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Next Steps on the Regulatory Treatment of Local Electricity Demand- Side Management (Stream 2) Programs – Additional Details

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**Ontario
Energy
Board**

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1. OVERVIEW

This document provides additional details related to the OEB's letter of March 31, 2026, **RE: Next Steps on the Regulatory Treatment of Local Electricity Demand-Side Management (Stream 2) Programs**. That letter invites comments from interested parties on a new appendix (Stream 2 eDSM Appendix) to the Non-Wires Solutions (NWS) Guidelines for Stream 2 electricity demand-side management (eDSM) programs.

Additional details are provided in this document on areas where the draft Stream 2 eDSM Appendix modifies the proposed framework described by the DSM Regulatory Working Group (Working Group) or provides additional guidance. This document also discusses several other topics raised in Participant comments in the consultation.

2. KEY CHANGES FROM WORKING GROUP PROPOSAL

Key areas where the draft Stream 2 eDSM Appendix modifies the Working Group's proposed framework or provides new guidance are described below, with supporting rationale.

2.1. Delegation of Authority

Working Group proposal and Participant comments: The Working Group requested a streamlined OEB review process for Stream 2 local eDSM program funding requests, with most applications reviewed under delegated authority (DA) without a hearing. The Working Group proposal considered the possibility of review by an OEB panel in non-routine cases. The Working Group proposed that the OEB could determine on a case-by-case basis whether to elevate a Stream 2 local eDSM program funding request to be reviewed by an OEB panel. Participant views on the request for review by DA were mixed, with eDSM solution providers supporting this approach, while Participants representing ratepayer interests generally submitted that DA review of Stream 2 local eDSM program funding requests should be considered at some point, but not until the OEB gains more experience in reviewing this new type of application. Participants also noted that review of Stream 2 local eDSM program funding requests will not be purely mechanistic and will require some judgement, differing to some degree from the types of approvals delegated to date by the OEB.

OEB determination: The OEB has determined that review by DA will not be the default approach for Stream 2 eDSM applications; instead the OEB will consider delegation of applications containing Stream 2 eDSM program funding requests on a case-by-case basis, with a determination made by the Chief Commissioner, informed by a list of considerations that the Chief Commissioner will take into account in making this determination. After a period of time, the Chief Commissioner may revise this approach in the interest of maximum adjudicative efficacy and efficiency. An updated list of considerations is included in the Stream 2 eDSM Appendix (section 1.3). As proposed by the Working Group, this list of considerations is non-exhaustive. The Chief Commissioner will consider an application in its totality in making a determination. An addition the OEB has made to the list of considerations originally proposed by the Working Group is consideration of the size of a Stream 2 local eDSM program funding request in relation to a distributor's annual revenue requirement.

2.2. Performance Standards

Working Group proposal and Participant comments: The Working Group noted that one of the benefits from a streamlined approval process, involving DA, was expected to be a shorter time to receive an OEB decision and subsequently bring a Stream 2 local eDSM program to market. Several submissions from Participants noted that the OEB could address approval timelines, separate from the question of DA review, by establishing a performance standard for Stream 2 local eDSM program funding requests (including applications reviewed by an OEB panel), consistent with the performance standard for Incentive Rate-Setting Mechanism (IRM) applications. In its reply submission, the Working Group supported establishing a performance standard but proposed a two-month total cycle time between filing and decision as an appropriate standard.

OEB determination: The OEB has determined that its existing Complex IRM performance standard (165-day cycle time) will apply to Stream 2 local eDSM program funding requests, whether filed as stand-alone applications or as part of an annual rate adjustment application. As noted in the Working Group proposal, it is expected that most Stream 2 local eDSM program funding requests will be submitted as part of an annual rate adjustment application (IRM or Custom IR annual update). Consistent with current practice, the OEB will place a high priority on issuing annual rate adjustment decisions in time

for the requested rate implementation date, including any applications with a Stream 2 local eDSM component.

The Working Group's suggestion of a two-month cycle time, for stand-alone Stream 2 local eDSM program applications, was first proposed in its reply submission. After gaining some experience with review of Stream 2 local eDSM program applications, the OEB will consider whether a separate performance standard, with a shorter cycle time, should be established for stand-alone applications. As noted above, most Stream 2 local eDSM program funding requests are expected to be submitted as part of a larger rate application. Therefore, the OEB does not believe that the absence of a separate performance standard for Stream 2 local eDSM program applications will pose a significant barrier to the OEB providing timely review of Stream 2 local eDSM program funding requests.

2.3. Incrementality of eDSM Spending

Working Group proposal and Participant comments: Participants considered a circumstance where a distributor was seeking funding for a Stream 2 local eDSM program to address a system need for which funding (for a different solution to the need, such as a traditional wires solution) had already been provided to the distributor through its approved rates. The Working Group was of the view that a revenue adjustment was not required in this circumstance. The Working Group noted a possible exception if a project-specific funding approval, such as an Incremental Capital Mechanism (ICM), had previously been provided by the OEB to address the same system need. Several Participants recommended that the distributor be required to demonstrate that the distribution portion of the Stream 2 local eDSM program costs is incremental to the existing base rates of the distributor.

OEB determination: The OEB notes that for NWS funding applications filed outside of rebasing, the existing NWS Guidelines (section 3.4) require a distributor to identify whether any funding to address the identified system need is already included in existing rates (similarly, incrementality of costs is also assessed by the OEB in IRM applications that include a Z-factor claim). The OEB has determined that it will not remove this evidentiary requirement for Stream 2 local eDSM program applications. As noted in the NWS Guidelines, this information will assist the OEB in determining, on a case-by-case basis, whether the proposed spending is incremental to base rates and

should be eligible for cost recovery.

2.4. Distributor Incentives

Working Group proposal and Participant comments: Separate from this consultation, the OEB previously established [filing guidelines](#) that enable distributors to apply for an incentive – through one of three types of incentive mechanisms – when using third-party distributed energy resources (DERs) as NWS. The OEB has further established a standardized approach for one of these incentive mechanism (Margin on Payments), [implemented through amendments to the Distribution System Code](#).

The Working Group requested the ability to seek distributor incentives for Stream 2 local eDSM programs. It further requested that the OEB also establish a standardized approach for the Shared Savings Mechanism incentive, to reduce the need for judgement in the OEB's review of any request for a shareholder incentive in a Stream 2 local eDSM application. For the Margin on Payments (MoP) incentive, the Working Group also requested that the OEB modify its guidance so that the MoP incentive would be calculated as a margin on all stream 2 local eDSM program costs borne by the distributor, not just a margin on payments made by a distributor to a third party.

OEB determination: The OEB has determined that distributors are eligible for incentives for stream 2 local eDSM programs. The OEB has drafted the Stream 2 eDSM Appendix so that incentive requests can be embedded in a Stream 2 local eDSM program application and do not require a separate incentive application.

The OEB has adopted a proposal made by the Working Group that the forecast cost of a distributor incentive would be embedded in the established Stream 2 local eDSM rate rider. The forecast and actual cost of a distributor incentive would be reconciled at the time of disposition of an eDSM Variance Account based on actual Stream 2 local eDSM program performance. This aspect is discussed in the Stream 2 eDSM Appendix (section 4.1).

The OEB has determined that distributors proposing to use the MoP incentive for a Stream 2 local eDSM program must comply with the existing guidance. In particular, the MoP incentive can only be applied to costs paid to third parties (including incentives paid to customers to encourage purchase or activation of energy efficiency/demand response measures). It cannot be

applied to other OM&A costs associated with a Stream 2 local eDSM program such as program administration and marketing if these activities are undertaken by the distributor.

Alternatively, distributors may propose an incentive for a Stream 2 local eDSM program based on the Shared Savings Mechanism or scorecard-based approach. At this time, the OEB is not establishing a standardized approach for the Shared Savings Mechanism incentive. The OEB will consider this suggestion as part of its broader work on utility remuneration.

2.5. Program Term

Working Group proposal and Participant comments: The Working Group requested that distributors could request OEB approval for a single-year or multi-year Stream 2 local eDSM program. The initial approval would establish a rate rider, based on the distribution rates portion of the program budget, that would remain in effect for the program term –which could be up to 10 years in length. At rebasing, a distributor could request that a previously approved program rate rider continue.

OEB determination: The OEB has determined that it will limit the initial term of approval for a Stream 2 local eDSM program to a maximum of three years, or five years if filed as part of a cost of service application. While safeguards regarding underperforming Stream 2 local eDSM programs are built into the OEB's guidance, broader system conditions, such as load forecasts, system needs, and the value of bulk savings will also change over time. Requiring distributors to seek approval to extend a program beyond this term length, through an application, will allow the OEB to review whether continued funding remains appropriate. A longer maximum term is proposed for programs filed as part of a cost of service application, because the distribution system plan and assessment of system needs will have been recently updated and comprehensively reviewed if a Stream 2 local eDSM program is approved in this context.

Regarding continuation of programs through rebasing, if the requested continuation does not extend the program duration beyond the maximum three-year term of the initial approval, distributors can request approval of a rate rider in a cost of service application for continued funding of a previously approved Stream 2 local eDSM program. As requested by the Working Group, this will not generally entail a comprehensive program review. In this

circumstance, a distributor can request either continuation of a previously approved rate rider, or an updated rate rider based on updated billing determinants from the cost of service application.

2.6. Cost Allocation

Working Group proposal and Participant comments: The Working Group proposed that the cost of a Stream 2 local eDSM program would be allocated between rate classes as per the approved cost allocation method from the distributor's most recent cost of service approval, with the option for distributors to propose an alternate approach.

Some Participants proposed that the cost allocation approach mirror the cost allocation approach for the types of assets/costs the eDSM program is avoiding or deferring.

OEB determination: The OEB agrees that the cost allocation approach should be based on the cost driver(s) that relate to the distribution system benefits of the Stream 2 local eDSM program, e.g., by adopting the cost allocation approach for the types of assets/costs the Stream 2 local eDSM program is avoiding or deferring. A Stream 2 local eDSM program funding request will be required to include a proposed approach to cost allocation based on this principle.

2.7. First Nations Programs and Participation

Working Group proposal and Participant comments: The Working Group proposed that programs targeting on-reserve First Nation communities (as well as income-qualified customers) would not be required to achieve a specific minimum benefit-to-cost ratio using the cost-effectiveness tests in the Benefit-Cost Analysis (BCA) Framework. This parallels the exemption from a minimum cost-effectiveness threshold for programs targeting these customers in the provincial eDSM Framework.¹ Programs would still be required to address a distribution system need, receive IESO endorsement, and include a completed BCA for the OEB's consideration.

OEB determination: The OEB is adopting the Working Group's proposal that programs targeting on-reserve First Nation communities or income-qualified customers will not be required to achieve a specific minimum benefit-to-cost ratio using the BCA Framework. Because a completed BCA

¹ Section 8 of [November 7, 2024 Minister's Directive to IESO](#)

will still be filed for the OEB’s consideration, the OEB will have the discretion to review the program if it has concerns regarding the benefit-to-cost ratio or qualitative benefits (as will be the case for any Stream 2 local eDSM program). The benefit-to-cost ratio of a Stream 2 local eDSM program is one of the proposed considerations that the Chief Commissioner would consider when assessing whether review by an OEB panel is warranted.

For IESO-led eDSM programs for on-reserve First Nation communities, the Minister’s directive to the IESO requires the IESO to “request the advice and consider the recommendations of First Nation communities and organizations, including in relation to program delivery”.² The OEB has determined that a similar requirement should apply for Stream 2 local eDSM programs for on-reserve First Nation communities. Distributors may also explore opportunities for Indigenous participation in other Stream 2 local eDSM programs, but the OEB is not establishing mandatory requirements regarding First Nations partnership/participation, as Minogi/Three Fires Group had requested.

3. OTHER AREAS OF PARTICIPANT COMMENTS

This section describes several other topics raised through Participant comments in the Stream 2 local eDSM consultation.

3.1. Benefit-Cost Analysis Framework

Working Group proposal and Participant comments: Some Participants requested that the OEB provide additional guidance or changes related to the BCA Framework, such as requiring use of a non-energy benefits adder, providing guidance on which of the categories of costs and benefits listed as “optional” in the BCA Framework need to be included in stream 2 eDSM applications, and requiring the IESO to quantify and value avoided transmission benefits. The Working Group indicated during the consultation that valuation of transmission-level impacts could be a future enhancement to Stream 2.

OEB determination: The Stream 2 eDSM Appendix (chapter 3) encompasses the BCA filing requirements described in the BCA Framework and notes specific considerations in for Stream 2. The OEB is of the view that broader changes to the BCA Framework should be considered separate from

² Section E.2 of November 7, 2024 Minister’s Directive

the Stream 2 local eDSM consultation. The OEB currently has a separate active consultation on Phase Two of the BCA Framework, which includes consideration of a non-energy benefits adder.³

Regarding valuation of transmission-level impacts, the OEB notes that the BCA Framework already includes transmission capacity as a benefit that is permitted (but not required) to be quantified in the Energy System Test. Further, the NWS Guidelines (sections 4.2 and 4.3) already provide general guidance on requesting distribution rate funding for NWS at the distribution level that are intended to address (in whole or in part) regional needs, inclusive of transmission needs.

However, additional work is needed prior to incorporating transmission-level impacts into Stream 2 local eDSM guidance, including addressing cost allocation considerations.

3.2. Eligible measures

Working Group proposal and Participant comments: Some Participants submitted that specific measures (e.g., behind-the-meter and front-of-meter storage, behind-the-meter generation coupled with net metering, managed electric vehicle charging) be clearly defined as eligible for stream 2 local eDSM funding and endorsed by the IESO.

The Working Group noted that the IESO has concluded that front-of-meter DERs, and behind-the-meter resources coupled with net metering, are not considered eligible for eDSM funding through the Global Adjustment.

OEB determination: The OEB's NWS Guidelines include a broad definition of NWS that would encompass the measures mentioned, making them potentially eligible for distribution rate funding.

However, it is ultimately the IESO's determination as to which eDSM measures are eligible for funding through the Global Adjustment under Stream 2, taking into account the funding authority from its Ministerial eDSM directives. For measures ineligible for Stream 2 Global Adjustment funding,

³ EB-2023-0125. <https://engagewithus.oeb.ca/bcaframework> On February 6, 2026, the OEB released draft revisions proposed for Phase Two of the BCA Framework for public comment, including a proposal to incorporate societal impacts through the application of a non-energy benefits adder. The guidance in the Stream 2 eDSM Appendix is based on the current approved BCA Framework. Should the OEB proceed to make changes to the BCA Framework based on the Phase Two consultation, it will also provide direction on how these changes impact the use of the BCA in the context of Stream 2, if needed.

distributors still have the option of requesting distribution rate funding under the OEB's NWS Guidelines (recognizing that the Distribution System Test results would be the primary consideration used by the OEB for assessing rate-funding in this circumstance).

3.3. Measures and Assumptions list

Working Group proposal and Participant comments: Some Participants encouraged the IESO to update its list of prescriptive measures and assumptions to add additional technologies and measures, making it easier for distributors to design and receive approval for Stream 2 local eDSM programs using these measures. The Working Group indicated that the Measures and Assumptions list is within the IESO's area of responsibility and notes that the IESO intends to publish its process for updating the Measures and Assumptions list as part of Stream 2 implementation.

The OEB agrees with the Working Group that the Measures and Assumptions list is an area of IESO responsibility. The OEB also notes that the Stream 2 eDSM Appendix provides flexibility for the IESO to endorse and support Stream 2 local eDSM programs encompassing measures that are not on its Measures and Assumptions list, based on its expert analysis of the program assumptions.

3.4. Additional actions to address barriers to DERs

Working Group proposal and Participant comments: Some Participants made suggestions for additional actions by the IESO and/or OEB, to address barriers to DERs. These include conducting a process review to identify the drivers of low uptake for DER programs, considering how to encourage distributor partnerships with DER providers, collaborating with distributors and DER providers on pilot projects, and directing the IESO to work with several distributors on battery-focused pilots. The Working Group did not directly address these suggestions in its reply.

OEB determination: The OEB will consider these suggestions where appropriate as part of its broader work on DERs, but they are beyond the scope of the Stream 2 eDSM Appendix.