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BY EMAIL AND WEB POSTING

July 17, 2019

To: All Licensed Electricity Distributors and Transmitters and All Rate-regulated Natural Gas Distributors
All Participants in EB-2018-0287 and EB-2018-0288
All Other Interested Stakeholders

**Re: Utility Remuneration and Responding to Distributed Energy Resources
Board File Numbers: EB-2018-0287 and EB-2018-0288**

In a [letter](#) dated March 15, 2019 (March Letter), the Ontario Energy Board (OEB) initiated two integrated consultation processes to support the evolution of the sector: Utility Remuneration and Responding to Distributed Energy Resources (DERs). Among other things, the March Letter also identified initial steps for the integrated consultations, commencing with the issuance of an OEB staff scoping paper.

On June 19, 2019, the OEB issued a [letter](#) to all regulated entities and other interested stakeholders advising of the status of the OEB's policy initiatives during the transition to the new corporate governance structure that will be implemented when recent amendments to the *Ontario Energy Board Act, 1998* are proclaimed into force. In that letter, the OEB indicated that, in developing future stakeholder engagement activities for ongoing initiatives, it will be mindful of the Modernization Review Panel's emphasis on the importance of clear, open and transparent stakeholder processes in policy consultations.

In keeping with that commitment, the OEB has refreshed its approach to stakeholder engagement in respect of the integrated consultation processes on Utility Remuneration and Responding to DERs. Among other things, this will enhance the opportunity for stakeholder perspectives to inform subsequent steps in relation to these initiatives following the OEB's transition to its new structure.

This letter outlines the OEB's updated stakeholder engagement approach and how interested stakeholders may participate.

Background

As discussed in the March Letter, the regulatory framework must continue to promote good outcomes and protect consumers in the context of an evolving energy sector. The emergence of DERs has the potential to affect costs and enhance value and choice for customers, but may introduce particular risks. In addition, how utilities are remunerated can influence their ability and motivation to take advantage of emerging opportunities that can promote efficiency and deliver long-term value to customers.

Any changes to the OEB's regulatory framework arising from these initiatives are expected to have long-lasting impacts on Ontario's energy sector and the consumers it serves. Any regulatory reforms require careful consideration and should be paced in a manner such that they can be informed by the broader regulatory and policy environment, including any related OEB or government initiatives.

The OEB's Refreshed Approach

Defining the scope of these interrelated initiatives is an important first step. Toward this end, the OEB will hold a stakeholder meeting starting on **September 17, 2019** and continuing on **September 18, 2019** if additional time is needed. The meeting can be further extended if required to accommodate all presentations.

The purpose of the meeting is to hear stakeholder input on foundational questions such as:

- What objectives should the Utility Remuneration and Responding to DERs initiatives aim to achieve?
- What specific problems or issues should each initiative address?
- What principles should guide the development and selection of policy options?

The meeting will leverage the input already provided by stakeholders at the January 2019 Stakeholder Forum and through subsequent written comments. For convenience of reference, a brief summary of the priority issues identified by stakeholders through the consultation to date is set out in Attachment A.

Participants are encouraged to make an in-person presentation at the stakeholder meeting. Participants with common viewpoints are also encouraged to co-ordinate with one another and make a joint presentation. Participants that expect their presentation to be more than 30 minutes should identify that in their email accompanying the copy of their presentation.

To facilitate discussion at the stakeholder meeting:

- OEB staff's expert consultants, London Economics International and ICF, will deliver brief presentations on fundamental concepts of utility remuneration and how other jurisdictions have approached DER issues and answer questions from

stakeholders. Written presentations will be circulated in advance of the date on which stakeholder presentations are due.

- A list reflecting OEB staff's initial thoughts on guiding principles is attached as Attachment B. This list has been provided to assist stakeholder discussions. The OEB welcomes stakeholder comments on staff's proposed guiding principles.

Following the stakeholder meeting, OEB staff will prepare a report describing in detail the input received from stakeholders and setting out a proposal outlining objectives, issues and guiding principles for each initiative. Stakeholders will be invited to comment on that report.

Subsequent steps will be considered following completion of the above activities.

Stakeholder Meeting Details

The stakeholder meeting will be held starting on **September 17, 2019 from 9:30 a.m. to 4:30 p.m.**, and continuing on **September 18, 2019** if additional time is needed. It will take place in the OEB's West Hearing Room, 25th floor, 2300 Yonge St., Toronto. The meeting will be webcast to allow remote participation. Webcast details will be sent to registered participants before the meeting date.

Stakeholders who intend to participate in the meeting are asked to email notice of their intention to Ruta.Budininkas@oeb.ca by **August 26, 2019**. Emails should include "EB-2018-0287/0288 September 17 Stakeholder Meeting Attendance" in the subject line and provide the following information:

- participant/organization name
- name(s) of attendees to be registered
- whether the participant intends to make a presentation and, if so, the topic(s) of the presentation
- whether the participant intends to attend in person or by webcast
- a contact name, telephone number and email address

Stakeholders may register to participate in the stakeholder meeting regardless of whether or not they have already registered their interest in this consultation in response to the March Letter.

Participants who intend to make an in-person presentation are asked to email their materials to Ruta.Budininkas@oeb.ca by **September 9, 2019**, and should include "EB-2018-0287/0288 September 17 Stakeholder Meeting Presentation" in the subject line.

An agenda will be provided to registered participants in advance of the meeting. The meeting will be transcribed. All materials related to this meeting, including participant presentations and transcripts, will be posted on the OEB's website.

Cost Awards

As set out in the March Letter, cost awards will be available under section 30 of the *Ontario Energy Board Act, 1998* in respect of this consultation.

Cost awards will be available to eligible participants in relation to the consultation activities described in this letter, as follows:

Activity Eligible for Cost Awards	Max. Number of Hours
Preparation for, attendance at, and reporting on the stakeholder meeting (for eligible participants and/or their consultants)	Actual meeting time + 4 hours
Preparation of presentation for stakeholder meeting	6 hours
Responding to OEB staff report	TBD

Today, the OEB also issued its [Decision on Cost Eligibility](#) in relation to cost eligibility requests received in response to the March Letter.

The OEB will accept requests for cost award eligibility from participants that did not register in response to the March Letter and are doing so now. Requests for cost eligibility should be filed in accordance with Attachments A (Filing Instructions) and B (Cost Award Eligibility) of the March Letter no later than **August 16, 2019**.

Any questions relating to the Utility Remuneration initiative (EB-2018-0287) should be directed to Lenore Robson at Lenore.Robson@oeb.ca or at 416-440-8141.

Any questions related to the Responding to DERs initiative (EB-2018-0288) should be directed to Rachel Anderson at Rachel.Anderson@oeb.ca or at 416-544-5150.

The OEB's toll-free number is 1-877-632-2727.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment A: Summary of Input on Priority Issues from January 2019 Stakeholder Forum and Subsequent Written Comments

Attachment B: OEB Staff List of Potential Guiding Principles

Attachment A: Summary of Input on Priority Issues from January 2019 Stakeholder Forum & Written Comments

The purpose of the Stakeholder Forum was to receive input on how the OEB should proceed with initiatives to support the evolution of the sector, including the prioritization, sequencing and scoping of initiatives. Following the event, 25 interested parties submitted written comments.

The following summarizes OEB staff's key takeaways from stakeholder feedback at the Stakeholder Forum and in written comments.

1. Consumers Must Come First

Stakeholders emphasized the need to ensure the consumer remains central to any regulatory reforms to support sector evolution:

- Innovation should not be pursued for its own sake. It should reduce costs, or generate value for consumers
- Policy development should be guided by what consumers actually want and are willing to pay for. Customers and their representatives must have a voice in consultations
- Regulatory reforms must focus on mitigating the potential for stranded costs. Minimizing cost shifting and cross-subsidization among customers is also important

2. Don't Lose Sight of Fundamental Regulatory Principles

Regulatory policies to support sector evolution should remain grounded in long-standing principles. For example:

- The purpose of economic regulation is to address market failures
- Regulation should facilitate an appropriate risk/reward balance between utilities and their customers
- Cost responsibility should continue to be based on cost causation

3. Effective DER Integration is Critical

Though stakeholders' views diverged on how DERs should be integrated and which issues are the highest priority, most stakeholders agreed that a well-considered approach to integrating DERs is necessary to mitigate risks and capture benefits for customers. Some priority issues identified include the need to:

- Modernize the connection process and requirements
- Clarify the role of distributors with respect to DERs
- Establish tools and approaches to co-ordinate and optimize DERs
- Support consistent valuation of costs and benefits

4. The Utility Business Model Needs to Evolve

Many stakeholders discussed the need for the traditional utility business model to evolve as new options for energy service emerge and new resources are deployed. Once again, views diverged on what new activities regulated utilities may appropriately engage in. Key issues include:

- Remunerating utilities in a manner that incents pursuit of the lowest cost solutions (while maintaining safety and reliability), including using market-sourced solutions
- Maintaining appropriate separation of monopoly and competitive activities

5. Work to Support Sector Evolution Must be Co-ordinated

Stakeholders were nearly unanimous in calls for coordination of initiatives related to sector evolution, including coordination of consultation activities in order to make efficient use of limited stakeholder time and resources. Initiatives that should be co-ordinated include, but are not limited to:

- The OEB's Commercial and Industrial Distribution Rate-Design and Regulated Price Plan Roadmap initiatives
- The Independent Electricity System Operator's Market Renewal Program and the whitepapers being developed as part of its Innovation Roadmap
- The Ministry of Energy, Northern Development and Mines' industrial pricing initiative

Appendix B: OEB Staff List of Potential Guiding Principles

Clear guiding principles create a foundation for dialogue with stakeholders about defining policy objectives and identifying options for achieving them. They provide a framework that can align parties around the priorities, pacing and scoping of work, and support a more effective policy development process. In addition, fundamental regulatory principles can be used as criteria to compare the potential efficacy of different policy options.

Taking into consideration the OEB's mandate and statutory objectives and input from the Stakeholder Forum, OEB staff outlines the following potential guiding principles, intended to complement broadly accepted regulatory principles (such as Bonbright) to facilitate discussion at the upcoming stakeholder meeting:

- 1. Economic Efficiency and Performance:** The regulatory framework promotes economic efficiency, cost-effectiveness and long-term value for consumers.
- 2. Customer Focus:** The regulatory framework encourages cost containment, demonstrable value to customers, greater customer choice and control, and customer confidence in the sector. It also encourages efficient choices.
- 3. Stable yet Evolving Sector:** The regulatory framework maintains the opportunity for utilities to earn a fair return; it neither precludes alternative business models that may be desirable nor impedes the entry of new entities.
- 4. Regulatory Simplicity:** The regulatory framework is practical to administer in terms of cost and complexity while enabling appropriate oversight; it is predictable insofar as its rules and requirements are applied consistently in similar circumstances; it is also resilient, adaptable, flexible and sustainable.