Enbridge Gas Compendium for Depreciation Expense/Site Restoration Costs Panels 15, 16 & 17

	Item
1.	Summary and Impact of Depreciation Proposals
2.	Detailed Comparison of Enbridge Gas and Intervenor Proposed Depreciation Rates
3.	Depreciation Provision Comparison of Major Accounts with Intervenor Proposed Lives
4.	CER Report, June 2023
5.	OEB, Report of the Ontario Energy Board to Ontario's Electrification and Energy Transition Panel, June 30, 2023

Impact of 2024 Depreciation Proposals

1) The depreciation provision impacts displayed are illustrative only (based on the impact to the 2024 forecast year) to display the direction and potential magnitude of the depreciation proposals.

Summary of Depreciation Recommendations

Recommendations	Concentric[1]	Intervenor Experts[2,3]
Depreciation Approach	Equal Life Group (ELG)	Average Life Group (ALG/ASL)
Net Salvage Approach	Constant Dollar Net Salvage (CDNS)	Same
CDNS Discount Rate	3.75% Credit-Adjusted Risk-Free rate (CARF)	5.87-6.50% Weighted Average Cost of Capital (WACC)
Average Service Lives	Moderated approach to selection of average service lives for long-lived assets, with consideration to Energy Transition	Generally recommended longer average service lives, without consideration to Energy Transition
Economic Planning Horizon (EPH)	Not at this time	Same
Segregated Fund	Not at this time	Same

1) Applicant Evidence - Exhibit 4, Tab 5, Schedule 1, Attachment 1
2) Intervenor Evidence - Exhibit M5 – IGUA Depreciation
3) Intervenor Evidence - Exhibit M1 – OEB Staff Depreciation

ENBRIDGE GAS INC. DEPRECIATION PROVISION COMPARISON

		Equal Life Group (ELG)	Average Life Group (ALG)			
Asset Account	Concentric Recommended Life and Curve	Concentric Depreciation Provision TOTAL (1)	Concentric Depreciation Provision TOTAL Change (revised to ALG)(2)	Alternative Recommended Life and Curve	Depreciation Provision for Alternative Life and Curve @ CARF Discount Rate TOTAL Change (2)	Depreciation Provision for Alternative Life and Curve @ WACC Discount Rate (6.03%) TOTAL Change (2)
442.00	40-S5	105,928	-1,910	N/A	-	-
443.01	45-R4	55,594	-3,896	N/A	-	-
443.02	55-R4	229,183	-15,230	N/A	-	-
451.00	55-R4	1,102,904	-32,677	N/A	-	-
452.00	40-R3	4,114,129	-772,270	45-R2.5	- 1,053,046	- 1,239,324
453.00	45-R2.5	5,515,551	-976,515	N/A	-	- 860,284
454.00	40-R2	175,831	-41,125	N/A	-	-
455.00	55-R3	5,130,627	-631,859	N/A	-	- 246,673
456.00	40-R4	19,661,453	-1,591,481	44-R4	- 2,778,143	- 3,601,335
457.00	35-R3	2,003,634	-251,015	40-R2.5	- 450,804	- 578,553
461.00	60-R4	1,507,598	-98,041	N/A	-	-
462.00	50-S4	3,377,914	-101,519	N/A	-	- 143,044
463.00	55-S4	157,646	-9,235	N/A	-	- 8,398
464.00	50-S4	65,185	-2,807	N/A	-	- 2,915
465.00	60-R4	49,201,674	-3,455,165	70-R4	- 9,313,524	- 12,269,725
466.00	30-R4	37,417,456	-3,016,025	37-R4	- 9,515,433	- 10,311,121
467.00	40-R4	12,112,032	-864,381	N/A	-	- 960,745
471.00	60-R4	1,150,753	-78,740	N/A	-	-
472.00	40-S0.5	7,005,487	-1,849,963	N/A	-	-
472.31	40-S0.5	1,325,428	-145,152	N/A	-	-
472.32	40-S0.5	991,735	-106,536	N/A	-	-
472.33	40-S0.5	2,365,393	-12,230	N/A	-	-
472.34	40-S0.5	704,663	-75,952	N/A	-	-
472.35	40-S0.5	8,045,939	-4,055	40-S0.5 - No Truncation	- 7,627,722	- 7,627,722
473.01	45-S1	19,924,844	-4,106,311	50-L1	- 4,740,643	- 6,795,099
473.02	55-S3	121,567,634	-11,318,080	60-S3	- 15,563,480	- 30,900,537
474.00	25-SQ	43,329,780	0	50-L1	- 33,157,286	- 33,157,286
475.00	25-SQ	10,469,399	0	N/A	-	-
475.21	55-R3	112,249,761	-14,315,765	70-R3	- 37,193,539	- 50,737,563
475.30	60-R4	94,562,548	-6,729,388	70-R2	- 24,407,105	- 38,290,145
476.00	17-S2.5	365,238	-40,166	N/A	-	-
477.00	40-R2	27,440,188	-5,957,636	N/A	-	172,266
477.01	35-R3	4,800,551	-625,185	N/A	-	-
478.00	15-S2.5	104,686,373	-13,266,942	25-L1.5	- 62,641,782	- 62,641,782
482.00	40-R1.5	191,336	-71,751	N/A	-	-
482.01	40-R1.5	3,400,629	-110,229	N/A	-	-
482.04	40-R1.5	9,286,663	-1	N/A	-	-
482.05	40-R1.5	1,544,848	-156,562	N/A	-	-
482.51	40-R1.5	3,906,954	-542,506	N/A	-	-
482.52	40-R1.5	2,814,701	-30,937	N/A	-	-
483.00	15-SQ	1,200,881	108,435	N/A	-	-
484.00	12-L2.5	6,268,747	-1,184,789	N/A	-	-
485.00	17-L1.5	3,658,037	-864,297	N/A	-	-
486.00	15-SQ	9,529,666	0	N/A	-	-
487.70	15-SQ	86,895	0	N/A	-	-
487.80	20-SQ	288,265	3,283	N/A	-	-
488.00	10-SQ	2,946,627	0	N/A	-	-
490.00	4-SQ	4,041,429	229,827	N/A	-	-
490.00 (Post 2023)	4-SQ	0	0	N/A	-	-
490.30	10-SQ	502,763	0	N/A	-	-
491.01	4-SQ	13,604,128	219,841	5-SQ	- 3,126,833	- 3,126,833
491.01 (Post 2023)	4-SQ	0	0	5-SQ	-	-
491.02	4-SQ	3,892,471	98,081	5-SQ	- 931,868	- 931,868
491.02 (Post 2023)	4-SQ	0	0	5-SQ	-	-
491.03	10-SQ	7,217,716	137,659	N/A	-	-
Software Intangibles - 10YR	10-SQ	0	0	N/A	-	-
491.04	10-SQ	9,153,464	0	N/A	-	-
TOTAL OF COLUMN CHANGES			**-72,661,198**		**-212,501,208**	**-264,258,686**
AGGREGATE OF PROPOSED CHANGES			**-72,661,198**		**-285,162,406**	**-336,919,884**
TOTAL DEPRECIATION ACCRUAL (2021 STUDY) @ ENBRIDGE GAS OR INTERVENOR PROPOSED DEPRECIATION RATES		**786,456,273**	**713,795,075**		**501,293,867**	**449,536,389**
FORECASTED 2024 DEPRECIATION ACCRUAL @ ENBRIDGE GAS OR INTERVENOR PROPOSED DEPRECIATION RATES (3)(4)		**892,400,000**	**810,700,000**		**572,600,000**	**509,900,000**
FORECASTED 2024 DEPRECIATION ACCRUAL @ CURRENT DEPRECIATION RATES (5)			**771,600,000**			

Enbridge Gas notes that applying Emrydia and InterGroup's recommended changes to asset lives under the ALG procedure and a 6.03% WACC would result in an annual net salvage provision of only $5 million. This amount is significantly less than Enbridge Gas's forecasted annual site restoration costs of $60 million (Exhibit I.1.8-STAFF-17 Part f).

NOTES

(1) Exhibit 4, Tab 5, Schedule 1, Attachment 1, Pages 40 and 41. Does not reflect the revised depreciation rates filed in the Capital Update (Exhibit 2, Tab 5, Schedule 4, Attachment 1) which reduced the study year depreciation accrual by $2.4 million.

(2) Applicant response to ADR Information Request - Exhibit I.ADR.22

(3) Concentric provision at proposed rates under ELG and ALG: Exhibit I.4.5-STAFF-170, Attachment 1

(4) For illustrative purposes only. Does not include the updated capital expenditures, rate base and depreciation rates reflected in the June 16, 2023 Capital Update.

(5) Exhibit 4, Tab 5, Schedule 1, Attachment 2, Page 9

ENBRIDGE GAS INC. DEPRECIATION PROVISION COMPARISON WITH INTERVENOR PROPOSED LIVES USING ELG PROCEDURE		Current Life	Concentric Recommended Life	Original Cost	Annual Accrual Amount	Annual Accrual Rate	Intervenor Recommended Life (Dustin Madsen or Patrick Bowman)	Annual Accrual Amount	Annual Accrual Rate	Change in Accrual	Change in Rate
Asset Account	**Asset Description**										
465.00	Transmission - Mains	55-R4	60-R4	2,783,251,797	49,201,674	1.77%	70-R4 (PB)	39,083,021	1.40%	- 10,118,653	-0.37%
474.00	Distribution - Regulators	20-SQ (UGL)	25-SQ	488,870,931	43,329,780	8.86%	50-L1 (DM)	14,981,770	3.06%	- 28,348,010	-5.80%
475.21	Distribution - Mains - Coated & Wrapped	61-R3 (EGD) 55-R4 (UGL)	55-R3	3,320,418,328	112,249,761	3.38%	70-R3 (PB)	70,073,131	2.11%	- 42,176,630	-1.27%
478.00	Distribution - Meters	15-S2.5(EGD) 25-L1.5(UGL)	15-S2.5	1,020,910,894	104,686,373	10.25%	25-L1.5 (DM)	39,185,556	3.84%	- 65,500,817	-6.41%
					309,467,588			**163,323,478**		**- 146,144,110**	

(1) The calculations above were run using the ELG procedure, utilizing the CDNS method for the net salvage inputs, at the Credit Adjusted Risk-free Rate of 3.75%

Canada Energy Regulator | Régie de l'énergie du Canada

Five-Year Review of Abandonment Cost Estimates and Set-Aside and Collection Mechanisms 2021

Report of the Commission of the Canada Energy Regulator

Presiding Commissioner – S. Luciuk
Commissioner – M. Watton
Commissioner – M. Chartier

June 2023

- Does there need be a minimum length of corridor for cost savings to be applied?
- Should cost savings be applied incrementally based on the number of pipelines owned by a company in a shared corridor?
- If yes, what should those incremental cost savings be and what methodology should be used to apply such savings?
- What further attributes, if any, would be required in companies' geospatial data to support the calculation of such savings?

4.5.3 Inflation rate

ACE Paper 3 asked questions about determining the Base Case inflation rate and how the rate should be used for ACE and SAM-COM purposes.

Commission decision

The Commission has decided to use the following rates of inflation for Base Case 2021:

- Inflating prior ACEs – Actual inflation as measured by the Consumer Price Index.
- Future-proofing – letters of credit and surety bonds will be required to cover an amount equal to 1.104 times the 2023-dollar ACE.
- Annual contribution amount – 2.0 per cent inflation rate.

Reasons of the Commission

Inflating prior ACEs

At times, inflation may be used to inflate prior ACE amounts to current dollars, and Participants were asked to comment on how this should be done. Submissions were only received from companies, which supported the use of actual Consumer Price Index for this purpose instead of using an alternative measure such as a Base Case inflation rate. The Commission agrees with this approach because it should provide a more accurate way of updating past costs, and there are no material barriers or added complexity in applying actual inflation instead of a Base Case inflation rate (since actual inflation is readily available). As such, the Commission instructs that, to the extent companies use inflation to update their prior ACEs to current dollars, they should generally do so using actual total Consumer Price Index inflation over the relevant intervening period.[29]

Future-proofing

Companies and landowners made submissions that supported future-proofing ACE amounts. These submissions varied somewhat, suggesting that ACE amounts be inflated forward to the anticipated mid-point between ACE reviews, the next ACE review, or further into the future. For example, landowners submitted that letters of credit and surety bonds should be future-proofed such that the ACE amount would be inflated forward to 2030.

The Commission is of the view that the past practice of requiring letters of credit and surety bonds to cover ACE amounts from the last ACE review (in prior-year dollars) may contribute to a shortfall in the funding for abandonment activities that may need to be paid for from a letter of credit or a surety bond. This shortfall could arise because of the expected impact of inflation on ACEs. As such,

[29] For example, see Statistics Canada, https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000413. Table 18-10-0004-13 – Consumer Price Index by product group, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse, Yellowknife and Iqaluit.

the Commission is of the view that future-proofing of letters of credit and surety bonds is an important safeguard against having insufficient funds available at the time of abandonment.

The Commission finds that it is appropriate to future-proof letters of credit and surety bonds against the impacts of inflation out to the likely timing for completion of the next ACE review (when letters of credit and surety bonds will presumably again be updated to new ACE amounts). The Commission is of the view that future-proofing only to the mid-point between ACE reviews would be insufficient because there is likely to be a lag between when the CER would call upon a letter of credit or a surety bond and the time that abandonment would be executed and paid for. Further, the Commission is of the view that future-proofing to 2030 would be overly costly for companies, considering that the potential need for the CER to call upon a letter of credit or a surety bond extends across time (i.e., it does not only arise towards the time of the next ACE review).

Specifically, for the purpose of this Review, letters of credit and surety bonds will be required to cover ACE amounts adjusted for inflation to 2028 dollars. Several companies pointed towards the Bank of Canada's inflation forecast. The Commission finds that it is appropriate for future-proofing to be done based upon the most current Bank of Canada forecast, in which inflation falls to 3 per cent in mid-2023, then returns to 2 per cent at the end of 2024.[30] Accordingly, for companies using a letter of credit or surety bond as their SAM, their letter of credit or surety bond will have to account for their ACEs (measured in 2023 dollars) being inflated by 10.4 per cent. **Table 25** illustrates how the Commission calculated this amount. The Commission notes that, because ACEs will be in 2023 dollars, they will already reflect the impacts of recent inflation, which has been as high as 8.1 per cent (as described in **Section 4.4**).

Table 25 – Inflation forecast for future-proofing ACEs for letters of credit and surety bonds

Inflating to	Inflation rate forecast
2024 dollars	2.0 %
2025 dollars	2.0%
2026 dollars	2.0%
2027 dollars	2.0%
2028 dollars	2.0%
Total growth (compounded)	**10.4%**

Annual contribution amount calculation

In setting the Base Case inflation rate to be used in the annual contribution amount calculation, the Commission is of the view that an equivalent methodology as that used to future-proof ACE amounts is appropriate, with the calculation of the annual contribution amount inflation rate using inflation of 2.0 per cent for all years after 2028 (i.e., the Bank of Canada's target). Based on this methodology, the Commission finds that a 2.0 per cent rate remains the appropriate Base Case rate for annual contribution amount calculations. As noted by companies – which generally supported the continued use of 2.0 per cent for Base Case 2021 – regular ACE reviews provide an opportunity to adjust for variations between realized and assumed inflation.

4.5.4 Salvage value

ACE Paper 3 asked questions about whether assumptions on zero salvage value remained appropriate.

[30] Bank of Canada, Monetary Policy Report – April 2023, https://www.bankofcanada.ca/wp-content/uploads/2023/04/mpr-2023-04-12.pdf, PDF pages 26-27 of 32.

As part of company justifications for proposed Terminal Abandonment Dates, the Commission has also decided to require that companies provide the economic planning horizons used in their pipeline system's most recent depreciation study. Companies generally indicated that economic planning horizons used in setting depreciation rates could be used to assess the reasonableness of proposed Collection Periods, but the two concepts should not be considered equivalent. Some companies submitted that the Collection Period does not represent an estimate of economic or physical life and that evidence should not be required to support a Collection Period that deviates from the economic planning horizon. Indigenous Peoples suggested that the appropriate consideration of economic planning horizons depends on how the depreciation studies are conducted (e.g., using publicly available corporate strategies, corporate risk registers and disclosures, federal and provincial targets and commitments). The Commission is of the view that, where there is a material difference between the proposed Terminal Abandonment Date and economic planning horizon, companies should provide a detailed rationale to explain why the proposed Terminal Abandonment Date remains appropriate. While economic planning horizons are not equivalent to Terminal Abandonment Dates, the Commission has not heard reasons to suggest that there should typically be a material misalignment between the two. Accordingly, economic planning horizons could provide a helpful metric for assessing the reasonableness of proposed Terminal Abandonment Dates.

Some Participants suggested that there be informational requirements in addition to those specified above – for example, commitments made to Indigenous Peoples, corporate strategies, corporate risk registers and disclosures. While such information may be relevant to assessing the reasonableness of proposed Terminal Abandonment Dates in certain cases, the Commission has decided not to impose additional informational requirements in this regard at this time. However, companies should provide such information where it is material to a pipeline's Terminal Abandonment Date, along with any other supplementary information that is material.

5.2 Rate of return

Commission decision

The Base Case 2021 real rate of return will be 1.25 per cent.

Reasons of the Commission

On 4 March 2010 (A24600), the NEB updated the pre-tax Base Case 2010 rate of return to 3.5 per cent, reflecting a 1.5 per cent real rate of return, given the Base Case 2010 inflation assumption of 2 per cent.

The assumed real rate of return has a significant impact on the annual contribution amount and ACE. Specifically, the ACE is generally inversely proportional to the assumed real rate of return because of the impact on the annuity factor (i.e., *Provisions for Abandoned Pipelines* rise as the real rate of return falls, and vice versa). The annual contribution amount is likewise generally inversely proportional, not only because of its relationship to the ACE, but also because funds in trust benefit from compound growth through the pre-abandonment years.

The Commission continues to support the concept of capital preservation of funds in a trust and, with no Participant suggesting otherwise, accepts that Government of Canada marketable bonds remain an appropriate benchmark because they reflect a low-risk rate of return. No Participant suggested a fundamental shift in the methodology used to calculate the rate of return for these bonds, although some companies suggested Government of Canada bond yield forecasts could provide some insight into whether historical or current trends are expected to continue or fundamental shifts are expected.

The NEB set the Base Case 2010 rate of return based on the previous 10 years' bond yields and inflation. The Commission observes that the past 10 years have been characterized by abnormally low bond yields net of inflation. Specifically, average long-term Government of Canada bond yields have been approximately equal to average inflation over the last decade. **Figure 1** illustrates the degree to which yields for long-term Government of Canada bonds, net of inflation, have experienced a steady decrease over the past 30 years. The dashed line is the rolling 10-year average bond yield net of the rolling 10-year average inflation rate and shows the gradual change over time that results in the different averages for each decade of data, represented by the grey horizontal lines.

Figure 2 – 30-year history shows decline in Long-Term Bond Yields, Net of Inflation[33]

In considering the Base Case 2021 rate of return, the Commission takes a long-term view given the anticipated timing of abandonment activities. The Commission is therefore particularly reluctant to update the rate of return based on recent yields that are at odds with yields from prior decades, as recent yields may not accurately represent investment opportunities in the future. This conservative approach to making changes based on recent yields is supported by the opportunity to make further adjustments in future periodic reviews, if warranted. For example, during the next review, the Commission will have the benefit of more years of data when considering the degree to which low real yields from the last decade (that is, until early 2023) might be indicative of likely future yields.

As suggested by some companies, the Commission has examined the forecasts from major Canadian banks, which are available through 2024. Currently, the average of their forecasts for 10-year and 30-year bond yields net of inflation recover to positive returns of 0.74 to 0.97 per cent,

[33] **Figure 1** shows data for May 1993 through April 2023. Sources: Bond yields are from the Bank of Canada for "Government of Canada marketable bonds, average yield: over 10 years." Inflation is based on Bank of Canada data for Consumer Price Index Total.

respectively, by the end of 2024.[34] The latest Department of Finance Survey of Private Sector Economic Forecasters (from February 2023) shows similar forecasted values and trends, with the forecast 10-year Benchmark Government Bond Rate being above forecast inflation by 0.8 per cent in 2024, and rising to 1.0 per cent in 2026 and 2027.[35] Although all of these forecasts are relatively short-term, the Commission considers them to provide some support for a coming change in trend from the past several years where bond yields net of inflation were near-zero or negative.

Weighing all of the above considerations, the Commission finds that a decrease in the Base Case real rate of return to 1.25 per cent is appropriate at this time.[36] As has been the case previously, the Commission expects that the Base Case rate will not be appropriate for all companies for their annual contribution amount calculations. Instead, the Commission expects companies to use alternative rate of return assumptions in their annual contribution amount calculations, where warranted by their trust investment strategies.

Finally, the SAM-COM Paper also contemplated whether it might be more appropriate to use multiple Base Case 2021 rates of return to account for a lower rate of return during the trust de-risking phase (for ensuring capital preservation towards the end of a pipeline system's service life). The Commission agrees with companies that factors impacting a trust's rate of return are, to some extent, company-specific, and, therefore, rates of return can also be company-specific. Adding additional rates of return for Base Case 2021 may not result in a material improvement of ACE and SAM-COM calculations, provided that the single Base Case 2021 rate is premised on a sufficiently low-risk investment profile. Accordingly, the Commission has decided to continue to use a single real rate of return for Base Case 2021.

5.3 Abandonment funding plans, Collection Periods, and annual contribution amounts

5.3.1 Timespan of abandonment funding plans

Commission decision

The Commission requires companies using trusts as their SAM to file an abandonment funding plan if the trust is not fully funded, which must cover a pipeline's full abandonment horizon.

Reasons of the Commission

In its MH-001-2013 decision, the NEB directed companies to file preliminary abandonment funding plans in time for the next SAM-COM review. In the SAM-COM Paper, the Commission indicated that, in follow-up to that direction, companies will be required to file preliminary abandonment funding plans after the release of this Report. The Commission also proposed that this direction would only apply to companies using trusts, where the trusts are not yet fully funded (i.e., it would not apply to companies using letters of credit or surety bonds, or with fully funded trusts).

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[34] Sources of data (accessed on 16 May 2023):

- Bank of Montreal, from the Canadian data in its Forecasts & Recent Releases section from https://economics.bmo.com/en/
- Canadian Imperial Bank of Commerce, from its "View All GDP" and "View All Rates & FX" links in its Forecast Snapshots for GDP, available at https://economics.cibccm.com/
- Royal Bank of Canada, from its "Economic Forecast Detail – Canada" and "Canada-U.S. Interest Rates and Key FX rates" reports available at https://thoughtleadership.rbc.com/economics/
- Scotiabank, from its Forecast Tables available at https://www.scotiabank.com/ca/en/about/economics.html
- Toronto-Dominion Bank, from its "Long-Term Canadian Economic Outlook" and "Interest Rate Outlook" tables available at https://economics.td.com/ca-forecast-tables

[35] See https://www.canada.ca/en/department-finance/services/publications/private-sector-survey.html.

[36] While this continues to be a pre-tax rate, the Commission has decided not to account for income taxes in the Base Case annuity factor at this time, as described in **Section 4.4.7**.

ONTARIO ENERGY BOARD

Report of the Ontario Energy Board to Ontario's Electrification and Energy Transition Panel

June 30, 2023

Ontario

Ontario Energy Board

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

On October 21, 2022, the Minister of Energy issued a Letter of Direction to the Ontario Energy Board (OEB) which outlined a number of key priorities for the OEB, including the development of advice to the government-appointed Electrification and Energy Transition Panel (Panel) on "potential changes to the OEB's mandate and operations, including any necessary legislative amendments."

The OEB's advice to the Panel as set out in this Report was informed by feedback from stakeholders, cross-jurisdictional research, and input from consultants. The OEB's advice is grounded in **four principles – consumer protection, regulation that supports economic development, clear roles and responsibilities, and the need for an iterative approach** – that speak to the role of the OEB as the economic regulator for the electricity and natural gas sectors.

The OEB offers the following summary of its advice to the Panel.

- Energy regulators are being asked to address a broader range of outcomes beyond price, reliability, and quality of service. Although the OEB's statutory objectives as set out in the *Ontario Energy Board Act, 1998* (OEB Act) are broad, updates could be made to include a specific reference to reducing greenhouse gas (GHG) emissions or to net zero to provide greater clarity and predictability for the sector.
- The energy transition will likely require new investments in electricity system infrastructure, including new transmission infrastructure. There may be an opportunity to add new language to the OEB's authority related to electricity transmission leave to construct applications as a means of clarifying that the OEB can consider government policy related to GHG emissions or net zero in assessing whether a transmission project is in the public interest.
- Compared to the OEB's broad authority in relation to electricity, the OEB has more limited authority in relation to natural gas. Given the impact of the energy transition, there may be merit in broadening the OEB's powers with respect to natural gas to align its authorities more

closely to those the OEB has for electricity, which could ensure the OEB has a broader basis on which to protect natural gas customers during the energy transition.

- Electricity distributors have a critical role to play in Ontario's transition to a cleaner economy, as is clear both in this Report as well as our report on Improving Distribution Sector Resilience, Responsiveness and Cost Efficiency. In addition to their role in deploying electrification-related investments, electricity distributors can also undertake activities that support the adoption of new technologies. Stakeholders have requested that the OEB examine the question of electricity distributor activities and provide clarity on the evolving role of electricity distributors in Ontario.
- Just as the electricity sector is evolving, the natural gas sector is also experiencing change as a result of the energy transition, and some natural gas utilities are considering the role their resources and infrastructure can play in a net zero future. The OEB and natural gas distributors will need to remain open to different business trajectories amid energy sector uncertainty, while ensuring that investments are prudent and meet the needs of customers.
- The OEB's approach to supporting the integration of emerging technologies includes facilitating innovation and the deployment of new activities and business models in Ontario for the benefit of energy consumers. The following could assist in further encouraging this innovation: potential broadening of the OEB's new authorities under recent amendments to the OEB Act to grant time-limited exemptions from licence requirements; enabling greater uptake of community net metering projects; and authorizing the OEB to allow for recovery of a portion of an electricity distributor's costs from other electricity distributors or transmitters in situations where that portion of costs provides clear and demonstrable value to a broader group of ratepayers.
- The OEB is exploring what more we can do to support the work of natural gas and electricity utilities in their efforts to inform their customers about the energy transition. The OEB is also considering to what extent we can enhance our own efforts to engage with consumers – particularly Indigenous peoples and local communities – about issues related to the energy transition.

- Coordination and planning alignment between the natural gas and electricity sectors is critical given the magnitude of change and infrastructure development that will be required to support the energy transition. The purpose of a coordinated energy planning framework is to support a cost-effective energy transition that ensures that investments in energy resources align with long-term goals and deliver reliable, sustainable, and affordable energy. Any new energy planning framework must give careful consideration to the roles of all energy sector participants, in particular the Ministry of Energy, the Independent Electricity System Operator (IESO), the OEB, and natural gas and electricity utilities. While getting to an end state may take time and iteration, there are steps that can be taken now to advance Ontario toward this goal.

2 BACKGROUND

The OEB received a Letter of Direction from the Minister of Energy on October 21, 2022 which outlined a number of key priorities for the OEB. Among other requests, the letter asked the OEB to provide the Panel with the OEB's:

> "best advice on potential changes to the OEB's mandate and operations, including any necessary legislative amendments. This advice should include, but need not be limited to, opportunities to incorporate environmental and economic development benefits into the OEB's regulation of the sector, approaches to integrating the regulation of the electricity and natural gas systems, and enhancements to how the OEB and the Market Surveillance Panel oversee the acquisition of energy resources, regulate the Independent Electricity System Operator (IESO) and review long-term planning efforts."

The Panel was established to help Ontario's economy prepare for electrification and the energy transition. The Panel advises the government on high-value short-, medium-, and long-term opportunities in the energy sector and has asked stakeholders to provide it with advice on the following five themes:

- Governance and Accountability
- Technologies
- Community and Customer Perspectives and Affordability
- Facilitating Economic Growth
- Energy Planning

The OEB's advice to the Panel aligns with those themes. In addition to providing advice, the Minister's Letter of Direction also asks the OEB to launch workshops to explore "how the OEB could enable electrification-related investments while protecting consumers' interests to deliver on the government's vision." The feedback received from these workshops, held from January to May 2023, has informed the OEB's advice to the Panel.

In developing our advice, we considered how best to apply the Panel's five themes to the work of the OEB. In the early stages of our work, we considered whether the OEB's mandate should expand to include the regulation of emerging sectors or technologies such as hydrogen, carbon capture utilization and storage, or transportation fuels. We received advice from other energy sector stakeholders in this regard and concluded that at this stage it would be premature to provide advice with respect to a role for an economic regulator in these emerging sectors. As these sectors and technologies evolve, the OEB remains open to new tools and authorities that would continue to allow the OEB to regulate as efficiently and effectively as possible as the energy transition unfolds.

Role of the OEB

The OEB has broad authority to regulate the electricity and natural gas sectors in the public interest. The OEB's objectives, responsibilities and powers are set out in legislation and regulations, notably including the OEB Act and the *Electricity Act, 1998.* Those enabling statutes are the foundation on which the OEB delivers on its mandate. Among other responsibilities, the OEB sets the rates that utilities can charge their customers to recover their operating, capital and commodity costs while earning a reasonable return on their regulated assets, and approves the construction of new natural gas pipelines and electricity transmission infrastructure. Like other energy regulators, the OEB must ensure that rates paid by energy consumers are just and reasonable.

As an adjudicative tribunal, the OEB carries out many of its functions through evidence-based proceedings, with Commissioners making independent decisions based on the strength of the evidence before them regarding the costs that electricity and natural gas utilities may recover from their customers and the electricity transmission and hydrocarbon pipelines that can be built in the province.

The OEB has also been asked through the Minister's Letter of Direction to take on a role in developing and influencing energy sector policy. The OEB has been pleased to take on this work, approaching policy development from its perspective as an independent, economic regulator.

As the energy transition unfolds, the context within which the OEB operates is also evolving. This is not unique to Ontario. Worldwide, energy regulators have had to adapt to changes in the energy sector as new needs related to energy decarbonization, digitalization, democratization and decentralization have emerged. Increasingly, governments are launching efforts to ensure that regulators are well-placed to respond to those needs. The OEB's advice herein responds to the Minister of Energy's request for the OEB to consider our mandate to ensure it continues to be fit for purpose.

3 APPROACH TO DEVELOPMENT OF ADVICE

The OEB's advice to the Panel has been informed by a number of inputs and sources, including feedback from energy sector stakeholders, research related to how other jurisdictions are tackling the energy transition, and input from consultants.

3.1 Regulatory Framework Workshops

In addition to asking the OEB to support the work of the Panel, the October 2022 Letter of Direction asked the OEB to hold workshops to explore how the OEB could enable electrification-related investments while protecting consumers' interests to deliver on the government's vision for a clean energy grid that promotes electrification, attracts investment, and creates jobs while continually enhancing reliability, resiliency, and customer choice. Between January and May 2023, the OEB held workshops in which energy sector stakeholders were invited to share their perspectives on what changes to the OEB's mandate, tools, or authorities may be needed for the OEB to continue to regulate effectively in a time of significant sector transformation.

To solicit a broad range of feedback, the OEB leveraged existing stakeholder forums at both staff and executive levels. The OEB held meetings with the Coalition of Large Distributors, the Adjudicative Modernization Committee, Energy[X]Change and the Framework for Energy Innovation Working Group. The OEB also held a number of more targeted meetings, including with the IESO, members of the Ontario Energy Association, and the Electricity Distributors Association. In addition to feedback provided in the meetings themselves, participants were also invited to submit written comments.

The input received from energy sector stakeholders has informed the development of the OEB's advice to the Panel at every stage, and the OEB is grateful for the thoughtfulness of the feedback and the depth of insight and information provided.

3.2 Jurisdictional Research and LEI Jurisdictional Review

To support the OEB's advice to the Panel, the OEB retained London Economics International LLC (LEI) to conduct a jurisdictional review of new roles and activities that economic regulators around the world have undertaken in response to the energy transition. LEI's report provides international examples to highlight the challenges and trade-offs that sector evolution entails. LEI assessed approaches taken in other jurisdictions to: integrate new objectives into the mandates of their respective regulators (including decarbonization, electrification, economic development, and energy equity, etc.); introduce new areas of regulatory oversight (including climate change, hydrogen, and greening the gas sector); provide for oversight of long-term integrated planning; further Indigenous reconciliation efforts; define the role of distributors; and more generally address innovation and disruption. The OEB has provided LEI's report to the Panel and the Ministry of Energy.

As a complement to the jurisdictional information received in the LEI report, OEB staff also undertook additional jurisdictional analysis on the Panel's five themes described above.

3.3 Innovation Task Force

In September 2021, the OEB's Board of Directors established an Innovation Task Force (ITF), a committee of the Board of Directors tasked with examining developments in the energy sector related to disruptive technology and options for responding to them. The ITF retained Guidehouse to prepare a report to identify the impact of innovations and technologies related to the energy transition on the energy sector in Ontario, look at how energy regulators in other jurisdictions are responding to the challenges posed by the energy transition, consider the OEB's work relative to other regulators as it relates to the energy transition, and provide recommendations for further actions the OEB could take in response to disruptive innovation and the energy transition.

The ITF provided recommendations to the Board of Directors, and the OEB shared the Guidehouse report with the Panel and the Ministry of Energy.

Insights from the Guidehouse report were leveraged in the development of the OEB's advice to the Panel set out in this Report, and the Guidehouse report was also posted on the OEB's Energy Transition Engage with Us page. The OEB took steps to respond to some of the recommendations and will continue to consider the ITF's work in its current and future initiatives.

4 PRINCIPLES FOR DEVELOPMENT OF ADVICE

As the energy transition unfolds, significant new investments in infrastructure are anticipated, and there will be costs, opportunities and risks associated with those investments. The energy transition will require all participants in the energy sector to contribute to shared goals.

As the economic regulator of the electricity and natural gas sectors, the OEB has a critical role to play in facilitating the transition. The OEB will continue to protect the interests of energy consumers and deliver public value that contributes to Ontario's economic, social, and environmental development. The OEB's advice to the Panel as set out in this Report is based on that foundation and grounded in the principles set out below that reflect the role of the OEB. Building on that foundation, this Report sets out advice on potential changes to the OEB's mandate and tools that are intended to provide greater clarity and predictability regarding the OEB's role in facilitating the energy transition while continuing to ensure that the interests of energy consumers are protected, and that regulation provides a supportive environment for economic development.

The Interests of Consumers Must be Protected

Protecting the interests of energy consumers is central to the work of the OEB, and customer impacts must remain at the forefront of all our decision-making. The OEB's role in protecting the public interest includes balancing the financial impact of electricity and natural gas rates with the need to ensure that prudent investments are made to maintain a reliable and sustainable energy system into the future; providing a forum for consumer engagement and input; ensuring consumers are aware of and understand the choices available to them; and evolving our regulatory framework to meet changing consumer expectations. As the energy transition unfolds, the OEB is committed to keeping consumer interests at the forefront of its work, and to developing flexible regulatory solutions to meet the challenges that the energy transition brings.

Regulation Must Support Economic Development

A reliable, resilient, cost-effective, and sustainable energy system is a critical enabler of economic stability, and a clear and predictable regulatory framework is a key contributor to investment and economic growth. The OEB's regulation of the energy sector provides transparency and predictability to utilities and investors and ensures that energy sector investments support economic development and are in the public interest. As the energy transition unfolds, transparent and predictable regulation of the sector will continue to be a key determinant of Ontario's economic position as an investment-friendly environment.

Clear Roles and Responsibilities for all Energy Sector Participants

All energy sector stakeholders in Ontario, including government, agencies, industry, and consumers, have a role to play in facilitating a cost-effective energy transition. Clear articulation of roles and responsibilities will be critical to ensuring that all participants know what is expected of them and how they can contribute to an efficient, effective, and vibrant energy sector. The OEB will ensure that its approach to supporting the energy transition remains aligned with the OEB's role as economic regulator of the electricity and natural gas sectors.

Facilitating the Energy Transition will be an Iterative Activity

The work of the energy sector to facilitate the energy transition – including that of the OEB – will be iterative. Given uncertainties related to the pace of change, the OEB will ensure that our approach to regulation remains adaptable, flexible, and responsive to changing expectations and needs. The energy transition represents massive change; but not all problems need to be solved immediately. Instead, an incremental and prioritized approach that tackles issues one at a time will allow us to move forward, assess and change course as necessary.

5 ADVICE

The OEB's advice as set out in this Report is grounded in the principles discussed above and is intended to reinforce the OEB's strategic values of regulatory transparency, accountability, effectiveness, and innovation while continuing to ensure that the interests of energy consumers are protected, and that regulation provides a supportive environment for economic development.

5.1 Governance and Accountability

The Minister's Letter of Direction asks the OEB to consider potential changes to our mandate and operations, including any necessary legislative amendments. The Panel has also been exploring questions of sector governance and agency mandates. In this section, the OEB sets out advice related to potential changes to the OEB's statutory objectives and other elements of our mandate in the context of the energy transition.

5.1.1 Statutory Objectives

The OEB Act sets out the objectives that guide the OEB in all its work. There are similar but distinct objectives that guide the OEB in carrying out its responsibilities in relation to the electricity and natural gas sectors. We are called on to continuously balance these objectives in achieving outcomes that are in the public interest.

Context/Opportunity

Increasingly, energy regulators around the world are being asked to address a broader range of outcomes beyond the traditional regulatory objectives of protecting the interests of consumers with respect to price, reliability, and quality of service. This includes giving consideration to the "Energy Trilemma," a balance between energy reliability, affordability, and environmental sustainability. There is a growing trend of federal and state governments enacting legislation explicitly requiring energy regulators to consider the impacts of their decisions on climate change. Between 2019 and

2022, the states of Maryland, Colorado, Maine, Massachusetts, Washington, and Hawaii, as well as Washington D.C., passed legislation mandating climate change considerations in regulatory decisions. The U.K.'s Office of Gas and Electricity Markets (Ofgem) has a mandate to support the achievement of net zero by 2050 at least cost to consumers.

Amendments to the OEB's objectives could provide greater clarity and predictability for energy sector participants in relation to how we regulate the natural gas and electricity sectors in the context of the energy transition.

Stakeholder Feedback

Stakeholders were generally aligned on the view that a modern energy regulator must consider GHG emissions and the move to net zero in delivering on its mandate.

Some stakeholders expressed the view that the OEB already has the appropriate authority needed to consider GHG emissions in the context of its work. Some stakeholders suggested that providing explicit reference to net zero or GHG emissions in the OEB's objectives would provide the sector, including electricity and natural gas utilities as well as investors and consumers, with clarity and transparency. Some stakeholders cautioned that a new objective related to GHG emissions or net zero should not be taken as an indicator of a new role for the OEB related to environmental regulation, and that the fundamental role of the OEB must remain that of economic regulation of the sector.

Several stakeholders also suggested that some existing objectives should be reconsidered to determine whether they remain fit for purpose, particularly within the context of the energy transition.

Advice

The OEB's current statutory objectives are broad. Nevertheless, there may be an opportunity to provide greater clarity and predictability for energy sector stakeholders, including investors, in relation to the integration of the government's energy transition policy imperatives into the OEB's decision-making, in particular relating to the reduction of GHG emissions to achieve net zero.

Updates to the OEB's objectives – especially in relation to the reduction of GHG emissions or net zero – could assist in ensuring greater alignment with government policy and providing greater clarity and predictability to utilities, consumers, and investors about how the OEB will approach all elements of the work that it does. From an adjudicative perspective, a new objective would assist the OEB in considering GHG emissions or net zero (as applicable depending on the wording of the objective) as a factor in its rate, facilities, and other decisions. For example, a new objective related to GHG outcomes or net zero could result in the OEB giving greater consideration to projects and initiatives that align with the new objective, providing more predictable outcomes for companies seeking regulatory approvals. From a policy perspective, the OEB's role could be to ensure that GHG outcomes are one of the elements considered in the development of regulatory frameworks and guidance to the sector.

Any change to the OEB's objectives would benefit from a link to clearly articulated government policy (for example, by reference to a desired level of GHG emissions reductions over time). Changes to the OEB's objectives should not detract from the OEB's role as an economic regulator or minimize the OEB's existing mandate to protect the interests of consumers with respect to prices, reliability, and service quality. Rather, these changes would provide an additional lens through which the OEB would consider the merits of emissions-reducing investments with an eye to their cost-effectiveness and potential impacts on reliability, resilience, and affordability.

5.1.2 Leave to Construct

Under the OEB Act, most electricity transmission lines and natural gas pipelines require leave to construct from the OEB. For both electricity transmission and natural gas pipeline projects, the OEB must be satisfied that the project is in the public interest before granting leave to construct. However, the matters that the OEB can consider in making that assessment differ as between the sectors.

Context/Opportunity

When evaluating whether an electricity transmission project is in the public interest, the OEB is limited by the OEB Act to considering only the "interests of consumers with respect to prices and the reliability and quality of electricity service", to the exclusion of other considerations. The OEB's discretion is not similarly constrained in applications for leave to construct natural gas pipelines; in that context, the OEB Act refers simply to the public interest, leaving it to the OEB to determine what considerations should inform its assessment of whether the public interest is served. Expanding the factors that the OEB may consider in assessing whether an electricity transmission project is in the public interest may be helpful in furthering the achievement of the government's goals.

Stakeholder Feedback

Most stakeholders agreed that the OEB should consider GHG emissions and net zero in its leave to construct decisions for both electricity transmission and natural gas facilities. However, stakeholders acknowledged that although this is clearly the case for natural gas leave to construct, the electricity leave to construct authority of the OEB appeared to be more limited. Some stakeholders indicated that for electricity leave to construct, greater clarity is needed on whether the OEB will consider outcomes related to GHG emissions or net zero, particularly given the need for new investments in electricity transmission that will be required as the pace of electrification accelerates.

Advice

For electricity transmission leave to construct cases, it may be helpful to the sector to add new language to the OEB Act[1] to clarify that GHG emissions or net zero outcomes can also be considered in assessing whether the project is in the public interest. Similar to any change in the OEB's objectives related to GHG emissions or net zero, any addition to the factors that the OEB may consider in assessing whether an electricity transmission project is in the public interest could be expressly tied to government policy. Something similar existed in the past, when the OEB was empowered to consider, "where applicable and in a manner consistent with the policies of the

[1] Specifically, section 96 of the OEB Act

Government of Ontario", the promotion of the use of renewable energy sources. The addition of new language to the OEB's electricity transmission leave to construct authority could assist in ensuring greater alignment with government policy and providing greater clarity and predictability to utilities, consumers, and investors about how the OEB will approach its approvals of electricity transmission facilities.

5.1.3 General Authority Related to Natural Gas

The OEB's regulatory framework for the sector includes requirements contained in licences and codes that bind electricity utilities and in rules that bind natural gas utilities. For both gas and electricity, these instruments cover a variety of topics, including minimum obligations to be met in relation to customer service (including connection and disconnection) and requirements related to transactions with affiliates. However, the underlying authority for these instruments is different as between the two sectors.

Context/Opportunity

Electricity codes are conditions of licence, and as such can include any provisions that the OEB considers appropriate having regard to our statutory objectives and the purposes of the *Electricity Act, 1998.* By contrast, the OEB's authority to make rules in relation to natural gas is limited to a list of specifically enumerated topics. While that list of topics has been expanded over time, the overall approach may not as clearly support the OEB's ability to protect natural gas customers in the context of the energy transition.

Stakeholder Feedback

Stakeholders were unanimous in stating that the OEB will need to be able to protect consumers as the energy sector evolves. It was acknowledged by many stakeholders that the OEB's current authorities for natural gas and electricity are different, and that it would be generally beneficial to align those authorities. Some stakeholders signaled that the OEB should focus its attention on addressing the costs and risks to consumers associated with stranded and underutilized natural gas assets.

Advice

Given the impact of the energy transition, there may be merit in broadening the OEB's powers with respect to natural gas to align its authorities more closely to those the OEB has for electricity, which could allow the OEB to better protect natural gas customers during the energy transition. Broadening the OEB's authority could, for example, allow the OEB to make rules protecting natural gas consumers during the transition, such as ensuring that customers are protected from cessation of service in the event of government policy that calls for a decrease or phase-out of some or all uses of gas.

It may also make sense to eliminate the restriction against the OEB commencing a proceeding on our own motion. Given uncertainty around the energy transition, there may be a need for the OEB to be more proactive and act on its own motion to ensure customers are protected as the transition progresses.

If government policy on GHG reductions and electrification were to require homes and businesses to switch from gas to electricity, the OEB could use these broader regulatory tools to smooth the transition for customers.

5.2 Technologies

The Panel indicated its interest in understanding opportunities to improve frameworks and address barriers to enable new energy technologies and fuels. As the economic regulator of the electricity and natural gas sectors, the OEB has a role to play in supporting the integration of emerging technologies. The OEB also has a statutory objective to facilitate innovation in the electricity sector.

In examining this issue, we have focused on how technology may be able to provide consumer value and choice, and the role of utilities in facilitating the deployment of new technologies that can enhance consumer choice and value.

5.2.1 Electricity Distributor Activities

Electricity distributors are key participants in Ontario's transition to net zero and will have a critical role to play in ensuring that electrification-related investments are appropriately paced and prioritized. Given their position in the electricity sector, electricity distributors can also act as agents of technological deployment. Although electricity distributors are not the only energy sector participants who can deploy emerging technologies, they do have the ability to facilitate the adoption of emerging, cost-effective technologies that could provide value to their customers. This may include providing new services to customers where conventional market-based approaches prove inadequate to attract appropriate private sector activity to provide customers with value and choice. In certain contexts, electricity distributors may also be the only entities that can or will serve certain markets or vulnerable energy consumers.

Context/Opportunity

The electricity sector is already experiencing technological change, driven by increasing penetrations of Distributed Energy Resources (DERs), the introduction of digital and internet-connected technology, and decarbonization of the energy system. Private developers, investors, technology companies, service providers, and consumers may all be involved in deploying emerging technologies. Electricity distributors may also play a role in supporting the deployment of emerging technologies that can provide value to their customers.

Unlike private energy companies, electricity distributors are regulated monopoly companies with unique rights and responsibilities as set out in the legal and regulatory regime. In setting rates for electricity distributors, the OEB must among other things provide electricity distributors with an opportunity to earn a reasonable return on their regulated assets. For their part, electricity distributors have an obligation to serve, and are required to comply with licence conditions and related OEB codes and other regulatory instruments and orders.

There are legislated limits on the activities that electricity distributors may undertake. For some, but not all, of these permitted activities, electricity

distributors can earn a rate of return as determined by the OEB. More specifically, the OEB Act generally prohibits electricity distributors from carrying on business activities other than the distribution of electricity. Although certain exceptions are allowed, the costs associated with those permitted non-distribution activities generally may not be recovered from ratepayers.

The emergence of new technologies – such as DERs, real-time data services, electric vehicle (EV) smart charging services, remote monitoring and control technologies, and cloud computing and artificial intelligence to name a few – mean that electricity distributors may now have new options to provide cost-effective distribution service, and electricity distributors have expressed interest in engaging in activities that leverage new technologies.

The types of activities in which electricity distributors could be interested in participating include, for example, aggregating behind-the-meter electricity resources, participating in wholesale markets, developing and managing local markets for energy or ancillary services, using new types of incentives to encourage off-peak electricity use, activities related to EV charging, facilitating electricity trading among individual consumers or communities, supporting behind-the-meter generation and storage assets, and leveraging innovative technologies to provide greater consumer choice. Many of these activities are already being undertaken by unregulated energy sector companies.

Electricity distributors are seeking clarity about which activities (such as those described above) they may undertake, and in particular which of those permitted activities can be funded by ratepayers. Clarity regarding new activities will better enable electricity distributors and unregulated companies to invest in new business models that can leverage emerging technologies in the electricity sector.

The OEB has already taken steps to provide clarity to the sector and adapt the regulatory framework to accommodate emerging technologies. For example, the OEB provided clarity as to its expectations of electricity distributors in the Framework on Energy Innovation (FEI) report, and is

working to support implementation of the expectations set out in that report by developing a Benefit Cost Analysis framework for DERs.

However, broad questions related to new activities for electricity distributors continue to arise, including questions related to whether and to what extent electricity distributors should be able to recover the costs of activities that leverage new technologies and new business models from their ratepayers.

Stakeholder Feedback

Stakeholders acknowledged that although the FEI consultation provided guidance for electricity distributors regarding DERs, further clarity on the role of electricity distributors in Ontario is needed. Although some stakeholders were of the view that speed is of the essence in determining what activities should be rate-recoverable by electricity distributors, most agreed that this is a significant question that requires dedicated consultation and consideration, and that the OEB could assist with this work.

Advice

Rate-Recoverable Electricity Distributor Activities

There are several ways in which the OEB could examine the issue of electricity distributors taking on new activities (such as those described above) that may be funded through rates.

Given electricity distributors' interest in undertaking new activities as part of their distribution business, the OEB expects that electricity distributors will bring forward rate applications that seek approval to recover the costs associated with those new activities from ratepayers. As a result, the issue of new activities is one that we expect will be examined through the OEB's adjudicative rate-setting process. Questions about the scope of permissible, rate-recoverable distribution activities would be resolved incrementally, on a case-by-case basis as electricity distributors come forward with innovative ideas. This approach would be responsive to electricity distributors' interests, and its incremental nature could allow for some course correction over time. However, the incremental nature of the process will take time to yield sector-wide benefits, and the case-by-case nature of the process may not provide sufficient predictability for the sector beyond the individual applicants. It may

also delay the adoption of technologies and practices that could benefit ratepayers.

Another approach could be for the OEB to initiate a policy review to examine electricity distributor activities more broadly. Such a review could focus on high priority areas such as the scope of participation of electricity distributors in IESO markets and in developing and managing local markets for energy or ancillary services. The OEB could initiate such work upon the Minister of Energy making a request under section 35 of the OEB Act for the OEB to examine, report and advise on the scope of rate-recoverable distribution activities. This advice could include recommendations for legislative amendments to enable electricity distributors to take on new rate-funded activities.

Non-Rate Recoverable Activities

Separate from the question of clarifying or expanding rate-funded activities, there is also an opportunity to facilitate activities that distributors may undertake through their distribution businesses without rate funding.

Distributors are already allowed to undertake certain non-distribution business activities under sections 71(2) and (3) of the OEB Act. In addition, under section 71(4) of the OEB Act, the OEB can permit an electricity distributor to carry out a non-distribution activity within its regulated business "if the special circumstances of a particular case so require". This represents more of a case-by-case approach. As a means of providing more flexibility to electricity distributors to undertake new activities, amendments to existing authority under section 71(4) could clarify that the OEB may grant exemptions from the general rule against non-distribution activities on a generic basis[2], meaning that any interested electricity distributor would be able to undertake any exempted activity without having to apply for an individual exemption. Under this approach, individual applications would not be needed.

Broadening the OEB's power to allow for generic exemptions for specified new activities (if well-suited to being funded outside of rates) could provide

[2] This approach would be similar in intent to section 82.1 of the OEB Act, which allows the OEB to establish criteria exempting classes of transactions or activities from the requirements of section 80 or 81.

greater predictability and could facilitate the faster and wider adoption of innovative ideas throughout the sector.

In our report, *Improving Distribution Sector Resilience, Responsiveness and Cost Efficiency*, the OEB identifies the opportunity to amend applicable legislation to allow electricity distributors to provide shared services to each other as a permissible non-distribution activity. This would relieve the distributor that provides the service from the requirement to either do so through an affiliate or to apply for an exemption from the OEB; it would also eliminate any doubt about whether the distributor is allowed to provide the service in another distributor's licensed service area.

5.2.2 Natural Gas Distribution Activities

Context/Opportunity

The energy transition and shift towards net zero will have implications for the natural gas sector. Just as the electricity sector is evolving, the natural gas sector is also experiencing change, and natural gas distributors are also being impacted by emerging technologies. Like the electricity sector, unregulated businesses may be involved in deploying emerging technologies on the natural gas side, although natural gas distributors may also play a role in supporting the deployment of those technologies.

Electrification, the transition to renewable gases, carbon capture and storage, and hydrogen present uncertainties that are unique to natural gas distributors. These uncertainties give rise to increasing risks that require natural gas distributors to consider the role their resources and infrastructure can play in a net zero future.

Stakeholder Feedback

Stakeholders generally recognized that there are likely to be implications of the energy transition for natural gas distributors – including potentially an erosion of the business of natural gas distribution – and that those implications will have to be examined by the OEB. Stakeholders encouraged the OEB to give the same consideration to natural gas distributors that it gives to electricity distributors and to think about tools and approaches for the natural gas sector in the context of the energy transition.

Advice

The OEB and natural gas distributors will need to remain open to different business trajectories amid energy transition uncertainty, while ensuring that investment decisions are prudent and meet the evolving needs of customers. The OEB could examine the impact of the energy transition on natural gas distributors and develop strategies to ensure that natural gas investment decisions remain prudently incurred and meet the needs of customers. The OEB could do this of its own accord as a policy consultation. The OEB could also initiate such work upon the Minister of Energy making a request under section 35 of the OEB Act for the OEB to examine, report, and provide advice to the Minister.

5.2.3 Facilitating Innovation

The OEB's role as it relates to supporting the integration of emerging technologies includes facilitating innovation that can provide consumer value and choice.

Context/Opportunity

The OEB already has an objective to facilitate innovation in the electricity sector and has made progress in advancing innovation in the electricity and natural gas sectors over the last few years[3]. Nevertheless, the OEB recognizes that more could be done to facilitate innovation that leverages emerging technologies to provide consumers with more value and choice.

Stakeholder Feedback

Stakeholders were divided on the need for additional support for innovation, and the nature of potential new support. For example, some stakeholders were of the view that the OEB should make provision for ratepayer funding for innovation, while others rejected the notion of ratepayer funding for innovation and stated that any financial support for innovation must come from the tax base or the IESO. Some stakeholders suggested that in addition to exploring new supports for innovation, the OEB should explore how to use

[3] For example, the Innovation Sandbox has provided regulatory guidance to more than 70 energy sector innovators on enquiries ranging from EV charging infrastructure to DER installations. The OEB also developed an Innovation Handbook to provide an accessible reference guide of existing OEB policies, staff guidance and Decisions, and has collaborated with the IESO on a joint targeted call for innovative proposals. On the natural gas side, the OEB has supported pilot projects related to hydrogen blending and renewable natural gas.

its current authorities more broadly to encourage utilities to implement innovative solutions with broader energy system benefits.

Advice

The OEB has identified two potential approaches to further support innovation and the deployment of new technologies and business models in Ontario, as well as an innovative approach to cost recovery that could be considered for some types of investments.

Exemptions to Licencing Requirements

Recent amendments to the OEB Act provide the OEB with authority to grant exemptions from the requirement to be licensed in respect of certain activities for the purposes of facilitating the deployment of innovative pilot or demonstration projects. Exemptions can be for an initial period of no more than five years, with the possibility of extensions of no more than five years each. Regulation-making powers would permit conditions or restrictions to be imposed on the OEB's power to grant exemptions, including the number of permitted extensions. As experience with this new authority grows, it could be broadened to allow the OEB to grant permanent exemptions that are not subject to limitations that may be prescribed by regulation.

A longer-term or permanent licence exemption may be more attractive to energy sector companies and related investors than a temporary one, particularly in cases where significant investments must be made in order to undertake a new activity or provide a new service. As such, a longer-term or permanent exemption could promote greater uptake of this exemption authority and an increase in innovative activities.

There was some concern that unlicensed entities could affect load on the electricity system without an electricity distributor being aware, making it more difficult for distributors to forecast and meet demand. Experience with and feedback on the short-term licence exemption approach will be informative in assessing the merits of moving to longer-term or permanent exemptions.

Community Net Metering

Net metering is a billing arrangement between an electricity customer and their electricity distributor that allows the customer to generate renewable electricity for their own use while sending any excess electricity to the grid for a credit on their electricity bill. The Community Net Metering regulation[4] enables the testing of a new community net metering model by way of demonstration projects selected by the government, to explore how community net metering can support the integration of renewable energy at a community level[5]. Since the regulation was introduced in 2021, the OEB has received numerous enquiries from proponents interested in implementing a community net metering demonstration project of their own.

In order to provide more customer choice and greater opportunities to leverage new technologies to improve affordability, the scope of the regulation could be broadened to permit additional community net metering projects. This could be done through amendments to the Community Net Metering regulation or by providing the OEB with the authority to approve new community net metering projects. New community net metering projects could be more specifically targeted to customers in remote or Indigenous communities or vulnerable energy consumers. Any changes to community net metering should be carefully considered to ensure that value is maximized and cost consequences for other ratepayers are minimized.

Innovative approach to cost recovery

As a means of encouraging investments in the electricity sector that can benefit consumers at the broader distribution level (i.e., outside a single electricity distributor's service area), the OEB could be granted express authority to allow for recovery of a portion of an investing electricity distributor's cost from ratepayers in the service territory of other distributors who also benefit from the investment. This kind of pooling or socialization of costs, including potentially on a province-wide basis, could be appropriate in situations where the investment provides clear and demonstrable value to a broader group of ratepayers. For example, a non-wires solution implemented by one electricity distributor could have broader system benefits. Any new

[4] O. Reg. 679/21: Community Net Metering Projects

[5] Similar to individual net metering, excess electricity can be sent to the grid for a credit. However, credits can be shared across multiple participating residents and businesses throughout a community.

approach to cost recovery, including one in which some costs could be recovered from all electricity ratepayers, should be carefully scoped to ensure that the approach focuses on initiatives that have demonstrable broader system benefits.

5.3 Community and Customer Perspectives and Affordability and Facilitating Economic Growth

The Panel asked about strategies to build customer and community support for the energy transition and to develop and support relationships with Indigenous communities. The Panel also expressed interest in advice related to affordability and economic growth.

The energy transition must put Ontarians at the centre of transformation. **Fundamentally, a consumer-centric energy transition will support economic development, create jobs, ensure equality and fairness, and engage people as active participants**. Engaging with consumers and providing information to help them successfully navigate the transition can foster inclusion, sustainability, and affordability. The government, the IESO, utilities and the OEB all have roles to play in considering the needs and interests of people and communities, ensuring meaningful engagement, and in supporting consumer awareness, trust, and confidence in the energy sector.

5.3.1. Affordability and Leveraging the Tax Base

Context/Opportunity

The energy transition will require an unprecedented transformation of the province's energy system, including expected significant new investments in electricity infrastructure.

Investments in new technologies and infrastructure present opportunities to Ontario in terms of economic development and attracting new jobs to the province. Investments also represent a cost to consumers in the province, particularly related to anticipated needs for new electricity infrastructure on which the energy transition will rely. The IESO's *Pathways to Decarbonization*

report provides an indication of some of the scope of investments that will be needed in the energy transition, although that report does not cover distribution-level costs, which will be incremental to the costs set out in that report. Given the scope of investments that will be needed, it is important that customers understand what they are being asked to invest in, and why.

Lower-income households already spend a higher proportion of their income on energy and would likely face greater challenges associated with affordability if all energy transition costs are recovered through utility bills. The Ontario government already provides significant financial support to energy customers (some of which, such as the Ontario Electricity Support Program, are targeted at low-income customers). For the year 2023-24, for example, the Financial Accountability Office of Ontario estimated a cost of $6.7 billion for Ontario's nine tax-funded energy support programs.

Issues related to energy affordability vary across customers and geographic areas, and the transition will require new ways of thinking about how to pace and finance new energy infrastructure and how costs are allocated and economic opportunities realized. While affordability will remain central to the work of the OEB as the transition unfolds, consideration must also be given to whether certain costs are more appropriately borne by the tax base.

Stakeholder Feedback

Many stakeholders stated that as the economic regulator of the sector, the OEB needs to maintain its focus on ensuring that all consumers are protected through the transition and that investments continue to be made with consumer protection and affordability remaining top of mind. Issues of affordability through the transition are particularly important for vulnerable consumers, including low-income consumers and those in more rural and remote areas, as well as for Indigenous communities and energy-intensive industrial and commercial customers.

Advice

Rate regulation can serve as a tool for some types of major infrastructure developments that may be required in Ontario (for example, rate regulation for pumped storage). Although there is a role for rate-funded investments, government policy accompanied by taxpayer support can help create a more

equitable transition that leverages Ontario's tax system to help ensure energy affordability.

As a means of protecting vulnerable energy ratepayers, there may be an opportunity to reassess current energy support programs and optimize government investments. Directly linking energy supports with customer need could provide greater alignment between government investment and tax spending. For example, the Ontario Electricity Rebate, an on-bill rebate for eligible residential, farm and small business customers, could be redirected to provide relief specifically for the most vulnerable consumers through the energy transition.

Other ways of leveraging the tax base to help address energy affordability and equity concerns could involve directly subsidizing certain projects and programs, such as the construction of new generation or transmission infrastructure that could benefit the entire province.

5.3.2. Informing Consumers

Context/Opportunity

The size, scope and implications of the energy transition create more opportunity, as well as greater need, for consumer engagement. Effective and inclusive engagement can help consumers understand the opportunities and impacts of the transition, and can improve consumer understanding of their own role and the choices available to them. Enhanced consumer awareness and understanding foster greater confidence in the energy sector, which in turn can support investment.

Electricity and natural gas utilities have relationships with their customers and are already taking steps to enhance consumer awareness and understanding. The OEB supports those efforts and can continue to do so throughout the energy transition.

Advice

Appropriate OEB support for utility customer education endeavours will help to ensure that consumers understand opportunities and impacts of the energy transition and the context within which decisions related to the transition are

made. The OEB could take a more active role in providing information to consumers throughout the transition, including further supporting the work of natural gas and electricity utilities to inform their customers and undertaking its own incremental efforts to inform consumers about specific issues, similar to the work the OEB has done to raise consumer awareness about energy scams. There may also be an opportunity for the OEB to ensure broader awareness of how consumer interests are represented in OEB hearings, including the fact that there are ratepayer groups that regularly intervene in rates, facilities, and other proceedings on behalf of various classes of consumers.

5.3.3. Engaging with Local Communities and Indigenous Peoples

Context/Opportunity

Local communities and Indigenous peoples have an important role to play in a successful energy transition. Active engagement with local communities and Indigenous peoples can bolster local acceptance and consumer choice and ensure that their unique perspectives are incorporated into decision-making. Local context and Indigenous perspectives also provide valuable insight to the OEB as it regulates the sector and approves investments. Energy sector stakeholders in Ontario such as the IESO, electricity distributors and transmitters, and natural gas distributors already engage with local communities and Indigenous customers. There may be opportunities for the OEB to work with these entities to better engage with local communities and Indigenous customers.

Stakeholder Feedback

The OEB should consider how best to improve its engagement with Indigenous peoples across the province, and how best to reach out to local communities, particularly those that do not often participate in the OEB's processes.

Advice

Improving engagement with local communities and Indigenous peoples can help to ensure that their interests are appropriately considered as decisions are made. The OEB could work with the IESO or other energy sector participants to better engage with local communities and particularly

Indigenous consumers. For example, the OEB could explore adding its voice and support to the IESO's existing outreach and education initiatives. The OEB is also currently examining ways to further engage with representatives of Indigenous communities on participation in the OEB's adjudicative process.

5.4 Energy Planning

The energy transition will require a major transformation of Ontario's energy sector and careful planning and coordination across all energy sector participants. The Panel has been asked to provide the government with advice in relation to opportunities and challenges to improve long-term, integrated energy planning, and energy planning is one of the five themes on which the Panel has in turn asked the OEB for advice.

Context/Opportunity

In Ontario, natural gas planning and electricity planning are conducted by separate entities with distinct responsibilities that operate in different contexts. Natural gas distributors plan their own systems, as do electricity transmitters and distributors. The IESO develops forecasts and plans for the adequacy of electricity resources for Ontario, as well as bulk transmission system plans. Electricity transmitters, distributors and the IESO also work together to conduct integrated planning on a regional basis.

Ontario's current approach to planning does not feature inherent or built-in coordination across Ontario's electricity and natural gas sectors. As a result, energy planning in Ontario does not encourage joint use of assets or consider lifecycle GHG emissions.

A lack of energy planning coordination and integration can lead to negative outcomes for Ontario's energy consumers and impede Ontario's momentum in navigating the energy transition.

Coordinated energy planning can support a cost-effective energy transition by helping to align investments in energy resources and services with long-term goals. It can provide a coherent, integrated context against which energy choices can be understood and evaluated. It can help optimize the energy system by encouraging the transparent and participatory balancing of objectives and perspectives, and by providing greater certainty to energy sector participants and investors about the direction in which the province is headed.

Coordinated energy planning recognizes the interconnectedness of different energy components and stakeholders and aims to achieve a harmonized and efficient energy landscape.

A coordinated approach to planning brings together information and expertise from across the sector to address shared objectives. It will be important to clearly identify roles and responsibilities for all energy sector parties in a coordinated planning process. As the economic regulator for the electricity and natural gas sectors, the OEB's role must be considered in the broader context of the roles and responsibilities of other stakeholders in order to avoid blurred lines of accountability.

Stakeholder Feedback

Stakeholders generally agreed that coordination and planning alignment between the natural gas and electricity sectors is critical. Stakeholders also indicated that coordinated, whole system planning would help ensure that utility planning and investments are uniformly informed by the same set of overriding objectives, assumptions, and expectations and would also help to avoid the likelihood of system redundancies.

A number of stakeholders noted that the energy transition is already well underway, and that momentum cannot be paused to develop a new complex planning process. There was recognition from stakeholders that an efficient and effective energy planning process requires a transparent framework, including clearly defined roles and accountabilities for all stakeholders.

Most stakeholders suggested that Ontario needs a single coordinated energy plan that considers the electricity and natural gas sectors together, because a single plan would best support cost-effective and prudent energy system investments and protect against risks associated with asset stranding. A

small number of stakeholders suggested that electricity transmitters and distributors, natural gas distributors and the IESO should continue to file individual plans for their own systems. Stakeholders also identified a significant opportunity for ratepayer savings through joint use of assets, where assets owned by one entity might be put to greater use if they could also address other needs.

Stakeholders were universally supportive of a role for the OEB in a coordinated energy planning process in Ontario. Although there was no unanimous vision of what the OEB's role should be, stakeholders were aligned in encouraging the OEB to leverage its strengths, including economic regulation through adjudication and ensuring a forum for public input and testing of evidence.

Some stakeholders suggested that the OEB should leverage its stakeholder engagement processes to develop a new process for coordinated energy planning in Ontario with the ultimate goal of developing a new coordinated energy plan for the province. Other stakeholders suggested that the OEB should focus on providing a process to review a new coordinated energy plan (for example, by way of an adjudicative hearing). Fewer stakeholders expressed interest in exploring whether the OEB could also play a lead role in drafting a coordinated energy plan, although most stakeholders noted that the OEB should not be responsible for developing a technical planning document or setting overarching policy.

Some stakeholders suggested leveraging the existing regional planning process, either by making changes to that process to provide OEB oversight over outcomes and better incorporating natural gas, or by incorporating outcomes of the regional planning process into the development of an overall coordinated energy plan for the entire province.

In addition to a role for the OEB in relation to oversight of coordinated planning, many stakeholders also stated that the OEB should have oversight over the entire electricity bill, including oversight over financial implications associated with electricity supply acquisition in the province. This is consistent with stakeholder perspectives that have been previously expressed on the topic of Long-Term Energy Planning. The Ministry of

Energy's "What We Heard" report, published in April of 2022 and based on feedback received through the government's Environmental Registry posting on the reform of long-term energy planning, also echoed stakeholder support for the OEB having more oversight for major supply investments. The November 2022 Value-for-Money Audit report of the Auditor General of Ontario also reflected this theme of OEB oversight in its recommendation that the government evaluate options to increase the OEB's oversight role over electricity procurement activities.

Advice

Recognizing the complexity of designing a planning process that works, the OEB found it helpful to identify principles to guide our thinking:

- **Flexibility** – coordinated planning should be flexible to adjust to changing conditions anticipated to be an inherent part of the energy transition.
- **Iteration** – coordinated energy planning should be iterative, providing opportunities to improve upon and solidify the process with each planning cycle.
- **Transparency** – the implications of decisions made at each stage of the coordinated energy planning process should include input from stakeholders and should be clearly communicated among energy planning participants.
- **Effectiveness** – coordinated planning outputs should lead to more efficient and cost-effective investments in the Ontario energy system.
- **Accountability** – the coordinated planning process should provide for clear delineation of roles and responsibilities among energy planning participants (e.g., OEB, IESO, Ministry of Energy, utilities).

These principles became a touchstone as we considered the many options that could give rise to a coordinated planning process.

In considering outcomes of a new process, the OEB believes that, in the longer term, a single new coordinated provincial energy plan would be in Ontario's best interest as it would support a cost-effective energy transition by providing a single, integrated context against which energy choices can be understood and evaluated. There are options for how this could be achieved, but the OEB's advice is to start simple and small, leverage existing

processes, and allow for further refining, formalizing, and expanding of the coordinated planning process over time. As coordinated planning unfolds, the OEB is uniquely positioned to provide value in the review of energy plans, considering the interests of consumers and other sector stakeholders alike, and therefore should have a central role in any review process.

Evolving a Coordinated Energy Planning Process

Effective coordinated planning will require consideration of objectives and outputs, the roles of different stakeholders in the process, and the most efficient and effective way to review and implement plans. In line with a principle-based approach to planning, rather than trying to solve for everything at once, the OEB suggests a number of transitional steps for the Panel to consider that can add value in the near-term while allowing for flexibility and room for evolution and refinement later.

The OEB's advice is that Ontario should work towards the development of a single coordinated provincial energy plan. This coordinated plan could set out a long-term vision for a future state of electricity generation, transmission and distribution, and natural gas distribution, transmission, and storage in Ontario. The initial direction could be to produce a plan that is high-level in nature. Over time, the direction could be to produce a more granular plan, with specific investment trade-offs and decisions. This single, coordinated energy plan could be developed by the Ministry of Energy, the IESO, or by a new independent planning body.

Although the OEB's perspective is that a single plan is best for Ontario in the long term, given the inherent challenge of undertaking coordinated planning at the provincial level, the OEB believes that taking an iterative approach that evolves from existing processes and that builds incrementally after each cycle would make coordinated planning initially more manageable and ultimately more successful. As such, the OEB has described some initial, transitional steps below. The time horizon for transitioning to a single coordinated energy plan and the accountability for the execution and monitoring of the plan should be determined at the outset but provide for some flexibility based on experience along the way.

One potential initial and transitional step is to have each planning entity (IESO, electricity distributors, electricity transmitters, and natural gas distributors) develop their own plans based on a common long-term vision, common assumptions and a common timeline set by government or the OEB and be subject to consideration by the OEB in the normal course in rates and facilities proceedings.

A second option is for multiple plans to be developed by these same entities, with those entities then undertaking discussions with a view to developing alignment and a coordinated output.

On their own, multiple plans with several accountabilities would likely not achieve the objective of optimizing long-term planning at the provincial level as effectively as a single coordinated provincial energy plan could, but the approach is presented as a potential initial and transitional step to eventually developing a single new coordinated energy plan.

A third option is to augment the existing regional electricity planning process, which already involves the IESO and electricity distributors, to include natural gas distributors. The existing process includes the production of several planning products, including a report that provides an integrated view as to how energy needs in a particular area should be met going forward. None of the products associated with regional electricity planning are currently reviewed by the OEB. Regulated electricity distributors and transmitters are, however, required to refer to regional planning process outcomes to support related leave to construct and rate applications. An augmented regional planning process could culminate in a new type of report that would include both electricity and natural gas. Regulated electricity distributors and transmitters as well as natural gas distributors could then be required to refer to this report in leave to construct and rate applications where the relevant utility is seeking approval for a related investment.

Any energy plan – whether transitional or final – should involve stakeholder participation and input, including participation from the IESO, natural gas distributors, electricity transmitters and distributors, unregulated energy companies, Indigenous peoples, municipalities and local communities, and consumer representatives.

With respect to potential iterative expansion of a coordinated process, while the OEB recognizes that comprehensive coordinated energy system planning could be expanded to include both regulated fuels (natural gas and electricity) and non-regulated fuels (e.g., oil and propane), it would be prudent to begin with electricity and natural gas. As experience is gained with a more coordinated approach to planning, other fuels could be included. In the longer-term, consideration could also be given to incorporating embodied carbon (e.g., a lifecycle approach that considers supply chain through to decommissioning).

OEB Review of Coordinated Energy Planning Outputs

The OEB is well-positioned to provide value in the review of coordinated energy plans. The OEB has a long-standing mandate and capability which can be leveraged to protect customers and help ensure a sustainable and efficient energy sector. As reflected by stakeholders, an appropriate role for the OEB is one that focuses on our strengths, which include:

- Operating independently
- Transparency
- Allowing for stakeholder participation
- Reviewing economic impact and cost consequences
- Evaluating process compliance and consideration of options
- Providing a forum for testing evidence

The review of technical forecasts and similar inputs provided by experts is an area where the OEB's core mandate and capabilities are perhaps less clearly or usefully engaged. The OEB's Market Surveillance Panel (MSP) is, however, well-positioned to contribute to the plan review process, particularly in relation to assessing the potential impacts for the competitiveness and efficiency of the wholesale electricity markets and highlighting options that could achieve desired outcomes in the most cost-effective way while maintaining reliability. These are matters on which the MSP has been engaged in the past, enhancing transparency and accountability in relation to market outcomes through its regular reporting.[6]

[6] Market monitoring is a common feature of competitive electricity markets, and in Ontario is performed by the MSP. Further information about the role of the MSP is available on the OEB's Market Surveillance Panel webpage, including a link to MSP reports and other related material.

As with the development of plans, there are options for the scope and process of any review, and these could evolve over time. The OEB's review can be modified to ensure that it is fit for purpose and can accommodate any type of transitional plans in the near-term, as well as review of a single coordinated plan in the longer-term.

The OEB's review does not have to follow any typical process associated with an adjudicative proceeding or policy consultation – flexibility in how and what the OEB reviews can be developed in a way that can ensure both an effectual and efficient process. The OEB can adjust its processes by adapting the level of review, timing of the review, scope of what is reviewed, or the review process itself to reflect changing conditions. For example, the OEB's review could focus on one or a combination of the reasonableness of costs and benefits, the appropriateness of key inputs and assumptions, the consistency of the plan with government policy, or the sufficiency of any stakeholdering process. The OEB's review could culminate in approval of a new plan/plans, recommendations to plan author(s), or recommendations to government to inform directives or future policy direction. In the case that a regional planning approach is preferred, the OEB's role could be oversight of how the process is conducted.

It will be important to clearly scope any OEB review process so that it doesn't fail under its own weight and so that roles and accountabilities are clear, and the process is nimble and responsive to an uncertain future. Any review process must be timely, and allow for plans to be iterative, flexible to adjust to changing conditions, transparent, and effective. These are table stakes.

Incremental Approach to Implementation

In any planning process, the number of elements and factors that need to be considered directly impacts the complexity of the plan. The OEB believes a coordinated planning process must be manageable and not unduly burdensome. For example, the focus for initial planning cycles could be on ensuring the coordinated planning process works effectively, with no change to how specific procurements or investments resulting from the initial plan(s) are reviewed, approved, and implemented. Later, these latter elements could be added, if desired. Any planning process should be nimble and flexible

enough to adjust to changing conditions, be iterative and provide opportunities to learn by doing, be transparent, and provide for clear delineation of roles and responsibilities.

6 CONCLUDING CONSIDERATIONS

The OEB's advice to the Panel highlights the need for adaptability as the energy sector undergoes significant transformation and is grounded in the principles of consumer protection, regulation in support economic development, clear roles and responsibilities, and the need for iteration.

In order to meet the challenges associated with the scope of the transformation ahead, all energy sector stakeholders will need to ensure that they have the appropriate capacity and capabilities to take on new activities that may arise. The OEB will need to ensure that it makes appropriate investments in people and capabilities, including relevant regulatory, ratemaking, rate design, and policy expertise, as well as the capacity and expertise to enhance our stakeholder engagement practices. Investing in training and knowledge development programs for OEB staff can help ensure that we have the necessary expertise needed to effectively navigate the energy transition.

Depending on how the energy transition evolves and how the role of the OEB evolves with it, this may mean the acquisition of expertise and experience in new areas, such as energy planning, hydrogen, or enhanced engagement with local communities and Indigenous peoples.

The OEB is optimistic about Ontario's future and looks forward to taking an active role, along with others in the energy sector, as we collectively advance the energy transition.

DISCLAIMER

This report contains advice to the Electrification and Energy Transition Panel to inform the development of energy policy by the Ministry of Energy. It is not intended as guidance for the independent adjudication of applications by panels of OEB Commissioners, nor is it binding on them.

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