



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

The Ontario Energy Board

January 11, 2018

Overview of Presentation

- Who We Are and What We Do
- The OEB and Rate-setting
- Electricity: Breaking down the Bill
- Natural Gas: Breaking down the Bill
- The Rate-setting Process
- Renewed Regulatory Framework (RRF)
- Adjudicative Model Review



Ontario Energy Board - Who We Are

The OEB is an independent, quasi-judicial tribunal whose mandate is set out in legislation including:

Ontario Energy Board Act, 1998, Electricity Act, 1998 and Energy Consumer Protection Act, 2010.

Adjudication must comply with the *Statutory Powers and Procedures Act, 1990*

Legislated objectives:

- Protect the interests of consumer with respect to price, reliability and quality of service
- Promote the education of consumers
- Facilitate the maintenance of financially viable electricity and natural gas industries
- In electricity we are also to promote renewable energy projects, including timely connection to distribution and transmission systems, promote conservation and facilitate implementation of smart grid
- In natural gas we are also to facilitate rational expansion of transmission and storage and facilitate competition in sale of gas

Regulating electricity since 1999 and natural gas since 1960

Our operations are funded by regulated entities through cost assessments



Ontario Energy Board - Who We Are

The OEB's vision, as set out in our Strategic Blueprint, is to support and guide the continuing evolution of the Ontario energy sector by promoting outcomes and innovation that deliver value for all Ontario energy consumers.

We perform our mandate in three ways:

- **Adjudication:** Decision made following a hearing based on evidence filed in an application. Administrative law principles of natural justice and fairness apply.
 - Rates are approved through adjudicative process informed by policies
- **Policy development:** Consultations aimed at establishing regulatory policy for sector (gas or electricity or both). The process used can be more flexible than a hearing, and varies depending on whether the policy is intended to be binding on regulated entities
 - Major policies impacting rates include Renewed Regulatory Framework, Cost of Capital, RPP Roadmap, Cap & Trade Framework, DSM Framework, Rate Design
- **Advice to government:** Expert independent advice to inform and support government energy policy
 - Recent mandates include retail transportation fuel pricing; electricity rate assistance for low-income and on-reserve First Nations customers; and consumer protection in retail electricity and natural gas markets



OEB Regulatory Oversight of Electricity

Sets Rates and Prices:

- Payments for most of OPG's nuclear and hydro-electric assets
 - *OEB Act*, section 78.1 and O. Reg. 53/05
- Rates for transmission
 - *OEB Act*, section 78
- Rates for distribution
 - *OEB Act*, section 78 (distribution rates payable by certain customers are affected by government-mandated and OEB administered programs like Rural or Remote Electricity Rate Protection (*OEB Act*, section 79 and O. Reg. 442/01)), Distribution Rate Protection (*OEB Act*, section 79.3 and O. Reg. 198/17) and First Nations Delivery Credit (*OEB Act*, section 79.4 and O. Reg. 197/17))
- IESO fees (administrative costs)
 - *Electricity Act*, 1988, section 25
- Regulated Price Plan commodity price for residential and small business consumers
 - Based on forecasts of market price and Global Adjustment
 - Historically under *OEB Act*, section 79.16 and O. Reg. 95/05
 - Currently under *Ontario Fair Hydro Plan Act*, 2017 and O. Reg. 195/17



OEB Regulatory Oversight of Electricity

Other Responsibilities

- Licences IESO, Smart Metering Entity generators, transmitters, distributors, retailers, unit sub-meter providers, wholesalers
 - *OEB Act*, section 57
- Construction of transmission lines larger than 2km
 - *OEB Act*, section 92
- Mergers and acquisitions of transmitters and distributors
 - *OEB Act*, section 86
- Conduct in retail electricity markets
 - *Energy Consumer Protection Act*, 2010
- Wholesale electricity market oversight
 - Market Surveillance Panel monitors, investigates and reports on wholesale markets (*OEB Act*, section 4.3.1 and *Electricity Act*, 1998, section 37)
 - Review of Market Rule amendments and international reliability standards (*Electricity Act*, 1998, sections 33-35, 36.2 and 36.3)
 - Appellate body from certain IESO decisions (*Electricity Act*, 1998, sections 36 and 36.1)
- Compliance and enforcement
 - *OEB Act*, Part VII.1
 - Also enforce compliance with *Ontario Rebate for Electricity Consumers Act*, 2016 and *Ontario Fair Hydro Plan Act*, 2017 by certain electricity licensees



OEB Regulatory Oversight of Natural Gas

Sets Rates:

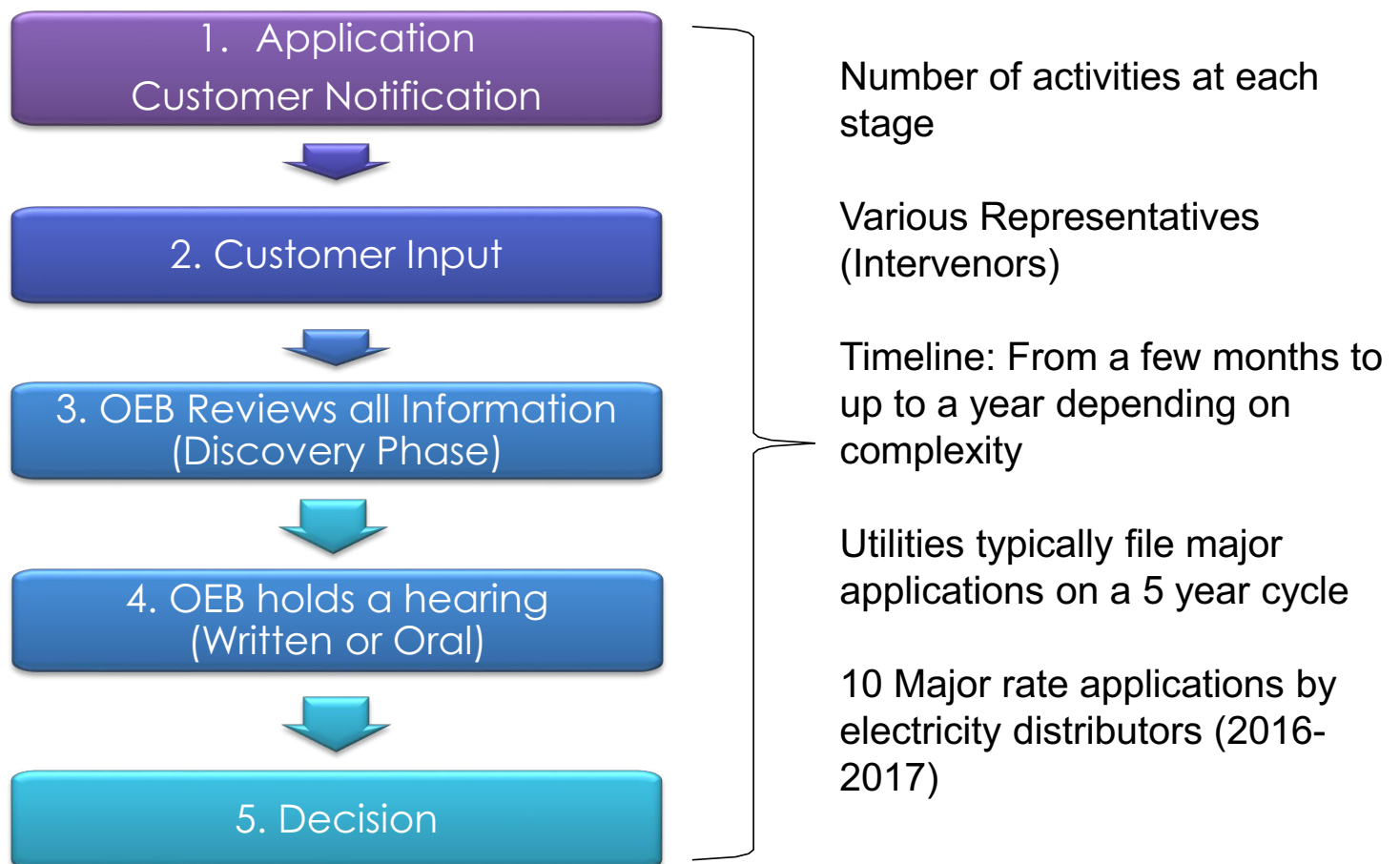
- For pass-through of costs for gas commodity and transportation (QRAM)
 - *OEB Act*, section 36
- For Distribution of natural gas
 - *OEB Act*, section 36

Other Responsibilities

- Certificate of public convenience and necessity establishing service territory for gas utilities
 - *Municipal Franchises Act*
- Franchise Agreements with municipalities
 - *Municipal Franchises Act*
- Construction of pipelines larger than 20km, \$2M or above a minimum pipe size or operating pressure
 - *OEB Act*, section 91
- Designates area for natural gas storage pools
 - *OEB Act*, section 36.1
- Recommends licences for gas wells
 - *OEB Act*, section 40
- Mergers and acquisitions of for transmitters, distributors or storage companies
 - *OEB Act*, section 43
- Licences Natural Gas Marketers and regulate conduct in the retail gas market (marketing to residential and small business customers only)
 - *OEB Act*, Part IV and *Energy Consumer Protection Act*, 2010
- Compliance and enforcement
 - *OEB Act*, Part VII.1



OEB Rate-Setting Process: Major Rate Cases



Engaging, Empowering and Protecting Consumers



Engaging, Empowering and Protecting Consumers

Protecting Consumers:

- Customer service rules for electricity distributors and unit sub-meter providers (USMP)
 - Security deposits, payment arrangements, disconnection (including ban on disconnection of homes during the winter), etc.
 - Currently undertaking comprehensive review of customer service rules for electricity, gas and USMPs
- OEB rules to protect consumers in retail markets
 - Fair marketing practices
 - Disclosure statements and price comparisons
 - Plain language contracts
 - Verification and renewal scripts
- Support programs
 - Low-income Energy Assistance Program (LEAP)
 - Emergency financial assistance for low-income electricity and gas customers
 - Ontario Electricity Support Program
 - Monthly on-bill credits
 - Online or in-person application
 - Designed and implemented by OEB; responsibility transitioning to government
 - Special customer service rules for low-income consumers
- Compliance and enforcement
 - Mediating and investigating consumer complaints (can be submitted online)
 - Enforcement action where appropriate



Engaging, Empowering and Protecting Consumers

Engaging and Empowering Consumers:

- **Consumer Panel**
 - Large and diverse group of residential and small business consumers from across the province, create as a forum to engage directly with consumers to:
 - Discuss issues that are important to consumers
 - Gather ideas and provide feedback on solutions and tools we are developing
 - Help assess the effectiveness of our outreach and communications activities
- **Consumer Charter**
 - Plain language description of key rights and responsibilities of residential energy consumers
- **Facilitating consumer input/participation in hearings**
 - Community meetings for major electricity distribution rate applications
 - Online comment form
 - Process counsel
- **Project-specific consumer outreach**
 - Surveys, online workbook
- **Consumer tools**
 - Electricity distributor scorecards and dashboard allow consumers to see how well their utility is operating and how it compares with others
 - Bill calculator explains different line items on bills and allows comparison with offer from an energy retailer
- **Community events**
- **Re-designed consumer website**
 - Includes brochures, video clips, tip sheets, features on topical issues



Engaging with Stakeholders

- **Chair's Advisory Roundtable**
 - Brings together 20 energy sector leaders, including representatives of industrial, commercial and residential consumers, environmental and public policy groups, and the financial community.
 - Forum for discussing emerging issues and opportunities, and helps us to plan and manage issues as they evolve.
- **Regulatory Affairs Standing Committee**
 - Representatives of industry and consumer groups that provide advice, input and feedback to our Executive Leadership on matters related to the Rules of Practice and Procedure, Filing Requirements, Guidelines, operational policies and other matters relating to the Board's applications process.
- **Industry Affairs Standing Committee**
 - Representatives of industry that provide advice, input and feedback to our Executive Leadership on issues related to OEB codes and rules that govern the sector
- **Regional Planning Process Advisory Group**
 - Representatives of industry and consumer groups charged with sustaining and improving the regional planning process under OEB leadership
- **Ontario Pipeline Coordinating Committee Consumer tools:**
 - Comprised of government ministries and agencies that have a role in reviewing natural gas transmission and distribution facility projects and chaired by a staff member from the OEB.
 - Coordinates the review of natural gas projects in Ontario that require OEB approval – such as pipeline construction and projects related to the storage of natural gas in geological formations.
- **Regular OEB staff meetings with Hydro One, the two large gas utilities and the Electricity Distributors Association**
- **Project-specific stakeholder engagement in policy development initiatives**
- **Staff bulletins, FAQs, webinars etc.**



The OEB and Rate-setting



OEB Sets Rates For 82 Entities

Electricity Distributors	Electricity Transmitters	Natural Gas Distributors	OPG	IESO
72 Rate regulated distributors • serve 5.1 million electricity customers (5 million residential) • 9 distributors with more than 100,000 customers Cornwall not rate regulated by OEB	4 Transmitters that form the provincial uniform transmission rates (UTR) OEB sets revenue requirement, not rates, for: • Hydro One 95% • Canadian Niagara Power • Five Nations • B2M	3 rate regulated distributors • serve 3.5 million gas customers Enbridge Distribution* Union Gas* EPCOR Natural Gas Limited Partnership Kingston and Kitchener gas utilities not rate regulated by OEB *Enbridge and Union have filed a merger application with the OEB	Nuclear and Hydroelectric facilities Pickering Darlington 54 Hydroelectric generating stations	Set the Admin Fee Not regulated by OEB: Supply contracts Most Conservation



Electricity: Breaking down the Bill



Elements of Residential and Small Business Electricity Bill

Electricity – cost of power

- Most residential and small business customers pay time-of-use RPP prices. RPP includes both market electricity costs (HOEP) and costs recovered through Global Adjustment (GA) (OPG payment amounts, generation supply contracts with IESO and electricity distributor CDM)
 - OEB sets only the OPG payment amounts component **WE SHOULD GET LATEST NUMBER ON % THIS REPRESENTS IF WE CAN**
- OEB sets RPP prices based on forecasts
 - Currently governed by *Ontario Fair Hydro Plan Act, 2017*

Delivery – cost of getting power to homes and businesses

- Distribution
 - OEB sets distribution rates, but rates payable by certain consumers are affected by government programs (see slide **XX**)
- Transmission
 - OEB sets transmission rates
- Losses
 - OEB approves loss adjustment factor for each distributor



Elements of Residential and Small Business Electricity Bill

Regulatory Charges – cost of running the system

- Includes cost of operating the wholesale market and maintaining reliability of the high voltage grid and the cost of programs such as OESP and RRRP
 - OEB sets wholesale market service charge but does not set or approve all of the costs recovered through that charge
 - OEB sets RRRP amounts in accordance with regulations
 - Responsibility for setting OESP credits and cost recovery related to the program transitioning to government

Debt retirement charge

Removed from residential bills December 2015

Expected to be eliminated from all other bills in April 2018

Provincial rebate

8% rebate on pre-tax electricity bill, established by government



Natural Gas: Breaking down the Bill



Elements of Ontario Residential Natural Gas Bill

Elements of the Residential bill.

Gas Supply – Commodity cost of gas procured by gas companies and passed through at cost through QRAM.

Customer Charge – Fixed delivery costs by gas distributors (minimum system costs, administration, metering, billing & collecting)

Delivery - recovers gas distributor costs that vary with volume of gas delivered (includes the utility's Cap and Trade compliance costs)

Transportation – costs to move gas from purchase hubs to the distributor's system (will depend on where the gas is procured)



The Rate-setting Process



Fundamentals of Rate Regulation

- Rates are set to recover prudently incurred costs, including an opportunity to earn an appropriate return on investments
- The test set out in the OEB Act is “just and reasonable” rates
- The OEB has adopted incentive based regulation that requires utilities to achieve productivity improvements in order to achieve the approved return (waiting for better def’n from Lisa)



Rate Regulation

• Different kinds of Rate Applications

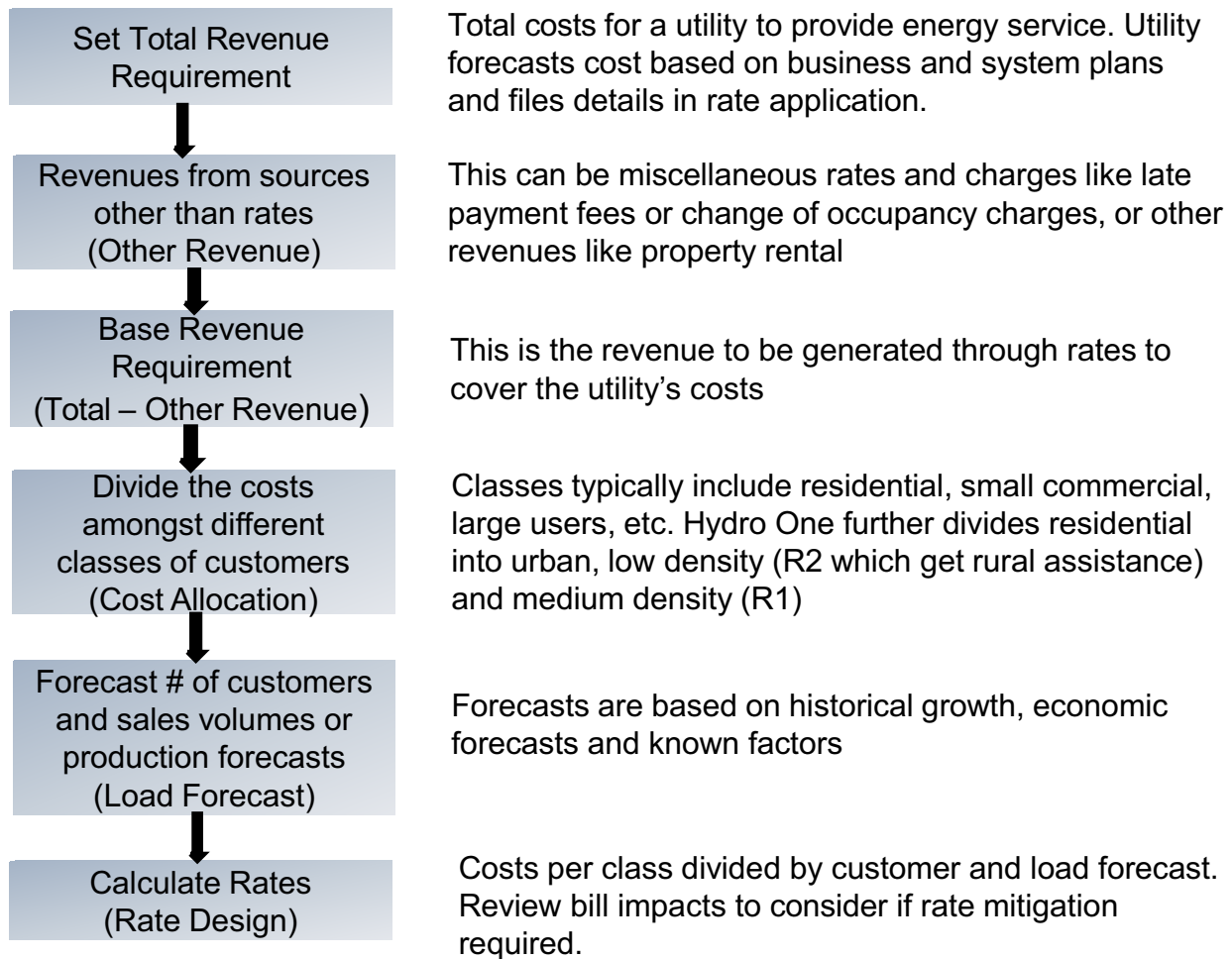
Cost-based (Cost of Service or Custom)

- Rates set based on a utility's forecast of their costs and volumes
- Utilities earn a return on their capital
- Sometimes called “rebasing” because rates take into consideration a utility's forecast of costs
- OEB decides an avg of 15 of these applications per year with 5-year term

Incentive Rate setting (IRM)

- Based on current rates plus inflation less an expectation for productivity improvements
- Incorporates incentives for efficiency improvements
 - Allows a utility to earn more if efficiency better than expected
 - But a utility may earn less if efficiency falls short
- OEB typically decides in excess of 50 of these applications per year

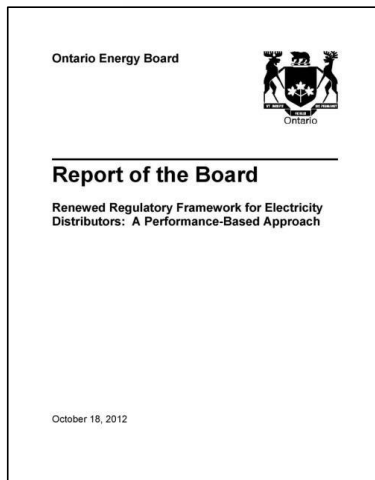
Setting Rates to Recover Revenue Requirement



OEB's **working on heading**

- Key attributes for the Renewed Regulatory Framework (RRF):
 - **Flexible** – Rate-setting options for different utility circumstances
 - **Outcomes Based Approach** – results matter, not activities
 - **Customer Engagement** – customer voice throughout the process – engagement must inform utilities' plans
 - **Planning** - pacing and prioritizing of investments - asset management/ asset condition assessment
 - **Performance Monitoring and Assessment**
 - **Efficiency** improvements that are sustainable
 - **Benchmarking** to assess effectiveness

RRF – Roadmap for Regulatory Reform



- Began in 2012 to shift focus from utility cost to value for consumers
- Better align utility reliability and quality of service levels with customer expectations
- Institutionalize continuous improvement and innovation
- Provide for a comprehensive approach to network investments to achieve optimum results
- Better align timing and pattern of expenditure with cost recovery
- Provide a sustainable, predictable, efficient and effective regulatory framework

RRF – Expected Outcomes

- Financially sustainable regulated utilities
- Robust, reliable networks
- Value for customers
- Supporting Innovation
- Rewarding performance

Performance

Flexible rate-setting methods

- Custom IR, Price Cap IR and Annual IR

Access to capital between re-basing

- Mechanisms developed to pace investments and manage impact on customers
- Incremental Capital Module
- Advanced Capital Module

Return on equity

- Opportunity to earn reasonable returns to finance investment

Performance and Value

Robust, Reliable Networks

Asset management & Distribution System Plans

- To pace, prioritize and optimize renewal investments
- To support modernization of the network and adoption of smart grid and conservation

Regional Planning

- To optimize network investments recognizing integrated transmission and distribution grids

Cost rules to facilitate regional planning (in process)

- To facilitate regional planning through removing barriers to sharing the costs of network investments

Performance and Value

Reliability standards

- Developing customer specific reliability metrics

Outage reporting and monitoring (in process)

- Reporting to understand distributors' response to major events, i.e. storms

Cyber security (in process)

- Establishing a framework to support best practice in protecting customer data and system security

Value for Customers

Transparent performance reporting for LDC's (scorecards)

- To allow customers to assess value and performance of their utility year over year, and across LDC's

Customer engagement in utility investment and service planning

- To help inform utility investment and service plans and provide helpful information to customers

OEB community meetings for electricity rate hearings

- To give customers direct access and a voice in regulatory decisions

Consumer Charter

- To provide accessible and transparent information for customers on their rights and responsibilities

Value and Innovation

Smarter Rates Enabling:

- fairer billing
- grid innovation
- customer uptake of new technologies

Residential Fixed Distribution Rates

- Moving from demand-based to a fee to connect
- Provides greater certainty of revenues to support investment and reliable operations
- Support net metering and conservation

Commercial and Industrial Distribution Rates (in process)

- Mix of fixed and demand charges
- Recognizes impact of larger customers on the grid
- Price signal encourages customers to adjust demand while fixed charge reflects cost of connection

Value and Innovation

Scope and Scale:

Policies to facilitate mergers and acquisitions

- Deferred rebasing for 10 years while maintaining the savings
- Handbook describes approach to MAADs review

Diversification (Bill 135)

- New business opportunities for distributors where special circumstances are identified

RPP pilots

- Pricing pilots designed to inform redesign of RPP to give customers more control

Adjudicative Process Review - What did we do?

- Listened to stakeholders
 - Regulatory process should be more flexible
 - More focus on outcomes than on details of proposals
- Mapped and reviewed our current processes, metrics and results
- Researched and assessed various regulatory models

OEB's Approach to Process Review

Enhanced Adjudicative Process

- Designed to:
 - Align regulatory review with performance based regulation (RRF)
 - Focus regulatory oversight on utility performance
 - Reward utility efficiency, good governance and customer focus through reduced regulatory process
 - Optimize time and resources to focus regulatory attention on utilities and issues that require more detailed review
 - Ensure regulatory flexibility to adapt to a rapidly changing sector

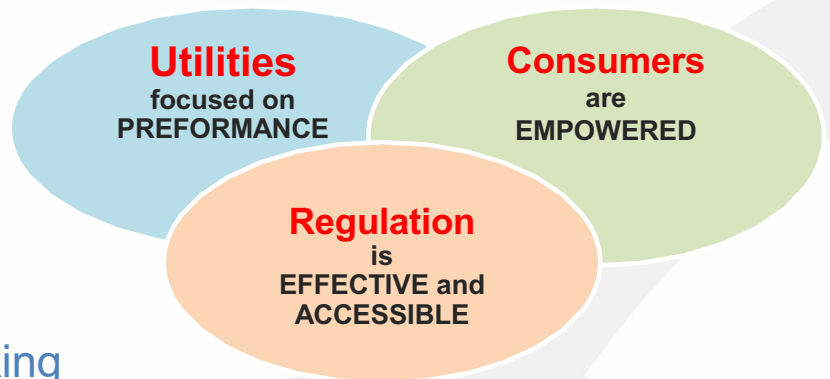
Proportionate Review Rewards Performance

Performance

- Financial
- Operational
- Organizational
- Quality of service

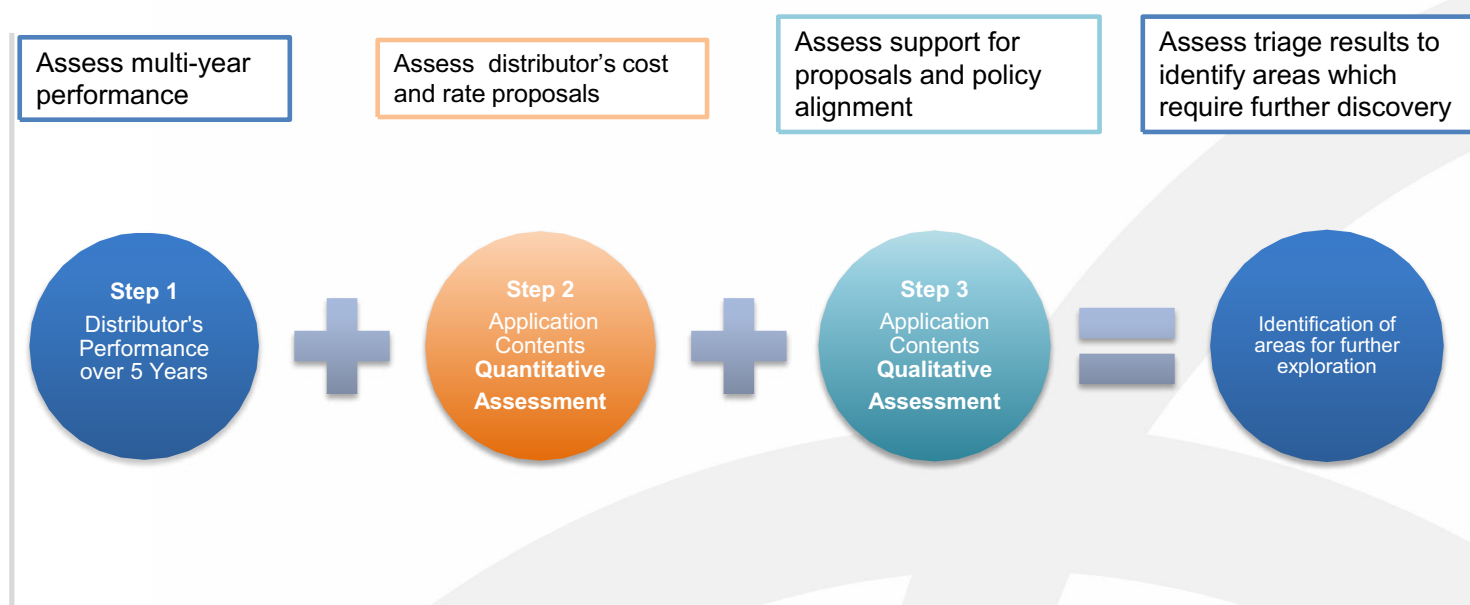
Enablers

- Robust benchmarking
- Performance reporting and monitoring
- Good corporate governance
- Customer engagement



Level of performance → **Level of review**

Initial Triage for Proportionate Review



Proportionate Review: Four Main Streams

	Communi ty Meeting	Issues	Hearing Process	Cost Awards	Process & Scope
No hearing	✓	Case-by- case	-	-	No legal notice or hearing
Abridged hearing	✓	✓	✓	-	Minimal Process Few issues
Focused hearing	✓	✓	✓	For selected issues only	Moderate process Selected Issues only
Fully adjudicated	✓	✓	✓	✓	Full Process All Issues Open

Proportionate Review: Looking Ahead

- More emphasis on:
 - past performance
 - corporate governance
 - benchmarking
 - continuous improvement
- More effective use of monitoring
- Ongoing refinement of review process to incorporate continuous learning and greater proportionality

Adjudicative Review - Work Plan

- Assess all 2018 rebasing applications against criteria
- Test the proportionate review concept with two 2018 cost of service applicants
 - Use the up-front assessment to select a proportionate review process for those applications
- Evaluate the results of the assessment and proportionate review
- Seek stakeholder feedback
- Revise the criteria and the assessment process as needed
- Target implementation for May 1, 2019 rates applications