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BY EMAIL and WEB POSTING

March 28, 2024

**To: All Licensed and Rate-regulated Electricity Distributors
All Intervenors in Electricity Distribution Cost of Service Proceedings for
2024 Rates
All Other Interested Stakeholders**

**Re: Very Small Utilities Working Group Report to the OEB
Ontario Energy Board File No.: EB-2023-0229**

This letter responds to recommendations made to the Ontario Energy Board (OEB) by the Very Small Utilities Working Group in a [report](#) (the Report) filed with the OEB on February 28, 2024.

The Working Group was established to evaluate opportunities for reducing the regulatory burden associated with filing and reviewing major rate applications for very small utilities (electricity distributors with fewer than 5,000 customers). The Report describes challenges faced by these utilities in complying with the OEB's regulatory framework and proposed potential solutions.

Background

In response to the [Office of the Auditor General of Ontario's Report on the Value-for-Money Audit: Ontario Energy Board: Electricity Oversight and Consumer Protection](#), the OEB conducted an evaluation of the impact of its recent and ongoing regulatory efficiency initiatives on very small utilities. On August 31, 2023, the OEB issued a [letter](#) and established a Working Group to explore opportunities for reducing the regulatory burden associated with the filing and review process of major rate applications for very small utilities. This Working Group included representatives from very small utilities, OEB staff, and the Vulnerable Energy Consumer Coalition (VECC). The initial focus of the Working Group was expected to include, but not be limited to, the following:

- The cost of service application process
- Current OEB regulatory efficiency initiatives, with attention to impact on electricity distributors with fewer than 5,000 customers
- The major components of cost of service rate applications (as set out in the OEB's [Filing Requirements for Electricity Distribution Rate Applications](#), referred to here as the Filing Requirements)
- A process to regularly monitor and review impact of regulatory initiatives on very small electricity distributors

The Very Small Utilities Working Group Report

The Report contains recommendations and suggestions regarding filing requirements, the cost of service process, alternative regulatory approaches for very small utilities, and a process for monitoring the impact of regulatory initiatives on these utilities. The OEB thanks the Working Group for its efforts in assessing alternatives to address areas of the regulatory process that posed challenges to very small utilities. Subject to comments further below, the OEB generally accepts these recommendations and anticipates that many will be implemented commencing with the applications from Atikokan Hydro and Hydro 2000 that are scheduled to be filed for 2025 rates.

After reviewing the Working Group's recommendations and suggestions, the OEB provides the following feedback and expectations for cost of service applications for 2025 rates.

Distribution System Plan and Load Forecast

To minimize third-party costs and in-house labour hours, the Working Group developed a sample Distribution System Plan (DSP) and Normalized Average Use per Customer (NAC) load forecast for use in a cost of service application. The OEB has reviewed these samples and considers them suitable for a cost of service application for very small utilities. These samples will be made available on the OEB's [Filing Requirements for Electricity Distribution Rate Applications](#) and [2025 Electricity Distribution Rates](#) webpage.

Cost of Service Process

The Working Group suggested a one-day meeting before the discovery process to streamline the application and identify key issues for discovery or to discuss the possibility of skipping discovery and moving to settlement. To accommodate this, the normal settlement conference period would be reduced from three days to two days. The OEB supports the idea of the one-day meeting and will pilot this process change with Atikokan Hydro and Hydro 2000 due to file for 2025 rates.

The Working Group also proposed that to reduce the application's financial burden, a member of OEB staff be substituted for an external facilitator for the settlement conference. The OEB is considering this recommendation and may also explore the use of either OEB staff or Commissioners as facilitators in settlement conferences for very small utilities.

Customer Engagement

Although the Chapter 2 Filing Requirements do not require customer engagement surveys for their cost of service applications, very small utilities feel that there is an expectation for them to conduct surveys, which increases their regulatory costs. The Working Group recommended that the OEB provide clarification on potential methods for obtaining customer feedback for a cost of service application, which will remove the perceived expectation of customer engagement surveys. The methods identified by the Working Group include:

- Hosting a one-day town hall meeting.
- Providing a plain language summary of the application to customers for feedback.
- Developing a simplified customer survey or questionnaire.
- Using customer complaints to the OEB as an indicator.

The OEB notes that the current [Filing Requirements](#) do not specify a standard method or approach for application-specific customer engagement, stating that it should be tailored to the distributor's circumstances. The OEB agrees that one or a combination of the proposed methods can be used to meet the customer engagement requirements provided the distributor can demonstrate how it has considered customers' needs and priorities in its application. The OEB notes that a town hall meeting could be in-person, virtual or hybrid. The OEB further notes that an absence of complaints may not be sufficient on its own to identify customer priorities.

Materiality Threshold

Materiality Thresholds are used to guide parties in proceedings when an explanation and/or supporting evidence is required for material amounts and material annual variances. The Working Group noted that the current materiality threshold of \$10,000 has resulted in increased work in cost of service applications compared to the previous threshold of \$50,000. The threshold was reduced following consultation with a previous working group when it established Filing Requirements for electricity distribution rate applications for small electricity distributors – those with fewer than 30,000 customers. Without a specific recommendation, the Working Group instead suggested potential solutions such as restoring the threshold to \$50,000 or setting it based on a percentage of the revenue requirement or capital budget.

For cost of service applications for 2025 rates, the OEB will restore the materiality threshold to \$50,000 for distributors with fewer than 30,000 customers (including very small utilities) and a base revenue requirement less than or equal to \$10 million. Utilities are reminded that they can provide explanations and/or supporting evidence for a lower threshold if they determine that doing so will better support their application. The OEB will monitor the impact of the new threshold and may seek further feedback from small electricity distributors in the future. The impact of the materiality threshold will also be monitored on an ongoing basis in keeping with the Monitoring section below.

Cost of Service Models

The Working Group recommended that the OEB offer training on cost of service models and consider developing a set of simplified models for very small utilities. In response, the OEB will organize a training session for very small utilities to review existing models. The OEB will also explore potential simplifications to the models for cost of service applications for 2026 rates. This could involve removing some automation features to make it easier for very small utilities to customize the models to suit their specific needs. Furthermore, the OEB is simplifying Appendix 2-M Regulatory Costs to focus on the application costs rather than ongoing regulatory costs.

Load Profiles

The Working Group proposed that the OEB investigate various methods for developing load profiles to assist with cost reduction efforts. These methods include the OEB hiring a consultant to create load profiles, permitting very small utilities to use a single year of demand profile data, or having the Independent Electricity System Operator generate load profiles through the Meter Data Management and Repository.

The OEB will not develop load profiles on behalf of distributors given they are specific to each distributor and based on distributor-specific data. Furthermore, the OEB concludes that this is not an appropriate role for the regulator who does not collect the utility load data.

The OEB will consider the other options put forth and may also continue to engage the Working Group and other utilities as part of future updates to the cost of service filing requirements.

Alternative Regulatory Process

As a longer-term initiative, the Working Group proposed that the OEB investigate the possibility of allowing very small utilities to remain indefinitely on Price Cap IR and regulate rates through performance metrics. They also suggested focusing on governance and management practices specific to very small utilities, as well as conducting visits to these utilities in place of regularly scheduled cost of service applications. The OEB expects to explore these options as part of the future review of the components of its *Renewed Regulatory Framework* that is part of the OEB's Prioritization Review of Adjudicative Policies.

Monitor Impact of Regulatory Initiatives

The Working Group proposed regular touchpoints in the future to assess the effectiveness of the changes identified in the Report and to monitor regulatory costs associated with cost of service applications. The OEB will establish touchpoints with Working Group members when there are further opportunities for assessments and discussions, at a minimum bi-annually for the next two years. The OEB will track the impact of its regulatory process on very small utilities, including but not limited to the monitoring of matters such as the impacts arising from the new materiality threshold, the revised discovery pilot process for 2025 rates and regulatory costs incurred by very small utilities. The OEB will report on the status of these items as part of its annual Orientation Session for cost of service filers as well as to the Office of the Auditor General of Ontario in its follow up to the November 2022 Value-for-Money Audit.

Cost Awards

In the letter establishing the Working Group, the OEB granted cost eligibility for VECC under section 30 of the *Ontario Energy Board Act, 1998* for participation in the consultation, to a maximum of \$10,000. These costs will be recovered from the very small utilities. VECC is required to submit its cost claim to the OEB by **April 11, 2024**. Detailed filing instructions can be found in **Appendix A**.

Yours truly,

Nanci Marconi
Registrar

Appendix A Cost Awards Matters and Filing Instructions

Eligible Activities

Cost awards will be available to VECC for participation in the working group meeting(s) to a maximum of actual meeting time plus 50% of meeting time for preparation and reporting, and total no more than \$10,000.

Cost Awards

When determining the amount of the cost awards, the OEB will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Cost Awards Tariff will also be applied. In accordance with section 12 of its *Practice Direction on Cost Awards* the OEB will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the OEB's [Practice Direction on Cost Awards](#).

How to File Materials

All written materials sent to the OEB in response to this letter will be placed on the public record and posted on the OEB's website. If the written materials are from a private citizen (i.e., not a lawyer representing a client, not a consultant representing a client or organization, not an individual in an organization that represents the interests of consumers or other groups, and not an individual from a regulated entity), the OEB will remove any personal (i.e., not business) contact information (e.g., address, phone number and e-mail address) before placing the materials on the public record and posting the materials on the OEB's website. However, your name and the entire content of your materials will be placed on the public record and posted on the OEB's website. If the written materials are from a person acting in a professional or business capacity, all information in the written materials will be publicly available.

Stakeholders are responsible for ensuring that any documents they file with the OEB **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2023-0229** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address.

- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [File documents online page](#) on the OEB's website.
- Stakeholders are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance.
- Cost claims are filed through the OEB's online filing portal. Please visit the [File documents online page](#) for more information. All participants shall download a copy of their submitted cost claim and serve it on all required parties as per the [Practice Direction on Cost Awards](#).

All communications should be directed to the attention of the Registrar and be received by end of business, 4:45 p.m., on the required date.

Email: registrar@oeb.ca

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