June 9, 2025

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

Dear Mr. Murray,

RE: EB-2025-0083 Proposed Amendments to the Distribution System Code
Comments of Energy Probe

In its letter of May 16, 2025, the OEB invited stakeholders to provide comments on its proposed amendments to the Distribution System Code. The following are the comments of Energy Probe Research Foundation (Energy Probe).

General Comments

This initiative including the proposed amendments to the DSC are based on the unproven premise that non wires solutions (NWS) are preferable to wires solutions in meeting distribution system needs. The NWS would be provided to a distributor by a distributed energy resource (DER) provider using aggregated rooftop solar and batteries. It is not clear why these are preferable to wires solutions consisting of conductors and transformers. Rooftop solar panels and batteries will likely need to be imported while conductors and transformers can be manufactured in Canada. The entire lifecycle carbon dioxide emissions of the manufacture and installation, replacement and retirement of rooftop solar panels and batteries are probably greater than of conductors and transformers. Rooftop solar and batteries have shorter lives and require more maintenance than wires and transformers. They are also by their nature less reliable. Rooftop solar can only provide electricity during sunlight and batteries can only provide it for a limited time until their stored power is exhausted.

At certain times of the year Ontario has surplus power, particularly in the Spring when all hydroelectric stations are generating power due to an abundance of water because of melting snow. At those times OPG will have surplus baseload generation (SBG) for which it is compensated by ratepayers. Deployment of DERs as NWS will increase SBG and ratepayer costs. Ratepayers will have to pay DER providers and OPG. The proposed incentives for more DERs will increase costs.

Large scale deployment of DERs can adversely affect reliability unless distributed energy resource management systems (DERMS) are put in place. The cost of DERMS will also add to

the costs of NWS. Energy Probe believes that all costs resulting from an NWS proposal must be considered before it is approved.

Guidehouse report recognizes that costs to customers may be higher than benefits in the near term. *"The Affordability Criterion implicitly recognizes that building distributors' capability to routinely deliver NWS that drive customer value may require that in the near term, incentives must sometimes be larger than customer savings."*[1] It is not clear what is near term and what happens when the near term becomes medium term and long term.

Under the proposal it is likely that customers and not the DER provider will bear that risk. One of the "Guiding Principles" is explained by Guidehouse to *set the rewards to follow risk*. *Incentives to innovate must be commensurate with the risk and uncertainty faced by the innovator. Distributor incentives to innovate that are not tied to evaluated performance outcomes must be lower than those that are.* [2] However, the proposed amendments to the DSC transfer the risk to ratepayers while the rewards are kept by the DER provider.

Vast majority of electricity ratepayers do not now and never will own a DER. The proposed changes will increase their cost of electricity and force them to take on greater risk.

Specific Comments

Based on the information in the Guidehouse report, the OEB considered three incentive methods.

Shared Savings Mechanism*: The incentive payment is a portion of the savings to customers associated with implementing a third-party DER solution as an NWS.*

Performance Target or Scorecard-Based Incentive*: The distributor earns a fixed incentive payment for achieving a single performance target or set of targets.*

Margin on Payments*: The incentive payment is calculated as a percentage (margin) of the distributor payments to DERs owned by customer or third parties for providing services to the distribution system as part of an NWS.*

It selected the Margin on Payments (MoP), a method similar to the Cost Plus in the construction industry. That method essentially guarantees that DER providers will be protected from all risk and that electricity ratepayers will bear all risk. Energy Probe believes that a Shared Savings Mechanism (SSM) would be a better choice. The OEB has extensive experience with SSM in incentive regulation of gas and electricity utilities. It has no experience with MoP. SSM would ensure that ratepayers and DER providers would share the risk of an NWS where MoP does not.

Section 11.3

The OEB proposes to establish a default MoP value of 25% of the total payments to the third-party DER provider as recommended by Guidehouse. This value was selected to be higher than 15% used by Michigan and 50% used by Australia and far higher than 4% used by California. Under the proposed amendments, Ontario will have highest MoP value of any jurisdiction in North America. It is likely that this high MoP value will create NWS DER "gold rush" in

[1] Guidehouse Report, page 10.
[2] Guidehouse Report, page 3

Ontario. Does Ontario need a large scale deployment of NWS DERs? It is not clear what is the urgent problem that this proposal is supposed to solve. Energy Probe believes that MoP value should be no higher than 10%. If the OEB proceeds with MoP, it should ensure that the margin is not excessively lucrative to avoid creating a costly DER boom.

Section 11.5

The OEB proposes that the net present value of the forecast MoP incentive amount cannot exceed 50% of the net present value of the forecast net benefit of the proposed third-party DER solution. This theoretically ensures that over the long run, ratepayers will be better off with NWS. In practice current ratepayers will pay higher rates in the hope that future ratepayers would not pay as high rates as they would have with a wires solution. The risk is that the NWS DER will not last long enough to achieve the predicted NPV at the time of its approval. Energy Probe submits that a utility that implements an NWS DER solution should be required to file a variance report on an annual of actual vs predicted costs and savings basis.

Section 11.7

This section would allow utilities to use qualitative justifications to exceed the 50% threshold set out in section 11.5. Energy Probe believes that this is wrong. Using words to justify something that can not justified with numbers is open to abuse and unfair to ratepayers. Ratepayers must pay their utility bills with numbers in dollars. They can not use words to pay their utility bills.

Anticipated Costs and Benefits

The OEB admits that Although a MoP incentive will be a cost for ratepayers, this will be offset by the requirement that a MoP incentive application demonstrate the cost-effectiveness of the proposed solution as compared to other alternatives through the BCA. Energy Probe commends the OEB for admitting that there will be an incremental cost that ratepayers would need to pay. But that incremental cost would be not as high as incremental costs of theoretical alternatives. To protect ratepayers, the utilities should be required to file detailed cost estimates of alternatives supported by all assumptions. The proposed amendments to the DSC are likely to increase the rates paid by ratepayers and make the cost of electricity even less competitive compared to natural gas. If the objective of the Ontario government is greater electrification, the proposed amendments will make it harder to attain that objective.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
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