Draft 2007-2010 Business Plan

Our Mandate

The Ontario Energy Board (OEB) regulates the province's electricity and natural gas sectors in the public interest. Its mandate is determined by the provincial government and is embodied in legislation and regulation.

Our Vision

The Board envisions a viable and efficient energy sector with informed consumers served by responsive regulatory processes that are effective, fair and transparent.

Our Strategic Objectives

The Board has identified five strategic objectives for its three-year business plan:

1. to provide sound economic regulation that balances the interests of consumers with the need for a financially viable energy sector
2. to help meet Ontario's challenges for the renewal of energy infrastructure, supply, and conservation and demand management
3. to monitor, report and improve on regulatory processes to ensure that they are effective, fair and transparent
4. to enhance public confidence in the Board's regulation through audit and compliance programs
5. to provide clear and timely communications to enhance transparency with stakeholders and empower consumers

The remainder of this business plan is a description of these five objectives. Each is explained in terms of its strategic importance and how the objective will be reached through specific OEB initiatives already under way or planned. The performance measures for each objective are provided in tables under the heading, "You will see that we have achieved this objective when…"

The business plan concludes with a description of several management initiatives that support all of the Board's strategic objectives.

Strategic Business Objective 1:

To Provide Sound Economic Regulation that Balances the Interests of Consumers with the Need for a Financially Viable Energy Sector

Strategic context:

A fundamental task of the OEB is to maintain a balance between the financial viability of the utilities and companies it regulates and the interests of electricity and natural gas consumers. Striking the right balance serves all parties because a financially viable energy sector will attract the investment needed to upgrade and build energy infrastructure, and provide new sources of energy. Improved infrastructure and sufficient supply will in turn help ensure adequate, reliable, safe and cost-efficient energy services for consumers. A financially viable energy sector will also deliver the continued high levels of service quality that consumers in Ontario have come to expect while enabling utilities to manage and withstand business risk.

Within the context of ratemaking for distribution-related functions in the energy sector, providing incentives to maximize efficiencies and minimize costs benefits everyone. The OEB's ratemaking framework must facilitate this evolution in a manner consistent with the Board's legislated objectives. Both traditional and more innovative regulatory tools, such as incentive-based regulation, are therefore being employed by the OEB to promote economic efficiency while continuing to protect the interests of consumers. The Board has embarked upon a multi-year rate setting plan for both electricity and natural gas distributors. One of its key objectives is greater regulatory certainty for the industry and consumers.

In accordance with government policy, the OEB's Regulated Price Plan (RPP) is designed to ensure that consumers continue to pay the true cost of electricity over time. As of April 2008, the OEB will have the authority to set payment amounts for the electricity output of certain Ontario Power Generation Inc. (OPG) nuclear and hydro-electric generation facilities (the "prescribed assets").

We will achieve this objective by:

- continuing a review of **electricity distributors' cost allocation** informational filings;

- considering whether a fundamental **redesign of electricity distribution rates** is warranted in light of developments in metering, conservation and demand management, and distributed generation;

- putting in place a revised **('third generation") incentive regulation framework for electricity distributors** beginning with the 2009 rate year;

- reviewing and implementing **service quality regulation** for electricity distributors that complements incentive regulation;

- continuing to reset electricity prices under the **Regulated Price Plan (RPP)** for residential, low-volume and other eligible consumers, and implementing smart meter time-of-use pricing;

- establishing **payment amounts for Ontario Power Generation Inc.'s** prescribed assets;

- implementing the conclusions of the Board in its report on the **Natural Gas Forum** (entitled "Natural Gas Regulation in Ontario: A Renewed Policy Framework") by putting in place an incentive regulation framework for natural gas distributors beginning with the 2008 rate year, further standardizing the quarterly rate adjustment mechanism (QRAM) methodology, and reviewing other rate-related issues identified in the report; and

- reviewing opportunities for **policy harmonization** between the gas and electricity sectors, and within the natural gas sector.

You will see that we have succeeded in meeting this objective when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Cost allocation for electricity distributors	The cost allocation informational filings have been reviewed by the Board.	FY 2007–08
Redesign of electricity distribution rates	A Board policy paper has been issued reviewing the design of electricity distribution rates, including standby and distributed generation rates.	FY 2007–08
	Alternative models and data requirements to support the implementation of conclusions set out in the Board's policy paper have been identified and released in a report.	FY 2008–09
	Rates have been approved on a selective basis to reflect the conclusions set out in the Board's policy paper.	FY 2009–10
Incentive rate regulation framework for electricity distributors ***(Note: Rate orders normally scheduled for the month of April with effect on May 1.)***	The principles and methodologies for third generation incentive regulation have been determined by the Board.	FY 2007–08
	2008 distribution rates have been approved (rebased or adjusted with incentive mechanism).	FY 2007–08
	2009 distribution rates have been approved (rebased or adjusted with incentive mechanism).	FY 2008–09
	2010 distribution rates have been approved (rebased or adjusted with incentive mechanism).	FY 2009–10

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Service quality regulation	Service quality regulation for electricity distributors has been established.	FY 2007–08
Regulated Price Plan (RPP)	The RPP has been adjusted, if required, based on the existing methodology and the results of regular forecasting.	FY 2007–08
	The Board has developed an implementation strategy with respect to smart meter time-of-use pricing.	FY 2007–08
Regulation of Ontario Power Generation (OPG)	Payment amounts for OPG's prescribed assets have come into effect.	FY 2008–09
Natural Gas Forum implementation	The principles and methodologies for incentive regulation have been determined by the Board.	FY 2007–08
	Rates based on the incentive rate principles and methodologies have been approved for natural gas distributors.	FY 2007–08 and ongoing
	The Board has further standardized the QRAM methodology.	FY 2007–08
	The Board has concluded an examination of the cost allocation between the regulated supply and distribution functions, including an examination of the load balancing obligations of the natural gas distributors.	FY 2007–08
	The Board has issued guidelines informing stakeholders of the principles and issues the Board will consider when evaluating an application for pre-approval of long-term natural gas supply and/or transportation contracts.	FY 2008–09
Policy harmonization	The OEB has completed a review of the weather normalization methodologies currently used by electricity and natural gas distributors.	FY 2008–09
	The OEB has reviewed opportunities for similar approaches to regulation between the natural gas and electricity sectors.	FY 2009–10
	The OEB has reviewed opportunities for policy harmonization within the natural gas sector.	FY 2009–10

Strategic Business Objective 2:

To Help Meet Ontario's Challenges for Renewal of Energy Infrastructure, Supply, and Conservation and Demand Management

Strategic context:

Ontario needs additional energy infrastructure, particularly in electricity generation and transmission. Record electricity demand continues to demonstrate the importance of electricity generation and transmission to the well-being of Ontarians. In addition, recent regulatory proceedings suggest that additional investment in existing electricity distribution infrastructure is needed.

To address Ontario's needs around electricity supply, transmission and demand management, the government has mandated the Ontario Power Authority (OPA) to develop an Integrated Power System Plan (IPSP). The OEB is tasked with reviewing the IPSP and with facilitating its implementation once it has been approved.

It is important for the regulator to understand the state of existing electricity distribution infrastructure to ensure that it is adequate. The Board must also examine issues pertaining to asset management, depreciation and working capital.

In the natural gas sector, the Board recently made a determination that storage services are subject to competition sufficient to protect the public interest. As a result, the OEB will now cease to regulate the prices charged for certain storage services. However, some implementation issues remain to be addressed.

With regard to conservation and demand management (CDM), the OPA has been directed by the Minister of Energy to coordinate the delivery and funding of CDM initiatives through electricity distributors in Ontario in the coming years. It is the Board's task to facilitate the implementation of government policy encouraging the development of a conservation culture. The Board remains committed to reducing barriers to the participation of electricity distributors in CDM programs. Demand side management (DSM) plans for natural gas distributors are also part of the Board's regulatory agenda.

The government has also established targets for installing smart meters in the province. The Board's responsibility is to develop and implement regulatory instruments that support the roll-out of smart meters to electricity consumers.

We will achieve this objective by:

- reviewing the **Integrated Power System Plan** and the Ontario Power Authority's procurement processes;

- completing a study of the current condition of **electricity distribution infrastructure** in the province, and developing standard methodologies supporting depreciation and lead-lag studies and capitalization policies;
- implementing the Board's decision in the **Natural Gas and Electricity Interface Review (NGEIR) and Storage** proceeding;
- developing and implementing regulatory policies relating to **conservation and demand management** for electricity distributors and **demand side management** for natural gas distributors; and
- developing new policies, establishing and amending relevant codes, developing new licences and licence conditions, and setting rates to implement the government's **smart meter** program.

You will see that we have succeeded in meeting this objective when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Integrated Power System Plan (IPSP)	In the absence of anything unforeseen, the hearing on the IPSP has been completed within about a year of the receipt of a complete application from the OPA.	FY 2008–09
Electricity distribution infrastructure	A study of the current condition of electricity distribution infrastructure has been completed.	FY 2007–08
	Standard methodologies supporting depreciation and lead-lag studies and capitalization policies have been developed.	FY 2008–09
Natural Gas Electricity Interface Review (NGEIR) implementation	The Board's decision in the NGEIR and Storage proceeding has been implemented.	FY 2007–08
	Rules of conduct and reporting related to storage have been implemented.	FY 2007–08
Conservation and demand management (CDM) and demand side management (DSM)	Regulatory policies relating to CDM delivered by electricity distributors have been developed and implemented.	FY 2007–08
	Outstanding policy issues related to the DSM framework for natural gas distributors have been addressed.	FY 2008–09
	Long-term DSM plans have been determined for natural gas distributors.	FY 2009–10
Smart meter program	The Board has developed and implemented regulatory instruments that support the roll-out of smart meters, as determined by legislation.	FY 2007–08 and ongoing

Strategic Business Objective 3:

To Monitor, Report and Improve on Regulatory Processes to Ensure that they are Effective, Fair and Transparent

Strategic context:

The OEB recognizes the importance of efficient regulation and has embarked upon an agenda to continually improve efficiency in its operational performance, regulatory outcomes and decision-making processes.

The Board operates under performance standards that establish clear milestones for each step of the application process, from start to finish.

Initiatives are also underway to streamline regulation of the natural gas and electricity sectors and promote economic efficiency and regulatory predictability through incentive regulation and multi-year rate setting for distributors. Predictability is also enhanced by the development of guidelines, handbooks or filing requirements that provide guidance on the Board's processes and expectations.

The Board seeks to ensure that its decisions are of a consistently high quality and that its processes are fair and transparent, timely and cost effective, focused on relevant issues and effective in achieving the Board's statutory mandate. The broad institutional expertise of Board staff is called upon to ensure that relevant public interest perspectives are examined in a manner that is transparent and fair to all parties.

Adjudication will remain a core activity of the Board and must be conducted in a manner that is fair and transparent to all parties. Within that context, the Board will look for opportunities to increase the efficiency of its adjudicative processes, including in relation to the more effective use of pre-hearing processes and settlements. A number of other administrative tools are also available to the Board that can be used in appropriate cases to enable the Board to exercise its authority and fulfill its mandate not only fairly, but more openly and efficiently. The Board strives in each case to select the regulatory approach best suited to the task at hand. In that regard, continuing to use instruments such as codes, rules and guidelines for developing regulatory policy has been identified as a way to enhance regulatory efficiency.

We will achieve this objective by:

- monitoring and reporting on the Board's current standards for processing all applications according to its **generic application processing standards**;

- **managing issues** by responding to requests for clarification of regulatory requirements, and assisting regulated entities in meeting these requirements in a timely manner; and

- establishing rate application **filing requirements** that support incentive regulation for both electricity and natural gas distributors.

You will see that we have succeeded in meeting this objective when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Generic application processing standards	The OEB has achieved its published timelines for processing generic applications 70% of the time.	Ongoing
	The OEB has provided a response to applicants within ten days 85% of the time.	Ongoing
Issues management	Parties contacting the Market Operations Hotline have received a complete response within five business days 85% of the time, and the remainder have received a complete response within 45 days.	Ongoing
Filing requirements	The filing requirements and model for electricity distributors with respect to the third generation incentive regulation mechanism have been developed and released.	FY 2008–09
	The filing requirements for natural gas distributors with respect to incentive regulation have been developed and released.	FY 2007 – 08

Strategic Business Objective 4:

To Enhance Public Confidence in the Board's Regulation through Audit and Compliance Programs

Strategic context:

Public and industry stakeholders' confidence in the regulated energy sector relies on an assurance that energy companies are conducting their activities in accordance with all applicable legal and regulatory requirements. Confidence in regulation is also achieved by ensuring that rates for monopoly distribution and transmission utilities are set on the basis of sound financial accounting.

An effective compliance program is about providing information and enforcing compliance with applicable legal and regulatory requirements. Compliance involves two equally important parts: the efficient and timely resolution of allegations of non-compliance, and a proactive program that monitors and enforces compliance. Managing the implementation of new or amended codes and rules is an important part of the constructive dialogue that helps regulated companies meet their obligations. Regulatory obligations, such as the ones contained in the Gas Distribution Access Rule, set out the policies and principles which are then translated into new operational standards. The involvement of compliance in this key stage of rule and code development ensures the Board is finding the most efficient and effective means of implementing new policies.

There are two important areas of policy implementation that are the focus of the 2007-2008 compliance program. In the electricity sector, it is important that electricity distributors comply with their obligation to connect generation facilities. This requirement is key to the success of the Standard Offer Program administered by the OPA to diversify electricity supply in Ontario. In natural gas, the compliance program will focus on the effective implementation of the Gas Distribution Access Rule. The GDAR is an important part of the Board's ongoing policies to facilitate development of the natural gas retail market.

A key role of the audit function is to ensure that the underlying basis for rate-making is sound financial accounting. The Board relies upon the audit unit to establish the Uniform System of Accounts for the electricity and natural gas sectors. The Chief Regulatory Auditor monitors adherence to these standards by auditing certain utilities and by analyzing reported data.

The Board is committed to better regulation to make it more responsive and efficient. This includes implementing incentive rates and using benchmarks and service quality standards. While traditional forms of regulation, such as cost of service, will continue to be an important tool, adding new forms of regulation puts greater emphasis on the need for reporting and record-keeping requirements. The audit unit is responsible for developing mechanisms that will provide transparency as annual cost of service ratemaking proceedings are supplemented by incentive rate plans.

We will achieve this objective by:

- developing tools to measure and monitor **utility cost effectiveness and service performance**;
- responding to, resolving and reporting on **allegations of non-compliance** in a timely manner and meeting and reporting on established performance standards;
- ensuring, through the resolution of implementation issues and compliance monitoring, that regulated energy companies are **implementing legal and regulatory requirements**, such as the Gas Distribution Access Rule and the Distribution System Code;
- monitoring and reporting on utility performance in support of **incentive-based regulation for electricity distributors**;
- reviewing and implementing any required changes to the Uniform System of Accounts for natural gas distributors; and
- developing a methodology to compare (i.e., **benchmark)** electricity distributors.

You will see that we have succeeded in meeting this objective when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007–2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Utility cost effectiveness and service performance	Audit reviews that report on utility performance improvement in such areas as line losses and outage management performance have been completed.	FY 2007–08 and ongoing
	A study that examines potential incentives associated with line loss reductions has been completed.	FY 2007–08
Allegations of non-compliance	Compliance matters have been resolved in accordance with our performance standards by providing a compliance determination letter within 150 days, at least 85% of the time.	FY 2007–08 and ongoing
	We have reported quarterly on the outcome of compliance reviews.	FY 2007–08 and ongoing
Implementation of new regulatory obligations	A program to monitor and enforce electricity distributors' compliance with their obligation to connect generation facilities as set out in the Distribution System Code has been implemented.	FY 2007–08
	A program to monitor and enforce compliance with the Gas Distribution Access Rule's service transaction requirements and electronic business transaction standards has been implemented.	FY 2007–08

Implementation of an incentive regulation regime for electricity distributors	The Electricity Reporting and Record-keeping Requirements have been reviewed to ensure that they support incentive-based regulation.	FY 2007–08
	Annual reports that summarize key industry performance statistics have been refined and published.	FY 2007–08 and ongoing
Implementation of incentive rates for gas distributors	The Uniform System of Accounts for natural gas distributors has been reviewed and any required changes have been implemented.	FY 2007–08
Benchmarking	The Board has adopted a method of comparing electricity distributors (i.e. benchmarking).	FY 2007–08
	The comparative utility analysis methodology for electricity distributors has been updated for use beyond 2010.	FY 2008–09

Strategic Business Objective 5:

To Provide Clear and Timely Communications to Enhance Transparency with Stakeholders and Empower Consumers

Strategic context:

The OEB's regulation balances the protection of the interests of consumers and the financial viability of the energy sector. The Board sets commodity and delivery rates for most of Ontario's natural gas and electricity consumers and implements a number of regulatory policy initiatives in the electricity and natural gas sectors that affect stakeholders and consumers.

As an independent administrative tribunal and a crown corporation, the OEB strives to be a service-oriented and responsive organization. Using an array of communication vehicles, the Board seeks to inform and to hear from its stakeholders, consumers and the public. Clear and timely communications relating to the Board's decisions, initiatives and strategic focus are vital, since this information helps stakeholders manage change efficiently and empowers consumers to make informed decisions about their energy choices.

We will achieve this objective by:

- **communicating to provide information and context** about Board decisions and regulatory policy initiatives, including their impact on stakeholders and consumers, and about the OEB's own organizational initiatives;

- continuing work commenced in 2005-06 to improve the design and functionality of the OEB **website**;

- meeting the performance standards for responding to **enquiries from consumers** through correspondence and telephone calls to ensure timely response and to identify emerging issues;

- reporting quarterly to **inform the industry and the public** about the types of **issues that consumers are raising** in their enquiries to the Board;

- meeting the performance standards that **facilitate the resolution of disputes** between regulated entities and consumers, and reporting quarterly to inform the industry and the public; and

- updating the **stakeholder perception index** to measure the Board's performance and identify areas for improvement.

You will see that we have succeeded in meeting this objective when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
Communications	Our communications provide information and context about OEB decisions, regulatory policy initiatives and impacts on consumers and stakeholders as well as about the OEB's organizational initiatives.	FY 2007–08 and ongoing
OEB website	The design and functionality improvements on the OEB website that provide better navigability and access to information for stakeholders, consumers and the public have been completed.	FY 2007–08
Consumer enquiries	The following consumer response standards have been met a minimum of 80% of the time: responding to general correspondence within 15 business days; answering calls within 20 seconds; and responding to voicemail by next business day.	FY 2007–08 and ongoing
Informing on consumer issues	We have reported quarterly to inform the industry and the public about the types of issues that consumers raise in their enquiries to the Board.	FY 2007–08 and ongoing
Facilitating resolution of disputes	The resolution of disputes between regulated companies and consumers has been facilitated within 90 days, 90% of the time, and reported quarterly.	FY 2007–08 and ongoing
Stakeholder perception index	The Board's stakeholder perception index is updated and the satisfaction rating with the OEB's overall performance achieves, at a minimum, the average of that rating for the previous three years.	FY 2007–08 and ongoing

Management Initiatives in Support of Strategic Objectives

Strategic context:

The Board's expanded mandate, the pace of change and complexity of the energy sector, and the increased expectations of stakeholders require that the Board operate at a high level of performance.

The Board continues to implement management initiatives that support its strategic objectives and good corporate governance. These initiatives enable the Board to use its resources more efficiently to serve internal and external stakeholders. In carrying out its regulatory responsibilities, the Board is committed to the sound management of the resources entrusted to it and to streamlined and cost-effective processes.

We will achieve this objective by:

- publishing information regarding the Board's **regulatory costs**;
- continuing to implement the 2005–08 **Information Technology strategy** to make business systems more timely and cost effective for external and internal users;
- preparing a **Human Resources strategy** that addresses the full employment life cycle (hiring, retention, skills and knowledge development, compensation, evaluation, career progression, retirement) in order to reap the benefit of acquired knowledge and experience and to minimize disruptions in services;
- surveying **staff retention** measure(s) published by comparable organizations, reviewing the results for consistency with the OEB Human Resources strategy, and reporting on measures that are consistent with best practices and the OEB's Human Resources strategic direction;
- continually **developing employee skills and knowledge** to meet the evolving needs of the Board and the industry;
- **surveying employees** regularly so that they contribute to shaping and improving our work environment; and
- reviewing our **internal controls** regularly to ensure they meet good corporate governance practice.

You will see that we have succeeded in achieving these management initiatives when:

KEY INITIATIVES 2007–2010 Business Plan	PERFORMANCE MEASURES 2007-2010 Business Plan	DELIVERY PERIOD 2007–2010 Business Plan
OEB's regulatory cost measures	The following measures of the Board's regulatory cost are reported annually on a three-year moving average of: (i) percentage change in operating expenses; (ii) operating expenses as a percentage of industry revenue; and (iii) operating expenses per end-use customer.	Ongoing
Information Technology strategy	Timely and cost-effective business systems have been implemented. Key stakeholder-focused initiatives from the Information Technology strategy include:	
	Electronic Document Submission System	FY 2007–08
	Hearings and Consultations Management System	FY 2007–08
	Records Management System	FY 2008–09
Human Resources strategy	A three-year Human Resources strategy has been developed.	FY 2007–08
Staff retention	A measure of staff retention is reported based on best practices and consistent with the three-year Human Resources strategy.	FY 2007–08 and ongoing
Learning and development	A minimum of 2% of annual salaries has been spent on employee training and education programs.	FY 2007–08 and ongoing
Employee survey	The Employee Engagement Index is updated regularly through employee surveys, and future ratings are equal to or greater than the average rating for the previous three years.	Ongoing
Internal controls	A review and update of the OEB Internal Control Assessment is performed on a regular basis.	FY 2007–08 and ongoing