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

BY EMAIL AND WEB POSTING

March 20, 2025

TO: All Rate-Regulated Electricity Distributors
Intervenors in 2025 Electricity Distribution Rates Proceedings
All Other Interested Parties

RE: Innovation-related Proposals in Rate Applications

This letter from the OEB provides guidance to support electricity distributors in incorporating innovation-related proposals in rate applications. It is informed by a review of recent rate cases, input from OEB commissioners and staff and stakeholder feedback indicating a desire for further clarity. The OEB anticipates updating its *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements) in due course to reflect the guidance in this letter.

Background

The OEB is guided by several objectives under section 1 of the *Ontario Energy Board Act, 1998* (OEB Act), including the facilitation of innovation in the electricity sector. This objective was introduced in December 2020 and works with other objectives under the OEB Act. When evaluating electricity distribution rate applications, the OEB assesses innovation-related proposals in light of all of its statutory objectives.

The OEB's Filing Requirements include provisions related to the facilitation of innovation. Section 2.1.7 of Chapter 2 of the Filing Requirements (for Cost of Service Applications) contemplates a wide range of innovation-related proposals and states:

> "Innovation has broad meaning: It can relate to the use of new technology, or new ways in which to use existing technologies. It could also include innovative business practices, including relationships with others to enhance services to customers and share costs."

The Minister of Energy and Electrification's December 2024 Letter of Direction emphasizes the system-wide opportunity for innovation, particularly regarding Distributed Energy Resources (DERs) and other Non-Wires Solutions (NWSs). As stated in the *Non-Wires Solutions Guidelines for Electricity Distributors*, distributors are required to incorporate consideration of NWSs in their distribution system planning.

Innovation-related activities are not restricted to discrete proposals. Distributors have previously undertaken innovation across their operations and integrated those activities into their planning. Investments for these activities have been featured in rate applications filed in accordance with the OEB's Filing Requirements and reviewed through the adjudicative process.

Included within rate applications, distributors have also conceived discrete innovation proposals meant to test the appropriateness of new approaches to meeting customer, system or business needs. Such discrete and novel proposals in rate applications would benefit from addressing the five considerations set out below.

Identifying Needs

As noted above, innovation-related proposals can take a variety of forms. If proposed capital expenditures or operations, maintenance and administrative (OM&A) costs are incremental to those approved in prior proceedings, a clear rationale for an innovation-related project should be provided. This should identify a specific need; outline the novel features of the proposal; and include a cost-effectiveness analysis,[1] comparing the innovation to traditional solutions.

Proposals should also highlight measurable benefits such as improved reliability, improved voltage regulation, reduced system losses, greater cost efficiency and bill savings, or enhanced customer service. For capital expenditures, the life of the project and how it will be depreciated should be detailed, together with a discussion of the expected timing of benefits and costs.

Applicants seeking incremental funding for pilot projects in advance of an immediate need should articulate the extent to which there is a reasonably foreseeable need, and whether the proposed solution, if successful, could meet that need when deployed at scale.

Leveraging Additional Sources of Funding

Not all innovation-related projects require incremental funding. They may be replacing other practices, or result in offsetting efficiencies. However, when there are incremental costs, distributors should explore funding from other sources (e.g., government grants, private entities) to reduce reliance on ratepayer funding. Distributors should consider

[1] The OEB's Benefit-Cost Analysis Framework for Assessing Electricity System Needs must be used to assess the economic feasibility of using DERs as NWSs to meet a system need with an expected capital cost of $2 million or more from 2026 onwards.

funding programs that are available provincewide and enable innovative ideas to be leveraged by other entities, such as the Independent Electricity System Operator's Grid Innovation Fund, the Ontario Centre of Innovation and national research entities (e.g., National Research Council Canada). It is also advisable for distributors to identify any applicable tax incentives for innovative projects.

Managing Risk

An innovation-related proposal should include an assessment of potential risks, uncertainties and mitigation measures. Distributors should implement consumer protection strategies to mitigate risks related to elements that affect customers, such as bill impacts. Where feasible, distributors should ensure potential project participants are well-informed and willing to participate. If customer engagement activities have been conducted, this information should also be included in the application.

Distributors should leverage their existing corporate governance structures to enhance oversight and manage risks for timely and efficient project delivery across their operations. These structures may take the form of standing committees or strengthened processes to facilitate input from key stakeholders, support responsive and effective decision-making and mitigate project risks.

Planning for Scale

The OEB recognizes that large-scale or multi-faceted innovative projects may achieve wider results while small-scale testing or pilot programs can validate the effectiveness, feasibility and customer impact of an innovative solution. Innovation-related proposals should generally focus on later-stage technologies (e.g., validated proof of concept, tested/simulated model) where there is a reasonable expectation of technical and economic feasibility, as well as meaningful benefits if deployed at scale. In rate applications, innovation-related proposals should include a transition plan for successful pilots to move to broader implementation with consideration of how solutions could be applied to other parts of the distribution system and/or adopted by other distributors.

Sharing Lessons Learned

Commitments to public reporting through milestone reports, evaluations and final assessments shared with stakeholders are encouraged. More broadly, the sharing of project insights through public consultations, conferences, events and industry forums can support sector-wide learning and inform the development of future proposals.

The Innovation Sandbox (oeb.ca/innovation) remains available as a resource for those seeking guidance to facilitate development of innovative projects.

Any questions relating to this letter should be directed to the Office of the Registrar at registrar@oeb.ca.

Yours truly,

Nancy Marconi

Digitally signed by Nancy Marconi
Date: 2025.03.20 14:41:06 -04'00'

Nancy Marconi
Registrar