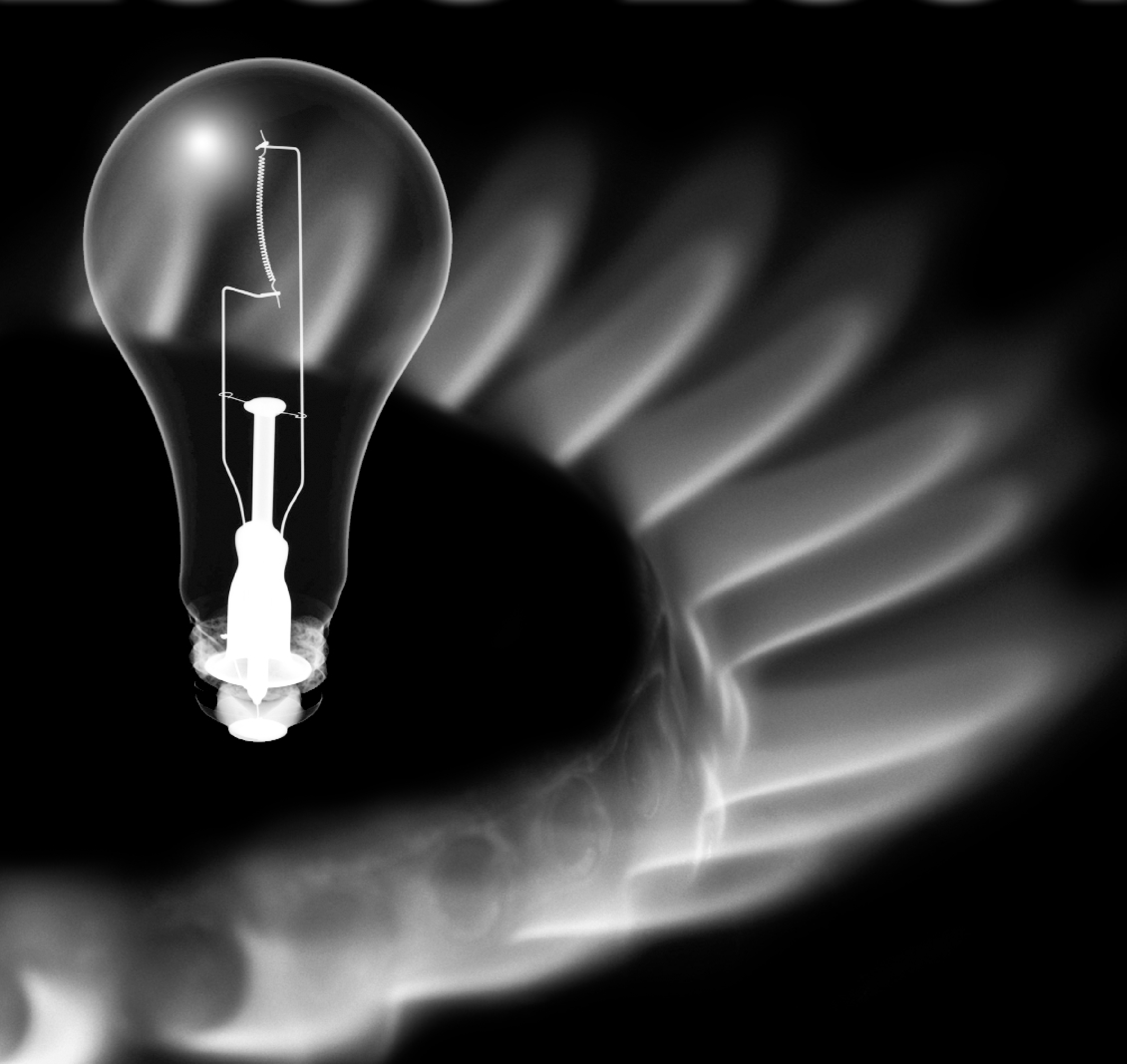
Ontario

ONTARIO ENERGY BOARD ANNUAL REPORT

2000-2001



Ministry of Energy, Science and Technology

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Ontario

The Honourable Hilary M. Weston
Lieutenant Governor of the Province of Ontario

I hereby submit the annual report of the Ontario Energy Board. It reviews the events and activities of the fiscal year ending March 31, 2001.

Respectfully submitted,

Jim Wilson

Jim Wilson
Minister of Energy, Science and Technology

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Chair's Message

It was an exceptionally busy period for the members and staff of the Ontario Energy Board (OEB), as we worked to carry out our traditional regulatory activities in the natural gas and electricity sectors, while gearing up for Ontario's new, competitive electricity market.

In recent years, the Board's roles and responsibilities have been changing, as we make the transition from a purely regulatory agency to a body that will also have major administrative responsibilities in the future electricity market. This complex evolution has placed a significant additional workload on Board members and staff, who responded to the challenge with their customary commitment and professionalism.

As in recent years, fiscal 2000 - 2001 saw extensive co-operation and consultation between the Board and the province's energy stakeholders. The fact is, we could never have made such significant progress without the hard work of the external groups and individuals who gave so freely of their time, experience and expertise to assist the Board in dealing with many complex issues.

In the natural gas area, for example, Board staff distributed a proposed gas distribution access rule for comment from industry and other stakeholders. The 2000 Model Gas Franchise Agreement – another major highlight of the year's work – was also developed in close consultation with stakeholders.

In the electricity sector, the Board assumed a leadership role for ensuring the technical readiness of retail participants in Ontario's new competitive electricity market. Instrumental in this activity was the Market Readiness Task Force, led by the Board with assistance from the Independent Electricity Market Operator (IMO). The IMO will report on wholesale market readiness. Through this task force, we worked closely with stakeholders to develop key milestones, activities and dates to ensure that participants are prepared for market opening. The Board will ultimately advise the Minister on retail market readiness.

This year, the Board also benefited from stakeholders' advice in completing other tasks such as developing various rules, codes, handbooks and guidelines.

During the year, the Board continued working to streamline and improve the efficiency of its regulatory procedures and processes. This work, which included efforts to promote electronic business transactions, paperless hearings and other more efficient ways of doing business – will contribute to a regulatory regime in both electricity and natural gas that is cost-effective, transparent, light-handed and fair.

Another highlight of the past year was the successful work of the Board's four major technical committees for rates, mergers and acquisitions, licensing, and facilities. An increasing proportion of the Board's regulatory workload is accomplished through these committees, which allow the Board to deal with regulatory applications in a more timely and effective manner.

During the year, the Board played a vital role in the restructuring of Ontario's electricity sector. The Board began its review of the first unbundled rate applications from electricity distributors, and approved 69 of the 114 applications for mergers, acquisitions, amalgamations and divestitures affecting the electricity distribution sector.

We have made significant accomplishments this year, but much work remains to be done in the coming months, as Ontario enters a new era of electricity competition.

As the Board's Chair, and on behalf of energy consumers throughout Ontario, I want to thank our members and staff, and our many stakeholders, for their outstanding contribution to achieving our goals in the past 12 months.

Floyd Laughren

Chair

Members of the Board in 2000-2001

Floyd Laughren, Chair

Floyd Laughren was appointed Chair of the OEB in March 1998, and re-appointed for another three-year term in March 2001. Mr. Laughren joined the Board after a 27-year career in provincial politics as the member for Nickel Belt. At the time of his retirement, Mr. Laughren, who was first elected in 1971, was the longest-serving member of the Legislative Assembly of Ontario. His many achievements include serving as Deputy Premier and Minister of Finance in the government of Premier Bob Rae, with responsibility for the former ministries of Treasury and Economics, Revenue, and Financial Institutions. Mr. Laughren also chaired the Policy and Priorities Board of Cabinet, and the Treasury Board, and sat on the Cabinet Subcommittee on Industrial Assistance.

Before his election in 1971, Mr. Laughren taught economics at Cambrian College of Applied Arts and Technology in Sudbury, and worked in the retail sector in western Canada. He holds a diploma in business from Ryerson Polytechnic University, and a Bachelor of Arts in economics from York University.

George Dominy, Vice-Chair

George Dominy was appointed Vice-Chair of the OEB in June 1993. Mr. Dominy has extensive experience in the energy field, in both the public and private sectors. Before joining the Board, he served as Director of the Electricity, Oil and Gas Branch at the former Ministry of Energy. Mr. Dominy holds a Master's degree in mathematics from Cambridge University.

Paul Vlahos, Vice-Chair

Paul Vlahos was appointed Vice-Chair of the Board in April 2000, after serving as a full-time member since October 1994. Before joining the Board as a member, Mr. Vlahos held positions in the natural gas industry and on the OEB's staff, and also served as general manager at the Ontario Telephone Service Commission. Mr. Vlahos taught economics at the University of New Brunswick. He holds a Bachelor of Arts degree in economics from the University of Toronto and a Master's degree in economics from the University of Guelph. Since the fall of 1999, Mr. Vlahos has been the Chair of the Canadian Association of Members of Public Utility Tribunals.

Full-Time Board Members

Sheila Halladay, a lawyer, was appointed a full-time member of the Board in April 1999. Before her appointment, she was a corporate commercial partner in a major law firm. Ms. Halladay holds B.A., B.Sc., and L.L.B. degrees from the University of Windsor, and an L.L.M. degree from Columbia University.

Dr. Malcolm Jackson was appointed to the Board in March 2000. For the previous decade, he had managed a consulting practice in economics and finance that specialized in energy and public utility matters. He has also served as director of several privately held corporations. Dr. Jackson previously served as a member of the Board from 1986 to 1989, after holding senior positions in oil and gas production and oil pipeline companies. From 1996 to 2000, he served as a founding director of the Toronto Community Care Access Centre. He holds both a Master's and a Ph.D. degree in science, and a Master's degree in business administration.

Ken McCann was appointed a full-time member of the OEB in September 2000. Orillia's Citizen of the Year in 1988, Mr. McCann has nine years of municipal experience. He served as mayor from 1997 to 2000. As the owner and operator of McCann Electric Limited for 20 years, he has a total of 37 years of experience in the industrial, commercial and manufacturing environments.

Bob Betts, a mechanical engineer, became a full-time member of the Board in March 2001. Mr. Betts worked for Shell Canada Limited in Toronto for 10 years before operating a mechanical contracting business in Gravenhurst, where he also served as mayor. He graduated from the University of Waterloo in 1971 with a degree in mechanical engineering.

Part-time Board Members

Judith Simon is an environmental scientist, and was appointed as a part-time member of the Board in May 1992. Ms. Simon previously held management positions with the former Ministry of Industry Trade and Technology and the Ministry of the Environment, and was also an energy planner with the former Ministry of Energy. She is currently a consultant specializing in environmental assessment and strategic planning.

F. Anne Drozd was appointed as a part-time member of the Board in April 1993. She is a Fellow of the Institute of Chartered Accountants of Ontario, and president of a consulting management firm. Ms. Drozd has extensive regulatory experience. She has practised as a Certified Management Consultant since 1982.

Dr. Sally F. Zerker was appointed as a part-time member of the Board in June 1997. She holds a Ph.D. in economics from the University of Toronto, and has been a professor at York University since 1970. Dr. Zerker has lectured and published numerous scholarly articles and several books on Canadian economic history and political economy, as well as on the international oil industry.

Arthur Birchenough, P.Eng., was appointed as a part-time member of the Board in February 1999. He is a graduate of McGill University and a professional engineer with more than 35 years of experience in the engineering and construction industries. He has held senior executive positions at AGRA Monenco and Canatom Inc. and is a past Chair of the Energy Council of Canada.

Cathy Spoel was appointed as a part-time member of the Board in October 1999. She is a lawyer with more than 15 years of experience in administrative law, with a focus on land use planning, environmental, municipal and energy law. Ms. Spoel has an honours degree in mathematics and a Master's degree in law, specializing in alternative dispute resolution. She was called to the Ontario Bar in 1983.

Brock Smith became a part-time member of the Board in October 1999. Before retiring from the Ontario Public Service in 1993, Mr. Smith served as Deputy Minister at several ministries, including Treasury and Economics, Environment and Northern Development and Mines. He is currently a public affairs consultant. Mr. Smith holds a Bachelor's degree in commerce and a Master's degree in political science.

Fred Peters was appointed as a part-time Board member in July 2000. Mr. Peters, who has a Master's degree in social work from Carleton University, has had extensive experience working in the public sector, both in Canada and abroad. Most recently, he was a senior advisor with the Lithuanian Ministry of Justice.

Thomas O'Grady, a retired Commissioner of the Ontario Provincial Police, was appointed as a part-time member of the OEB in July 2000, after a distinguished career in law enforcement. Mr. O'Grady is a Member of the Order of Canada, and an Officer of the Order of St. John of Jerusalem. He also holds the 125th Anniversary of the Confederation of Canada Medal and the Police Exemplary Service Medal with Bars.

Departing Board Member

Dr. Roger M. Higgin was appointed as a full-time member of the Board in September 1996. Before joining the OEB, he was General Manager and Chief Operating Officer of Unisearch Associates, Inc. Dr. Higgin held a number of senior positions in the former Ministry of Energy, including that of Assistant Deputy Minister, Programs and Technology Division, and previous served as a member of the Board from 1988 to 1991. He holds a Ph.D. in chemical engineering and a Master's degree in business administration. The Board's Chair, members and staff would like to take this opportunity to thank Dr. Higgin for his outstanding service and dedication during his years at the OEB.

THE OEB AT A GLANCE

WHO WE ARE

The Ontario Energy Board is a regulatory agency of the Government of Ontario. As an independent, quasi-judicial body, the Board derives its mandate and authority from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes.

The Board reports to the Ontario legislature through the Minister of Energy, Science and Technology, but carries out its functions and responsibilities independently. It is an economic regulator with regulatory oversight of natural gas and electricity matters in the province.

WHAT WE DO

The Board is responsible for regulating natural gas and electricity utilities. This includes setting just and reasonable rates.

The Board issues licences and sets codes for most participants in the electricity sector. It also licenses natural gas marketers. The Board's licensing regime is designed to be light-handed, to provide certainty to all market participants, and to facilitate the development of a competitive market.

In recent years, the Board's consumer protection role in the changing energy marketplace has been expanded. As of March 1, 2000, most agents, brokers and retailers of electricity require a licence from the OEB. Natural gas agents, brokers and marketers that sell to low-volume consumers have required a licence since March 1, 1999.

The Board has developed codes of conduct for gas marketers and electricity retailers, and has also established a complaint resolution process for energy consumers. In cases where gas marketers or electricity retailers do not abide by the codes of conduct, the OEB can suspend or revoke their licences.

In the natural gas sector, the Board approves distribution rates for three of Ontario's natural gas distribution utilities – Enbridge Consumers Gas, Union Gas Limited and Natural Resource Gas Limited. The Board also makes recommendations on pipeline construction and the designation of gas storage facilities. In addition, the Board reviews and approves ownership changes of natural gas utilities and franchise agreements for gas distribution in municipalities.

In the electricity sector, the Board licenses distributors, transmitters, wholesalers, generators, retailers and the Independent Electricity Market Operator. It also approves the IMO's budgets and fees. In addition, the Board sets transmission and distribution rates, and the reference price for the standard supply service for consumers who do not choose a competitive retailer.

In addition to establishing licensing standards and codes for electricity market participants, Board approval is also required for the construction of certain types of electricity transmission lines and electricity system interconnections.

The Board is also responsible for approving specific business arrangements involving the regulated parts of Ontario's electricity industry, including:

- *Amalgamations between an electricity distributor and another company;*
- *Acquisition of significant shareholdings of an electricity transmission or distribution company;*
- *Disposal of electricity transmission and distribution assets;*
- *Acquisition of an electricity transmission or distribution company by an electricity generation company; and*
- *Acquisition of electricity generation facilities by an electricity transmission or distribution company.*

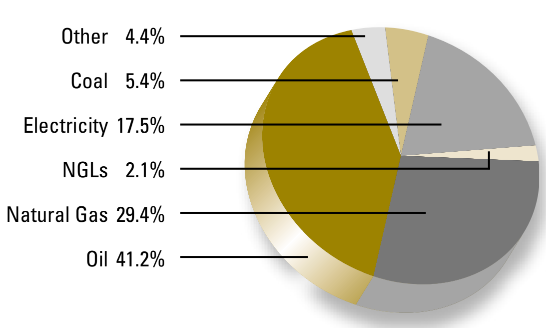
How we are structured

The Board's organizational structure includes the office of the Chair, two Vice-Chairs and full and part-time Board members, the office of the General Manager, and three operational branches: Regulatory Affairs; Licensing and Applications; and Corporate Services.

During fiscal 2000 – 2001, the Board operated with a funded complement of 109 positions, including eight part-time Board members and three lawyers. A chart outlining the organization's structure appears on the next page.

Ontario's End-Use Energy Demand 1999

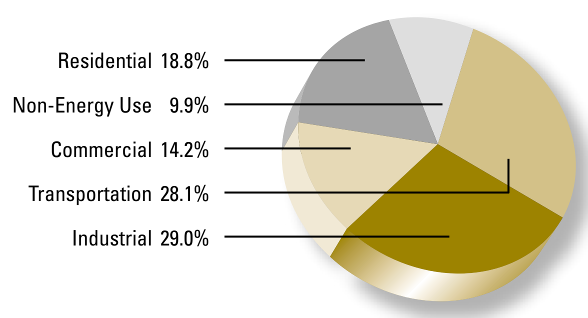
By Type of Energy (Per Cent of Total)



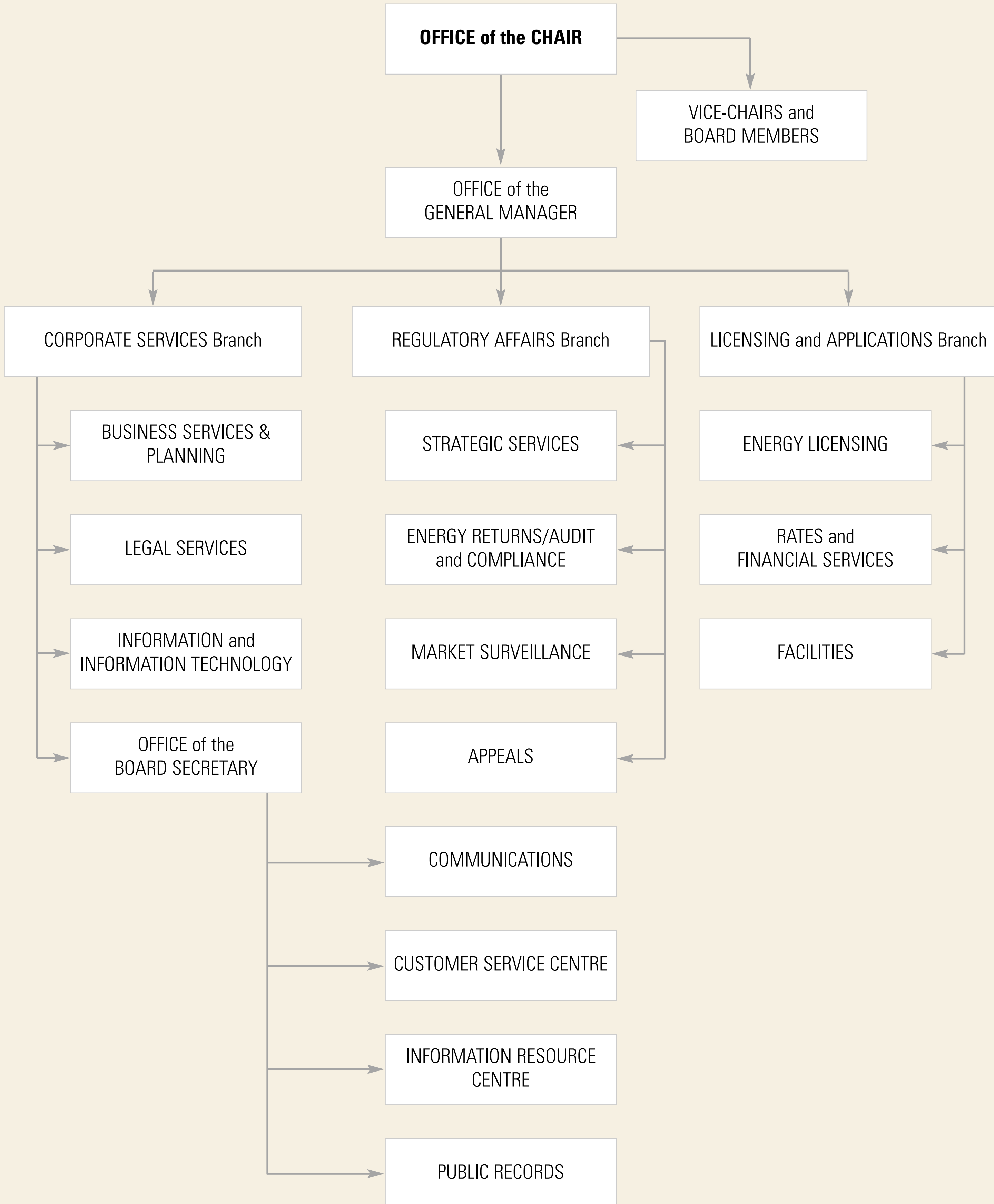
Total End-Use Demand – 2759 Petajoules

Ontario's End-Use Energy Demand 1999

By Sector of Energy (Per Cent of Total)



Total End-Use Demand – 2759 Petajoules


OFFICE of the CHAIR
VICE-CHAIRS and BOARD MEMBERS
OFFICE of the GENERAL MANAGER
CORPORATE SERVICES Branch
REGULATORY AFFAIRS Branch
LICENSING and APPLICATIONS Branch
BUSINESS SERVICES & PLANNING
LEGAL SERVICES
INFORMATION and INFORMATION TECHNOLOGY
OFFICE of the BOARD SECRETARY
STRATEGIC SERVICES
ENERGY RETURNS/AUDIT and COMPLIANCE
MARKET SURVEILLANCE
APPEALS
ENERGY LICENSING
RATES and FINANCIAL SERVICES
FACILITIES
COMMUNICATIONS
CUSTOMER SERVICE CENTRE
INFORMATION RESOURCE CENTRE
PUBLIC RECORDS

OEB HIGHLIGHTS: THE YEAR IN REVIEW

During fiscal 2000-2001, the Board carried out its traditional regulatory functions in the natural gas and electricity sectors, while addressing the major challenges of preparing for the opening of Ontario's new, competitive electricity market.

HIGHLIGHTS IN ELECTRICITY

Electricity market readiness plan developed

Establishing a competitive electricity market in Ontario will mean creating two markets, one for wholesale power sales, and another for retail transactions. When the competitive market opens, The IMO will continue to run the wholesale market, where generators sell electricity to local distribution companies (LDCs) and major electricity consumers.

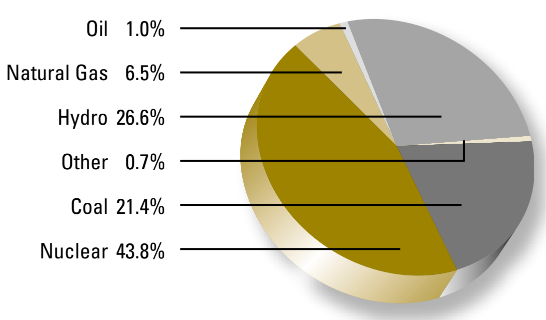
The IMO is responsible for co-ordinating the readiness of wholesale market participants, while the OEB is co-ordinating retail market readiness, where local distributors and other retailers sell electricity directly to consumers.

During the fiscal year, the Board developed a detailed market readiness plan that sets out timelines, major milestones and key activities for local distribution companies and other participants in the retail electricity market. To be considered ready for the start-up of retail competition, electricity distributors must certify to the Board they have met the milestones and undertaken the key activities prescribed in the Board's readiness plan.

To develop the retail market readiness plan, the Board worked closely with the Retail Market Readiness Task Force, and the IMO, which prepared its own plan for wholesale market participants. The Board's plan includes milestones from the IMO's plan which are relevant to retail market participants.

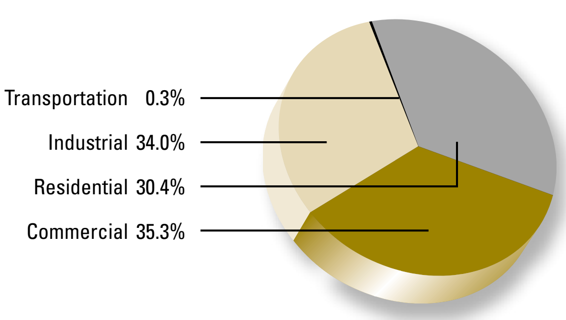
The OEB and the IMO will monitor participants' progress in achieving the milestones, key activities and other requirements in both the wholesale and retail market readiness plans. When they are satisfied participants are ready to operate in the new competitive market, they will advise the government.

Ontario's Electricity Generation 1999
By Source (Per Cent of Total)



Total Input Energy – 1473 Petajoules
Total End-Use and Losses – 541 Petajoules

Ontario's End-Use Electricity Demand 1999
By Sector (Per Cent of Total)



Total End-Use Demand – 483 Petajoules

The transition to performance-based regulation

Like many other energy regulators throughout the world, the Board is moving from the traditional cost-of-service approach to performance-based regulation, or PBR. This type of regulation offers a number of advantages for regulated companies and consumers alike, including greater timeliness and potentially lower regulatory costs.

Perhaps most importantly, PBR provides incentives for regulated companies to realize operating efficiencies that can result in lower costs, while helping them respond more effectively to market forces, both of which should ultimately benefit customers.

During the year, the Board introduced the province's first generation of performance-based rate regulation for electricity distribution. LDCs are allowed to include in rates a return on equity of up to 9.88 per cent, phasing in any rate increases evenly over three years.

The current PBR approved by the Board will remain in effect for three years. After that, a second generation PBR will be developed.

Generic hearing on minister's directive completed

In June 2000, the Minister of Energy, Science and Technology issued a policy directive to the Board on the setting of rates for the distribution of electricity. The minister directed the Board to give the highest priority to protecting "the interests of consumers with respect to prices and the reliability and quality of electric service".

Subsequently, the Board held a generic hearing to give market participants and intervenors an opportunity to comment on the directive, and present their views on its impact on the Board's Distribution Rate Handbook. In September 2000, the Board issued its decision with reasons. The decision requires utilities to phase in any rate increases evenly over three years.

Unbundling Ontario's electricity rates

The traditional approach to rate regulation – in which the OEB holds oral or written hearings – is gradually being displaced by the more modern concept of performance-based regulation, or PBR. PBR offers regulated companies an incentive to provide consumers with better, more efficient service.

For more than 90 years, electricity consumers in Ontario paid a bundled price for electricity that included the costs of producing, transmitting and distributing the power to their homes and businesses.

By contrast, in a competitive electricity market, commodity and delivery charges must be unbundled, or separated, to help consumers determine the costs of the various services they receive, including delivery and commodity costs. Unbundling rates will allow consumers to compare the costs and charges of competing suppliers.

The Board developed a Rate Unbundling and Design model for distribution companies. This model is designed to expedite the processing of LDC rate applications.

This year, LDCs were directed to file their proposed unbundled distribution rates for Board approval, and by the end of March 2001, the Board had received a total of 122 applications. The Board approved a number of these applications during the year and the remainder will be considered next year.

One of the Board's roles is to set just and reasonable rates for electricity distribution. Rate regulation is required since electricity distribution utilities enjoy a natural monopoly.

During fiscal 2000 – 2001, the Board also issued guidelines to LDCs on how to file applications for standard supply service and other regulated charges.

IMO budgets approved

The Board completed its first review of the IMO's proposed annual operating budget and fees this year. Following the review, in August 2000, the Board approved an initial revenue requirement for 2000. Subsequently, in January 2001, the Board approved the IMO's revenue requirement for 2001.

Creating the framework for electricity competition

One of the Board's most significant activities in electricity regulation over the past fiscal year was to design and develop the regulatory framework that will govern Ontario's electricity market. The Board was greatly assisted in this by several stakeholder task forces.

As part of the framework, the Board established several codes with accompanying rules handbooks, guidelines and procedural instructions for participants in the electricity market. The following codes and handbooks, along with the market rules, form the core framework within which the competitive electricity market will operate:

- *the Affiliate Relationships Code;*
- *the Electricity Retailer Code of Conduct;*
- *the Retail Settlement Code;*
- *the Standard Supply Service Code;*
- *the Accounting Procedures Handbook;*
- *the Electricity Distribution Rate Handbook;*
- *the Electricity Distribution System Code; and*
- *the Electricity Transmission System Code.*

After extensive consultation with stakeholders, the Board issued Chapter 10 of the Electricity Distribution Rate Handbook in June 2000. The chapter outlines three ways LDCs can provide standard supply service (SSS): through a fixed reference price; by a third party; or by seeking an exemption to the SSS Code.

The Board also commissioned a report during the year entitled, *A Proposed Basis for Estimating the Standard Supply Reference Price Upon Opening of the Retail Electricity Market in Ontario*. The results of the study were used to set the initial fixed reference price for SSS and the ceiling price for SSS provided by a third party. However the Board will update this study to ensure these prices accurately reflect conditions closer to market opening.

In January 2001, the Board released Chapter 11 of the rate handbook. This chapter sets the standard charges for retail services, and provides guidelines for establishing rates for wholesale market service and retail transmission service.

During the year, the Board amended the section of the Retail Settlement Code concerning how local distribution companies should treat transmission losses in a competitive electricity market.

To explain the regulatory framework to LDC employees, Board staff held information sessions throughout the province during the year.

Board staff worked this year to define the OEB's future surveillance activities in the electricity market. This was in preparation for the Board's future responsibilities for electricity market monitoring and reporting to the minister on the market's fairness, efficiency and competitiveness.

New standards for electronic billing developed

Effective competition in electricity will depend on the ability of retailers and distributors to share up-to-the-minute billing information. To make this possible, a Board advisory committee and working group developed a comprehensive set of standards for electronic business transactions. These standards are designed to allow electricity retailers and distributors to share customer and billing information efficiently, promoting the rapid and accurate settlement of all accounts.

Progress continues in licensing electricity market participants

Under Ontario law, most participants in the province's electricity market will require a licence from the OEB, and be required to follow the various codes established by the Board to govern market behaviour. From the Board's perspective, licensing is both a regulatory tool and a means to ensure that the market functions appropriately.

Electricity market licences are issued according to the nature of the licensee's activity. Several types of licences have been created, including those for generation, transmission, distribution, retailing, wholesale purchasing and selling. The Board also licenses the IMO. By obtaining a licence, the holder is authorized to participate in the market, and is required to abide by the licence conditions.

The Board's director of licensing has the authority to issue, deny or renew electricity licences. Under certain terms and conditions, the director may elect to refer an electricity licence application to the Board. The director's decisions concerning electricity licences can also be appealed to the Board.

During 2000 – 2001, the Board continued to license those who intend to participate in Ontario's competitive electricity market. In all, the Board issued 36 licences to electricity retailers, 28 licences to electricity wholesalers, six to electricity generators, and one licence to an electricity distributor.

By the end of the fiscal year, the Board had issued distribution licences to all municipally owned electricity distribution companies in the province, to Hydro One Networks Inc. and Canadian Niagara Power Company Limited. The Board has also licensed a total of 95 electricity generators, 46 electricity retailers, 35 electricity wholesalers and the IMO. In addition, the Board has issued licences to 27 gas marketers, whose licences allow them to sell gas directly to low-volume customers.

Reviewing mergers, acquisitions, amalgamation and divestitures in electricity

The Board is responsible for reviewing applications for mergers, acquisitions, amalgamations and divestitures (MAADs) in the electricity distribution system. These reviews are designed to protect the interests of consumers by ensuring consistency in quality of service, and financial viability in the electricity sector. By year's end, the Board had received 114 MAADs applications and had approved 69.

Electricity facilities construction

Under the *Ontario Energy Board Act*, companies must obtain a Board order granting leave to construct electricity transmission facilities for all new electricity lines that carry a load of 50 kilovolts or higher, and are more than two kilometres long. The Board reviewed and approved two major transmission projects during the 2000 – 2001 fiscal year.

One of these projects involved building a new inter-tie, or system connection between Hydro One Networks Inc. and Hydro Quebec in the Ottawa area. The connection is expected to add flexibility to both provincial systems, and facilitate the efficient movement of power in both provinces.

In the other transmission project review, the Board approved an application to build a new 3.5 kilometre, 240 kilovolt transmission line connecting TransAlta's proposed 440 megawatt cogeneration plant in Sarnia to the provincial electricity grid.

HIGHLIGHTS IN NATURAL GAS

Ontario's natural gas industry was deregulated in the mid-1980s to facilitate retail competition. Currently, consumers can purchase their gas supply from their local distribution company, or from a third party gas marketer. Gas marketers that sell to low-volume consumers must be licensed by the Board.

There are three regulated gas distribution utilities in Ontario, Enbridge Consumers Gas, Union Gas Limited and Natural Resource Gas Limited. These companies have the right to distribute natural gas within defined franchise areas.

Gas distributors must obtain the Board's approval for the rates they charge their customers. These rates cover the cost of purchasing, transmitting, storing and distributing the gas. The Board is ultimately responsible for ensuring that distribution gas rates consumers pay to distributors are just and reasonable.

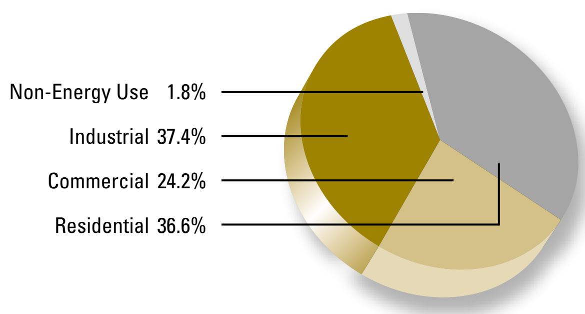
Rising gas prices

In Ontario, natural gas distributors make a profit only on the cost of distributing the gas to consumers. They are not allowed to profit on the gas they supply to their direct customers. But when the commodity cost of gas paid by distributors goes up or down, they are permitted to pass the increases or decreases on to consumers.

During the past year, market forces led to dramatic increases in the wellhead price of natural gas. As a result of these commodity price increases, the Board processed several applications from natural gas distributors seeking to pass on the higher costs.

Ontario's End-Use Natural Gas Demand 1999

By Sector (Per Cent of Total)



Total End-Use Demand – 811 Petajoules

Major rate applications reviewed

At the end of the 2000-2001 fiscal year, the Board was in the process of reviewing two natural gas rate applications from Union Gas Limited, one from Enbridge Consumers Gas, and one application from Natural Resource Gas Limited.

One of Union Gas Limited's applications included a proposal to unbundle its rates for upstream transportation and storage, and a proposal for a comprehensive, performance-based rate-setting plan. The Board completed an oral hearing on the application in August 2000, and the decision was pending at the end of the fiscal year.

The application from Enbridge Consumers Gas, involving the company's proposed gas rates for the 2001 fiscal year, was being considered at year's end.

Proposed gas distribution access rule

This year, the Board issued a proposed Gas Distribution Access Rule that establishes principles and standards for business transactions between gas distributors and marketers, as well as between distributors and their customers. At the end of the fiscal year, the Board was reviewing stakeholder comments on the proposed rule.

New Model Gas Franchise Agreement

In December 2000, the Board issued the new 2000 Model Franchise Agreement, which replaces an agreement that was developed in 1987. The new agreement was developed in close co-operation between the Board and its staff, and representatives of gas distributors and municipalities. It sets model terms and conditions for gas companies that distribute gas in municipalities across the province.

During the fiscal year, more than 60 interim extensions to municipal gas franchise agreements were approved. These extensions will allow municipalities and gas distributors to take advantage of the new Model Franchise Agreement.

Pipeline expansions get go-ahead

During the year, the Board dealt with a number of applications for major pipeline expansions, to increase existing gas transmission or distribution facilities, or to provide gas service to new areas of the province. Projects included the Hensall Reinforcement, the Sudbury Reinforcement, the Thames River Replacement Project, the Mariposa/Scugog expansion, and the Braeside expansion.

During 2000-2001, the Board also dealt with regulations concerning the designation of three gas storage pools in the province.

Corporate achievements

As Ontario's energy sector grows more complex for consumers who have more energy choices, the Board's regulatory role is changing, and it is acquiring a higher public profile. As customers are being called on to make more sophisticated, better-informed decisions, consumer education is becoming an increasingly important activity for the Board.

During the year, the Board addressed several emerging organizational priorities, including consumer education, media and stakeholder relations, administrative streamlining and electronic regulatory filing.

Customer Service Centre provides information for consumers

This year, the Board's Customer Service Centre – which began operating in March 2000 – saw a steady increase in the number of requests for information. Over the year, staff at the centre fielded 31,000 telephone, mail and e-mail enquiries on gas and electricity-related issues. By year's end, the centre was handling between 3,600 and 3,700 calls a month, a significant increase from 1,200 in the first month of operation.

In March, 2001, the Board installed an interactive voice response system to deliver better service to customers. This user-friendly system is fully bilingual, and features a series of interconnected menus that help callers get the information they need quickly.

Most of the enquiries received at the Customer Service Centre are relatively straight-forward requests for general information or specific questions about the energy sector; however, some calls are from energy consumers with problems or complaints.

The customer service staff does its best to help callers resolve complaints quickly and satisfactorily. Complainants are urged to try to resolve their problems directly with their utility, marketer or retailer. This approach usually works well.

This year, the Board adopted a new approach to deal with those cases where a resolution between the disputing parties seems unlikely. In these cases, staff now refer the complainants to a third-party resolution company, which works with all parties to resolve disputes.

Focusing on communications

During fiscal 2000-2001, the OEB adopted a new corporate communications plan. The plan reflects the changes in the Board's roles and responsibilities made in the *Energy Competition Act, 1998*. The communications plan covers a wide array of Board activities, ranging from consumer education and media relations, to stakeholder management.

To enhance its communications and public information activities, the Board re-designed its Internet Web site at www.oeb.gov.on.ca during the year. Several of the site's features were improved, offering visitors better access speed, improved navigation and information retrieval ability, and a broader range of information on Ontario's energy sector.

The site provides the public with access to significant Board decisions and important regulatory documents, including licences, codes, and handbooks. Also available on the site are consumer fact sheets, brochures, news releases and presentations, as well as links to energy-related and regulatory sites.

Looking ahead to high-tech hearings

As Ontario's energy sector grows more complex, more efficient operations are vital to the Board's ability to carry out its mandate. This year, the Board made significant progress in bringing technological advances such as electronic regulatory filing, shared databases and fully automated hearings to the Board.

Board staff worked closely on the Electronic Regulatory Filing project with their federal counterparts at the National Energy Board, and with regulated Ontario utilities and other stakeholders, to ensure a consistent approach and compatible standards for electronic filings.

To prepare for electronic hearings, a major remodeling of its hearing rooms in Toronto was undertaken. With new, modular furniture, and a more flexible layout, the Board's hearing rooms can now be easily reconfigured to accommodate hearings, meetings, seminars and presentations. Traditional desks and chairs are being replaced by state-of-the-art workstations. Each one will be wired to accommodate a range of functions.

In the coming years, the Board will continue to work on the many major issues and challenges, to further improve its regulatory technology. These issues include the security and confidentiality of information, consistency of format, simultaneous translation and distribution of documents, and facilitating multi-party access to electronic submissions.

Streamlining the hearing process

In 2000-2001, the Board convened an ad hoc committee to review the existing hearing process, and assess potential changes that can help resolve issues more effectively. The goal is to make the Board's hearing process as timely and cost-effective as possible, while reducing the administrative burden associated with traditional hearings.

The committee's work led to a number of suggestions for pilot projects that will assess the potential benefits of changes in the Board's pre-filing requirements, and refinement of issue lists.

The Board also began a review of its formal Rules of Practice and Procedure in the past year. These rules are designed to clarify the Board's requirements and processes to applicants and interveners, and give procedural guidance to everyone who does business with the OEB. This review was needed because of changes to the Board's roles and responsibilities that were introduced in the *Energy Competition Act, 1998*.

Intervenor funding update

The Board has the authority to grant cost awards to intervenors at Board hearings. This year, intervenors received $1,286,459 in cost awards.

In light of the Board's expanded mandate, staff initiated a review of the cost award process this fiscal year. A committee is reviewing the process and recommendations are expected in the next fiscal year.

Financial Report
for April 1, 2000 to March 31, 2001

The Ontario Energy Board is a regulatory agency of the Government of Ontario, and is funded by the government's Consolidated Revenue Fund, or CRF. The Board is subject to the government's financial and administrative policies, as established by the Management Board of Cabinet and the Minister of Finance. The Board is a full cost recovery agency, and all monies collected on its behalf are paid into the CRF.

The Board submits its annual budget to the Ministry of Energy, Science and Technology for incorporation into the Ministry's estimates, which are presented first to the Management Board of Cabinet and then to the provincial legislature for approval. A table summarizing the Board's financial data for the fiscal year 2000-2001 appears on the next page.

Recovering Board costs

The Board became a 100 per cent cost recovery agency on April 1, 1992. Initially, the Board recovered all its costs by assessing them against applicants – usually the gas utilities and the former Ontario Hydro – that were involved in hearings and related activities. After each hearing, the Board invoiced the appropriate applicant. The amount of the invoice included direct expenses incurred as a result of the hearing, and a contribution towards the Board's fixed costs, such as general overheads and payroll.

Beginning in 1999-2000, however, the method for recovering the Board's costs changed significantly, resulting from changes to the *Ontario Energy Board Act, 1998*, which provides for recovery of the Board's costs in three ways. First, the act gives the Board the authority to set and charge fees approved by the minister, such as licence fees, application fees and other fees. Second, the act allows the Board to make an annual assessment of all the fixed costs and expenses it incurs in carrying out its duties. Third, the act gives the Board the ability to recover costs that are incurred directly by the Board and associated with the conduct of its proceedings.

In practice, most of the Board's operating costs are currently recovered through an annual cost assessment process, according to a formula specified in a regulation made under the act.

OEB Spending Analysis F/Y 2000–2001 ($)

Standard Account	Printed Estimates (1)	Actual Expenditures (2)
Salaries and wages	5,772,000	5,226,638
Employee Benefits	1,032,300	812,575
Transportation & Communication	830,400	542,475
Services	7,358,400	6,244,313
Supplies & Equipment	763,300	292,763
Total	15,756,400	13,118,764

(1) Approved Budget as of April 1, 2000

(2) Preliminary actuals

OEB Cost Recovery Analysis F/Y 2000–2001 ($)

Account	Actual Non-Tax Revenue	(1)
Cost Assessment	13,390,200	(2)
Hearing Costs	156,423	
Application Filing Fees	62,541	
Miscellaneous	380	
Prior Year Recoveries	536,245	(3)
Total	14,145,789	(4)

(1) As reported on the cash method ($)

(2) F/Y 2000-2001 Cost Assessment (based on estimated expenditures) broken down, by class of payer as follows

Electricity Distribution	5,530,559
Electricity Transmission	3,671,960
Gas Utilities	4,187,681
Total Amount Collected	13,390,200

(3) Collection of outstanding accounts receivables from the prior year in respect of proceedings and the annual Cost Assessment

(4) Preliminary actuals

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The Board's Web site is located at:
http://www.oeb.gov.on.ca.

To reach the OEB Customer Service Centre, call:
Toll free: 1-877-632-2727
In Toronto: (416) 314-2455

Copies of this annual report, as well as other Board publications, may be obtained through the Board, and are available on the Web site.

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