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

BY E-MAIL

July 7, 2026

TO: **All Rate-Regulated Electricity Distributors**
Independent Electricity System Operator
All Participants in EB-2025-0156, EB-2024-0118

RE: **Final Guidance on the Regulatory Treatment of Local Electricity Demand-Side Management (Stream 2) Programs**
Ontario Energy Board File No.: EB-2025-0156

What You Need to Know

- **The Ontario Energy Board (OEB) is issuing final updates to the Non-Wires Solutions (NWS) Guidelines that include guidance for Stream 2 local electricity demand-side management (eDSM) programs.**
- **This work aligns with the 2023 and 2024 Letters of Direction from the then Minister of Energy and Electrification and is expected to provide distributors with greater opportunities to design, fund and deliver cost-effective local eDSM programs.**
- **Distributors may use the final NWS Guidelines to develop and file Stream 2 local eDSM program funding requests to the OEB, including as part of annual rate adjustment applications commencing for 2027 rates.**

The OEB is issuing final updates to the NWS Guidelines, including an appendix providing guidance on local eDSM programs delivered by electricity distributors. These programs provide both local distribution benefits and broader energy system benefits. They will be funded through both the Global Adjustment and distribution rates and are referred to as Stream 2 local eDSM programs.[1] Updates take account of written comments on draft materials posted by the OEB earlier in this consultation.

[1] Stream 1 eDSM programs are IESO-led programs funded exclusively through the Global Adjustment, and Stream 3 eDSM programs are distributor-led programs funded exclusively through distribution rates.

Key changes include:

- New guidance on how the OEB will assess overlap of other distributor investments with Stream 2 local eDSM programs
- Changes to align with the Minister's eDSM directive to the IESO regarding Stream 2 local eDSM programs enhancing or complementing other IESO eDSM programs
- New guidance on how distribution system benefits will be assessed for the purpose of reporting on program cost-effectiveness and approving final incentives to distributors.

Final Guidance

- NWS Guidelines, body
  - Clean version
  - Tracked changes from draft version
- Appendix to NWS Guidelines, Stream 2 Local eDSM Programs
  - Clean version
  - Tracked changes from draft version
- Rate order establishing a new generic eDSM Variance Account
- Updated Delegated Powers and Duties - Rates delegation

Background

On July 23, 2025, the OEB initiated a consultation on the regulatory treatment of eDSM programs delivered by electricity distributors that provide both local distribution benefits and broader energy system benefits. This consultation aligns with the OEB's 2023 and 2024 Minister Letters of Direction, which call on the OEB to provide guidance on an appropriate cost-sharing mechanism for such programs, and on any related changes that would be needed to reduce barriers to conservation activities by electricity distributors.

As a starting point for this consultation, the OEB leveraged a report previously filed with the OEB on June 11, 2025, by the Demand Side Management Regulatory Working Group (Working Group) - *Proposed Framework for Implementation of Local eDSM Report* (Stream 2 Local eDSM Report).[2] The Working Group proposed a framework where Stream 2 local eDSM programs would be funded through both distribution rates (approved by the OEB) and the Global Adjustment, based on the beneficiary pays

[2] The Working Group is composed of representatives from the Independent Electricity System Operator (IESO), the Electricity Distributors Association, the Ontario Energy Association, and electricity distributors.

principle. The proposed framework would build on the OEB's existing NWS Guidelines and Benefit-Cost Analysis (BCA) Framework.

Consultation steps included:

- Written questions from OEB staff to the Working Group about the proposed framework detailed in the Stream 2 Local eDSM Report, with written replies from the Working Group.
- A consultation session providing an opportunity for non-Working Group participants in the consultation (Participants) and OEB staff to ask questions of the Working Group, followed by written undertaking responses from the Working Group.
- Written comments for the OEB's consideration regarding the proposed framework, from Participants and the Working Group.
- Draft updates to the NWS Guidelines, including housekeeping updates to the body of the NWS Guidelines and a new appendix with detailed guidance on Stream 2 local eDSM programs.
- Written comments for the OEB's consideration from Participants and the Working Group on the draft updates to the NWS Guidelines.

All background and materials related to this consultation can be found on the OEB's Non-Wires Solutions Guidelines Review project page on Engage with Us.

Comments on Draft Updates and Changes in Final Updates

Submissions on the draft updates were received from the Working Group and 15 Participants, including individual electricity distributors, Enbridge Gas, ratepayer interests, energy service providers, and other interests.

The Working Group and Participants expressed general support for the updated guidance, including the new appendix for Stream 2 local eDSM programs. A summary of the major additional themes raised in comments, and the OEB's responses, is provided below:

- The Working Group and distributors suggested changes to the proposed approach to determining the OEB decision-maker for Stream 2 local eDSM program distribution rate funding requests, and the proposed approach to consideration of projects that might overlap with a Stream 2 local eDSM program.
  - The Chief Commissioner is not changing the approach described in the draft updates to determining the OEB decision-maker, and has now also made updates to the Delegated Powers and Duties - Rates delegation to enable this approach.
  - The OEB has made several changes related to overlapping projects, including limiting the circumstances under which a revenue adjustment

would be considered, removing a key barrier to distributors submitting Stream 2 local eDSM program funding requests. Additional details and rationale are provided in the appendix to this letter.

- Ratepayer interests were supportive of the draft updates, but proposed several additional safeguards to address underperforming programs.
    - The OEB is of the view that the approach outlined in the draft updates provides sufficient safeguards to address underperforming programs.
- Energy service providers emphasized the need for a clear path to place new technologies/measures on the IESO's Measures and Assumptions List and to standardize input assumptions (e.g., energy/demand savings, load shape and associated value of savings).
    - No changes have been made to OEB guidance on Stream 2 local eDSM programs on this issue, as the IESO maintains responsibility for publishing and maintaining the Measures and Assumptions List. The IESO has committed to identifying a process for distributors to propose new additions to the list for consideration. The IESO is also responsible for establishing and maintaining avoided bulk system capacity and energy costs and standard load profiles.

The OEB has also made other minor changes in response to comments from the Working Group and Participants and to take account of other developments. Additional details on the changes between the draft and final versions of the NWS Guidelines (body and appendix) can be found in the appendix to this letter.

The OEB is also issuing a rate order that establishes a new generic eDSM Variance Account that may be used by electricity distributors for approved Stream 2 local eDSM programs, operationalizing the cost recovery approach described in the appendix to the NWS Guidelines.

Next Steps

The release of final updates to the NWS Guidelines concludes this consultation.

Distributors may use the updated NWS Guidelines to develop and submit Stream 2 local eDSM program proposals to the IESO and subsequently file Stream 2 local eDSM program funding requests to the OEB, including as part of annual rate adjustment applications commencing for 2027 rates.

The IESO has an Excel-based cost-effectiveness calculator available on its website to calculate bulk system capacity and energy benefits using the most recent avoided costs. The calculator is being updated to an online platform that will incorporate the BCA Framework's cost-effectiveness tests. Access to this platform will be available upon request to the IESO beginning in summer 2026. The OEB is working with the IESO to produce an updated version of its BCA reporting template that is specific to Stream 2 local eDSM programs as an integrated output from the IESO's cost-effectiveness calculator. Distributors may use the existing tools to develop Stream 2 local eDSM program proposals, until the updated versions are available.

Cost Awards

Cost awards related to this consultation are addressed in separate correspondence.

Any questions relating to this letter should be directed to Michael Parkes at michael.parkes@oeb.ca. The OEB's toll free number is 1-877-632-2727.

DATED at Toronto, **July 7, 2026**

ONTARIO ENERGY BOARD

Ann Zeng Digitally signed by Ann Zeng
Date: 2026.07.07 16:14:38 -04'00'

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

Appendix: Changes Between the Draft and Final Versions of the NWS Guidelines

Changes between the draft and final versions of the updated NWS Guidelines are listed below.[3] Additional details are provided on two topics (approach to OEB decision-maker, overlapping projects), the first of which has been a key topic of interest for distributors and the Working Group, and the second of which has seen substantive changes from the draft version to the final version.

Changes not specific to Stream 2:

- **IRP Framework** (Body, Section 3.1). Reference to the natural gas Integrated Resource Planning (IRP) Framework as a guide to pre-assessment considerations for NWS removed, as the IRP Framework is being reviewed, and guidance developed for the IRP Framework may not always be transferrable or appropriate for NWS.
- **Lost Revenue Adjustment Mechanism** (Body, Section 8). Reference updated regarding additional guidance on rate riders in annual rate adjustment applications for previously approved LRAM-eligible amounts.

Changes specific to Stream 2:

- **Availability of IESO funding for an NWS** (Body, Section 3.4). Addition to indicate that distributors are expected to assess whether a proposed NWS is compatible with the eDSM definition in the Minister's eDSM directive to the IESO, and request approval using the Stream 2 process where appropriate.
- **IESO review of BCA input assumptions** (Appendix, Overview). Addition to indicate that the IESO may identify additional information (e.g., related to upstream energy system impacts) that should be considered in the BCA.
- **Enhancing/complementing IESO eDSM programs** (Body, Section 2; Appendix, Overview, Sections 1.5, 2.5). Changes to align with the terminology in the eDSM directive to the IESO that refers to the IESO endorsing local eDSM programs that enhance or complement IESO eDSM programs (rather than assessing duplication with IESO eDSM programs), and to indicate that the IESO is the ultimate decision-maker as to whether a Stream 2 local eDSM program enhances or complements IESO eDSM programs.
- **Overlapping projects** (Body, Sections 3.3, 3.4; Appendix, Sections 3.3, 4.3). Changes regarding the OEB's approach to assessing potential overlap between a proposed Stream 2 eDSM program and a traditional poles-and-wires solution or non-wires solution considered in a previous rates proceeding. See below ("Additional details: overlapping projects") for additional details.

[3] Minor drafting revisions that do not change the intent of the NWS Guidelines are not shown in this list.

- **OEB decision-maker** (Section 1.3). The section title (previously "Approval Authority") has been changed to clarify that this section only addresses the OEB decision-maker for a Stream 2 local eDSM program application, not aspects of Stream 2 local eDSM program review under the IESO's oversight. A change has been made to one of the questions (related to overlapping projects) used to assist the Chief Commissioner in determining whether a Stream 2 eDSM program application should be reviewed by delegated authority or by an OEB Panel. No changes have been made to the general approach used by the Chief Commissioner to select the OEB decision-maker. See additional details below ("Additional details: approach to OEB decision-maker").

  In addition, the Chief Commissioner has updated the Delegated Powers and Duties - Rates delegation to enable the approach to OEB review of Stream 2 local eDSM program funding requests described in this section of the Appendix. The updates add a new power for delegated authorities to make determinations on applications requesting funding for Stream 2 eDSM programs, at the request of the Chief Commissioner. The updates also amend Schedule B (Annual Rate Adjustments) of the delegation to list a request for Stream 2 eDSM program funding as a factor that may exclude an annual rate adjustment application from delegation, in the event that the Chief Commissioner determines that review by a Panel of Commissioner(s) is warranted.
- **Program adjustments** (Appendix, Section 1.4). Changes to note that a benefit-to-cost ratio of less than 1.0 for two consecutive years will be the only defined condition under which a performance mitigation plan is required for an approved Stream 2 local eDSM program; however distributors are encouraged to monitor program performance and proactively consider program adjustments if program participation levels, costs, or energy/demand savings relative to forecast suggest that a program is underperforming.
- **Assessment of actual distribution system benefits** (Appendix, Sections 4.1, 4.7). Changes to clarify that:
  - The default approach to assessing actual distribution service benefits achieved by a Stream 2 local eDSM program, both for ongoing EM&V reporting on cost-effectiveness (which requires valuation of distribution system benefits as an input) and calculating final incentives, is that the forecast distribution service benefits accepted at the time of Stream 2 local eDSM program approval would be scaled based on net verified peak demand savings (as determined by the IESO's EM&V), relative to forecast savings. Because the IESO'S EM&V will not provide an independent assessment of distribution system benefits, any proposed modifications to the default approach of assessing distribution system

benefits should be described for the OEB's consideration in the program application.

    - The OEB retains the ability to review the valuation of actual distribution system benefits as necessary to support final disposition of the incentive amount in the eDSM variance account.

- **Overlap with natural gas DSM programs** (Section 2.2). New requirement for distributors to identify if there is potential overlap with existing natural gas DSM programs.
- **Alignment with Stream 2 eDSMVA Accounting Order** (Section 4.7). Minor changes to align with the wording of the new generic accounting order for the eDSM Variance Account.

Additional details: approach to OEB decision-maker

Draft guidance and Working Group/Participant comments: The draft Appendix to the NWS Guidelines (Section 1.3) indicated that the OEB would consider delegation of applications containing Stream 2 local eDSM program funding requests to OEB staff on a case-by-case basis, with a determination made by the Chief Commissioner, informed by a list of considerations that the Chief Commissioner would take into account in making this determination. Non-utility Participants generally supported the OEB's proposed approach. The Working Group and distributors proposed modifications to the list of considerations taken into account by the Chief Commissioner, emphasizing the importance of most applications being reviewed under delegated authority, and a prescriptive list of considerations that would avoid regulatory uncertainty,

OEB determination: The Chief Commissioner has determined not to modify the approach described in the draft Appendix to the NWS Guidelines to determining the OEB decision-maker for an application containing a Stream 2 local eDSM program funding request, or the list of considerations, with the exception of the wording of the consideration regarding overlapping projects (discussed in the next section of this letter).

The Chief Commissioner carefully considered the perspectives of the Working Group and Participants in proposing the approach to determining the OEB decision-maker, and believes it provides an appropriate balance between efficiency of regulatory review and protection of customer interests. After a period of time, the Chief Commissioner may revise this approach in the interest of maximum adjudicative efficacy and efficiency.

Additional details: overlapping projects

Draft guidance and Working Group/Participant comments: The Working Group raised concerns with the guidance in the draft Appendix to the NWS Guidelines on overlapping projects and the potential for a revenue adjustment (Sections 3.3, 4.3). The draft guidance indicated that a distributor would be required to identify whether any funding to address the same system need that the proposed Stream 2 local eDSM program would address is already included in existing rates (e.g., for a traditional poles-and-wires solution), and optionally propose a revenue adjustment (e.g., a reduction in the incremental revenue that would be recovered from distribution rates for the Stream 2 local eDSM program) or propose that no such adjustment is necessary, with supporting rationale. The Working Group submitted that capital investments evaluated in a Cost of Service proceeding cannot be directly attributable to capital funding in existing rates. The Working Group proposed a narrower definition of overlapping projects, requiring the traditional poles-and-wires solution addressing the same system need to have discrete funding included in existing rates directly traceable to an OEB Decision. The Working Group proposed that this definition would be used both for the Chief Commissioner's determination as to whether OEB Panel review was necessary, and whether a revenue adjustment may be required.

OEB determination: The final Appendix to the NWS Guidelines continues to include a requirement for distributors to identify overlap between a proposed Stream 2 local eDSM program and a traditional poles-and-wires solution (or an NWS - a new, additional consideration that was not part of the draft guidance) proposed (and not rejected) in a previous rates proceeding, including capital investments proposed as part of a Cost of Service proceeding, that addresses the same system need. This information will assist the OEB in assessing the value of the proposed Stream 2 local eDSM program, by ensuring that the BCA takes into account the impact of the overlapping poles-and-wires solution/NWS.

However, distributors will not be required to include a proposed revenue adjustment in most circumstances. The OEB has determined that limiting the circumstances under which a revenue adjustment would be considered removes a key barrier to distributors submitting Stream 2 local eDSM program funding requests and is likely to result in more Stream 2 local eDSM programs reaching operation and benefiting customers. Therefore, the final Appendix to the NWS Guidelines contains new guidance that the OEB will not typically consider a revenue adjustment to be necessary, except potentially in the following circumstances:

- the Stream 2 local eDSM program funding request is > 2.5% of a distributor's base revenue requirement
- project-specific funding for the overlapping project was specifically referenced in a previous OEB decision (inclusive of any Settlement Proposal approved by the OEB), or
- the proposed Stream 2 local eDSM program is the same or similar in nature to a previously proposed (and not rejected) NWS based on eDSM measures.

The final Appendix to the NWS Guidelines also continues to include overlap in the list of considerations that the Chief Commissioner may take into account in making a determination on the appropriate OEB decision-maker. The OEB is of the view that consideration of Panel review may be warranted in this circumstance to assess the value of the Stream 2 local eDSM program or whether a revenue adjustment is required. However, the OEB has modified the language for this consideration to remove the presumption that any investment previously proposed (and not rejected) is included in existing rates.