

BY EMAIL AND RESS

December 12, 2025

Mr. Richie Murray

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

Dear Mr. Murray,

EB-2025-0268 – Hydro One Networks Inc. – Review of Distributed Energy Resources Valuation

On October 27, 2025, the Ontario Energy Board (OEB) issued a letter inviting stakeholders to a meeting on November 24, 2025, to review (i) Distributed Energy Resources (DER) compensation, and (ii) delivery rates as part of its DER Valuation consultation. Following the November 24th session, the OEB invited stakeholders to provide written comments on the DER Valuation proposals by December 12, 2025.

On June 12, 2025, the Minister of Energy and Mines released the new Integrated Energy Plan (IEP), *Energy for Generations: Ontario's Integrated Plan to Power the Strongest Economy in the G7*, and associated implementation Directives to the OEB and Independent Electricity System Operator (IESO). The Minister's two IEP Directives (#11 and #12) to the OEB asked them, with support from the IESO, to: i) review DER valuation and identify recommendations for the overall regulatory and compensation frameworks that appropriately reflect the value DERs provide, with report back to the Ministry by March 31, 2026, and ii) to identify appropriate roles and responsibilities for implementing DER valuation recommendations and explore opportunities for electricity distributor-led DER procurements, with report back to the Ministry by June 30, 2026. Hydro One supports the Minister, the OEB and the IESO with this important and comprehensive review to "unlock the value of DER, lower barriers to participation, and support smarter planning and investment across all levels of the system".¹ Hydro One distribution, along with other Local Distribution Companies (LDCs), will play a critical role in supporting the industry to achieve the province's goals.

Hydro One appreciates the work of the OEB and is pleased to provide comments on the OEB's proposals in two parts: first, general comments below, followed by responses to the OEB's discussion questions.

Hydro One provides the following general recommendations to the OEB:

- Provide a comprehensive mapping of the coordination across the interrelated streams of OEB and IESO engagements to ensure that they achieve the collective outcomes aligned with the government's goals.

¹ [Integrated Energy Plan](#), page 87

- Collaborate with stakeholders to ensure distributor-led mechanisms and the interactions between DER compensation and DER-related costs are appropriately considered in developing a balanced framework.

GENERAL COMMENTS

LDCs play a key role in DER procurement and unlocking value streams for DERs

LDCs play an essential role in unlocking opportunities for DERs, while ensuring the safe and reliable operation of their systems. Distribution connected DERs are the direct customers of LDCs and thus LDCs will play a key role in leading procurements and programs for these resources that target the distribution portion of the value stack. Grid modernization enables the ability for LDCs to unlock these opportunities for DERs to provide distribution system value at scale and enable the energy transition.

The IEP underscores the importance of grid modernization to unlock value for the system, customers and DERs. Hydro One strongly agrees with the IEP that “Modernizing the distribution grid is essential to deliver power more efficiently and reliably, enable new forms of customer participation, and ensure Ontario is prepared to meet future system needs.”² Modernizing the distribution system is a prerequisite not only for unlocking the full value stack of DERs, but also to improve the efficiency, resilience, reliability, and capacity of electricity distribution systems and is required for the development of Distribution System Operator (DSO) capabilities.

Hydro One is modernizing its systems and creating opportunities for DERs to provide distribution grid services and stands ready to continue this work in partnership with the government, the OEB, and the IESO.

Consistency and clarity of interdependencies across related consultations will help achieve the intended outcomes

As identified in the OEB materials, there are many interrelated consultations underway at both the OEB and the IESO to provide additional opportunities for DERs to provide services along the value stack.³ Foundational work on the future roles of the LDCs and IESO to enable broader DER participation is being done through the OEB’s DSO Capabilities consultation. It is vital that the outcomes of this consultation are aligned and carefully coordinated with the other work streams underway to ensure that the collective outcome of all the changes align with the goals of the Government of Ontario and expectations of the OEB on non-wires solutions (NWS).

Recommendation: Provide a comprehensive mapping of the coordination across the interrelated streams of OEB and IESO engagements to ensure that they achieve the collective outcomes aligned with the government’s goals.

² [Integrated Energy Plan](#), page 82

³ These include, but are not limited to, the Local Generation Program (IESO), Enabling Resources Program (IESO), Electricity Demand Side Management (eDSM) (IESO and OEB) and Benefit Cost Analysis Framework Phase 2 (OEB).

Build a balanced, fit-for-purpose framework for Ontario's DER landscape

The OEB's review of DER compensation mechanisms summarizes the current landscape based on the existing initiatives at the IESO and OEB, however, it does not fully acknowledge and incorporate the various distributor-led mechanisms within the assessment. The DER Valuation framework should consider distributor-led DER procurements and regulatory expectations to incorporate NWS within LDC's planning processes as part of their study. Hydro One also notes that some of the distribution-level benefits of DERs – such as reliability and resiliency – were not included in the value stack and as such may lead to an underestimation of the value of some DERs. The study can also be broadened to include more DER resource types.

Hydro One encourages the OEB to review all existing and proposed compensation mechanisms and incentives for DERs and evaluate how they interact with one another. Overlapping compensation mechanisms or incentives can create issues with double counting. The compensation should be appropriately balanced with the delivery rates that DERs pay, based on their utilization of the grid. There may be other potential costs incurred to support DER connections (for example, asset degradation) that should also be considered. The resulting framework should reflect appropriate value that DERs provide to the system and ratepayers.

Changes to the regulatory framework should be fit-for-purpose for Ontario and drive the behaviours and outcomes that will unlock the value of DERs to customers and the grid.

This phase of the DER Valuation consultation is focused on advancing the compensation that is received and the delivery charges that are paid by DERs, with the objective of appropriately assessing the system value of DERs, related to IEP Directive #11. Hydro One submits that a key component of determining this value will lie in the design of DER procurements, as it directly affects how DER value is realized and how costs are allocated. Hydro One supports the OEB in reviewing existing differences in procurements for DERs led by the IESO versus those led by the LDC. This is a complex area that may warrant its own consultation or discussion paper. Hydro One encourages the OEB to take an integrated approach to ensure that DER valuation, procurement mechanisms, and cost recovery frameworks are developed in concert and within the context of Ontario's regulatory framework.

Recommendation: Collaborate with stakeholders to ensure distributor-led mechanisms and the interactions between DER compensation and DER-related costs are appropriately considered in developing a balanced framework.

RESPONSES TO OEB DISCUSSION QUESTIONS

Hydro One appreciates the opportunity to review the OEB's analysis and recommendations in detail and provides the following feedback on the discussion questions.

Part 1: DER Compensation

Analysis of DER Compensation Mechanisms

1. Please elaborate on any feedback you may have on the assessment of the system value of DERs, specifically with regards to:
 - a. Whether the value stack is an appropriate methodology for assessing the system value of DERs
 - b. Are the components in the value stack sufficient to assess system value of DERs?

HYDRO ONE RESPONSE:

DER compensation mechanisms in Ontario should include distributor-led mechanisms

The assessment identifies the various compensation mechanisms available to DERs by the IESO and the OEB. Hydro One recommends that the assessment also include other key considerations, such as distributor-led DER procurements within this framework. Distributors are also required by the OEB to incorporate the consideration of NWS into their distribution system planning process to defer investments in traditional infrastructure, if the NWS is assessed as being the preferred approach to meeting a system need.⁴

The scope should be expanded to include more DER resource types

Hydro One recommends that the scope of the DER types evaluated within this review be expanded to include more resource types. For example, Distributed Generation (DG) is currently limited to Solar Photovoltaic (PV), but can also include other types such as hydroelectric, bioenergy, wind, Combined Heat and Power (CHP). Similarly, the OEB considers "Hybrid" to be Solar PV paired with storage, when there are other combinations that could be considered. There are also many resources that can be included within a Demand Response (DR) program beyond Heating, Ventilation and Air Conditioning (HVAC). For example, DR programs can include Electric Vehicles (EVs), Electric Vehicle Supply Equipment (EVSE), batteries, behavioural DR, and water heaters.

The value stack approach should include other considerations

The OEB has assessed each component of the value stack for the various types of DERs using a qualitative approach, presenting a good starting point. However, the real challenge will be in the quantitative details. Hydro One encourages the OEB to collaborate with stakeholders to further review

⁴ Per the OEB's NWS policies that reside in the [2024 NWS Guidelines](#) and the [Filing Guidelines for Incentives for Electricity Distributors to use Third-Party DERs as Non-Wires Alternatives](#), and in alignment with the [OEB's Benefit-Cost Analysis Framework for Addressing Electricity System Needs \(BCA Framework\)](#).

the components of the value stack in detail to ensure that the DERs are appropriately assessed for the system value they provide.

The OEB assesses the system value of DERs for each DER type. The assessment should also include the consideration of the size of the DER, the location of the DER on the distribution grid, and the alignment of the DER production with peak demand on that specific distribution asset to meet distribution system needs in determining the value that DERs provide to the system.

Hydro One notes that when assessing the general value for transmission and distribution capacity, the OEB uses a value of “zero” for no constraints, and a value of “high” when the system is constrained. The reference to “zero” appears to be illustrative of the potential range of value, rather than a formal assessment or quantification.

DERs can also be used to provide other distribution values beyond providing distribution capacity. For example, LDCs use DERs to support reliability improvements where it is feasible and cost-effective. Hydro One uses grid-scale battery energy storage solutions (BESS) to improve reliability for customers who experience long interruption durations, where traditional reliability solutions are not economically viable or practical. In addition, Hydro One’s Residential Reliability Improvement program installs battery storage units in participating homes to improve reliability during power outages and minimize service interruptions. These types of distribution values that DERs can contribute towards were not assessed within the value stack approach. Hydro One also encourages the OEB to reconsider its exclusion of Ancillary Services from the value stack, as this value may not be insignificant.

Hydro One looks forward to further clarification and engagement with OEB on how this qualitative assessment framework will translate into practical incentives, ensuring that DERs are encouraged to remain available and responsive as system constraints emerge.

2. Are the identified compensation mechanisms for which each DER type is eligible exhaustive? If no, please elaborate. Are the identified misalignments of DER compensation relative to system value comprehensive? Please describe any gaps in DER compensation where DERs can provide value that were not identified

Hydro One Response:

Assessment of DER compensation should be expanded

eDSM is currently listed as providing “generation capacity” value in the value stack; however, it stems to provide other value streams with the introduction of eDSM Stream 2. With increased collaboration between the IESO and LDCs, these resources have the potential to provide value for both Distribution and Transmission capacity – the IESO has signaled that they are willing to explore this for the commercial HVAC DR program.

Many LDCs, including Hydro One, offer DR initiatives (grouped under program-based mechanisms) for DERs to participate in, such as Hydro One’s myEnergy Rewards and Toronto Hydro’s Local Demand Response Program. There are also many LDC-led distribution-level pilots for market-based approaches

that are not considered in the list, such as Hydro One's Flexibility Initiative⁵, Alectra's York Region NWA Demonstration Project,⁶ and the Essex PowerShare⁷ to name a few.

Include other considerations and enhancements within OEB's gap analysis

The OEB has identified the gaps in Ontario's DER compensation mechanisms, including limited support for smaller resources, insufficient valuation of transmission and distribution capacity, challenges with value stacking, and the need for streamlined processes to navigate existing mechanisms.

DER value stacking can be challenging to assess due to the complex interactions and interdependencies between the different compensation mechanisms within the value stack. While there are some OEB and IESO initiatives aimed at addressing the identified gaps, many of these efforts are relatively new or still in development, and it will take time to assess their effectiveness and intended outcomes. Certain value streams can be more stackable with each other, whereas stacking other value streams may be challenging or limited. The OEB should review existing and proposed mechanisms and evaluate how they interact with each other to ensure that the compensation to DERs remains fair and appropriate.

Hydro One supports the OEB's progress on the DSO Roadmap and upcoming workstreams in developing DSO capabilities, as this will be the key in unlocking more opportunities for DERs to participate in the full value stack, in addition to providing distribution capacity value.

Allowing DERs to participate in multiple programs through non-exclusive contracts and working with LDCs to locate DERs in areas with most benefit and least cost to the distribution grid can also provide more opportunities for DERs to contribute towards the various components of the value stack.

⁵ [Hydro One's Flexibility Initiative](#) leverages and incentivizes DERs to provide flexibility to meet increasing electricity system needs

⁶ [Alectra's York Region NWA Demonstration Project](#) is a market-based approach to secure energy and capacity services from DERs for local needs, while coordinating across the electricity system.

⁷ [Essex PowerShare](#) is the operation of a near real-time local market run by using local DERs to meet local needs in a region that is constrained from a local and bulk system perspective

Proposed Recommendations

Hydro One has reviewed each proposed recommendation for the alignment of the recommendation with the identified gap, the impact to the distribution system, the implication of the proposed change on both participating and non-participating customers, and implementation considerations for LDCs.

Recommendation 1: *“Consider transitioning to net billing, in which electricity injected onto the distribution system is compensated at its market-reflective value. This value should be a function of the time and location electricity is injected to protect ratepayer equity and support the prudent expansion of DERs.”*

Hydro One Response:

Hydro One agrees with the OEB that the transition to net-billing would improve ratepayer equity and encourage prudent DER expansion. However, this transition presents a significant change with implications for LDCs and customers.

Hydro One recommends that OEB’s Solution Assessment for this recommendation consider the system value for distribution system and implementation considerations for LDCs. System value should consider impacts to the distribution grid and how misalignments between bulk and local constraints will be resolved. Implementation considerations should review the incremental costs and significant administrative burden for LDCs, as it will require updates to existing billing and settlement systems, and administration of multiple, changing prices to support the transition to net-billing. In addition, LDCs will also be expected to provide incremental support, communication, and education for customers to help them understand the impacts of the change.

There should be consideration given to existing net metering customers and whether existing customers should be grandfathered or transitioned to the alternate framework over a period of time. This transition can also potentially decrease the return on investment for DER projects, impacting DER adoption.

Simplicity will be a key factor for the OEB to consider in reviewing the transition to locational, time varying compensation for net metered customers. **Hydro One recommends that the OEB consult with the industry to comprehensively review and assess the mechanics and implications of this transition for LDCs and customers before moving towards implementation.**

Recommendation 2: *“Review restrictions on net metering within the Distribution System Code (e.g., requirement to connect up to 1% peak load threshold) to ensure DERs are enabled while protecting distribution customers from increased costs due to technical impacts of increased bi-directional electricity flow.”*

Hydro One Response:

Hydro One requests that the OEB clarify the problem statement and how this recommendation is expected to address the identified gap.

Recommendation 3: “Amend Community Net Metering Regulation Subject to local distribution system conditions, consider the following amendments to O. Reg. 679/21:

- Remove requirement that each community net metering project be explicitly listed in the regulation.
- Reflect any changes made to net metering if a transition to net billing is made (see recommendation #1).”

Hydro One Response:

Hydro One acknowledges that there are customers within its service territory who are supportive of this change and believes that this change can increase DER adoption given the shared benefits and project costs.

Hydro One recommends that the categories under OEB’s Solution Assessment consider the impacts to LDCs and the distribution grid. Significant uptake may trigger distribution upgrades to accommodate more community net metering customers, increasing ratepayer costs. Implementing this change will also require major updates to Hydro One’s existing billing and settlement systems, resulting in incremental costs, and can have complex settlement and billing agreements that would be administratively burdensome to manage.

Opening up eligibility for community net metering projects will be a significant undertaking for the OEB and will need to be considered in the context of how these projects could be leveraged to meet grid needs and in the context of the potential shift from net-metering to net-billing as discussed above. **Hydro One recommends that the OEB engage the industry to review the proposal in more detail before moving towards implementation.**

Recommendation 4: “Explore ways to make more efficient use of ICI resources outside of bulk system peak periods, including consideration of opportunities to provide transmission and/or distribution capacity value where local or regional needs are identified”

Hydro One Response:

Industrial Conservation Initiative (ICI) participants reduce their electricity demand during bulk system peak periods to reduce the province’s peak demand, not only reducing their bills but also deferring potential investments in building peaking generation. **Hydro One supports exploring more ways that existing DERs can contribute toward other components of the value stack; however, Hydro One believes that the present nature of the ICI program would make it difficult to utilize DERs installed for ICI for other uses, as there would be substantial overlap.**

As mentioned in the OEB recommendation, increased opportunities for ICI participants to contribute to other value streams would only apply to resources located where local system constraints are not coincident with bulk system peak periods. Hydro One notes that there is a high probability that local system needs align with transmission system needs. Also, the ICI program does not preemptively determine the event date/time, resulting in participants reacting to forecasted events at a higher volume. As the Global Adjustment (GA)

cost diminishes with rising Ontario Electricity Market Price (OEMP), there may be an opportunity if the relative value of ICI becomes less attractive.

Recommendation 5: “Encourage efficient use of DERs by implementing dynamic pricing for Non-RPP Class B electricity customers.”

Hydro One Response:

Hydro One is supportive of this recommendation to provide non-RPP Class B customers with more opportunities to manage their bills or receive financial relief programs, as with other classes of customers.

Hydro One supports⁸ the proposed pricing options reviewed in the OEB Dynamic Pricing Options for Non-RPP Class B Electricity Consumers (EB-2022-0079). Hydro One provided a submission on the OEB’s proposal in October 2024, which noted that a heightened financial incentive beyond that proposed in the alternative pricing options would encourage larger adoption of behavioural changes and successful implementation of the pricing options. Customer uptake of these alternative pricing options would drive implementation feasibility and cost-effectiveness.

Recommendation 6: “Establish a cost allocation and delivery framework for front-of-meter and market-participating DERs that have both distribution and bulk value, building on eDSM Stream 2.”

Hydro One Response:

Hydro One is actively engaged in the OEB eDSM Stream 2 consultation currently underway, aiming to establish an approval and funding mechanism to allow LDCs to get approval for proportional distribution rates (rate rider) and GA funding for local eDSM programs that are aimed at meeting a local system need.

This recommendation proposes building on this work and expanding this program for front-of-meter and market-participating DERs that have both distribution and bulk value. Similar to eDSM Stream 2, **Hydro One encourages the OEB and IESO to collaborate with LDCs and stakeholders to develop this proposed framework. LDCs should play a key role in leading procurements for DERs connected to the distribution system.**

⁸ [Hydro One submission](#) on OEB consultation on Dynamic Pricing Options for Non-RPP Class B Electricity Consumers (EB-2022-0079) in October 2024

Recommendation 7: “Where appropriate, leverage procurements and/or programs within the IESO’s resource adequacy framework to secure transmission non-wires solutions when they are identified as preferred solutions through the Regional Planning Process.”

Hydro One Response:

Hydro One supports the integration of transmission NWS where they are assessed to be technically feasible, economical, and preferred option to address system needs as part of regional planning process. **Hydro One encourages the OEB and IESO to collaborate with transmitters and LDCs to consider how these transmission NWS can be further leveraged to unlock other value streams. LDCs should play a key role in leading procurements for DERs connected to the distribution system.**

Recommendation 8: “Incorporate a transmission avoided cost framework in demand-side management (DSM) cost-effectiveness tests when needs are identified in the Regional Planning Process.”

Hydro One Response:

Hydro One notes that the existing regional planning process incorporates transmission avoided costs in the DSM cost-effectiveness tests. Hydro One encourages the OEB and IESO to collaborate with transmitters and LDCs to emphasize the benefits DERs provide in alleviating system constraints and clarify how these costs would be accounted for in the assessment. Consideration should be given to consistency of the transmission avoided costs within the regional planning framework, the OEB Benefit-Cost Analysis Framework, and eDSM Stream 2 program.

Recommendation 9: “Enable value stacking by developing consistent and transparent approaches for distribution programs and/or procurements to support interoperability with the bulk system and compatibility with the IESO’s resource adequacy framework.”

Hydro One Response:

In Hydro One’s experience, the current programs and procurements for DERs are primarily focused on supporting the bulk system. **The OEB should work with the IESO and LDCs to consider how the DERs in these programs can be leveraged to provide distribution capacity value as well.**

LDCs should play a key role in leading procurements and programs for DERs connected to the distribution system. **Hydro One encourages the OEB to work with IESO and LDCs 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, enabling value stacking.**

Hydro One believes it is too early to standardize distribution procurements as NWS are still in their infancy, and the sector is still leveraging and testing different approaches to use DERs as NWS. Standardization is more appropriate once this space becomes more mature.

Recommendation 10: “Programs and procurements by the IESO and LDCs should explicitly allow for future value stacking opportunities, when resources are capable of providing multiple services.”

Hydro One Response:

Hydro One agrees with this recommendation that DERs should not have exclusive contracts with either the IESO or LDCs and should be allowed to provide multiple services to provide more value stacking opportunities. Non-exclusivity should be standard for all resources as technological developments can occur in a contract period that would enable resources to provide services to multiple levels of the grid. Hydro One does not have any exclusivity requirements for DERs providing localized benefits through flexibility. This recommendation will improve accessibility for DERs to participate in LDC procurements. This should also be considered within the context of the DSO capabilities work that the OEB is undertaking.

Recommendation 11: “Develop simplified process or tool for DER providers to easily understand and assess available mechanisms for their resources and identify best available pathways to compensation for the services they provide.”

Hydro One Response:

Hydro One is supportive of the development of a simplified process or tool to help DERs understand and assess available mechanisms for their resources and identify best available pathways to compensation for the services they provide.

Part 2: DER Delivery Rates

Hydro One supports assessing the proposed changes within the context of the rate design principles of cost recovery, fairness, efficiency and simplicity. Compensation mechanisms should be appropriately balanced with the delivery rates that DERs pay, based on their utilization of the grid, and avoid overlapping mechanisms or incentives that can create issues with double counting.

Hydro One’s feedback in this section emphasizes the key considerations on the OEB’s analysis and questions to ensure that the resulting framework reflects the appropriate value that DERs provide to the system and ratepayers.

A. The OEB’s approach to addressing DER delivery rates

1. **Are the approximate DER definitions that the OEB has outlined for purposes of this work adequate?**

Hydro One Response:

Hydro One submits that the approximate DER definitions are adequate for the purposes of this work.

Hydro One proposes the following changes, in italicized and underlined text, to the descriptions in slide 50 of the Supplementary Materials.

- Energy efficiency measures could include practice change by businesses or consumers, or load modifying technologies. Suggest the following modification: “Energy efficiency measures that do not fall into one of the categories above are not considered to be DERs because their performance is not dynamically variable”
- Recommend updating the example under behind-of-the-meter DERs to say: “Examples include rooftop solar panels or home batteries that inject energy into a specific home or business.” The second sentence “Behind the meter DERs tend to primarily serve the energy needs of the customer that hosts them” may no longer be true if the transition to net billing is made.

2. Are the working rates principles that the OEB has outlined appropriate?

Hydro One Response:

Hydro One supports using the OEB’s proposed rate design principles for the purposes of this work – cost recovery, fairness, efficiency and simplicity.

3. Has the OEB appropriately characterized and considered the potential advantages and limitations of greater harmonization between Ontario’s transmission and distribution rates frameworks for electricity resources?

Hydro One Response:

Hydro One supports greater consistency between the transmission and distribution rates frameworks for DERs, where appropriate and applicable.

B. The appropriateness of the OEB’s analysis and observations, and draft discussion questions related for:

4. Connection cost responsibility:

- What should the OEB consider when reviewing policies under Ontario Regulation 330/09 related to the treatment of distributed generation when powered by renewable energy sources - Renewable Enabling Improvement cost recovery, renewable energy expansion cost cap, Generation Connection Rate Protection, the scope of the Regulation - in light of changes in DER deployment and technology in Ontario since these initiatives were introduced?

Hydro One Response:

Hydro One recommends that the OEB review these existing policies to ensure that DERs are compensated fairly. This review should include the consideration of the types of eligible DERs in these policies, areas of double compensation, and addressing differences in the treatment of a transmission rate asset versus a distribution rate asset.

The Renewable Energy Expansion Cost Cap Subsidy (REECC) and Renewable Enabling Improvements (REI) provisions in the Distribution System Code (DSC) are already compensating renewable generation for the intrinsic value/benefits that these facilities are assumed to provide to the system and ratepayers. If the OEB is moving towards compensating DERs for the actual value/benefits that they provide, then their connection costs should not be subsidized (or clawed back) for the same reason as this would amount to compensating them doubly for the same benefit/value. The OEB should consider how to reconcile both mechanisms and determine whether and what amounts to appropriate from a connection standpoint.

5. Base distribution rates for front-of-meter generation DERs:

Hydro One Response:

Hydro One does not fully agree with the OEB’s observation that the front-of-meter generators do not pay base distribution rates for their generation. In Hydro One’s case, traditional front-of-meter generators (those that fall under the DGen rate class) pay a fixed monthly distribution service charge which recovers metering, billing and other administration related costs that are common for their generation and the load they consume. Hydro One agrees with the OEB’s observation regarding the variable charges (i.e. base distribution rates and RTSRs), which the front-of-meter generators only incur for the electricity they consume.

6. Base distribution rates for front-of-meter electricity storage DERs:

- Should the OEB exempt front of meter electricity storage (i.e., storage that is directly connected to a distribution system) from base distribution rates? This would be consistent with how front of meter generation is treated on Ontario’s distribution and transmission systems and how transmission connected storage will be treated beginning in 2026. Should the OEB leverage lessons from the work that OEB and the IESO are doing to co-ordinate and implement the exemption to transmission connected storage?
- Should the OEB consider exempting front of meter electricity storage from paying Retail Transmission Service Rates in the more immediate term? This would facilitate the integration of the distribution-connected front of meter electricity storage procured recently by the IESO

Hydro One Response:

Hydro One submits that an exemption from paying delivery charges (i.e. base distribution rates and RTSRs) for a certain group of customers that use the distribution and transmission systems to withdraw electricity goes against the cost-causality and user pays principles. Depending on the service provided by a storage facility, they could be charging/injecting during peak times. System capacity is being built to support their operation, so they should bear the associated costs; otherwise, their ability to charge should be restricted to periods where capacity is available.

Moreover, such an exemption for front-of-meter storage will shift costs to other rate payers/load customers, and such cross-subsidization goes against the fairness principle. Given that most of these customers are or will be in rate classes that currently do not receive any government subsidy (such as

DRP/OER), consideration for the bill impacts for non-participating load customers would be paramount. Hydro One also notes that this exemption from paying delivery charges will generally result in higher capital contributions being collected from the new storage facility customers for any system expansion work that must be undertaken. This is because there is no offsetting revenue component to consider when the distributor performs its economic evaluation of the new expansion facilities.

See Hydro One's response to question 5 above regarding base distribution rates for front-of-meter generation DERs.

Similar to the concerns raised by Hydro One regarding the OEB's UTR Phase 2 Decision to exempt storage facilities from paying certain transmission charges, exempting storage facilities from paying distribution delivery charges would also present cost recovery issues for distributors, as it relates to existing storage customers. This is because the economic evaluation of a storage facility's expansion costs performed by a distributor considered the revenue that the storage facility would provide to the distributor when they charge from the distribution system over the economic evaluation period. If storage customers are no longer required to pay distribution delivery charges, this will result in a revenue shortfall for the distributor that the distributor will need to recover to ensure ratepayers are not harmed. A distributor would need to be able to recover this shortfall from existing storage customers through a true-up and would require existing storage customers to provide an additional capital contribution.

7. Specialized DER distribution rates:

- Looking ahead, in the event of greater deployment of DERs across Ontario's distribution systems, should the OEB consider opportunities to facilitate consistency in how specialized rates for DERs are developed and applied by Ontario's electricity distributors? The OEB has done this in the past, when it established a provincewide fixed monthly service charge for microFIT generators (which are distribution-connected generators) based on nine cost elements specified by the OEB. The OEB reviews the microFIT charge annually.

Hydro One Response:

Hydro One supports the OEB exploring more consistent approach for specialized rates for DERs. However, cost causation principles should be considered. Furthermore, unique circumstances and requirements of each LDC should be also taken into account when developing standardized rates.

8. Delivery rates for behind-the-meter DERs, specifically on:

- a) Standby rates: As distributors propose to finalize their standby rates over time, should the OEB consider reviewing best standby rates practices and applying lessons learned to facilitate the ongoing effectiveness of DER delivery rates in Ontario?

Hydro One Response:

Hydro One supports the OEB reviewing best standby rates practices. Furthermore, Hydro One notes the OEB should consider a standardized approach for all LDCs across Ontario.

- b) Bypass compensation: Should the OEB consider reviewing its policy related to bypass compensation exemptions given the passage of time since the policy was first established and given the rapidly evolving context for DER deployment in Ontario? Areas for focus might include evaluating the continued suitability and scope of existing bypass compensation exemptions (e.g. should exemptions be extended to also include non-renewable DERs?), and opportunities for continued harmonization between applicable provisions in the TSC and DSC.

Hydro One Response:

The current bypass compensation rules favour certain types of DERs over others. Hydro One encourages the OEB to review their rules to ensure they remain agnostic from a technology or fuel perspective.

- c) Retail Transmission Service Rates: Should the OEB consider reviewing opportunities to achieve greater consistency in how transmission delivery rates (Retail Transmission Service Rates) are applied to distribution load customers with behind-the-meter generation, in terms of distinguishing between net load and gross load billing? This could provide added predictability for load customers with behind-the-meter DERs. It could also enhance the existing alignment between Ontario's distribution and transmission rates frameworks for behind-the-meter resources.

Hydro One Response:

Hydro One supports the OEB reviewing opportunities to achieve consistency in how RTSRs are applied to the distribution customers with behind-the-meter generation across LDCs. Hydro One also notes that gross load billing is applied to demand-billed RTSR Connection charges for Hydro One's distribution customers, which is consistent with the treatment applied to the transmission charges.

9. Distribution rates for DERs providing grid services:

Hydro One Response:

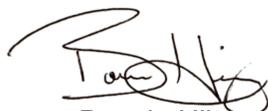
Hydro One agrees that delivery rates should focus on recovery of the delivery costs. Any value that DERs provide to the grid should be considered as part of a separate mechanism and not through delivery rates.

CONCLUSION

Hydro One thanks the OEB for the opportunity to comment on the proposals for DER Valuation and looks forward to collaborating with the OEB in the various initiatives to achieve 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,



Bonnie Hiltz