such as TOTEX (which allows a return on portions of both capital expenditures and operational expenses), that can help strengthen incentives, level the playing field for solutions, share risk and/or mitigate risk due to uncertainty.”²¹

Hydro One supports the notion put forward but believes that there are alternative approaches that should be explored through this topic.

Hydro One recommends that the OEB start by summarizing the current regulatory treatment of capital vs operating expenses, and the work done to date to address this issue (e.g. the Framework for Energy Innovation, Non-Wires Solutions Guidelines, Benefit Cost Analysis Framework, Cloud Computing DVA, etc.). With this background, the OEB can then consult with the sector on identifying outstanding gaps, alternative approaches and considerations for each option.

Beyond changes to the determination of the revenue requirement (e.g. TOTEX), other solutions could include amortizing specified operational costs or further enhancing utility incentives for certain operational expenses. By considering alternative approaches and following an evidence-based consultation approach, the OEB and stakeholders can assess each gap against the range of potential regulatory solutions to ensure that regulatory incentives align with a utility's responsibilities and result in optimal outcomes for customers.

Topic 5: Ensure all rate-setting models provide utilities the tools to manage uncertainty.

As noted earlier in this submission, the energy sector is grappling with significant uncertainty, and it is critical that the regulatory framework provide tools that utilities can use to effectively manage these uncertainties for their customers and shareholders.

4. Is there anything else the OEB should consider as it develops proposals for a next generation rate framework?

Hydro One Response:

The government created the PULSE panel in recognition of the significant capital investments expected in the distribution system over the next two decades.²² Regulatory stability is critical for both investor and municipally owned utilities, not only to support internal planning, but also to ensure that they can access capital at competitive rates in the current environment. Whenever changes to the regulatory

²¹ Appendix A, [OEB Letter Re: An Integrated Approach to Utility Remuneration – Next generation Rate framework](#), Jan 8, 2026

²² The EDA estimates \$103 - \$120 billion over the next two decades to maintain existing assets. [Ontario Launches Expert Panel to Strengthen Local Electricity Distribution | Ontario Newsroom](#), October 27, 2025

framework are contemplated, it is closely observed by the financial sector and by current and potential investors.

The outcomes and process of the NGRF consultation are of critical importance to the sector and will have potentially significant and long-lasting impacts on how utilities fund and deliver on their mandates. As a result, the OEB must ensure that the consultation process is held to the highest standard, is grounded in evidence, and is supported by sound economic theory. The process and resulting framework must also support OEB's legislated objects to facilitate the maintenance of a financially viable electricity industry and to regulate the electricity sector in a manner that supports economic growth. Hydro One recommends that the OEB establish and consult on the proposed consultation process in the near term to ensure stakeholder confidence and alignment. Early engagement will permit stakeholders to prepare and allow the consultation, once launched, to focus on the substantive topics and proceed efficiently. Hydro One also requests clarification on whether the consultation is anticipated to result in an OEB Staff Report or a decision by OEB commissioners.

CONCLUSION

Hydro One thanks the OEB for the opportunity to comment on the proposals for the NGRF consultation and looks forward to collaborating with the OEB to advance a regulatory framework that is aligned with the Ontario government's economic development and electrification goals in a manner that aligns with the expectations of our customers.

This filing has been submitted electronically using the Regulatory Electronic Submission System (RESS).

Sincerely,

A handwritten signature in black ink that reads "Kathleen Burke". The signature is written in a cursive, flowing style.

Kathleen Burke