Ontario Energy Board

Strategic Plan

2017-2022

Contents

Message from the Chair

This is the first Strategic Plan for the Ontario Energy Board in over 20 years. It reflects the OEB's recognition of the significant changes underway in the energy sector, not only in Ontario but around the globe. These changes are being driven by rapid technological innovation, the emergence of new business models, heightened customer expectations about service and affordability, and new public policy initiatives, particularly regarding carbon emissions and climate change.

The pace and complexity of these changes warrant a longer term and more strategic approach than that which could be accommodated within our standard 3-year business planning cycle. Accordingly, we have developed a fresh statement of our Vision, Mission and Values and of the Goals and Objectives that will guide our work over the next 5 years. We have set a strategic direction that is centered on the OEB's role in supporting and guiding the continuing evolution of the Ontario energy sector in a way that delivers value for all Ontario energy consumers.

I wish to acknowledge the role which Board Members and the OEB's leadership team have played in the development of the new strategic plan. Their readiness to bring a fresh perspective to the work of the OEB has been key to the completion of the strategic plan. I also want to thank the members of the Chair's Advisory Roundtable for their constructive comments on a preliminary draft of the plan.

It is also important to note the valuable guidance provided by the IESO's 2016-2020 Strategic Plan. The IESO's plan was a very helpful precedent for us about how a public agency might appropriately craft a strategic vision alongside its statutory mandate. We have adopted a format similar to that of the IESO's plan in the hope that the consistency of approach will be helpful to stakeholders.

My colleagues and I look forward to continuing the engagement and collaboration that has been so important in the completion of this first OEB Strategic Plan.

Rosemarie T. Leclair

Chair and CEO

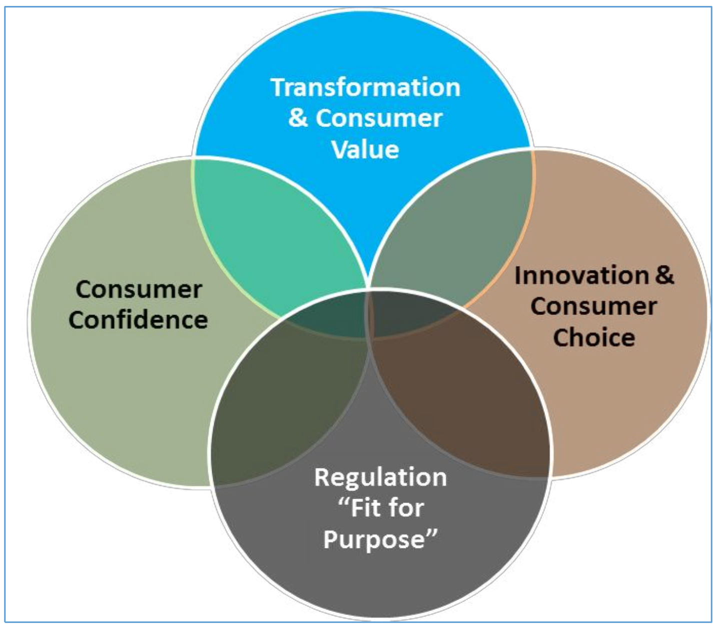
Introduction & Our Strategic Challenges

At the outset of the work to develop our new strategic plan, we posed the question: “Where do we want the OEB and the sector it regulates to be in five years?” As we formulated our answer to that question, we assessed developments in the energy sector and the ways in which other regulators were addressing those changes. We ultimately concluded that, during a period that will be characterized by accelerating change and transformation, the OEB should maintain and sharpen its focus on efficiency, cost-effectiveness, innovation, value for consumers, and our own effectiveness as a regulator. In this regard, the fresh strategic direction combines the OEB’s current approach to consumer-centric regulation with a stronger emphasis on the new and different challenges posed by sector transformation.

Our answer is organized around four interconnected “Strategic Challenges”:

- **Transformation & Consumer Value** – How can the OEB help ensure that the evolution of the sector brings a stronger focus on consumer value?
- **Innovation & Consumer Choice** – How can the OEB encourage innovation in a way that enhances consumer choice and control?
- **Consumer Confidence –** How can the OEB best work to strengthen and maintain the confidence of consumers during a period of accelerating change?
- **Regulation “Fit for Purpose” –** How should the OEB, as an organization, equip itself to meet the challenges of sector transformation?

Four Interconnected Strategic Challenges



Our new strategic plan is designed to address and answer these Strategic Challenges. That answer builds on the important work that the OEB has already undertaken over the past 5 years, including:

- The implementation of a renewed regulatory framework that emphasizes the need for robust customer engagement, utility system planning that paces and prioritizes investment, and demonstrable improvements in utility performance, while allowing utilities to select a rate-setting method that suits their circumstances;

- The redesign of electricity distribution rates to give residential customers a better signal regarding the cost of the delivery service they receive;
- The adoption of a framework to govern the compliance by natural gas distributors with their requirements under the new provincial cap and trade regime;
- The introduction of new ways to give consumers a better understanding of the work of the OEB and, in turn, to provide the OEB with deeper insight into the perspectives of energy consumers;
- The implementation of new consumer protection measures, including stronger rules regarding the conduct of energy retailers and a Consumer Charter setting out the rights and responsibilities of residential energy consumers; and
- Ongoing improvements to the OEB's own adjudicative and decision - making processes.

These achievements provide a solid foundation for the significant work that lies ahead. Indeed, our new strategic plan reflects the continuation of the direction already reflected in these earlier initiatives.

Background & Environmental Scan

The development of our new strategic plan was informed by an assessment of key developments in the energy sector – both in Ontario and in other jurisdictions.

These developments included technological innovation, the emergence of new business models, changing consumer expectations, the trend towards utility consolidation, the market outlook underlying the new Long Term Energy Plan, our own experience with the Renewed Regulatory Framework, and new public policy initiatives, particularly regarding carbon emissions and climate change.

Our key observations and conclusions include the following:

Technological Innovation is Accelerating but the Pace of Deployment is Uncertain

- The electricity sector is experiencing rapid innovation – both in information technologies that offer enhanced capabilities for managing networks and in distributed energy and storage resources that create new opportunities for on-site generation and micro grids.
- Ontario already has considerable experience with advanced metering technologies and the systems to integrate intermittent resources
- Innovation in the electricity sector is paralleled by innovation in the natural gas sector, such as the use of natural gas as a transportation fuel and renewable natural gas as a source of supply
- New and expanded uses for electricity, including in the transportation sector, will place fresh demands on the power system
- While some of these new technologies support “traditional” utility functions and customer relationships, others may impact the utilization of existing infrastructure and challenge or “disrupt” existing business models.
- The pace and pattern of deployment of these technologies is uncertain - it is strongly influenced by the supply outlook, the cost of competing technologies, the way in which network services are priced, and the way in which network operators are remunerated.

The Impacts of Climate Change Policies Will Be Significant and Complex

- Much of the technological innovation in the electricity and natural gas sectors has been driven by the growing focus on reducing carbon emissions
- Ontario is now committed to significant GHG emission reductions over the next 30 years under the new Climate Change Action Plan and its centerpiece, the new cap-and-trade system
- Obligations under that system will fall most heavily on fossil fuel distributors, including the natural gas distributors we regulate
- However, over the longer term, the impact of the CCAP and the shift away from fossil fuels will be felt throughout the broader energy sector, including the electricity distributors and transmitters we regulate
- For instance, the accelerated deployment of distributed energy technologies, electric vehicles and electric-powered mass transit, together with increased investments in energy efficiency, will impact all aspects of utility operations and planning
- In addition, the advent of extreme weather events associated with climate change has increased focus on the resiliency of energy systems
- Although the pace of these developments is uncertain, the potential significance and complexity of their impact is clear - both we and the entities we regulate must be equipped to anticipate and address these developments.

The Structure of the Sector is Changing but Will Remain Diverse

- The reports of both the *Distribution Sector Review Panel* (2012) and the *Premier's Advisory Panel on Government Assets* (2015) concluded that consolidation could facilitate efficiencies and cost savings for the electricity distribution sector and better equip distributors to address the changes underway in the energy sector
- The past two years have seen increased M & A activity in the electricity distribution and transmission sectors, [**including the IPO of Hydro One, the merger among four large distributors in the Greater Toronto-Hamilton Area, the purchase by Hydro One of Great Lakes Transmission LP, and the agreement of several smaller LDCs to merge or to sell to Hydro One – highlighted text may be too much detail; consider deleting]**
- Other electricity LDCs and their municipal shareholders have made the decision not to sell or merge.
- As an alternative to formal consolidation, some distributors have formed alliances or associations to share services and resources.

- The ongoing consolidation in the electricity sector has been paralleled by M&A activity in the natural gas distribution sector, [**including the merger of Enbridge Inc. and Spectra Energy Corp., the corporate parents of the two largest gas distributors we regulate, and the agreement by EPCOR Utilities Inc., a utility holding company owned by the City of Edmonton, to purchase Natural Resource Gas Limited, a gas distributor headquartered in the Town of Aylmer – highlighted text may be too much detail; consider deleting]**
- Despite this activity, the Ontario electricity distribution sector will likely continue to be characterized over the next five years by considerable diversity among LDCs as to size, geographic footprint and investment requirements.

Ontario's Bulk Power System Is Well Positioned to Meet Future Needs but Faces Significant Change

- The IESO's 2016 *Ontario Planning Outlook*, prepared to support the new Long Term Energy Plan, outlines a range of "low", "flat" and "high" provincial demand outlooks for the next 20 years, noting as follows:
    - ➢ The difference among these demand outlooks largely reflects different assumptions regarding the shift from fossil fuels and the level of electrification arising from the province's climate change policies
    - ➢ Electrification will increase requirements across the province, but the impacts will be greatest in urban centers, with implications for transmission, distribution and regional system planning
    - ➢ Ontario will have sufficient resources to meet demand requirements across all outlooks over the next decade but that, after that point, there is increased uncertainty about the need for new resources
    - ➢ Although higher levels of demand associated with electrification would require new electricity resources, that requirement could be met in a number of ways, including through the investment in distributed resources
- The *Ontario Planning Outlook* concludes by emphasizing the need to remain flexible, to understand the drivers of change and risk in the sector, and to address regulatory frameworks that may not meet the needs of an evolving sector – observations that are particularly pertinent to the OEB's own strategic planning.

Understanding Consumer Expectations and Impacts is Critical

- Large commercial and industrial customers have been engaged in managing their energy consumption for many years – incented in some cases by programs such as the recently expanded Industrial Conservation Initiative

- New technologies – including smart appliances, home energy systems, distributed generation, and small energy storage units – are bringing the same opportunities to smaller customers as well
- This trend may heighten consumer expectations regarding reliability and power quality
- However, in Ontario, smaller consumers seem focused less on the promise of technology and much more on the "basics" of service and price
- Concern about the impact of electricity prices is reflected in the implementation of the Ontario Electricity Support Program and the recent Fair Hydro Plan, that will reduce electricity bills for small volume and other qualifying consumers over the next four years
- The concern about electricity prices is a salutary reminder of the need for acute sensitivity regarding the economic impact on consumers of new infrastructure investment, including investments to support the deployment of new technologies

After 5 Years, the Renewed Regulatory Framework Warrants a Relook

- The Renewed Regulatory Framework was first introduced in late 2012 for electricity distributors and, since then, has been extended to natural gas distributors, Ontario Power Generation, and electricity transmitters
- The expectation has been that the RRF would shift regulated utilities away from a focus simply on costs and cost recovery towards a stronger focus on long term value for consumers
- **[The RRF aimed to achieve that objective through its emphasis on effective engagement with consumers to understand their needs and preferences, robust system planning that paces and prioritizes investment, a choice of rate-setting mechanisms designed to incent efficiency and tailored to the investment needs of the utility, and a mechanism for ongoing performance reporting and assessment – Highlighted text may be more than needed; consider deleting]**
- To date, we have considered over 275 applications under the RRF
- Regulators in other jurisdictions are reconsidering their approaches to the remuneration of utilities, including the treatment of traditional capital investments versus innovative non-capital expenditures
- Given the changes underway in the sector, we should assess whether similar regulatory reforms are warranted in Ontario and how they might further enhance efficiency and innovation in the utility sector.

The Work of Other Utility Regulators is Instructive

- Other energy regulators are addressing the issue of how to use their regulatory powers to address sector evolution
- Some regulators are adopting a "proactive" approach and seeking to lead utilities to a particular model sanctioned by the regulator, while others are adopting a "wait and see" approach and reacting to the challenges of sector evolution as they arise
- Although no regulatory model has yet emerged as the preferred "industry standard", some of the key questions that other regulators are grappling with are instructive
- Those questions include the following:
  - How should utilities be remunerated in order to encourage them to be more efficient and to innovate?
  - Does sector transformation create new utility services that need to be assessed and remunerated appropriately?
  - How should utility rates and commodity prices be designed to provide appropriate signals to consumers to guide their own consumption and investment decisions?
  - What measures are needed to protect consumers or particular subsets of consumers from some of the impacts of sector transformation (such as cost shifting, the protection of privacy, and concerns about sales practices regarding new products and services)?
  - What role should incumbent utilities play in the emerging market for distributed energy resources and related services?
  - How should the risk regarding underutilized or stranded assets be allocated between utilities and their customers, and are there any steps that can or should be taken to mitigate that risk?

But the OEB's Approach Must Have Regard to Ontario's Own Circumstances

- The ways in which other utility regulators are addressing these issues reflect the particular institutional arrangements, market structure and broader policy framework prevailing in their jurisdictions – similarly, the OEB's own approach must be grounded in an appreciation of the circumstances in Ontario.
- It is premature to sanction or mandate, as some regulators have, a particular new business model for utilities or a specific new "platform" to accelerate the deployment of distributed resources

- However, Ontario's shift away from fossil fuels and the commitment to electrification suggests that a "wait and see" approach is not sufficient for Ontario
- The OEB has the opportunity - and the responsibility – to *support* and *guide* the sector it regulates through the evolution underway
- *Support* – by helping prepare utilities, other market participants and consumers for the change and uncertainty that lies ahead
- *Guide* – by working to secure the benefits and mitigate any adverse consequences of that change and uncertainty.

Our Vision, Mission & Values

The OEB has regulated the natural gas sector since 1960 and the electricity sector since 1999. Our responsibilities and powers are set out in legislation, regulation and directives.

For industry, we:

- Set the rates and prices that electricity and natural gas utilities can charge;
- Monitor the financial and operational performance of utilities;
- Approve major new electricity and natural gas transmission facilities;
- Set the payments to be received by Ontario Power Generation in respect of its regulated nuclear and hydroelectric generation facilities; and
- Establish and enforce codes and rules to govern the conduct of utilities and other industry participants.

For consumers, we:

- Protect their interests with respect to the rates and performance of their utilities;
- Provide them with the information they need to better understand their rights and responsibilities;
- Oversee the Ontario Electricity Support Program established to assist low-income electricity customers; and
- Protect their interests in retail electricity and natural gas markets.

In addition, we play an important role as an independent and expert advisor to government regarding energy policy matters.

These broad responsibilities and powers, together with the observations and conclusions from the Environmental Scan, underlie our Vision and Mission for the next five years.

Our Vision answers the question with which we started – "*Where do we want the OEB and the sector it regulates to be in five years?"*

Our Mission sets out how we aim to achieve our Vision.

Our Values express our commitment about how we will conduct ourselves both in our internal affairs and in our engagement with others.

Vision:

The OEB supports and guides the continuing evolution of the Ontario energy sector by promoting efficiency and innovation that deliver value for all Ontario energy consumers.

Mission: (Alternative 1)

We will pursue this Vision by:

- Focusing on outcomes and value for consumers
- Reflecting in our work a deep appreciation of the changes underway in the sector
- Providing a predictable approach to regulation that supports efficient investment
- Facilitating the financial viability of the sector during a period of evolution
- Continuing to drive efficiency and innovation in utility operations and services
- Promoting a level playing field between incumbents and new entrants
- Ensuring that consumers are treated fairly by utilities and other industry participants
- Modernizing our organization, processes and policies to meet the needs of an evolving sector

Mission: (Alternative 2)

We will pursue this Vision by:

- Strengthening the focus on consumer value during a period of sector evolution
- Encouraging innovation in a way that enhances consumer choice and control
- Strengthening the confidence of consumers during a period of accelerating change

- Equipping our own organization to meet the challenges of a changing sector

  [NOTE – UNDER THIS ALTERNATIVE 2, THE "PRINCIPLES" COULD BE REPURPOSED AS FIRST STEP OF COMPREHENSIVE WORK PLAN TO CARRY OUT STRAT PLAN OBJECTIVES – "THESE OUR THE PRINICPLES THAT WILL GUIDE OUR WORK"]

Values:

Effective - We hold ourselves to a high standard regarding the efficiency and quality of our work.

Objective – We are independent and bring an open mind to all we do.

Engaged – We learn from our dialogue with consumers, utilities and other industry participants.

Expert – We are experts in our field and value informed discussion.

Forward-looking - We support innovative solutions both within our own organization and by those we regulate.

Respectful – We serve the public interest and treat everyone with respect.

Our Strategic Goals & Objectives: 2017-2022

Our Strategic Goals and Objectives for 2017-2022 reflect our assessment of the key issues emerging from the environmental scan. They address the 4 Strategic Challenges, namely: Sector Transformation & Consumer Value, Innovation & Consumer Choice, Consumer Confidence, and Regulation “Fit for Purpose”.

We have set out a Strategic Goal and a set of Strategic Objectives for each of the 4 Strategic Challenges. The Strategic Goals represent the specific outcomes we aim to achieve with respect to each of the corresponding Strategic Challenges. The Strategic Objectives describe the particular areas on which we will focus in order to attain each of the Strategic Goals.

The Strategic Challenges, Strategic Goals and Strategic Objectives are summarized in the table below:

Summary of Strategic Challenges, Strategic Goals & Strategic Objectives

Strategic Challenges	Transformation & Consumer Value	Innovation & Consumer Choice	Consumer Confidence	Regulation "Fit for Purpose"
Strategic Goals	Utilities are delivering value to consumers in a changing environment	Utilities and other market participants are embracing innovation in their operations and the products they offer consumers	Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services	We have the resources and processes appropriate for the changing environment
Strategic Objectives	The regulatory framework encourages utilities to focus strongly on long-term value for money and least-cost solutions Regional and utility system planning reflect the continuing evolution of the sector Utility infrastructure is optimized during the shift to a low carbon economy	The regulatory framework encourages utilities to adopt innovative solutions The design of network rates and commodity prices support the efficient use of infrastructure and enable greater customer choice and control Our codes and rules reflect the needs of an evolving sector	Consumers understand their rights and choices Utility customer service rules meet the expectations of consumers The benefits of innovation and sector transformation are realized by all types of consumers Consumers are treated fairly in retail markets for energy products and services	We have the expertise needed to address the evolution of the sector Our own organization and processes remain flexible and are adapted to changing needs Our work is supported by effective engagement and collaboration

How We Will Achieve our Strategic Goals & Objectives

Utilities are delivering value to consumers in a changing environment:

The regulatory framework encourages utilities to focus strongly on long-term value for money and least-cost solutions

Regional and utility system planning reflects the continuing evolution of the sector

Utility infrastructure is optimized during the shift to a low carbon economy

A focus on consumer value lies at the very center of the OEB's approach to utility regulation. Given the broad changes underway in the sector, the OEB has both the need and opportunity to sharpen that focus. On the one hand, technological innovation present utilities with new ways of serving customers that may be less expensive and more flexible than traditional infrastructure investment. On the other hand, the anticipated trend towards electrification may impact the utilization of both natural gas and electricity networks in ways that impact the costs for which consumers are responsible. That trend may also call for new investments in electricity networks, particularly in and around major urban centers, and, accordingly, there will be a strong public interest in ensuring that such investment proceeds on a coordinated and cost-effective basis.

The ways in which the OEB aims to achieve this Goal include:

- Maintaining a high level of understanding of the changes underway in the sector and their implications for the investment needs, operations and financial position of regulated entities

- Remunerating utilities in ways that strengthen their focus on long-term value and least-cost solutions
- Supporting the IESO's regional planning process with a view to containing costs
- Encouraging cost-sharing and other arrangements among utilities, particularly electricity distributors, that offer long term value for consumers
- Making sure that utilities properly reflect the impact of sector evolution in their system planning and operations
- Monitoring the impact of sector evolution on the utilization of natural gas and electricity networks and assessing any operational and financial impacts and risks.

Utilities and other market participants are embracing innovation in their operations and the products they offer consumers:

The regulatory framework encourages utilities to adopt innovative solutions

The design of network rates and commodity prices support the efficient use of infrastructure and enable greater customer choice and control

Our codes and rules reflect the needs of an evolving sector

This Goal is strongly connected to the prior one. The way the OEB remunerates utilities can influence the degree of innovation achieved by utilities in their operations and in the services provided to consumers. As noted in the *Ontario Planning Outlook*, the adoption of innovative solutions can also be affected by the rules and requirements that govern utilities and other market participants.

The OEB has already taken a number steps to accommodate and support innovative solutions, such as the creation of a new licence to meet the needs of energy storage facilities and the issuance of guidance regarding the regulatory status of EV charging stations; but the broad changes underway in the sector suggest that a more comprehensive review and "modernization" of the OEB's codes and rules is warranted.

From a consumer perspective, the structure of network rates and commodity prices will influence decisions about consumption and investment. Indeed, the design of such rates and prices is a key factor influencing the deployment of distributed resources and the way in which networks are used. Changes in the way consumers and other market participants use networks may yield new services and "value streams" that will need to be assessed and priced appropriately.

The ways in which the OEB aims to achieve this Goal include:

- Remunerating utilities in ways that encourage utilities to pursue cost-effective innovation in their operations and services
- Modernizing the OEB's rules, codes and other regulatory instruments to reflect the needs of an evolving sector
- Addressing any unwarranted regulatory barriers to innovation and new business models that benefit consumers
- Continuing the redesign of electricity distribution rates to give all customers a better signal regarding the cost of delivery service
- Working with LDCs, the IESO and other market participants to identify and understand emerging new energy-related "value streams" and service models.

Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services:

Consumers understand their rights and choices

Utility customer service rules meet the expectations of consumers

The benefits of innovation and sector transformation are realized by all types of consumers

Consumers are treated fairly in retail markets for energy products and services

Over the past 5 years, the OEB has used a number of approaches designed to give consumers a better understanding of the work of the OEB and, in turn, to provide the OEB with deeper insight into the perspectives of energy consumers. We will need to redouble those efforts during a period of change and uncertainty in Ontario's energy sector. Consumers will need confidence that their utilities and the broader sector are evolving in a way that respects and reflects their interests, particularly regarding price and service. They will need to understand the new products and services that may become available and be assured that the providers of such products or services will treat them fairly. Moreover, during the process of market evolution, utilities and other market participants should be encouraged – and expected - to look for innovative ways of serving diverse consumer groups, including low-income consumers and remote indigenous communities.

The ways in which the OEB aims to achieve this Goal include:

- Helping consumers understand the changes underway in the sector, particularly regarding any new service options they have
- Making sure that consumer perspectives are reflected in the development of new measures to address sector evolution
- Working with LDCs, the IESO and other market participants to "pilot" and test consumer reaction to new services and pricing models
- Modernizing utility customer service rules
- Encouraging utilities and other industry participants to develop innovative approaches to the needs of low-income and remote indigenous communities
- Continuing our strong focus on compliance and enforcement in retail energy markets and addressing any fresh challenges associated the development of new products and services.

The OEB has resources and processes appropriate for the changing environment

We have the expertise needed to address the evolution of the sector

Our own organization and processes remain flexible and are adapted to changing needs

Our work is supported by effective engagement and collaboration

The success of our new strategy will depend very much on the commitment and engagement of our employees **[and Board Members].** They are known for their expertise, professionalism and commitment to public service. These qualities will serve us well as the OEB adapts its organization and processes to the needs of an evolving sector. Given the uncertainties that lie ahead, maintaining flexibility in both our organization and processes will be critical. Enhanced engagement and collaboration will also be important. As we seek to understand and address the changes underway in the sector, we will need to listen to consumers and our stakeholders and to work closely with the government and other agencies.

The ways in which the OEB aims to achieve this Goal include:

- Promoting a workplace culture that values expertise, professionalism, flexibility, and innovation
- Providing opportunities for staff to enhance their understanding of the changes underway in the sector
- Building our “bench-strength” in critical areas **[identify? – empirical analysis, utility finance, financial and system modeling?]**
- Ensuring we have access to “best in class” expertise as needed
- Continuing our dialogue with other utility regulators, particularly through CAMPUT, NARUC and similar bodies
- Evaluating and improving of our decision-making and other processes on a continual basis
- Engaging with regulated entities and other stakeholders through a broad range of consultation processes and techniques
- Collaborating as appropriate with the government and other agencies
- Continuing to serve as an expert and independent advisor to government on energy policy issues.

Looking Forward

Our Strategic Plan sets ambitious goals for both the OEB and the sector we regulate. The new plan was borne of our recognition that changes underway in the sector required us to rethink our approach to regulation and the way we carry out our statutory responsibilities. The preparation of this Strategic Plan was easiest part. We now face the hard work of reflecting our fresh strategic vision in our business and operating plans and, ultimately, in our decision making and in the guidance we provide to the sector. Everyone at the OEB recognizes that doing this work well, we will demand continued and constructive engagement with consumers, regulated entities and all our stakeholders.