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June 15, 2026

via RESS

Mr. Ritchie Murray
Acting Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Mr. Murray:

**Re: Toronto Hydro-Electric System Limited (“Toronto Hydro”)
Non-Wires Solution Incentive Mechanism Application
OEB File No. EB-2026-0129, Response to Preliminary Questions**

On April 10, 2026, Toronto Hydro filed an application with the Ontario Energy Board (“OEB”) seeking approval of a proposed Non-Wires Solutions (“NWS”) margin-on-payment and an associated deferral account effective May 1, 2026 to December 31, 2029.

On June 8, 2026, the OEB issued Procedural Order No.1, requesting clarification with respect to the scope of the application. Below please find Toronto Hydro’s responses.

#1 Is Toronto Hydro seeking to review, vary, or otherwise alter any aspect of the EB-2023-0195 Partial Decision and Order (issued November 12, 2024)? Please explain.

No, Toronto Hydro is not seeking to review, vary, or otherwise alter any aspect of the specified Decision and Order. This application is pursuant to Section 11 of the Distribution System Code (“DSC”), which came into effect after the record in EB-2023-0195 was closed.

#2 Please discuss the relationship between the current application and the OEB-approved settlement proposal in EB-2023-0195. In particular, please address settled issue 2.1, which the parties agreed “to eliminate the proposed Performance Incentive Mechanism in lieu of a higher than proposed stretch factor and incremental stretch factor on capital.”

The NWS incentive regime established by Section 11 of the DSC is not analogous to the Performance Incentive Mechanism (“PIM”) that Toronto Hydro proposed in its 2025-2029 Custom Incentive Rate-setting application. The PIM, as proposed, was intended as a risk-based mechanism to tie a portion of



Toronto Hydro's financial performance to the achievement of outcomes.¹ The function of the expanded stretch factor that was ultimately settled upon was to increase the overall financial risk to Toronto Hydro, creating an incentive for the utility to seek incremental cost-efficiency over the rate period. As described below, the purpose of the NWS incentive as set out in the DSC is fundamentally different - it exists to address the misalignment between utility and customer interests with respect to the cost-effective deployment of NWS under the current utility remuneration regime in Ontario. In addition, it would not have been possible to address Section 11 of the DSC in the EB-2023-0195 settlement since that section came into effect more than a year after the settlement was approved.

Under the PIM proposed in EB-2023-0195, Toronto Hydro could recover an incremental self-imposed stretch factor if it met specified performance targets tied to its 2025-2029 investment plan.² The PIM was proposed as an accountability and rate mitigation mechanism that shifts incremental performance risk to the utility by making its ability to earn the regulated deemed rate of return conditional on meeting the balanced scorecard performance targets.³ The PIM did not provide Toronto Hydro with a reward for achieving the performance objectives on the balanced scorecard; it was purely an incremental risk-based incentive.⁴ The imposition of a higher productivity-focused stretch factor (including an incremental stretch factor on capital) through the settlement increased the overall financial risk to Toronto Hydro consistent with the intent and logic of the PIM. Therefore, the proposed PIM was withdrawn from the custom rate framework.⁵

In contrast to the risk-based PIM, the NWS incentive regime set out in Section 11 of the DSC is intended to address the misalignment between utility remuneration for capital and non-capital costs that may serve as a barrier to the cost-effective deployment of NWS. The OEB explains this clearly in section 6.1 of the Framework for Energy Innovation ("FEI") report, which underpins the current NWS incentive regime:⁶

The OEB recognizes that, in deploying these solutions, distributors will forgo an opportunity to earn a return by adding to their rate base, since "DERs will often, from a utility point of view, be noncapital in nature."³⁶ This misalignment between utilities' interests (to earn profits by building assets) and customer interests (to have the most cost-effective delivery of reliable energy services) may be a barrier to DER solutions. Providing incentives for distributors to deploy third-party owned DERs as NWAs is a way of addressing this barrier in the near term, without revisiting the fundamental approach to how utilities are remunerated and the overall rate-setting framework.

¹ EB-2023-0195, Evidence Day Transcript (May 22, 2024) at pg. 18.

² EB-2023-0195, Exhibit 1B, Tab 2, Schedule 1 at pgs. 28-29; Evidence Presentation Transcript (May 22, 2024) at pg. 18.

³ EB-2023-0195, Evidence Day Transcript (May 22, 2024) at pg. 19.

⁴ EB-2023-0195, 1B-Staff-54 (March 11, 2024).

⁵ EB-2023-0195, Settlement Proposal (August 16, 2024) at pg. 35.

⁶ Ontario Energy Board, *Framework for Energy Innovation Report* (January 2023), Section 6.1 at pg. 21.

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In this application, Toronto Hydro seeks approval of a margin-on-payment that advances the policy objectives set out in the FEI and is expressly authorized by Section 11 of the DSC. Section 11 was proposed in May 2025 and adopted in November 2025, after the settlement agreement in EB-2023-0195 was negotiated. The settlement could not have contemplated this application and cannot be relied on to imply that Toronto Hydro waived its rights under the DSC.

The wording of the settlement proposal also distinguishes the relief sought in this application from the substance of that agreement. The settlement proposal specifically refers to, and is limited to, the elimination of the specific PIM proposed in the EB-2023-0195 application. For the settlement proposal to preclude any type of application for any type of incentive or payment beyond that which is explicitly set out in the settlement proposal, it would have been necessary to use broader language. As explained above, the PIM was designed to increase Toronto Hydro's financial risk and accountability to ratepayers and provide the utility with an opportunity (not a guarantee) to make its full rate of return. This PIM proposal was fundamentally different from the compensatory incentives for the cost-effective deployment of NWS as established through the OEB's FEI Report, NWS Guidelines, and the DSC.

#3 Other than the request for a Margin on Payments incentive, is Toronto Hydro seeking approval for any changes to the LDR program as it was approved in EB-2023-0195? If yes, please describe the changes for which approvals are being requested.

Toronto Hydro is only seeking the approval of the margin-on-payments and the associated deferral account and is not seeking approval for any changes to the Local Demand Response ("LDR") program approved in EB-2023-0195.

The evidence Toronto Hydro filed under this stand-alone application with respect to the LDR program includes an updated Benefit-Cost Analysis, which was prepared for this application in order to comply with section 11.3.4 of the DSC.

Respectfully submitted.

A handwritten signature in blue ink that reads "Andrew J. Sasso".

Andrew J. Sasso

cc: All intervenors