

# OEB proposes incentive framework for third-party DERs with margin on payments

June 06, 2025

*The proposed changes would allow electricity distributors to earn a Margin on Payments (MoP) of up to 25 per cent of the payments made to DER providers.*

The Ontario Energy Board (OEB) is proposing amendments to the Distribution System Code to accelerate the use of third-party distributed energy resources (DERs) as [non-wires solutions \(NWSs\) in Ontario](#). The proposed changes would allow electricity distributors to earn a Margin on Payments (MoP) of up to 25 per cent of the payments made to DER providers, so long as the projects deliver a net benefit, and the present value of the margin [does not exceed half the total projected benefit](#).

The proposal builds on recent OEB guidance on innovation and DERs as NWSs.<sup>1</sup> By formalizing the MoP incentive and setting clear eligibility thresholds, the OEB aims to bring third-party solutions onto a more level footing with traditional infrastructure.<sup>2</sup> The goal: to integrate more flexible, cost-effective resources into distribution planning.

The initiative is part of a broader effort to align utility incentives with system efficiency. The OEB has also floated four new Performance Incentive Mechanisms (PIMs), including one aimed at accelerating DER connection timelines.<sup>3</sup> Together, these proposals reflect a regulatory system adapting itself to support a more dynamic, decentralized grid.

Stakeholders may comment on the proposed Distribution System Code amendments for the MoP using the [OEB's online portal](#) by **June 9, 2025** (EB-2025-0083), and on the proposed PIMs following a presentation on **June 3, 2025**.<sup>4</sup> Further details can be found on the OEB's website under "[Advancing Performance-based Rate Regulation](#)".

## Details of the incentive proposal

To refine and operationalize the MoP model, the OEB engaged Guidehouse Canada Ltd. to assess incentive structures and to develop quantitative eligibility criteria.<sup>5</sup> [Guidehouse's 2025 report](#) surveyed practices across seven jurisdictions and recommended a default margin of 25 per cent, along with a set of options for quantitative eligibility criteria intended to ensure customer value and affordability.<sup>6</sup> The

OEB accepted the default margin recommendation and is proposing modified eligibility criteria.<sup>7</sup>

In the proposed amendments, the OEB put forward two eligibility criteria:

1. The third-party owned solution must have a positive forecast net benefit, as calculated using the quantitative impact categories identified in the Distribution System Test (DST) set out in the OEB’s [\*Benefit-Cost Analysis Framework for Addressing Electricity System Needs\*](#) (BCA Framework); and,
2. The net present value of the forecast MoP incentive amount cannot exceed 50 per cent of the net present value of the forecast net benefit of the proposed third-party DER solution.<sup>8</sup>

The OEB is proposing some flexibility on the second criteria. Distributors may apply for a MoP incentive that exceeds 50 per cent of forecasted net benefits where they can justify it based on qualitative benefits not captured by the DST’s quantitative impact categories.<sup>9</sup>

Applicants will still be required to provide evidence of the prudence of the proposed NWS in accordance with the NWS Guidelines.<sup>10</sup> Successful applications must maintain payment records and provide periodic reporting on distribution system benefits delivered during and after the incentive term.<sup>11</sup>

The proposed amendments signal the OEB’s continued effort to support cost-effective alternatives to traditional infrastructure. If implemented, the MoP incentive could give distributors a stronger business case for pursuing third-party DER solutions that benefit both the system and ratepayers.

## Footnotes

<sup>1</sup> In 2021, OEB updated its [\*Conservation and Demand Management \(CDM\) Guidelines for Electricity Distributors\*](#) to require distributors to “make reasonable efforts” to consider CDM activities—such as demand response, energy storage (front or behind the meter), and behind-the-meter generation—in distribution system planning as substitutes for traditional infrastructure. In January 2023, the OEB’s [\*Framework for Energy Innovation \(FEI\): Setting a Path Forward for DER Integration\*](#) report clarified expectations for the use of third-party distributed energy resources (DERs) as non-wires solutions (NWSs), identifying financial disincentives as barriers and proposing three incentive mechanisms: (1) a Shared Savings Mechanism, allocating net savings to distributors; (2) a Performance Target or Scorecard-Based Incentive, offering payments tied to DER-related performance metrics; and (3) a Margin on Payments (MoP), allowing distributors to earn a margin on payments made to DER providers. In March 2023, the OEB issued [\*Filing Guidelines for Incentives for Electricity Distributors to Use Third-Party DERs as Non-Wires Alternatives\*](#), providing guidance for distributors seeking to apply for incentives. These were followed in March 2024 by the [\*Non-Wires Solutions Guidelines for Electricity Distributors\*](#), which replaced the CDM Guidelines and state that distributors “are required” to assess whether rate-funded NWSs can cost-effectively meet system needs—especially for projects with capital costs above \$2 million.

<sup>2</sup> The Ontario Energy Board’s (OEB) Innovation Sandbox has supported pilot projects that illustrate the practical application of third-party distributed energy resources (DERs) as non-wires solutions (NWSs). [Alectra Utilities](#), in collaboration with the IESO and Natural Resources Canada, conducted a two-year pilot in York Region to test a local electricity market using customer-owned DERs. The project’s first year secured three times the required capacity through a local capacity auction; during 2021 summer peaks, DERs provided 8 MW of demand reduction and 200 MWh of energy, with participants earning approximately \$125,000 per MW. [Hydro Ottawa](#), in partnership with BluWave-ai, managed electric vehicle chargers and battery storage using AI-driven demand response. In 2024, 13.7% of connected EVs participated in grid events, illustrating the potential of smart charging to defer infrastructure upgrades. [Essex Powerlines](#) launched its PowerShare pilot to establish a local flexibility market using the NODES platform, with trading activity beginning in late 2023 and continuing into 2025.

<sup>3</sup> [EB-2024-0129, Invitation to a Stakeholder Meeting, October 9, 2024](#). EB-2024-0129, [OEB Staff Discussion Paper, Performance Incentive Mechanisms: Advancing Performance-Based Rate Regulation \(“PIMs Discussion Paper”\)](#), May 2025. PIMs are defined as “revenue adjustment mechanisms that tie financial reward or penalties to the achievement of pre-defined targets” and may take the form of rewards, penalties, or symmetrical incentives. The proposed PIMs are: (1) System Capacity/Electrification (Load Factor) – reward-only, based on historical performance; (2) Reliability (SAIDI) – penalty-only, with individualized targets based on peer comparisons and the value of lost load; (3) Reliability (SAIFI) – penalty-only, with the same structure as SAIDI; and (4) Efficient Connections – average DER connection time, with reward-only or symmetrical structures, based on policy objectives.

<sup>4</sup> EB-2024-0129, [OEB Letter re Advancing Performance-based Rate Regulation – Performance Incentive Mechanisms \(PIMs\)](#).

<sup>5</sup> Guidehouse, [Consultant Report on Options for Alternative Margin on Payments Incentive Mechanisms](#), April 16, 2025, p. 4-5.

<sup>6</sup> The jurisdictions reviewed were Australia, California, Connecticut, Hawaii, Michigan, New York and Rhode Island. Guidehouse Canada Ltd., [Consultant Report on Options for Alternative Margin on Payments Incentive Mechanisms](#), April 16, 2025, p. 4-5, 16-19.

<sup>7</sup> EB-2025-0083, Notice of Proposal to Amend Code, p. 3-6.

<sup>8</sup> *Ibid.*, p. 4.

<sup>9</sup> *Ibid.*, p. 6.

<sup>10</sup> *Ibid.* [Filing Guidelines for Incentives for Electricity Distributors to Use Third-Party DERs as Non-Wires Alternatives](#).

<sup>11</sup> *Ibid.*

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