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BY EMAIL AND RESS

June 9, 2025

Ms. Nancy Marconi

Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2025-0083 – Hydro One Networks Inc. – Response to Notice of Proposal to Amend the Distribution System Code Regarding a Margin on Payment Incentive Mechanism for the Use of Third-Party Distributed Energy Resources as Non-Wires Solutions

On May 16, 2025, the Ontario Energy Board (OEB) issued proposed amendments to the Distribution System Code (DSC or Code) that would establish a methodology for setting rates to include a Margin on Payments (MoP) incentive for using third-party Distributed Energy Resources (DERs) as non-wires solutions (NWS) to meet distribution system needs. The OEB also shared a Consultant Report prepared by Guidehouse Canada (Consultant) on the recommendations on a default MoP value and options for eligibility criteria. The proposed DSC amendments were issued for stakeholder review and comment by June 9, 2025.

Through the Framework for Energy Innovation (FEI) in 2023, the OEB introduced incentive mechanism guidance for utilities using third-party owned DERs as NWS. Three incentive options were detailed: Margin on Payments; Performance Target/Scorecard-Based Incentive; and Shared Savings Mechanism. This proposal codifies the Margin on Payments option in the DSC.

Hydro One appreciates the opportunity to review the proposed DSC amendments and Consultant Report and is pleased to provide the following written comments.

GENERAL COMMENTS

The *2024 Letter of Direction to the OEB* emphasized that DERs present "an opportunity for innovation across the system - saving customers money and potentially increasing system capacity and resilience." Hydro One strongly supports this view and respectfully submits that utilities play an essential role in unlocking these opportunities for customers, while ensuring the safe and reliable operation of their systems. Hydro One is partnering with customers to improve their experience and monetize DERs through new service offerings. This is fundamental to unlocking and maximizing the benefits that DER adoption can provide to address specific system issues and make the energy transition easier for customers.

Role of Utilities – Consistency across Consultations

Other interrelated consultations also underway at both the Independent Electricity System Operator (IESO) and OEB provide additional opportunities for DERs in local and bulk system markets[1]. Foundational work on the future roles of the utilities and IESO to enable broader DER participation is being done through the OEB's Distribution System Operator Capabilities consultation, and it will be crucial for all the consultations to align with the outcomes of this important work. It is vital that the resulting regulatory and market conditions adopt a coherent set of roles and responsibilities for utilities and be aligned with the goals of the government of Ontario and expectations of the OEB on NWS.

NWS – Non-Incentive Barriers Persist

The use cases for third-party owned DERs as NWS to defer traditional investments are limited by non-incentive barriers. As noted in the OEB's *Benefit Cost Analysis (BCA) Framework*, "the appropriateness of deploying an NWS will depend on the system need, as some system needs may be clearly unsuitable for NWS".[2]

NWS have the greatest potential to address near-term system needs, such as enabling incremental load growth on existing assets by managing the local system peaks as well as potentially improving reliability for customers experiencing exceptionally poor reliability. However, not every near-term system need is suitable for a NWS – the NWS must be technically viable to suit the local system need. If the NWS does not have adequate capacity or it is not available at the needed time or for the needed duration, it cannot proceed. The utility must have a high degree of certainty that the NWS can provide sufficiently reliable and safe service, so that the utility can continue to achieve its core safety and reliability mandates. The NWS, including any proposed incentive, must then be found to be economical as per the OEB's BCA Framework when compared to the traditional poles and wires investment. Once a NWS has passed these tests, the utility must find a DER service provider that is willing and able to provide these services at the price offered and times required.

[1] These include the Local Generation Program (IESO), Enabling Resources Program (IESO), Electricity Demand Side Management (eDSM) (IESO and soon the OEB) and Benefit Cost Analysis Framework Phase 2 (OEB).

[2] OEB Benefit Cost Analysis (BCA) Framework for Addressing Electricity System Needs, pages 5, 6

Currently, the existing fleet of DERs in Hydro One's service territory are generally either non-dispatchable or limited (contractually, or otherwise) in their availability to provide local value. Until such time as this changes, perhaps through new deployments of DERs with local market-supportive contractual terms, incentives are unlikely to move the needle on NWS cases. Even then, to provide NWS at scale, utilities need to invest in grid modernization technologies to operate and control a fleet of NWS.

The OEB can also look for ways to help de-risk these types of projects to enable utilities to gain the necessary experience in rural settings to rely on new solutions to deliver results reliably and safely. This could include allowing utilities to establish a dedicated funding envelope for NWS that would enable testing of NWS outside of the usual planning process. Hydro One encourages the OEB to work with utilities to identify de-risking opportunities. The OEB could also work with IESO and utilities to identify how to ensure liquidity in the DER market so that resources are available to participate in programs and procurements for local distribution system services.

DERs have the potential to provide significant value to address shorter-term system needs and enable utilities to pace the system growth necessary to meet our customers' needs throughout the energy transition. The IESO's *2025 Annual Planning Outlook* forecasts the system-level net annual energy demand to grow 75% by 2050.[3] Utilities will need access to all tools, including DERs as well as traditional wires solutions, to plan and operate the system to meet customer electrification needs. Hydro One appreciates the OEB's efforts to enable a broader range of tools to meet these needs and the OEB's objective of providing utilities with greater guidance and regulatory certainty when proposing incentive mechanisms for NWS.

FEEDBACK ON THE MoP PROPOSAL AND PROPOSED DSC AMENDMENTS

Hydro One supports the OEB's intent to facilitate a competitive playing field for NWS and drive value for customers by leveraging DERs to meet system needs. The Consultant Report identified four design principles for the development of a default MoP: protecting the public, driving innovation, setting rewards to follow risk and simplicity and clarity. Hydro One supports the principles-based approach to developing a default MoP, however, notes that the report lacks grounding in Ontario utility experience and expertise, and the context of the Ontario regulatory framework, which are critical inputs to the development of any such proposal.

Hydro One notes that the OEB's NWS policies reside in the *2024 NWS Guidelines*[4] and the *Filing Guidelines for Incentives for Electricity Distributors to use Third-Party DERs as Non-Wires Alternatives*[5]. By embedding one of the incentive options in the DSC, utilities will now need to ensure compliance with both code and guidance documents, potentially decreasing regulatory efficiency. In addition, leveraging one of the existing NWS guidance documents would allow the OEB to provide more context and details on the default MoP option that would support utilities in their applications.

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[3] IESO's 2025 Annual Planning Outlook, page 2
[4] Non-Wires Solutions Guidelines for Electricity Distributors, 2024
[5] Filing Guidelines for Incentives for Electricity Distributors to use Third-Party DERs as Non-Wires Alternatives

Incentive Level

The OEB's proposed MoP incentive of 25% appears to be a recommendation by the Consultant based on their jurisdictional research, with the Consultant Report indicating that "Ontario should use a margin value of between 15% and 50%"[6], which would be higher than that of Michigan (MoP of 15%) but lower than that of Australia (MoP of 50%).

Initial analysis conducted by Hydro One suggests that the proposed MoP incentive of 25% may not be sufficient to achieve the OEB's objectives. Given this, Hydro One requests that flexibility be provided to utilities to test and propose alternative MoP incentive (that are potentially higher) in deploying third-party owned DER solutions, supported by evidence, similar to the allowance for deviation from the 50% net project benefits requirement.

Hydro One recommends the following modifications to the proposed wording for DSC Sections 11.3 in "Margin on Payments Incentive where All Requirements are Met" and 11.7 in "Margin on Payments Incentive where not all Requirements are Met"

> "11.3 Where the Board is satisfied that an application for a Margin on Payments incentive meets the requirements of sections 11.5 to 11.7, a distributor's rates shall be set by including a Margin on Payments incentive of 25%, or such ~~lesser~~ *an alternate* amount as may be requested by the distributor to meet the criterion in section 11.5 or for some other reason."
>
> "11.7 A distributor may apply for a Margin on Payments incentive that otherwise meets the requirements of this section 11 other than the criterion set out in section 11.5(b) *and 11.6(d)*. The Board may approve the inclusion of such an incentive in the distributor's rates if it is satisfied that the Margin on Payments is justified in the circumstances despite not meeting that criterion~~, provided for greater certainty that the Margin on Payments incentive shall not exceed 25%~~."

Clarity on Requests for Information

In addition, Hydro One recommends the following addition to the proposed wording for DSC Section 11.9 in "Accounting and Reporting" to provide greater clarity in terms of the notice period provided to utilities when the OEB requests information.

> "11.9 A distributor whose rates have been set to include a Margin on Payments incentive shall provide such information as may be required by the Board *with a reasonable notice* from time to time, both during and after the incentive term."

[6] Consultant Report on Options for Alternative Margin on Payments Incentive Mechanisms, page 15

CONCLUSION

Hydro One thanks the OEB for the opportunity to comment on the proposed DSC amendments that establish a methodology for the setting of rates to include a default MoP incentive mechanism, as well as the flexibility to propose other incentive structures that may better suit individual NWS projects. Hydro One looks forward to collaborating with the OEB in the various initiatives to achieve the Ontario government's economic and electrification goals in a manner that aligns with the expectations of our customers.

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

Sincerely,

Kaleb Ruch
Director, Regulatory Policy & Strategy
Hydro One Networks Inc.