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**BY EMAIL**

August 28, 2025

Ritchie Murray  
Acting Registrar  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto ON M4P 1E4

Dear Mr. Murray:

**Re: OEB Staff Questions to IESO-LDC DSM Regulatory Working Group  
Consultation on the Regulatory Treatment of Local Electricity  
Demand-side Management (Stream 2) Programs  
OEB File Number: EB-2025-0156**

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Pursuant to the OEB's July 23, 2025 letter initiating a consultation on the regulatory treatment of electricity demand-side management (eDSM) programs delivered by local distribution companies (LDCs) that provide both local and system wide benefits, please find attached OEB staff's written questions to the IESO-LDC DSM Regulatory Working Group (Working Group) about the proposed framework detailed in the Working Group's eDSM Stream 2 Report.

The Working Group representatives and other stakeholders expressing an interest in participating in this consultation have been copied on this filing.

The Working Group's responses to OEB staff questions are due by September 25, 2025. A transcribed stakeholder session will begin on October 8, 2025, continuing on October 9, 2025 if necessary. Further details on the stakeholder session will be provided closer to the date of the session.

Yours truly,

Michael Parkes  
Senior Advisor, Application Policy & Conservation

Encl.

# **ONTARIO ENERGY BOARD**

## **OEB Staff Questions to IESO-LDC DSM Regulatory Working Group**

**Consultation on the Regulatory Treatment of Local Electricity  
Demand-side Management (Stream 2) Programs**

**EB-2025-0156**

**August 28, 2025**

## Topic 1: Identification of System Need and Benefit-Cost Analysis

### Staff-1

Ref: Section 2.2.2 (p. 16, 17); [EB-2025-0064, Exhibit I.1.13-STAFF-4](#).

The electricity demand-side management (eDSM) report proposes that a Local Distribution Company (LDC) would identify a specific need within its distribution system that could be met, in whole or in part, by targeted eDSM measures. These needs would be substantiated through publicly available sources, such as Distribution System Plans (DSPs), capacity maps, or regional planning documents.

- a) The distribution system need identified by the LDC to be met by targeted eDSM measures may have previously been identified to be met through traditional facility infrastructure, as a defined project in the LDC's DSP and capital expenditure request that was approved by the OEB in the LDC's most recent rebasing proceeding. In this circumstance, funding to address the system need has already (implicitly) been provided to the LDC through its approved rates.

Would the Working Group propose that an adjustment be applied in this circumstance, and what impact would such an approach have on the likelihood of LDCs pursuing eDSM opportunities in such circumstances? Please indicate whether the Working Group's proposed approach would differ depending on the timing of the capital expenditure as detailed in the prior rebasing application (e.g., in the test year or in the outer years), the type of rate-setting method used by the LDC (e.g., price cap IR versus custom IR), the expected rate/bill impact of the eDSM program, or other factors.

OEB staff notes a potential parallel: Enbridge Gas has developed a preliminary approach to credit its customers for avoided capital cost impacts related to facilities projects that are delayed, avoided or downsized when an Integrated Resource Planning solution is implemented, if a facility project is delayed, avoided, or downsized, during its current incentive regulation Price Cap term. However, this methodology has not been employed or approved to date.

### Staff-2

Ref: Section 2.2.2 (p. 16, 17)

The eDSM report proposes that an LDC would identify a specific need within its distribution system that could be met, in whole or in part, by targeted eDSM measures. The LDC would then explain its methodology for determining distribution benefits, using

the guidance on distribution service benefits in the OEB's Benefit-Cost Analysis (BCA) Framework.

OEB staff notes as a general comment that judgement would be required for the OEB to review the distributor's assessment of the urgency of the need and the valuation of distribution service benefits, which may be a concern if this is done under delegated authority. One approach is for Stream 2 eDSM applications to be moved up to a Panel if the delegated authority has concerns or uncertainties about the approach used by an LDC for these aspects of an application; however there may be changes that can be made to standardize these aspects to reduce the level of judgement required in the OEB's review.

- a) Does the Working Group have any suggestions as to whether and how the proposed approach to these aspects of Stream 2 eDSM applications (assessment of need, valuation of distribution service benefits) could be further standardized? If so, please describe.

**Valuation of distribution benefits:** OEB staff notes that the BCA Framework (section 5.1.1.1) provides two recommended approaches for quantifying the benefit of deferring or avoiding investments in traditional distribution capacity, which is expected to be the primary distribution system benefit for most non-wires solutions (NWS):

- **Cost of Service** (preferred when the value is tied to a discrete and specific need)
- **Marginal capacity value** (accounts for the incremental value of NWS capacity on constrained circuits. Preferred when the need is not precisely tied to a specific asset).

The BCA Framework also notes that electricity distributors do not need to exactly replicate one of these approaches, and that the critical inputs of any approach are the demand impact and average marginal cost.

If using the "Marginal capacity value" methodology, one key input is the marginal cost of the distribution equipment from which the load is being relieved. The BCA Framework notes that localized, equipment-specific marginal costs of service defined by the program need should be used in most cases. This may be a challenging input to accurately value, particularly if a Stream 2 eDSM program is being implemented across a distributor's service territory and may reduce load on multiple pieces of infrastructure.

- b) Does the Working Group have any suggestions on how to standardize an approach to calculating marginal distribution cost if using the "Marginal capacity value" methodology?

- c) Does the Working Group see any value in the OEB and distributors developing an approach to quantify the marginal value of distribution capacity across a distributor's service territory, that could be used if localized, equipment-specific marginal costs are not available? Why or why not?

### Staff-3

Ref: Section 2.1.2 (p. 12); [Benefit-Cost Analysis Framework for Addressing Electricity System Needs](#); [Vulnerability Assessment and System Hardening Report \(Draft\)](#)

The eDSM report proposes that distributors may seek OEB approval for a Stream 2 eDSM program if the benefit-cost ratio (BCR) falls between 0.7 and 1.0 prior to consideration of qualitative benefits, provided there is a clear and substantiated qualitative rationale (e.g., improved reliability or operational flexibility). In this circumstance, a notional benefit will be assigned (at the distribution level, such that related costs are allocated to distribution funding) that brings the BCR up to 1.0.

- a) OEB staff's understanding of this proposal is that the OEB would have discretion to assess whether the qualitative rationale provided by a distributor justifies lowering the minimum threshold (i.e., a lower threshold of 0.7 would not automatically apply if any qualitative benefits are identified by a distributor). Please confirm or clarify as needed.
- b) OEB staff's understanding is that there is no intent for Stream 2 eDSM applications to have the option of assigning a notional benefit for qualitative benefits at the bulk level (such that related costs would be allocated to the Global Adjustment). Please confirm or clarify as needed.
- c) The BCA Framework (Tables 1-3) describes four categories of Distribution Service Test (DST) impacts that may be included as qualitative impacts (reliability, resilience, innovation & market transformation, planning value) Is it expected that any qualitative benefits used for the purpose of improving the Benefit-Cost Ratio (BCR) of a Stream 2 eDSM program would fall into one of these categories?
- d) The BCA Framework also indicates that distributors are permitted to provide quantitative estimated values for impacts listed as qualitative, and include those in the DST, if they have the means to do so. The OEB has developed a draft Vulnerability Assessment and System Hardening (VASH) report, which provides a methodology to quantify value of lost load. The OEB may determine to subsequently require the use of this methodology (once finalized) to quantify reliability and resilience benefits within the BCA Framework. If this occurs, stream 2 eDSM applications would likely not be permitted to assign a notional

value to reliability/resilience benefits, but would be required to use the quantitative values determined by the VASH methodology. More generally, a similar logic would apply should the OEB provide future guidance on quantifying other categories of qualitative impacts identified in the BCA Framework. Does the Working Group have any concerns with this?

#### **Staff-4**

Ref: Section 2.1.2 (p. 12).

The eDSM report indicates that Stream 2 eDSM initiatives primarily targeting low-income and First Nations may proceed based on a lower Energy System Test (EST) and DST BCR threshold.

- a) What numeric BCR threshold is proposed for programs targeting low-income and First Nations customers?

#### **Staff-5**

Ref: Section 2.1.6 (p. 15); [Transmission System Code](#); [Non-Wires Solutions Guidelines for Electricity Distributors](#)

The eDSM report proposes that multiple LDCs may find it beneficial to collaborate on a joint eDSM program for the purpose of addressing common regional system needs.

- a) Is the reference to “regional system needs” intended specifically to refer to needs at the transmission level?
- b) Could LDCs also propose a joint Stream 2 eDSM program under circumstances where both LDCs are facing distribution system needs that the joint Stream 2 eDSM program could address, even if there is not a common defined need at the transmission level?
- c) In cases where a program is intended to address a regional transmission need, is it expected that all impacted rate-regulated LDCs and transmitters in the planning region would need to support the proposed Stream 2 eDSM program, including cost allocation considerations (discussed below)?
- d) OEB staff notes that there has historically been a difference in the approaches used for cost allocation (between wires and conservation investments) to address transmission needs. For wires investments, the OEB’s Transmission System Code(TSC), section 6.3 sets out how the costs should be attributed among the LDC(s) in relation to transmission connection investments that are made to meet their needs, and how cost responsibility should be addressed in cases where the transmission connection investment also addresses a broader

transmission network system need, which involves pooling costs among the broader pool of network customers.

In contrast, for conservation programs that deliver transmission benefits, the IESO has historically paid for these programs, whether through programs specifically targeting regional needs (Local Initiatives Program) or indirectly through province-wide programs that also have a transmission benefit. The OEB's NWS Guidelines (section 4.3), however, also provide for the possibility of NWS applications that would address a regional need (i.e., a transmission constraint). In this circumstance, the OEB would be responsible for reviewing the cost and associated rate impacts of the NWS that would be borne by rate-regulated transmitters and distributors, i.e., net of any funding provided by the IESO or other sources. The NWS Guidelines further indicate that the OEB expects that the default approach to cost responsibility, where it involves NWSs of one or more distributors to address regional needs (net of any funding provided by the IESO), would be aligned with the approach in section 6.3 of the OEB's Transmission System Code for transmission (wires) investments.

The BCA Framework includes deferral/avoidance of transmission capacity as a benefit in the EST and not the DST, and does not explicitly distinguish between transmission connection investments and network investments.

In light of these considerations, does the Working Group have any views on the proposed approach to cost allocation for transmission-related benefits, both in the context of joint regional Stream 2 eDSM programs, and for Stream 2 eDSM programs more generally? OEB staff note two potential approaches for consideration below, as starting points for discussion.

One approach would be to distinguish in the BCA test between benefits related to transmission connection investments and those related to network investments. Transmission connection investments would be included in the DST, with proportional cost borne by the impacted distributor(s), and network investments included only in the EST, with proportional cost borne by the IESO. For simplicity in the regulatory approval process, this approach could potentially require the participation/agreement of all rate-regulated transmitters or distributors that would bear costs, with the IESO agreeing to bear costs for benefits that were attributed to non-participating distributors or transmitters (this could be the case, for example, if a Stream 2 eDSM project avoided or deferred a transmission connection investment that would benefit multiple distributors)

An alternate approach would be that all transmission benefits are excluded from the DST and included only in the EST. Under this approach, the IESO would be responsible for the proportional cost attributable to all transmission-related benefits from Stream 2 eDSM programs.

#### Staff-6

Ref: Section 2.1.2 (p. 12), Section 3.2 (pp. 33-35)

The eDSM report provides an illustrative example of the BCA applied to a stream 2 eDSM program.

OEB staff notes that (as described on p.12 of the eDSM report), under the BCA Framework the EST includes both distribution and bulk-level benefits and costs.

- a) Please confirm that in Table 6, the EST result would actually include the following categories:

Energy System Test	(\$ millions)
NPV Distribution System Benefits	9.47
NPV Bulk System Benefits	19.80
NPV Distribution Costs	5.25
NPV Bulk System Costs	10.97
Net Benefit	13.05
<b>EST Ratio</b>	<b>1.80</b>

Similarly, in Tables 2 and 3, please confirm that the references in these tables to “Energy System Benefits” may be better labelled as “Bulk System Benefits” or “Upstream Energy Benefits”.

Topic 2: Cost Considerations Including Program Budget, Bill/Rate Impacts, Deferral/Variance Account, Changes to Program Budget, and Program Close-Out

#### Staff-7

Ref: Section 2.2.5, 2.2.6 (p. 20); [Filing Requirements for Electricity Distribution Rate Applications, Chapter 2](#) (May 7, 2025), Section 2.9.2

The eDSM report requests that the OEB confirm approval for distributors offering Stream 2 eDSM programs to establish and use an eDSM Variance Account (eDSMVA) to track differences relative to the approved budget, with no materiality threshold, and also states the OEB may consider whether it is appropriate to establish a generic variance account framework for all LDCs offering Stream 2 eDSM programs.

- a) Please provide the rationale for seeking an exemption from the materiality criterion for the eDSMVA.
- b) Please demonstrate how the other two eligibility criteria (Causation & Prudence) have been met for the eDSMVA.

### Staff-8

Ref: Section 2.1.1 (p. 11); [Accounting Procedures Handbook for Electricity Distributors](#)

In terms of IESO role of validation & funding, the eDSM report states the IESO provides the bulk-system portion of funding through the Global Adjustment (GA) through a contribution agreement with the LDC.

- a) For the funding through GA, OEB staff's interpretation is that revenue related to funding through the GA (and the related program expenses) would not go through rates, but would be considered a non rate-regulated utility operation. Please confirm or clarify.
- b) Would these revenues and expenses be recorded in accounts 4375 and 4380, respectively? (OEB staff notes that expenses associated with CDM activities are listed as an example item in the description of account 4380 in the Accounting Procedures Handbook)
- c) For the funding through GA, please confirm whether it will impact the monthly RPP settlement?
  - i) If c) is confirmed, please elaborate the funding process flow
  - ii) If c) is not confirmed, please explain what the method of payment in terms of funding through GA is.

### Staff-9

Ref: Appendix A

- 1. Please confirm whether the following understanding is correct or not. If not, please explain/make changes:
  - (a) In Table 5, please confirm the \$5.89M will be collected from the ratepayers through the eDSM rate rider and this amount is outside of the rate base (not included in the current distribution rate).

- (b) In Table 5, please confirm the \$12.31M will be settled between the distributor and IESO per the agreement.
  - (c) In Table 13, please confirm the eDSMVA is going to collect/refund both:
    - i) (\$22,292) cost savings
    - ii) Any additional variance between the actual amount collected from the eDSM rate rider and the amount intended to be collected which is \$5.89M
  - (d) The 5Y period of eDSM rate rider starting from 2025 to 2029 will not be extended once the eDSMVA is final disposed in the COS.
2. How will the credit of (\$49,259) be returned to provincial ratepayers? What is the method of payment? Will this amount offset the GA payment issued in the monthly IESO invoice to LDC related to the RPP settlement?

### Staff-10

Ref: Section 2.1.4 (p. 13-14); [IESO 2025-2027 Electricity Demand Side Management Program Plan \(with Beneficial Electrification\)](#); [November 7, 2024 Directive to the IESO](#)

The eDSM report notes that the IESO will maintain a combined budget of at least \$90 million and no more than \$150 million for LDC participation in eDSM programs (Streams 1 and 2).

- a) The IESO 2025-2027 Program Plan further states that “LDC funding includes \$20M per year for customer engagement in support of province-wide programs and a budget of \$30M in 2027 for new LDC-led local programs.” Does this mean that the maximum IESO budget for Stream 2 eDSM programs in 2027 is \$30 million, or is there a possibility that some funding allocated for customer engagement in support of province-wide programs could be re-allocated to Stream 2 eDSM programs?
- b) OEB staff’s understanding (based on the Minister’s directive to the IESO) is that the combined budget of at least \$90 million and no more than \$150 million for LDC participation of eDSM programs (Streams 1 and 2), is also applicable to subsequent three-year terms beyond 2027, subject to any new direction from the Minister. Is this correct? If not, please clarify.
- c) The eDSM report notes that applications could seek OEB approval for a multi-year Stream 2 eDSM program. Is it expected that IESO contribution agreements authorizing Global Adjustment funding for an OEB-approved Stream 2 eDSM program would need to work within the three-year terms of the Framework (e.g., would the maximum period that IESO could authorize Global Adjustment funding for a Stream 2 eDSM program be three years)?

- d) Will IESO funding for Stream 2 eDSM programs be available to LDCs on a first-come, first-served basis (for programs that meet the requirements established by the IESO), or does the IESO have an approach as to how its budget would be allocated to LDCs? If so, please describe.

#### **Staff-11**

Ref: Section 2.1.5 (p. 14); [EB-2021-0002 Decision and Order, Schedule E \(Natural Gas Demand Side Management Policy Framework\)](#), Section 12; [Integrated Resource Planning Framework for Enbridge Gas](#), Section 9

The eDSM report notes that the LDC Stream 2 eDSM application would present rate impacts, illustrating the incremental bill effect if the program is approved.

- a) The maximum rate or bill impact from distribution rates for an individual LDC from Stream 2 eDSM programs cannot be predicted from the IESO Stream 2 eDSM budget, as it will depend on interest by LDCs in delivering Stream 2 eDSM programs and the IESO's approach to allocating its Stream 2 eDSM funding across LDCs, as well as the split between local benefits and broader system benefits, as determined through the BCA for a Stream 2 eDSM program.

Does the Working Group believe that a maximum rate or bill impact for Stream 2 eDSM programs, applicable to each LDC, should be established? If so, what should the maximum rate or bill impact be and why? Alternatively, is the Working Group's view that the existing and more general OEB requirement for LDCs to file a mitigation plan if total bill increases for any customer class exceed 10% is sufficient to address concerns that customers of an LDC may experience an unduly high rate or bill impact from a Stream 2 eDSM program?

- b) OEB staff assumes that a Stream 2 eDSM application would also propose an allocation of eDSM costs across rate classes. OEB staff notes that historical practice (for gas DSM) has been to allocate the costs of conservation programs (with the exception of low-income programs) to the rate classes that these programs benefit. However, under the gas Integrated Resource Planning framework, the approach to allocating costs for the facility project that is being avoided, deferred, or reduced by the IRP Plan serves as a reference point for the approach to cost allocation for IRP Plans.

Does the Working Group have a proposal as to the default approach to allocation of Stream 2 eDSM program costs across rate classes?

#### **Staff-12**

Ref: Section 2.1.5 (p. 14), Section 2.2.6 (p. 20)

The eDSM report proposes that LDCs could seek approval for a multi-year eDSM program, with rate riders set to reflect the forecast costs over the entire approved term, with an eDSM Variance Account (eDSMVA) to track all differences relative to the approved distribution budget.

- a) For multi-year program applications, OEB staff's interpretation of the proposal is that the funding approval provided by the OEB would be for the entire multi-year budget, and an LDC would calculate and request approval in the eDSM application for a DSM rate rider that would apply for the duration of the program, calculated to recover the forecast costs for the entire multi-year budget. An LDC would then have flexibility to move program budget between program years, with final disposition of any variance from the overall multi-year approved program budget and actual expenditures, as well as variances in eDSM rate rider revenues, addressed through final disposition of the eDSMVA.

Is this interpretation correct? If not, please clarify any differences.

- b) Does the Working Group propose that an LDC could seek multi-year approval for a program that would extend into a new rebasing term? If so, how would this impact the proposed approach to rate riders and eDSMVA disposition? For example, would a new rate rider be requested (even in the absence of a change to program budget) to align with updated rates? Would disposition (on an interim basis) of the existing balance in the eDSMVA be required?
- c) OEB staff's understanding is that final disposition of the eDSMVA could not be completed until after program close-out. Please confirm, or clarify any differences.

### **Staff-13**

Ref: Section 2.2.6 (p. 23); [EB-2021-0002 Decision and Order, Schedule E \(Natural Gas Demand Side Management Policy Framework\)](#), Section 12.2; [Integrated Resource Planning Framework for Enbridge Gas](#), Section 9

The eDSM report proposes that the eDSMVA would track underspending or overspending relative to the approved distribution budget, and notes that while the framework permits overspending in principle, it is subject to a prudence review and requires demonstration that additional Global Adjustment funding is justified, as set out in the IESO Confirmation Letter. Any significant change in the cost forecast that exceeds the validated budget would prompt the LDC to file an updated application that

has been confirmed by the IESO, for the OEB's Delegated Authority (or another appropriate review).

- a) It appears to OEB staff that no overspending at all would be possible without an (updated) IESO confirmation letter, because the maximum program budget that the IESO will support through Global Adjustment funding has been established through the (original) IESO confirmation letter. Is this correct, or is the eDSM report proposing that an LDC would have the option of exceeding its OEB-approved budget from rates, even if additional Global Adjustment funding is not available?
- b) If an updated IESO Confirmation Letter confirms that additional Global Adjustment funding is justified and would be available, does the Working Group have any additional suggestions as to what level of budget increase would constitute a "significant" change in the cost forecast that would require updated OEB approval, versus a minor variance that would be addressed solely through disposition of the eDSMVA? In other words, what materiality threshold will trigger a review from the OEB?

For points of comparison, the OEB's Demand-Side Management Framework for Enbridge Gas (section 12.2) enables Enbridge Gas to spend up to 15% above its approved budget, with the overspend eligible for recovery through the DSMVA. This extra spending must be spent on incremental program expenses (not additional overheads) and is permitted only when Enbridge Gas has exceeded its program targets (on an unverified basis). The OEB's Integrated Resource Planning Framework for Enbridge Gas enables Enbridge Gas to spend up to 25% more than the approved cost of an IRP Plan without seeking approval (with prudence of overspending reviewed at time of disposition of the related variance account).

#### **Staff-14**

Ref: Section 2.2.9 (pp. 21-22), 2.4.4 (p. 28)

The eDSM report proposes annual reporting updates on approved Stream 2 eDSM programs, for informational purposes.

This includes a proposal for mid-course program changes, whereby if a program is significantly underperforming, an LDC may propose to re-scope or discontinue certain elements of the program, with any major adjustment requiring a cost-benefit re-evaluation and IESO confirmation.

- a) OEB staff's initial view is that stronger provisions (i.e., a mandatory IESO or OEB review, instead of a voluntary one) may be needed to address underperforming programs. For example, one approach could be that if performance of a Stream 2 eDSM program is significantly below target (or alternatively, is below a cost-effectiveness threshold of 1) for two consecutive years, the LDC would be required to report on the reasons for underperformance, and provide a plan to address, which could include rescoping. IESO confirmation of the plan would be required for the program to continue. Does the Working Group have any views on this potential approach?
- b) Section 2.2.9 proposes that major program adjustments would require IESO confirmation, but (with the exception of spending increases above approved budget) would not require an updated OEB approval. Other program adjustments could be considered by the OEB in its prudence review at time of disposition. However, section 2.4.4 indicates that material program changes or early closure would also require an updated OEB approval. Please clarify the circumstances under which the Working Group proposes that an updated OEB approval would be required.

#### **Staff-15**

Ref: Section 2.4.4 (p. 28)

The eDSM report proposes that unless the LDC proposes a material program change or early closure (e.g., significantly exceeding the approved budget or fundamentally altering the scope), the LDC is expected to proceed under its existing approval.

- a) Please clarify what is meant by the subtitle "No Re-Opener Except for Joint Program Funding Requests". Does the reference to joint program funding requests mean that any proposal for material program change or early closure would be supported by an updated IESO confirmation letter supporting the proposed changes, or is this a reference to joint programs involving multiple LDCs?

#### **Staff-16**

Ref: Section 2.2.10 (pp. 22-23)

The eDSM report proposes a close-out report where the LDC provides a comprehensive summary of the Stream 2 eDSM program's performance, and notes that this final documentation, submitted to the OEB, supports a prudence review by detailing whether actual costs and outcomes align with the approved forecasts. The eDSM report also notes that performance incentives would be tied to final verified EM&V results.

- a) OEB staff's understanding of the approach described in the eDSM report is that eligibility for recovery of program costs, including final disposition of the eDSMVA, would be assessed by the OEB using general prudence considerations (e.g., that the nature of the costs were reasonably incurred, based on the information that was known or ought to have been known to the utility at the time the decision was made). Only the LDC's eligibility for performance incentives (depending on the incentive approach proposed) would be directly assessed based on the eDSM program's performance against original forecasts/targets. Is this interpretation correct? If not, please clarify any differences.
- b) OEB staff understand that the eDSMVA will be disposed of on a final basis upon close-out and the account will be closed. If this is not the case, please clarify and provide the rationale.

### Topic 3: Shareholder Incentives

#### Staff-17

Ref: Section 2.1.5 (p. 14), Section 3.3 ("Utility Incentives")

The eDSM report proposes that LDCs may embed a performance-based incentive in their Stream 2 eDSM budgets, based on one of the three mechanisms identified in the OEB's [Filing Guidelines for Incentives for Electricity Distributors to Use Third-Party DERs as Non-Wires Alternatives](#) and provides examples of potential utility incentives.

- a) The eDSM report notes that this incentive is considered a program cost and, consistent with the beneficiary-pays principle, is allocated between Global Adjustment and distribution rates in proportion to their share of overall program benefits. OEB staff clarifies that under the [Benefit-Cost Analysis Framework](#), any utility incentives are not considered a cost for the purpose of cost-effectiveness testing. Does this clarification impact any aspect of the Working Group's proposed approach to incentives? If so, please indicate what would change.
- b) While the three utility incentive mechanisms are defined in the Filing Guidelines, the specific parameters and utility incentive levels are not. Judgement would therefore be required for the OEB to determine whether the proposed incentive is appropriate, which may be a concern if this is done under delegated authority.

Should the OEB proceed with proposed amendments to the Distribution System Code, there will be specific parameters for the Margin on Payments incentive, as

discussed in the next question.

A potential way to address this issue would be for the OEB to define additional mechanistic approaches for the other types of incentive mechanisms (for the purpose of Stream 2 eDSM only, not all non-wires solutions), e.g.:

- Establishing a default value for the % of shared savings claimed by the LDC under the Shared Savings Mechanism (similar to the approach for Margin on Payments described below)
- Adopting the “Foregone ROE” approach described in the report (which yields a unique value for the incentive, but is not one of the three mechanisms described in the Filing Guidelines) as an approved mechanism.

LDCs could potentially still have flexibility to make incentive requests for Stream 2 eDSM programs that do not make use of approved default values or methodologies, but such requests would likely go through Panel review instead of delegated authority.

Does the Working Group have any views on this idea, or other suggestions as to how to address this issue?

- c) The Filing Guidelines (section 2.4) indicate that the proposed approach to implementing and awarding a utility incentive for non-wires solutions will usually involve establishing a deferral account to record incentive amounts that may be earned, and obtaining separate OEB approval to award the incentive and dispose of the amounts in the account, once the incentive term has ended. The Filing Guidelines also discuss how OEB approval to award the incentive would be based on an assessment of factors applicable to the type of incentive implemented (e.g., in the case of a performance target-based incentive, OEB approval to allow recovery of the incentive would be contingent on an assessment of the distributor’s actual performance against pre-established metrics or targets).

If applied to the eDSM proposal, OEB staff’s interpretation is that the intent of this section of the Filing Guidelines could be met by requesting the disposition of the incentive as part of the proposed eDSM Variance Account (or perhaps a sub-account or separate deferral account), which is described in section 2.2.9 of the eDSM report. Unlike forecast program costs, incentive costs would be fully deferred (i.e., the full amount of the incentive would be disposed of in the eDSMVA as opposed to being embedded in the eDSM rate rider).

Does the Working Group support the approach of recovering any utility incentives

through a deferral or variance account, which could potentially be the eDSMVA?  
If not, please describe any changes that the Working Group would propose.

### Staff-18

Ref: Section 2.1.5 (p. 14), Section 3.3 (“Utility Incentives”)

On May 16, 2025, the OEB issued a [Notice of Proposal to amend the Distribution System Code \(DSC\)](#). The proposed amendments establish a methodology for the setting of rates to include a margin on payments incentive to use third-party distributed energy resources as non-wires solutions to meet an electricity distribution system need. More specifically, the proposed amendments would codify the requirements for a Margin on Payments incentive for the use of a third-party DER and make provision for a default Margin on Payments value of 25% of the third-party DER provider. They would also require that the net present value of the forecast Margin on Payments incentive not exceed 50% of the net present value of the forecast net benefit of the proposed third-party DER solution calculated under the Distribution System Test.

OEB staff make the following interpretations of how the proposed amendment (if passed) would apply to the specifics of the eDSM proposal:

- Distributors would have latitude to propose customized shared savings and performance target/scorecard-based mechanisms for eDSM programs but would be expected to use the defined methodology in the DSC if proposing an MOP incentive. For example, the illustrative example in section 3.3 of a variation on the MOP incentive approach, which adjusts the MOP incentive in proportion to actual savings achieved relative to forecast, would not be permitted as it is not part of the proposed DSC amendments related to the MOP incentive. The concept of adjusting the utility incentive in proportion to actual savings achieved relative to forecast could still be applied if using a shared savings mechanism or performance target/scorecard-based mechanism.
- The MOP incentive is intended to apply to payments to DERs owned by third parties (e.g., customers). In the case of the eDSM proposal, this would mean that the MOP incentive would be applied to the cost paid to third-parties (e.g., incentives paid to customers to encourage purchase or activation of energy efficiency/demand response measures), but not to other utility OM&A costs such as program administration, marketing, and evaluation (based on the example eDSM program budget shown on p.34 of the eDSM report).
- The requirement that the net present value of the forecast MOP incentive not exceed 50% of the net present value of the forecast net benefit of the proposed third-party DER solution calculated under the Distribution System Test would be

calculated based on the portion of the MOP incentive paid for through distribution rates.

- The informational requirements for requesting an MOP incentive and the accounting and reporting requirements (see sections 11.6 to 11.9 of the proposed DSC amendments) could be accommodated within the eDSM report's proposed approach for Stream 2 eDSM applications.
- a) Based on the interpretation above, if the proposed DSC amendments are made with no changes, does the eDSM Working Group have any concerns or questions as to how these DSC amendments would apply to Stream 2 eDSM applications?

#### Topic 4: IESO Role, Including Program Evaluation

##### Staff-19

Ref: Section 2.2.3 (p. 18)

The eDSM report notes that the IESO will examine the eDSM program plan (prior to application to the OEB) to confirm that all underlying assumptions—such as measure lives, savings values, and avoided costs—are consistent with established data sources (e.g., the IESO's Measures and Assumptions List), and to confirm that the proposed program is not duplicative of existing province-wide programs.

- a) How does the IESO plan to review or validate underlying assumptions and forecast cost-effectiveness if an eDSM program plan involves new program designs or measures that are not on the Measures and Assumptions list, and where established data sources on expected program performance may not exist?
- b) Please confirm the steps the IESO will undertake to determine if a proposed program is duplicative of an existing province-wide program.

##### Staff-20

Ref: 2.2.4 (pp. 18-19)

The eDSM Report notes that the IESO would issue a standardized Confirmation Letter to the LDC.

- a) Will any findings or conclusions beyond the items listed on page 19 be included in the IESO's standardized Confirmation Letter? If so, please list.

## **Staff-21**

Ref: Section 2.3.1 (p. 24)

The eDSM report notes that the IESO would act as the primary reviewer of program design, benefit and cost allocation, and non-duplication criteria, and that once a program receives IESO confirmation, the OEB can rely on the IESO's technical eDSM expertise to limit its subsequent review.

- a) OEB staff's understanding is that the IESO would not be a formal participant in the OEB's review of a Stream 2 eDSM program application. Rather, the OEB would rely on the filed evidence (including the IESO Confirmation Letter), and any follow-up questions from the OEB would be directed to the applicant (LDC), who may engage the IESO for additional information as appropriate. Is this correct? If not, please clarify any differences.

## **Staff-22**

Ref: Section 2.3.2, 2.4.1 (pp. 25-26)

The eDSM report requests that the IESO develop and maintain an online calculator, allowing LDCs to perform both the EST and the DST, and that the OEB develop a Stream 2 eDSM Workform.

- a) Because the BCA Framework (and the EST/DST) is an OEB document, it may be more appropriate for the IESO and OEB to collaborate on the development of the calculator/workform used to produce BCA results, with the OEB to develop a subsequent workform to address additional considerations such as rate rider calculations. Does the Working Group have any concerns with that approach? If so, please clarify why the Working Group believes it is more appropriate for the IESO to take the lead on the BCA calculator/workform.

## **Staff-23**

Ref: Section 2.4.7 (p. 29)

The eDSM report proposes that the IESO would conduct or coordinate independent EM&V for each approved Stream 2 eDSM program, including verification of energy and demand savings, and assessment of cost-effectiveness.

In the answers to the following questions, it will likely be helpful if the IESO can provide some details on how these issues are addressed in its current province-wide eDSM program evaluations.

- a) It is assumed that the IESO's verification of energy and demand savings and assessment of cost-effectiveness would make use of final information on actual levels of program participation/activity and program costs. Would the IESO's verification also evaluate energy savings assumptions (e.g., energy/demand savings associated with a measure, for measures not on the IESO's Measures and Assumptions List) and net-to-gross adjustments associated with program design, such as free-ridership rates?
- b) It is likely that certain input assumptions will be updated over the program term. For example, the avoided costs (both bulk and distribution system) are likely to change. New information on the energy/demand savings assumed for an eDSM measure may also become available (through EM&V of the Stream 2 eDSM program itself, or other sources, e.g., updates to the provincial Measures and Assumptions List, EM&V of province-wide eDSM programs). These changes have the potential to affect the cost-effectiveness and energy/demand savings results calculated by the IESO. How, if at all, would changes to such input assumptions be taken into account, for the purpose of ongoing program performance assessment, reporting final results, and determining shareholder incentives?