Ontario Energy Board | Commission de l'énergie de l'Ontario

FINAL RATE ORDER

EB-2025-0156

ONTARIO ENERGY BOARD

Electricity Demand-Side Management (Stream 2) Variance Account

BEFORE: Vinay Sharma
Commissioner

July 7, 2026

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1 OVERVIEW

The Ontario Energy Board (OEB) has developed new guidance on local electricity demand-side management (eDSM) programs delivered by electricity distributors that provide both local distribution benefits and broader energy system benefits, also referred to as Stream 2 local eDSM programs, through an appendix to the Non-Wires Solutions (NWS) Guidelines.

To complement this guidance, the OEB is establishing, on its own motion, a generic variance account, the eDSM Variance Account (eDSMVA), including sub-accounts. The eDSMVA may be used by electricity distributors for approved Stream 2 local eDSM programs (Programs), to record the variance between actual eligible distribution Program costs and amounts recovered through the eDSM rate rider that would be established at the time of Program approval.

2 RATE ORDER

On July 7, 2026, the OEB issued an update to the NWS Guidelines, including an appendix (*Appendix to Non-Wires Solutions Guidelines: Stream 2 Local eDSM Programs*) that provides new guidance on Programs delivered by electricity distributors that provide both local distribution benefits and broader energy system benefits. These Programs will be funded from both the Global Adjustment and distribution rates.

The appendix to the NWS Guidelines provides guidance on requesting a Program approval from the OEB, and on the ratemaking considerations associated with Programs. These include:

- An approach to allocating Program costs between the distributor and the Global Adjustment, based on the proportions of Program benefits to distribution service and to the upstream energy system, calculated using the Energy System Test in the OEB's Benefit-Cost Analysis Framework.[1]
- The establishment of an eDSM rate rider for the distributor to recover the incremental revenue request associated with the Program, based on the distributor's portion of forecast Program costs.[2]
- The establishment of a new generic eDSM Variance Account (eDSMVA) to record the variance between actual eligible distribution Program costs and amounts recovered through the eDSM rate rider.[3]
    - Program approval by the OEB enables a distributor to make entries in the eDSMVA related to the approved Program.
- An option for a distributor to request an incentive related to the Program.[4]
    - If the incentive proposal is approved by the OEB as part of Program approval, the default approach is that the forecast value of the incentive is included in the costs embedded in the eDSM rate rider. Final disposition of the incentive amount is trued-up based on actual Program results as determined through the IESO's evaluation, measurement, & verification (EM&V), and awarded by the OEB through disposition of the eDSMVA.

In this Rate Order, the OEB is establishing the eDSMVA effective July 7, 2026.

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[1] Appendix to NWS Guidelines, Sections 3.4, 4.2
[2] Section 4.5
[3] Section 4.7
[4] Section 4.1

This Rate Order is being issued by the OEB on its own motion and without a hearing pursuant to its authority under sections 19(4) and 21(4)(b) of the *Ontario Energy Board Act, 1998*.

3 IMPLEMENTATION

The approved Accounting Order for the eDSMVA is provided in Schedule A. The eDSMVA is effective as of the date of this rate order.

The OEB is establishing the following generic sub-accounts for the eDSMVA[5], as well as a new related sub-account for Account 4245:

- Account 1508 - Other Regulatory Assets, Sub-account eDSM Variance Account - Distribution
- Account 1508 - Other Regulatory Assets, Sub-account eDSM Variance Account - Distribution Carrying Charges
- Account 4245 - Government and Other Assistance Directly Credited to Income, Sub-Account eDSM IESO Fund

Reporting

Under section 2.1.7 of the OEB's *Electricity Reporting and Record Keeping Requirements* (RRR), distributors are required to report annually on the balances in these DVAs. The relevant RRR forms will be updated to include the deferral accounts referred to in this Order and distributors should start reporting any balances in these accounts effective for the year ending December 31, 2026.

Disposition Considerations

The OEB is categorizing the eDSMVA as a Group 2 account, as defined in the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative*.[6] A distributor should seek disposition of the eDSMVA at the distributor's next Cost of Service application following the end of the Program, after final Program EM&V results have been provided by the IESO. A distributor is not precluded from requesting earlier disposition of a balance in the eDSMVA through a rate application if the balance is material, but disposition would typically be on an interim basis, as information on eligible Program costs is dependent on final Program information and EM&V results that would not be available until Program close-out. Development by the distributor of a realistic Program budget and the subsequent review by the IESO and the OEB is intended to reduce the likelihood of large balances accumulating in the eDSMVA.

[5] References in this rate order to the eDSMVA apply to both eDSMVA sub-accounts (distribution and distribution carrying charges), unless a specific sub-account is named.
[6] *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative*, July 31, 2009, p. 11

Final settlement between the IESO and a distributor should be completed before seeking disposition of the eDSMVA. The final settlement will account for changes in final Program costs due to eligible distributor incentives, as determined by final EM&V results. This variance is allocated between a distributor and the IESO in proportion to distribution service benefits versus upstream energy system benefits, using an updated calculation of benefits based on actual Program results that make use of the IESO's Program EM&V. This could result in a payment from the distributor to the IESO, or vice versa.

A distributor is expected to follow the general requirements for DVAs (as described in Exhibit 9: Deferral and Variance Accounts of the Chapter 2 Filing requirements) with respect to the eDSMVA. Additional guidance specific to the eDSMVA is provided below.

A request for disposition of the eDSMVA upon Program close-out is expected to include similar information as to what has been provided in annual reporting, including final information on:

- Actual Program spending relative to that forecast in the Program budget in the original OEB approval, including eligible distributor incentives, as determined by final EM&V results.
- Global Adjustment funding received from the IESO.
- Revenue recovered from the approved eDSM rate rider, and the associated balance in the eDSMVA (for the relevant sub-account).
- Actual Program participation and peak demand/energy savings, relative to forecast/target.
- All IESO EM&V reports, including final Program cost-effectiveness results.

A distributor requesting disposition of the eDSMVA should also provide:

- A variance analysis explaining discrepancies between forecast and realized outcomes, including an analysis of whether and how the original system need has been addressed due to the Program.
- Lessons learned and potential recommendations for future Program enhancements.

The eDSMVA is symmetric and disposition is not subject to a materiality threshold. Disposition is subject to prudence review.

- As noted in Section 4.1, Distributor Incentives, of the Appendix to the NWS Guidelines, the default approach is that the forecast cost of a distributor incentive would be embedded in the eDSM rate rider, with final incentive amounts trued-up based on actual Program results that make use of the IESO's Program EM&V, and awarded by the OEB through disposition of the eDSMVA.

- As noted in Section 4.2, Program Budget and Cost Allocation Between Global Adjustment and Distributor, of the Appendix to the NWS Guidelines, distributors are permitted to spend up to 15% above the approved Program budget to facilitate continued delivery of a successful program, without seeking an updated OEB approval, under defined conditions. The OEB may consider whether these conditions were met in determining whether any overspending is eligible for recovery through the eDSMVA.

When requesting disposition of a balance in the eDSMVA, a distributor should request approval of an eDSMVA rate rider (to recover the combined balance in both sub-accounts). While distributors are requested to propose an approach for how the forecast cost of the Program, recovered through the eDSM rate rider, would be allocated between rate classes based on cost drivers (see Section 4.4, Cost Allocation Between Rate Classes, of the Appendix to the NWS Guidelines), the allocator for the eDSMVA balance, recovered through the eDSMVA rate rider, is distribution revenue.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Accounting Order set out in Schedule A of this Final Rate Order is approved, effective July 7, 2026.

DATED at Toronto July 7, 2026

ONTARIO ENERGY BOARD

Ann Zeng
Digitally signed by Ann Zeng
Date: 2026.07.07 14:42:27 -04'00'

Ann Zeng
Deputy Registrar, Adjudicative Projects
Acting under delegated authority of the Registrar

SCHEDULE A

ACCOUNTING ORDER

ONTARIO ENERGY BOARD

EB-2025-0156

JULY 7, 2026

Accounting Order (001-2026)

For Electricity Distributors

Effective July 7, 2026, licensed electricity distributors may establish the following new Group 2 accounts for Stream 2 local eDSM programs (Programs). Separate sub-accounts should be used if a distributor has multiple Programs using the eDSMVA.

A. DVAs for Distribution Portion of eDSM Program Cost

(1) Account 1508 Sub-Account eDSMVA - Distribution

This account is to record the variance[7] between actual eligible distribution Program costs[8] and the amounts recovered through the eDSM rate rider.

(2) Account 1508 Sub-Account eDSMVA - Distribution Carrying Charges

This account is to record carrying charges on the monthly opening balance in the distribution sub-account using the prescribed interest rates set by the OEB.

B. Revenue Sub-Account for IESO Portion of eDSM Program Cost

(1) Account 4245 - Government and Other Assistance Directly Credited to Income, Sub-Account eDSM IESO Fund

This account is to record settlement payments from (to) the IESO for the IESO portion of Program costs.

Distributors are expected to maintain the records at an appropriate level of detail to permit OEB review and verification of amounts recorded therein.

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[7] This variance is inclusive of the variance between actual eligible distribution Program costs and forecast eligible distribution Program costs, as well as the variance between forecast eligible distribution Program costs and the amounts recovered through the eDSM rate rider.
[8] Actual eligible distribution Program costs are defined as actual Program costs (inclusive of distributor incentives based on final EM&V results) minus: any revenue adjustment used to reduce the Program's incremental revenue request, minus: sum of all Program settlement payments from/to the IESO.

ILLUSTRATIVE EXAMPLE AND JOURNAL ENTRIES

This illustrative example is provided for explanatory purposes only to demonstrate the potential application of the eDSMVA for an approved Program, including variance calculations, cost allocation, and accounting treatment. The example is scenario-based and is not intended to be prescriptive.

The assumptions used (e.g., carrying charge rate, timing, and cost allocations) are simplified and may not reflect actual Program conditions or final regulatory determinations. Actual results and disposition of the eDSMVA will depend on Program-specific circumstances, EM&V findings and would be subject to the OEB's approval.

While the Accounting Order does not prescribe specific journal entries, the entries provided in this example are intended to guide consistent accounting treatment and should be applied, as applicable, by distributors.

This example does not include the final disposition entries upon OEB approval.

An Illustrative Example and Journal Entries

The illustrative example involves a Program implemented over a three-year period (2027-2029).

Key inputs leading to the request for disposition of the balance in the eDSMVA are summarized in Table 1 below, and subsequently discussed in more detail, using the key stages of the Program life-cycle (Program approval, operation, and close-out).

Table 1: Summary of eDSMVA Calculations ($ million)

	Variable	Cost ($ Million)
Forecasts at time of Program Approval		
Forecast Program Cost, excluding Incentives	**A**	**9.60**
Forecast Distributor Incentive	**B**	**0.40**
Forecast Program Cost, including forecast incentive	**C = A+B**	**10.00**
Distribution Portion of Forecast Program Cost	**D = C*40%**	**4.00**
Revenue Adjustment	**E**	**1.00**
Forecast Revenue to be Recovered Through eDSM Rate Rider	**F = D-E**	**3.00**
IESO Portion of Forecast Program Cost	**G = C*60%**	**6.00**

During Program Operation		
Actual Program Cost, Excluding Forecast Distributor Incentive	**H**	**8.00**
Actual Program Cost, Including Forecast Distributor Incentive	**I = H+B**	**8.40**
Distribution Portion of Actual Program Cost	**J = I*40%**	**3.36**
Distribution Portion of Actual Program Cost Eligible for Recovery	**K = J-E**	**2.36**
IESO Portion of Actual Program Cost	**L = I*60%**	**5.04**
Revenue Recovered Through eDSM Rate Rider	**M**	**3.30**
Variance in eDSMVA[9]	**N = K-M**	**(0.94)**
At Program Close-Out		
Incremental Distributor Incentive	**O**	**0.1**
IESO Portion of Incremental Distributor Incentive	**P = O*55%**	**0.055**
Distributor Portion of Incremental Distributor Incentive	**Q = O*45%**	**0.045**
Total Variance in eDSMVA	**R = N+Q**	**(0.895)**

Forecast costs at time of Program approval: The Program approved by the OEB has a total forecast cost of $10.00 million. This includes a forecast distributor incentive of $0.40 million.[10]

The benefit-cost analysis indicates that 40% of Program benefits will go to distribution service, and 60% to the upstream energy system. Based on the beneficiary-pays principle, Program costs are allocated as follows:

- Distribution funding (ratepayers): $4.00 million (40%)
- IESO funding (Global Adjustment): $6.00 million (60%)

At the time of Program approval, there is a one-time revenue adjustment due to an

[9] Excludes carrying charges
[10] The details of the incentive mechanism used by a distributor to determine the forecast incentive, and to subsequently determine the actual eligible amount of the distributor incentive based on final Program results, is not specified in this example, as it is not necessary in order to illustrate the sample accounting entries and the calculation of the eDSMVA balance.

overlapping project, which reduces the Program costs eligible for recovery from distribution rates by $1.00 million.[11] The eDSM rate rider is therefore set at a level forecast to recover $3.00 million, instead of $4.00 million, over the 3-year period. The Program costs paid for by the IESO are not impacted by the revenue adjustment.

Table 2: Allocation of Forecast Program Costs ($ million)

Year	Forecast Program Cost A	Revenue Adjustment B	Forecast Program Cost to be Recovered C=A-B	Forecast Distribution Portion to be Recovered Through eDSM Rate Rider D=A*40%-B	Forecast Portion to be Recovered Through IESO Settlement E=A*60%
2027	3.33	0.33	3.00	1.00	2.00
2028	3.33	0.33	3.00	1.00	2.00
2029	3.34	0.34	3.00	1.00	2.00
Total	**10.00**	**1.00**	**9.00**	**3.00**	**6.00**

Program operation: During Program operation, actual Program costs from 2027 to 2029 (inclusive of the forecast distributor incentive of $0.40 million)[12] are lower than forecast, totaling $8.40 million. Funds recovered through distributor settlement with the IESO are based on the allocation of actual Program costs, which is $5.04 million (60% of $8.40 million), such that the distributor portion of actual program costs, net of IESO settlement, is $3.36 million (40% of $8.4 million). Subtracting the $1.00 million revenue adjustment, the distribution portion of actual Program costs is $2.36 million, a variance of ($0.64 million) from the $3.00 million forecast cost which was used to set the eDSM rate rider.

A second source of variance is that actual revenue recovered through the eDSM rate rider is higher than forecast, totaling $3.30 million, a variance of ($0.30 million).

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[11] A revenue adjustment is included in this example for completeness, to show how it would impact the balance in the eDSMVA. A revenue adjustment would apply only in specific circumstances, where funding for an overlapping project addressing the same system need had been proposed (and not rejected) in a previous rates proceeding, and the OEB further determined as part of the proceeding approving the Program that a revenue adjustment is warranted. See Section 3.3 of the Appendix to the Non-Wires Solutions Guidelines for more details.

[12] Although this is a forecast, it is embedded in the eDSM rate rider and for accounting journal entries is also treated as an actual Program cost during Program operation, with true-up at time of Program close-out.

Combining these two sources of variance, the total variance in the eDSMVA – Distribution is ($0.94 million). In addition, there will be carrying charges on this balance. For simplicity, this example assumes a carrying charge rate of 2.55% applies consistently over a three-year period and that the calculation is performed on an annual basis. Please follow the carrying charge methodology outlined for Account 1508, Sub-account eDSM Variance Account – Distribution Carrying Charges, in Schedule A, Section A: Distribution Portion DVAs above.

Table 3: Calculation of eDSMVA Balances in 2027-2029 ($ million)

Year	Actual Program Costs	Actual Program Cost - Distribution Portion	Revenue Adjustment	Forecast Incentive	Actual Program Cost - Distribution Portion excluding Revenue Adjustment and Forecast Incentive	Forecast Distribution Portion to be Recovered Through Rate Rider	Actual Cost Recovered Through Rate Rider	Cost Variance to be Recorded in eDSMVA - Distribution	Revenue Variance to be Recorded in eDSMVA - Distribution	Total Variance to be Recorded in eDSMVA - Distribution	Actual Program Cost - IESO Fund	Distribution Portion Carrying Charges
	A	B=A*40%	C	D	E=B-C-D	F	G	H=D+E-F	I=F-G	J=H+I	K=A*60%	L=(∑J)*2.55%*1,000
2027	2.800	1.120	0.333	0.133	0.653	1.000	1.100	(0.213)	(0.100)	(0.313)	1.680	(0.00799)
2028	2.800	1.120	0.333	0.133	0.653	1.000	1.100	(0.213)	(0.100)	(0.313)	1.680	(0.01598)
2029	2.800	1.120	0.333	0.133	0.653	1.000	1.100	(0.213)	(0.100)	(0.313)	1.680	(0.02397)
Total	**8.400**	**3.360**	**1.000**	**0.400**	**1.960**	**3.000**	**3.300**	**(0.640)**	**(0.300)**	**(0.940)**	**5.040**	**(0.04794)**

Program close-out: At Program close-out, prior to final disposition of the eDSMVA, a final EM&V report of the Program is conducted, in the year following the last year of Program operation. This EM&V report determines that the eligible amount of the distributor incentive based on final Program results is $0.50 million (a variance of $0.10 million). The EM&V report also includes an updated benefit-cost analysis, which determines that 45% of Program benefits have gone to distribution service, and 55% to the upstream energy system. The variance of $0.10 million is allocated between the Global Adjustment and distribution rates on this basis, with a final settlement between the distributor and the IESO.[13]

[13] This example assumes that, during Program operation, settlement between the distributor and the IESO has been undertaken on the basis of actual (not forecast) Program costs. Therefore, the only component that needs to be accounted for in the final settlement with the IESO is the variance in eligible incentive costs that results from the final EM&V report.

Table 4: Calculation of Additional eDSMVA Entries in 2030 (Program Close-Out)

($ million)

Year	Incremental Eligible Incentive A	IESO Portion (to be Recorded in eDSM IESO Fund) B=A*55%	Distribution Portion (to be Recorded in eDSMVA - Distribution) C=A*45%
2030 (Program Close-Out)	0.1	0.055	0.045

Having fully settled with the IESO, the distributor can now apply for disposition of the eDSMVA, which will have a balance (excluding carrying charges) of ($0.94 million) + $ 0.045 million = ($0.895 million), i.e. a credit to ratepayers of $0.895 million, as costs recovered through the eDSM rate rider have exceeded actual eligible distribution Program costs.

This example does not incorporate final disposition of the eDSMVA upon the OEB's approval. The journal entries for the disposition of accounts upon the OEB's approval will be provided later.

Sample Journal Entries for the Illustrative Example

Sample entries are shown below representing one year of Program operation, and on a one-time basis for Program close-out.

A. Distribution Portion Journal Entries

A.1) Journal Entries During Program Operation:

JE#1

Dr. Account Receivable/Cash Account $1,100,000

Cr. Account 4080 Distribution Services Revenue $1,100,000

To record distribution Program costs that have been recovered through the approved eDSM rate rider.

JE#2

Dr. Account 5085 Miscellaneous Distribution Expenses $653,000

Cr. Account Payable/Cash Account $653,000

To record actual eligible distribution Program costs, net of revenue adjustment and forecast incentive.

JE#3

Dr. Account 5085 Miscellaneous Distribution Expenses $133,000

Cr. Account Payable/Cash Account $133,000

To record incremental actual eligible distribution Program costs from forecast incentive.

JE#4

Dr. Account 4080 Distribution Services Revenue $313,000

Cr Account 1508 Sub-Account eDSM Variance Account - Distribution $313,000

To record the variance between actual eligible distribution Program costs and the distribution Program costs recovered through the approved eDSM rate rider.

JE#5

Dr. 6035 Other Interest Expenses $7,990

Cr. Account 1508 - Other Regulatory Assets, Sub-Account eDSM Variance Account - Carrying Charges $7,990

To record the carrying charges on the monthly opening balance.

A.2) True-up Journal Entry at Program close-out:

JE#6

Dr. Account 5085 Miscellaneous Distribution Expenses $45,000

Cr. Account Payable/Cash Account $45,000

To record incremental actual eligible distribution Program costs due to the change in the eligible amount of the distributor incentive (distribution portion) based on final EM&V report.

JE#7

Dr. Account 1508 Sub-Account eDSM Variance Account - Distribution $45,000

Cr. Account 4080 Distribution Services Revenue $45,000

To record the incremental variance between actual eligible distribution Program costs and the distribution Program costs recovered through the approved eDSM rate rider, due to the change in the eligible amount of the distributor incentive (distribution portion) based on final EM&V report.

B. <u>IESO Portion Journal Entries</u>

B.1) Journal Entries During Program Operation:

JE#1

Dr. Account 5085 Miscellaneous Distribution Expenses $1,680,000

Cr. Account Payable/Cash Account $1,680,000

To record actual Program costs eligible for recovery from IESO.

JE#2

Dr. Account Receivable/Cash Account $1,680,000

Cr. Account 4245 Sub-Account eDSM IESO Fund $1,680,000

To record IESO payment of actual Program costs.

B.2) True-up Journal Entry at Program close-out:

JE#3

Dr. Account 5085 Miscellaneous Distribution Expenses $55,000

Cr. Account Payable/Cash Account $55,000

To record incremental actual Program costs eligible for recovery from IESO due to the change in the eligible amount of the distributor incentive (IESO portion) based on final EM&V report.

JE#4

Dr. Account Receivable/Cash Account $55,000

Cr. Account 4245 Sub-Account eDSM IESO Fund $55,000

To record IESO payment of incremental actual Program costs, due to the change in the eligible amount of the distributor incentive (IESO portion) based on final EM&V report.