

2018 – 2019 Annual Report

Energy at a Glance: 2018–2019

Protecting Consumers

Electricity distribution customers:

5,213,918

Residential and small business customers:

5,158,178

Natural gas distribution customers:

3,681,393

Residential and small business customers:

3,664,663

Sector Oversight

In the electricity sector, the OEB regulated or licensed:

69 Distributors	8 Transmitters	465 Generators	2 Agencies: Independent Electricity System Operator and Smart Metering Entity	111 Wholesalers	63 Retailers	31 Unit sub-meter providers	16 Electricity storage providers
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In the natural gas sector, the OEB regulated or licensed:

2 Distributors	32 Marketers
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Consumer Participation

Held **13 community meetings** in **12** locations throughout Ontario about major rate applications

\$3 million Amount provided to intervenor groups to fund their participation including: consumer groups, manufacturers, farmers, landowners and Indigenous communities

Number of OEB hearings & proceedings where intervenors participated: **52**

Consumer Contacts

8,765

Contacts received

Top Enquiries:

Ontario Electricity Support Program (OESP), Low-income Energy Assistance Program (LEAP), request for information on licensees, disconnections, contract renewals and amendments

Assistance for Low-Income Energy Customers

LEAP assisted **14,000 customers** with **\$5.9 million** in emergency funding to help with their natural gas and electricity bills

OESP assisted an average of **239,000+** low-income households a month with almost **\$166 million** in on-bill credits over the year

Energy at a Glance: 2018–2019 (continued)

Reliable and Sustainable Energy

Infrastructure

Electricity distribution system –
total assets:

\$26,215,324,533¹

\$2.1 billion¹

invested in the electricity grid

551 km¹

of new distribution wires

641 km

of electricity transmission lines approved
for construction

Natural gas distribution system –
total assets:

\$18,100,774,972¹

\$168 million

invested in natural gas infrastructure

36 km

of new and replacement natural gas pipelines
approved for construction:

- 4.8 km in the City of Toronto
- 7.0 km in the Regional Municipality of Durham
- 19.0 km in the Town of Lakeshore and Town of Kingsville in the county of Essex
- 5.2 km in the counties of Oxford and Norfolk

Managing Costs

Average residential
monthly natural gas bill:

\$71.26

OEB's operating expenses per customer annually for 2018-2019 were **\$5.16**, up **\$0.18** due to higher salaries and benefits costs as a result of filling vacancies and inflation

Average residential monthly
electricity bill:

\$113.26²

Rate increases of **0.25%**, on average, for **54** electricity distributors that filed annual applications for inflationary increases

About **\$12.2 million** in avoided rate increases achieved from our review of **6** major rate applications filed by electricity distributors

Number of rate decisions issued: **74**
Total decisions: **272**

¹ Source: 2018 RRR data as filed by electricity and natural gas distributors on April 30, 2018 (for the 12 month period ending December 31, 2018).

² Reflects the impact of the *Ontario Fair Hydro Plan Act, 2017*

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VISION

The OEB supports and guides the continuing evolution of the Ontario energy sector by promoting outcomes and innovation that deliver value for all Ontario energy consumers.

MISSION

We will pursue this Vision by:

- **Strengthening** the focus on demonstrable consumer value during a period of sector evolution
 - **Incenting and enabling** innovation in a way that enhances consumer choice, control and value
 - **Strengthening and sustaining** the confidence of consumers during a period of accelerating change
 - **Equipping** our own organization to meet the challenges presented by sector evolution
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VALUES

- **Effective:** We hold ourselves to a high standard regarding the quality and efficiency of our work.
- **Independent:** We are objective and bring an open mind to all we do.
- **Engaged:** We learn from our dialogue with consumers, utilities and other industry participants.
- **Expert:** We are experts in our field and share our knowledge with others.
- **Forward-looking:** We support innovative solutions both within our own organization and by those we regulate.
- **Respectful:** We serve the public interest and treat everyone with respect.

Executive Summary

We are pleased to provide the following annual report, which includes the Ontario Energy Board's (OEB) financial statements for the fiscal year ending March 31, 2019, our Risks and Risk Management Summary and a report on our performance. The performance results described in this annual report reflect the OEB's performance against our 2018-19 Business Plan, which was approved by the then Minister of Energy in April 2018. Just before the end of the 2018-19 fiscal year, the government introduced legislation that will, when proclaimed into force, materially change the OEB's corporate governance structure. In the 2019-20 fiscal year, the OEB will transition to that new governance structure and we expect to refresh our strategic vision and direction, informed by the recommendations set out in the Ontario Energy Board Modernization Review Panel's report to the Minister of Energy, Northern Development and Mines, which was also published in late March 2019.

In fiscal year 2018-19, the OEB remained focused on our core work of setting just and reasonable energy rates, protecting energy consumers and encouraging the energy sector to become more responsive to consumers' expectations for value, quality of service, choice and control. We also maintained our emphasis on continuous improvement so that we remain well-equipped to guide and support the ongoing evolution of the energy sector.

Setting just and reasonable rates for regulated energy utilities. After careful scrutiny of six major rate applications from electricity utilities, the OEB disallowed about \$12.2 million in distribution revenue increases, representing

a reduction in the distribution rates utilities requested by about 15.4 per cent, on average. Further, we reviewed 54 applications from electricity distributors seeking annual inflationary adjustments and allowed rates to increase by just 0.25 per cent, on average, a level of increase that remains below the rate of inflation.

We also decided seven applications from utilities requesting approval to amalgamate or to acquire another utility. We approved all but one application.

In the fourth quarter, we announced the completion of our review of performance standards for processing rate applications to provide greater certainty and predictability to applicants. The new performance standards for rate applications were posted on the OEB website (OEB.ca) in a schedule format, identifying the typical procedural steps and the number of days typically required for each. An Application Planning Tool has also been posted that allows users to estimate the duration of a proceeding.

Protecting energy consumers. We issued new customer service rules for electricity and natural gas utilities and unit sub-meter providers to enhance consumer protection throughout the province. Our review on major areas including disconnections, security deposits and billing was designed to ensure that our customer service rules continue to serve the interests of customers and maintain an appropriate balance between consumer protection and the ongoing operational needs of utilities.

The OEB undertook more than 20 inspections of regulated entities in this fiscal period. Issues of compliance were identified and they were required to take corrective action. More than

Executive Summary (continued)

1,022 consumer complaints regarding regulated entities were reviewed, and staff took appropriate steps to address any compliance issues and facilitate resolution between the regulated entity and the complainant.

We also continued our work to assist low-income energy consumers. The Ontario Electricity Support Program, a program we administer that is now funded through provincial revenues, assisted an average of 239,000+ low-income households a month with almost \$166 million in on-bill credits over the year. In addition, the Low-income Energy Assistance Program assisted 14,000 customers through \$5.9 million in emergency funding to help with their natural gas and electricity bills.

Preparing for tomorrow. How to advance our regulatory work to meet the demands of the evolving energy sector was the subject of recommendations contained in a report from the Advisory Committee on Innovation, which the OEB convened last year. We held a stakeholder forum to receive feedback on how we should proceed with initiatives to support the evolution of the sector.

We also launched a new initiative called the OEB Innovation Sandbox in January 2019. The Sandbox is an informal, accessible way for utilities and other companies to get regulatory advice or explore temporary relief from a regulatory requirement for new ideas, products, services or business models that have the potential to provide benefit for consumers.

Measuring our performance. We developed a Performance Measurement Framework to help us measure our progress on broader organizational goals and outcomes. The intent is to assess the impact of the full array of policy, operational and strategic activities that the

organization undertakes from year to year. In all, 19 performance indicators have been developed, which we expect will be a solid basis for further testing and refinement.

The 2018-2019 period saw a number of key accomplishments highlighting the OEB's commitment to ensuring that Ontario's energy consumers receive good value for their energy dollars and that regulated utilities are well equipped to deliver high quality service. We look forward to continuing to serve the public interest in our role as a knowledgeable, responsible and responsive energy regulator under our new governance structure and a refreshed strategic vision and direction.

Our Performance

The OEB measures its performance using a balanced scorecard approach. Performance indicators are put in place to support four strategic goals defined in the 2018-2021 Business Plan:

- 1. Utilities are delivering value to consumers in a changing environment**
- 2. Utilities and other market participants are embracing innovation in their operations and the products they offer consumers**
- 3. Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services**
- 4. The OEB has the resources and processes appropriate for the changing environment**

An independent firm assessed the OEB's performance for the fiscal year ending March 31, 2019 in achieving the initiatives set out in the 2018-21 Business Plan as approved by the then Minister of Energy in April 2018. Our performance results speak only to degree of achievement of the key programs in that approved Business Plan, as verified by the auditor.

The following FY 2018-19 Balanced Scorecard describes the key programs for each of the four strategic goals in our approved 2018-21 Business Plan, together with an indication of whether the key program was achieved or only partially achieved. The Balanced Scorecard was amended to reflect key activities affected by government policy or changes or pending changes to legislation or regulations. The affected items are identified by an asterisk next to them.

Our Performance (continued)

Utilities are delivering value to consumers in a changing environment

A focus on consumer value lies at the very centre of the OEB’s approach to utility regulation. Given the broad changes underway in the electricity and natural gas sectors, the OEB has both the need and opportunity to sharpen that focus – particularly with respect to utility investments associated with sector transformation.

“Smart grid” and distributed technologies, together with conservation initiatives, present utilities with opportunities to serve customers in ways that may be less expensive and more flexible than traditional infrastructure investment. Moreover, the anticipated trend towards a low carbon economy may affect the way in which both natural gas and electricity networks are used. That trend, together with measures to increase the resilience of energy infrastructure, may call for new investment or the redeployment of existing infrastructure.

The OEB’s regulatory framework should encourage both electricity and natural gas utilities to undertake such investments and expenditures in a coordinated and cost-effective manner.

KEY PROGRAMS	KEY ACTIVITIES	RESULT
<p>Gas Supply Planning To ensure that consumers are getting value for money, the OEB will develop a Framework for the Assessment of Distributor Gas Supply Plans that will increase transparency, accountability and measurement of utility gas supply planning, including consideration of public policy objectives such as the inclusion of renewable natural gas as a component of gas supply.</p>	<p>Complete a framework setting out the OEB’s expectations and approach to the assessment of gas supply planning, including a consideration of public policy objectives such as the inclusion of renewable natural gas as a component of gas supply.</p>	
<p>Electricity Distributor Benchmarking To ensure that consumers are getting value for money, the OEB will expand its use of benchmarking to include a detailed evaluation of costs at the program (or activity) level. Enhancing the monitoring of distributor performance is expected to drive greater cost discipline among distributors, incent greater efficiency and ultimately reduce costs for consumers.</p>	<p>Develop the framework for a benchmarking model for program or activity cost measures for electricity distributors.</p>	
<p>Natural Gas Demand Side Management The OEB will continue its work on:</p> <p>A. Gas Demand Side Management Framework Evaluation (Complete the evaluation of the performance of the current framework for DSM in the natural gas sector), the</p> <p>B. 2019 Natural Gas Achievable Potential Study (Complete a study to estimate the achievable potential for natural gas efficiency in Ontario for 2019-2038), and the</p> <p>C. Evaluation, Measurement & Verification (EM&V) of DSM Programs (Complete EM&V studies to assess natural gas savings associated with DSM programs).</p>	<p>Complete the review and evaluation of the current framework for DSM.</p> <p>Begin the study and coordinate with the IESO as appropriate.</p> <p>Complete EM&V of 2016 annual DSM results and initiate EM&V of 2017 annual DSM results.</p>	

Utilities and other market participants are embracing innovation in their operations and the products they offer consumers

The way the OEB remunerates utilities can influence the degree of innovation achieved by utilities in their operations and services arrangements with consumers. As noted in the IESO's Ontario Planning Outlook, the adoption of innovative solutions can also be affected by the rules and requirements that govern utilities and other market participants.

The OEB has already taken a number of steps to accommodate and support innovative solutions. However, the broad changes underway in the sector suggest that a more comprehensive review is warranted.

From a consumer perspective, the structure of network rates and commodity prices influence decisions about consumption and investment. Indeed, the design of such rates and prices is a key factor influencing the deployment of distributed resources and the way in which networks are used. With respect to commodity prices, the OEB's RPP Roadmap has already set out the OEB's phased approach to renewing the Regulated Price Plan so that it can better respond to policy objectives, improve system efficiency and give consumers greater control.

KEY PROGRAMS	KEY ACTIVITIES	RESULT
<p>Way Forward For Regulation To support the evolution of the sector, move to a regulatory framework that remunerates utilities in ways that strengthen their focus on long-term value and least-cost solutions, supports regional planning and cost-sharing arrangements among utilities, and requires utilities to reflect the impact of sector evolution in their system planning and operations.</p>	Identify opportunities for and obtain advice on regulatory reform.	✓
<p>"Smarter" Electricity Delivery Rates To encourage the efficient use of electricity infrastructure and enable greater customer choice and control, develop and implement rate design options for non-residential electricity distribution rates and related charges. This work is a continuation of work carried out in prior periods.</p>	Finalize a new rate design policy for non-residential electricity rates which takes account of the expansion of both net metering and distributed energy resources.	80% The OEB issued a Staff Report with recommendations on proposed Rate Design for consultation. Due to external factors, specifically proposed government consultations on pricing for industrial consumers, the OEB determined that it would not issue a final policy direction.
<p>"Smarter" Electricity Prices To provide appropriate price signals to low-volume and other Class B electricity consumers in accordance with the Regulated Price Plan Roadmap, develop a new methodology for the RPP and carry out related work. This work is a continuation of work carried out in prior periods.</p>	Continue the implementation of pilot projects regarding the RPP. Engagement of, and data collection from small and medium-sized electricity customers. Study commodity pricing alternatives, including consideration of the recovery of the global adjustment from Class B consumers.	✓
<p>Net Metering Facilitate the implementation of the amendments to regulations related to net metering, in support of public policy initiatives to give consumers and businesses more opportunities to generate and store energy.</p>	Modify the OEB's codes and other regulatory requirements to ensure the effective implementation of an expanded net metering program.	✓*
<p>Enabling Distributed Energy Resources To support the evolution of the sector, identify and develop regulatory reforms that would facilitate investment in distributed energy resources (DERs) that can benefit consumers by appropriately allocating the costs and benefits of DER investments and ensuring that diffuse benefits and multiple value streams can be appropriately recognized.</p>	Identify options for and obtain advice on regulatory reform.	✓

*The FY 2018-19 Balanced Scorecard was amended to reflect any key activities affected by government policy or changes or pending changes to legislation or regulations.

Consumers have confidence in the oversight of the sector and in their ability to make choices about products and services

Over the past five years, the OEB has used a number of approaches designed to give consumers a better understanding of the work of the OEB and, in turn, to provide the OEB with deeper insight into the perspectives of energy consumers in the context of both adjudicative proceedings and policy development initiatives. The OEB intends to redouble those efforts during a period of change and uncertainty in Ontario’s energy sector.

Consumers will need confidence that their utilities, service providers and the broader sector are evolving in a way that respects and reflects their interests, particularly regarding price and service. For this reason, the participation of consumers in adjudicative proceedings, particularly those regarding utility rates, has become increasingly important.

Consumers will need to understand the new products and services that may become available and be assured that the providers of such products or services will treat them fairly. Moreover, during the process of market evolution, utilities and other market participants should be encouraged – and expected – to look for innovative ways of serving diverse consumer groups, including low-income consumers and remote Indigenous communities.

KEY PROGRAMS	KEY ACTIVITIES	RESULT
<p>Consumer Outreach To increase consumers’ confidence in the oversight of the sector and in their ability to make choices about products and services, enhance the way in which the OEB engages with and informs consumers about the energy sector, the rights and choices consumers enjoy, and the work of the OEB. This work is a continuation of work carried out in prior periods.</p>	Continue and expand the OEB’s program of public outreach throughout the Province, and implement a range of communications programs that inform consumers about issues of importance to them.	✓
<p>Consumer Representation in Decision Making In support of efforts to increase consumer confidence in the sector, including through greater solicitation of consumer perspectives, enhance opportunities for consumers to access and participate in the OEB’s adjudicative proceedings and policy development processes. This work is a continuation of work carried out in prior periods.</p>	Continue and expand the program of community meetings and the initiative to give consumers in affected communities enhanced access to OEB hearings.	✓
<p>Review of Customer Service Rules and Charges The OEB will continue to review the customer service rules for natural gas and electricity distributors and unit sub-meter providers. This work will support the interest in ensuring that consumers are treated fairly by utilities, that our codes and rules appropriately reflect the reasonable expectations of energy consumers regarding matters such as disconnections, billing errors, and collection and reconnection fees, and to assess the effectiveness of the underlying OEB policies.</p>	Continue evaluation (Phase One) of rules and charges regarding disconnection and related activities and modify such rules and charges as appropriate. Begin evaluation (Phase Two) of rules and charges related to management of customer accounts, billing errors and reporting requirements.	✓
<p>Low-Income Energy Assistance Program (LEAP) To review the current design and delivery of the LEAP emergency financial assistance program for the electricity and natural gas sectors to establish how well it is meeting the needs of low-income energy consumers facing disconnection. This activity is also in keeping with the OEB’s intent to ensure the effectiveness of policies can be assessed at appropriate intervals.</p>	Evaluate the existing program design and delivery.	✓

Our Performance (continued)

KEY PROGRAMS	KEY ACTIVITIES	RESULT
<p>Strengthening Utility Accountability to Customers To ensure that utilities continue to deliver value to consumers in a changing environment and support consumer confidence in the oversight of the sector, identify and implement regulatory reforms to enhance reporting and utility accountability to customers with respect to the provision of service, including reliability.</p>	Complete foundational work, including work to enhance reporting on reliability and a review of potential approaches for enhancing utility accountability.	<p>83% Further research and stakeholder consultations related to utility reliability and power quality have been identified as a key program in the 2019-22 Business Plan.</p>
<p>Strengthening Protection for Customers of Unit Sub-Meter Providers To ensure that all electricity customers benefit from a comprehensive consumer protection regime, develop a framework for setting USMP charges and monitoring USMP performance.</p>	Identify and implement a framework for setting just and reasonable USMP charges.	 *

The OEB has the resources and processes appropriate for the changing environment

The success of the OEB and the effective implementation of the programs and activities in this Business Plan will depend very much on the commitment and engagement of those who work at the OEB. OEB staff and Board Members are known for their expertise, professionalism and commitment to public service. These qualities will be important as the OEB adapts its organization and processes to the needs of an evolving sector.

Given the uncertainties that lie ahead, maintaining flexibility in both the OEB’s organization and processes will be critical. Engagement and collaboration will also be important. As the OEB seeks to understand and address the changes underway in the sector, it will need to listen to consumers and stakeholders and to work closely with the government and other agencies.

KEY PROGRAMS	KEY ACTIVITIES	RESULT
<p>Adjudicative Process Improvements To ensure our own organization and processes remain flexible and are adapted to changing needs, the OEB will continue to develop and implement measures to better ensure that the OEB’s review of electricity distribution cost of service applications is proportionate and greater strengthens the alignment with the OEB’s performance-based approach to regulation.</p>	<p>Continue to design, pilot and resource to enable implementation.</p> <p>Consider opportunities for enhancements through legislative changes.</p>	 *
<p>Enhancing OEB Performance To ensure the OEB has the expertise, resources and processes appropriate for the changing environment, the OEB will identify the attributes of high performing tribunals and establish a framework through which continuous improvement can be incented, measured and achieved.</p>	Establish an ongoing, formalized process that sets out the attributes of high performing tribunals, and accompanying metrics and targets that link OEB activities to these characteristics, the OEB’s core mandate and its responsibilities.	

*The FY 2018-19 Balanced Scorecard was amended to reflect any key activities affected by government policy or changes or pending changes to legislation or regulations.

Our Performance (continued)

Performance Measures

The OEB is committed to the principle of continuous improvement in its approach to regulation. In that regard, the OEB has established a set of metrics that govern its engagement with consumers and regulated entities. The OEB's current metrics are summarized in the table below. In fiscal 2018-19, all metrics were met.

OEB ACTIVITY	OBJECTIVE	METRIC (%)
Consumer calls	Answer incoming calls within 20 seconds	90
Consumer correspondence	Respond to general correspondence within 10 business days	85
Consumer voicemail messages	Respond to voicemail received by 12:30 pm within the same day	80
Consumer voicemail messages	Respond to voicemail received after 12:30 pm by the next business day before 12:30 pm	80
Consumer satisfaction	Overall satisfaction survey score	80
Consumer complaint letters	Mail complaint follow-up letters to consumers within two business days	80
Consumer complaint letters	Mail a follow-up letter to consumers after receiving a response from the licensee within two business days	80
Consumer enquiry letters	Mail enquiry response letters within two days	80
Industry Relations enquiries	Respond to Industry Relations enquiries within 10 days	90
Regulatory applications	Issue final decisions in accordance with metrics established by Management Committee	80

New Outcomes-Based Performance Measurement Framework

In 2018-2019 the OEB developed a Performance Measurement Framework to measure whether our regulation is achieving the intended and desired outcomes in the Ontario energy sector. The Performance Measurement Framework consists of two elements: a logic model, which lays out how the OEB's areas work together to deliver on key objectives for the organization as a whole, and a set of indicators, which are the specific metrics that measure progress towards the outcomes. In all, 19 performance indicators were developed covering each of the nine outcomes identified in the Performance Measurement Framework. The OEB expects that the Framework will be a solid basis for further testing and refinement under our new governance structure and a refreshed strategic vision and direction.

Financial Performance

The following provides an overview of the Ontario Energy Board's financial performance by cost category.

- A. Section 26 costs are the total of operating expenses and capital expenditures for the fiscal year, including operating reserve adjustment (if applicable), less other funding sources (mainly section 12.1 licence fees) and excluding any costs recovered under section 30 or section 79.2 of the *Ontario Energy Board Act, 1998* and any revenues related to administrative penalties. Section 26 costs are underspent by \$2.3M compared to the approved budget of \$42.6M. The majority of the budget variance results from a change in the OEB's priorities related to projects.
- B. Section 30 costs are regulatory process costs incurred in relation to specific proceedings and consultation processes. Section 30 costs are underspent by \$1.4M compared to the approved budget of \$6.1M. The majority of the budget variance results from a change in the OEB's priorities related to projects.
- C. Section 79.2 costs are regulatory process costs related to the administration of the Ontario Electricity Support Program (OESP). Section 79.2 costs are underspent by \$1.4M compared to the approved budget of \$1.5M. The budget variance results from a decision to suspend the OESP advertisement program in this fiscal year.

Report on Regulatory Costs

The OEB reports annually on the costs associated with oversight of Ontario's gas and electricity sectors.

The following three measures are identified:

- three-year rolling average of operating expenses per end-use customer;
- three-year rolling average of operating expenses as a percentage of industry revenues; and
- three-year rolling average percentage change in operating expenses.

The following chart shows the rolling three-year averages for each of these regulatory cost measures:

	OEB		
	2018-19	2017-2018	2016-2017
Electric Customers ^a	5,213,918	5,164,196	5,111,254
Natural Gas Customers ^a	3,681,393	3,636,582	3,581,123
Measure #1: Operating Expense per Customer (\$yr/customer)	\$5.16	\$4.98	\$5.25
3-Year Rolling Average	\$5.13	\$5.32	\$5.13
Industry Revenue (\$B) ^b	\$28.2	\$28.5	\$28.1
Measure #2: Operating Expense as % of Industry Revenues	0.16%	0.15%	0.16%
3-Year Rolling Average	0.16%	0.16%	0.16%
Operating Expenses ^c	\$45,860,613	\$43,841,842	\$45,676,603
Measure #3: Percentage Change in Operating Expenses	4.60%	-4.02%	-7.01%
3-Year Rolling Average	-2.14%	6.61%	9.77%

Notes:

- Source: Information reported to the OEB under Reporting & Record Keeping Requirements (RRR), as of April 30, 2019.
- Source: 2016–2017 to 2018–2019 data based on various OEB, IESO and Statistics Canada sources.
- Source: Ontario Energy Board, Financial Statements. The figure used is Total Expenses as reported in the Statement of Operations and Net Assets. Total expenses include OEB costs recoverable under Sections 30 and 79.2 of the *Ontario Energy Board Act, 1998* of \$4,716,246 in 2018-19, \$4,673,868 in 2017-18, and \$8,365,620 in 2016-17. Intervenor and stakeholder costs that regulated entities were ordered to pay are not a cost of the OEB and are therefore not included in total expenses.

Commentary:

Measure #1: Operating Expenses per Customer

From 2017-2018 to 2018-2019, operating expenses per customer increased by \$0.18 (3.6%) due to the increase in OEB operating expenses, as explained in Measurement #3.

Measure #2: Operating Expense/Industry Revenues

From 2016-2017 to 2018-2019, industry revenue has remained consistent. OEB operating expenses as a percentage of industry revenue remained consistent over this same period.

Measure #3: Percentage Change in Operating Expenses

From 2017-2018 to 2018-2019, operating expenses increased by \$2.0M (4.6%) due to higher salaries & benefits costs as a result of filling vacancies and inflation. The increased spending in expense areas was partially offset as a result of a reduction of publications, media and advertising costs due to a decision to suspend Ontario Electricity Support Program advertisement program costs in FY 2018-19 (see Statement of Operations and Net Assets & Note 11 under the Financial Statements & Notes of this Annual Report for more details).

Cost Awards & OESP Administrative Costs

Section 30 of the *Ontario Energy Board Act, 1998* (OEB Act) states that the OEB “may order a person to pay all or part of a person’s costs of participating in a proceeding before the OEB, a notice and comment process under section 45 or 70.2 or any other consultation process initiated by the OEB.” This may include costs of the OEB and stakeholders. Additionally, section 79.2 of the OEB Act enables the OEB to recover costs related to the administration of the OESP.

The OEB’s costs represent expenses incurred by the OEB in relation to specific proceedings or consultation processes (e.g. consulting services, court reporting and external meeting sites) and are reflected in the OEB’s financial statements. Regulated entities are ordered to pay these expenses to the OEB for specific proceedings and consultation processes.

Stakeholder costs represent expenses that regulated entities are ordered to pay to intervenors in proceedings and to stakeholders in consultation processes. The eligibility for and award of stakeholder costs is governed by the OEB’s Practice Direction on Cost Awards. These costs do not appear in the OEB’s financial statements.

The following outlines the cost award activity for the 2018-19 fiscal year:

	2019
OEB’s costs recoverable under section 30	
– natural gas proceedings	\$ 2,683,906
– electricity proceedings	1,980,627
OEB’s costs recoverable under section 79.2	
– OESP administrative costs recovered from the IESO	51,713
Stakeholder costs recovered under section 30 cost awards for consultation processes initiated by the OEB	
– natural gas proceedings	214,033
– electricity proceedings	136,576
Intervenor costs recovered under section 30 cost awards for proceedings initiated by applicants	
– natural gas proceedings	1,376,594
– electricity proceedings	1,245,551
Total 2018-19 Cost Award Activity	\$ 7,689,000

Risks and Risk Management

Overview

The OEB faces various risks that could significantly impact the achievement of its objectives and initiatives. From strategic, regulatory, operational, reputational and financial risks, all levels of the OEB utilize risk management practices to mitigate such risks and to maintain the integrity of the OEB in the Ontario energy sector and in protecting consumers.

Risk Governance Structure

The OEB's risk governance structure includes the Executive Team, which is comprised of the Chief Operating Officer and the Vice Presidents from each of the OEB's divisions. The Executive Team informs the Management Committee of risks and challenges facing the OEB.

On March 21, 2019, Bill 87, the *Fixing the Hydro Mess Act, 2019*, was introduced in the Provincial legislature. The amendments to the *Ontario Energy Board Act, 1998* were given Royal Assent and will, when proclaimed into force, materially change the OEB's corporate governance structure. The OEB is working closely with the Ministry to ensure the success of the government's initiative to refresh our governance structure.

Enterprise Risk Management

Information gathered during risk management activities is captured in the Enterprise Risk Register. This register transforms the information into a comprehensive register of risks faced by the OEB. Each risk is categorized, aligned with strategic objectives, and assigned a risk priority rating. The register is updated regularly and serves as both the OEB's risk profile and as a key tool to inform the Annual Internal Audit Plan. Further risk management activities are conducted through Internal Audit.

Internal Audit

Internal Audit is an independent, objective assurance and advisory function to the Executive Team and Management Committee. Internal Audit assists in the achievement of the OEB's strategic objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal Audit reports and findings are validated and distributed to both the Executive Team and the Management Committee.

Risks to Achieving Objectives/Initiatives

The key risks facing the OEB, associated mitigating processes and control activities, and the effect on the OEB's performance during the fiscal year, if any, have been described below.

Regulatory Risks

The volume and complexity of new programs and initiatives from government policies have the potential to limit the OEB's organizational capacity in responding to changes in a timely manner, which impacts the OEB's ability to effectively execute its regulatory role.

Risks and Risk Management (continued)

As mentioned on the previous page, on March 21, 2019, Bill 87, the Fixing the Hydro Mess Act, 2019 was introduced in the Provincial legislature. It received Royal Assent on May 9, 2019, but not all parts of it have yet been proclaimed into force. The legislation includes, among other things, provisions that once proclaimed into force, will change the OEB's corporate governance structure and realign roles, responsibilities and accountabilities amongst a board of directors, a chair, a chief executive officer and a chief commissioner. The OEB is working closely with the Ministry to ensure the success of the government's initiative to refresh our governance structure.

The legislation also includes provisions that will, effective November 1, 2019, repeal the provisions under which the OEB has been setting Regulated Price Plan prices and a Global Adjustment modifier since July 2017. The OEB will take such steps as may be required to ensure that Regulated Price Plan prices are set for November 1, 2019 in accordance with applicable law.

Strategic Risks

An evolving energy industry and emerging technologies require the creation of new programs, policies and procedures or changes to existing ones.

The energy sector continues to undergo and anticipate significant transformation enabled by technological innovation. This has presented new choices for consumers that challenge traditional business and regulatory models, particularly in the electricity sector, and that require the OEB to create new programs, policies and procedures.

To ensure that the OEB's approach to regulation is keeping pace with change and that it has the processes in place to anticipate and manage transformation, the OEB convened in 2018 the Advisory Committee on Innovation to assist the OEB in sharpening its focus on enhancing efficiency, cost effectiveness, innovation and value for electricity customers. The Committee's focus was to identify actions that a regulator can take that will support and enable cost effective innovation, grid modernization and consumer choice to help inform regulatory policy development. The OEB received the Advisory Committee on Innovation's recommendations in late 2018 and has taken steps to seek input from a broader group of stakeholders on how it should proceed with initiatives to support the evolution of the sector.

In early 2019, the OEB also launched its Innovation Sandbox. The Sandbox is an informal, accessible way for utilities and other companies to get regulatory advice or explore temporary relief from a regulatory requirement for new ideas, products, services and business models that have the potential to provide benefits for consumers.

As a further means of staying abreast of sector development, the OEB continues to monitor closely developments in other jurisdictions and liaises regularly with key stakeholder groups within the sector.

Risks and Risk Management (continued)

Operational Risks

Cybersecurity:

A highly sophisticated cybersecurity attack could lead to disclosure or loss of sensitive or confidential data, or shut down of critical OEB Information Management Systems.

The OEB has strategies in place to prepare for, respond to, and recover from cybersecurity incidents. The OEB continually assesses cybersecurity risks by examining the changes to its operational environment, as well as changing external threats, adjusting controls to ensure the security of the OEB environment. The OEB's Information Management Systems have protection against malicious access attempts and annual training is provided to all business units on compliance with the provincial IT Security Directive. IT infrastructure upgrades continue to be implemented on a regular basis.

Organizational Capability/Capacity:

With the implementation of new programs and initiatives, the OEB's staffing capabilities and capacity need to be able to meet its demands.

The OEB recognizes that the evolving energy sector requires highly skilled individuals to help the organization navigate through a rapidly changing energy sector. The OEB prioritizes its work in order to ensure it has sufficient and appropriate staff to work in all operation areas. Key areas include consumer focus and stakeholder engagement programs, enhancing benchmarking and adjudicative processes, and increasing the scope of advisory and program initiatives undertaken at the request of the Ontario Government. The OEB has processes in place to ensure effective knowledge transfer, targeted hiring and talent management to meet business demands. Such activities include operational planning, the development of a Workforce Plan and Succession Plan, and the use of consultants to augment our workforce.

Reputational Risks

The OEB recognizes that insufficient or low-quality information being communicated to consumers and industry participants could result in consumers not being adequately or appropriately informed, which impacts their ability to effectively participate in and manage energy matters that impact them.

The OEB continues to engage in community outreach activities to inform consumers of the broader trends in the energy sector and energy regulation, and monitors and enhances consumer engagement processes. The OEB has a broad public outreach program informed by principles outlined in its Consumer Engagement Guide and including formal research through its Consumer Panel. The Consumer Panel engages consumers through online and face-to-face interactions. Until mid-March 2019, the OEB also held community meetings and offered enhanced approaches for customer input to the adjudicative process. The OEB's Public Affairs department, through the execution of a Strategic Communications Plan and Media Management Program, also assists in ensuring consistent and accurate messages are provided to consumers and industry participants.

Risks and Risk Management (continued)

Financial Risks

Given the increasingly heightened expectations and requirements for financial transparency and reporting, there is added complexity in ensuring that internal controls over financial reporting are adequately designed and operating effectively.

The OEB keeps up to date on new financial and performance reporting requirements from regulators and oversight bodies by ensuring that all policies and procedures are documented so that financial information continues to be accurately captured, as well as ensuring the implementation of strong internal controls.

The design and operating effectiveness of internal controls and financial policies, procedures and processes are reviewed, assessed and monitored regularly through annual external audit and periodic internal audits, as well as financial updates to the Management Committee.

Financial Statements

Year Ended March 31, 2019

Management's Responsibility

The Ontario Energy Board's management is responsible for the integrity and fair presentation of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods.

The Ontario Energy Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Ontario Energy Board's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Ontario Energy Board's Management Committee. In addition, the financial statements have been audited by the Auditor General of Ontario, whose report follows.



Ian Malpass

Vice President, Finance & Information Technology

June 5, 2019



Independent Auditor's Report

To the Ontario Energy Board

Opinion

I have audited the financial statements of the Ontario Energy Board (OEB), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OEB as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the OEB in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the OEB's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the OEB either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OEB's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Independent Auditor's Report (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OEB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OEB's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the OEB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
June 5, 2019

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Statement of Financial Position

As of March 31, 2019

	2019	2018
ASSETS		
Current Assets:		
Cash (note 9)	\$ 16,485,514	\$ 16,547,004
Accounts receivable (note 9)	1,340,386	920,340
Regulatory process costs to be assessed (note 9)	3,478,549	2,567,787
Deposits and prepaid expenses	428,717	441,447
Total Current Assets	21,733,166	20,476,578
Non-current Assets:		
Capital assets (note 5)	3,236,237	3,772,980
Total Non-current Assets	3,236,237	3,772,980
TOTAL ASSETS	\$ 24,969,403	\$ 24,249,558
LIABILITIES		
Current Liabilities:		
Deferred revenue (note 3b)	\$ 2,296,647	\$ 2,512,448
Accounts payable and accrued liabilities	8,187,937	6,798,717
Deferred rent inducement (note 8)	253,739	338,172
Total Current Liabilities	10,738,323	9,649,337
Non-current Liabilities:		
Deferred revenue related to capital assets (note 3c)	3,039,763	3,314,542
Deferred rent inducement (note 8)	0	253,739
Pension liability (note 6b)	134,642	136,789
Total Non-current Liabilities	3,174,405	3,705,070
TOTAL LIABILITIES	\$ 13,912,728	\$ 13,354,407
Operating Reserve (note 4)	\$ 8,514,000	\$ 8,400,000
Net Assets:		
Internally Restricted Net Assets (note 7)	2,542,675	2,495,151
TOTAL LIABILITIES, RESERVE AND NET ASSETS	\$ 24,969,403	\$ 24,249,558

Commitments and Contingencies (note 8 & 13)
See accompanying notes to financial statements

On behalf of the Management Committee:



Robert Dodds
Vice-Chair

Statement of Operations and Net Assets

Year Ended March 31, 2019

	2019	2018
REVENUES		
Recovery of Costs:		
General cost recovery (note 3a)	\$ 39,066,798	\$ 37,422,067
Regulatory process costs	4,664,533	3,082,811
Regulatory process costs – OESP (note 11)	51,713	1,591,057
Amortization of deferred revenue related to capital assets	1,367,335	1,171,922
Total Revenues from Recovery of Costs	45,150,379	43,267,857
Other Revenues:		
Licence fees	404,400	396,100
Interest income (note 9)	298,834	170,920
Administrative penalties and interest (note 7)	47,524	40,152
Miscellaneous income	7,000	6,965
Total Other Revenues	757,758	614,137
TOTAL REVENUES	\$ 45,908,137	\$ 43,881,994
EXPENSES		
Salaries and benefits	\$ 31,753,339	\$ 29,322,280
Consulting and professional	5,664,184	5,351,320
Premises	3,059,586	2,881,736
Publications, media and advertising	1,610,556	2,940,808
Information technology	1,083,755	1,033,869
Meetings, training and travel	827,381	693,163
Office and administration	494,477	446,744
Amortization of capital assets paid by OEB	1,367,335	1,171,922
TOTAL EXPENSES	\$ 45,860,613	\$ 43,841,842
EXCESS OF REVENUES OVER EXPENSES	\$ 47,524	\$ 40,152
Net Assets, beginning of period	2,495,151	2,454,999
NET ASSETS, end of period (note 7)	\$ 2,542,675	\$ 2,495,151

See accompanying notes to financial statements

Statement of Cash Flows

Year Ended March 31, 2019

	2019	2018
Net inflow (outflow) of cash related to the following activities:		
OPERATING		
Assessment billed	\$ 39,943,552	\$ 40,505,758
Regulatory process costs revenue	4,716,246	4,673,868
Other revenues	757,758	614,136
Expenses	(45,860,613)	(43,841,842)
	(443,057)	1,951,920
Adjustment for Non-cash Expenses:		
Amortization of capital assets paid by OEB	1,367,335	1,171,922
Amortization of leasehold improvements paid by Landlord	261,965	261,965
Deferred rent inducement	(338,172)	(338,172)
	1,291,128	1,095,715
Changes in Non-cash Working Capital:		
Accounts receivable	(420,046)	(284,392)
Regulatory process costs to be assessed	(910,762)	1,979,676
Deposits and prepaid expenses	12,730	(85,877)
Operating reserve	114,000	400,000
Accounts payable and accrued liabilities	1,389,220	(48,330)
Pension liability	(2,147)	(71,144)
	182,995	1,889,933
Net Cash from Operating Activities	1,031,066	4,937,568
CAPITAL		
Capital asset purchases	(1,092,556)	(1,665,485)
Net Cash Used in Capital Activities	(1,092,556)	(1,655,485)
NET CHANGE IN CASH	(61,490)	3,272,083
Cash, beginning of period	16,547,004	13,274,921
Cash, end of period	\$ 16,485,514	\$ 16,547,004

See accompanying notes to financial statements

Notes to the Financial Statements

March 31, 2019

1. Nature of the Corporation

The Ontario Energy Board (the “OEB”) is the regulator of Ontario’s natural gas and electricity industries. The OEB also deals with energy matters referred to it by the Minister of Energy, Northern Development and Mines and the Minister of Natural Resources and Forestry.

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998* (the “OEB Act”), the OEB was continued as a corporation without share capital, empowered to fully recover its costs from natural gas and electricity industry participants.

As an agent of Her Majesty in right of Ontario, the OEB is exempted from federal and provincial income taxes under the *Income Tax Act*.

The OEB is classified as a government not-for-profit organization for accounting purposes.

2. Significant Accounting Policies

a) Basis of financial statement preparation

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PS), which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada. The OEB has elected to use the standards for government not-for-profit organizations that include sections PS 4200 to PS 4270, which reflect the significant accounting policies.

b) Revenue recognition

Revenues received in the fiscal year (FY) 2019 that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the OEB as follows:

- General cost recovery under section 26 of the OEB Act related to the expenses of the OEB is recognized as revenue to the extent that the total expenses are in excess of regulatory process costs (section 30 and section 79.2), amortization of deferred revenue related to capital assets, and other revenues. When revenue is assessed in excess of actual cost in a current year, it is deferred and recognized in the following fiscal year and referred to as a true-up (note 3b).
- Regulatory process costs (section 30 and section 79.2 of the OEB Act) are recognized as revenue when related expenses are incurred.
 - Section 30 costs are regulatory process costs incurred in relation to specific proceedings and consultation processes. They are recovered from regulated entities through the cost award decisions made by the OEB in respect of those proceedings and processes. Some proceedings and consultation processes span several financial years. The OEB funds such proceedings and consultations through its operating reserve until the costs are finally recovered under section 30 of the *Ontario Energy Board Act, 1998*.
 - Section 79.2 costs are regulatory process costs related to the administration of the Ontario Electricity Support Program (OESP). Section 79.2, together with Ontario Regulation 14/18 made under the OEB Act, enables the OEB to recover its OESP administration costs from the Independent Electricity System Operator (IESO). It also enables responsibility for the administration of the OESP to be transferred from the OEB to a Minister of the Crown. At this time the OEB is not aware of any plans to transfer the administration of the OESP.

Notes to the Financial Statements (continued)

March 31, 2019

- Deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3c).
- Revenue from administrative penalties assessed against market participants under section 112.5 of the OEB Act is recognized in the year the OEB accepts an assurance of voluntary compliance or issues the enforcement order for the amount identified, provided that the order is not under appeal and collection is reasonably assured. If the order is appealed, revenue will be recognized in the year in which all rights of appeal are exhausted and the order becomes final. Revenue from administrative penalties is not used to reduce the costs under section 26, 30 and 79.2 of the OEB Act, but used to support activities relating to consumer education, outreach and other activities in the public interest. Both administrative penalties and their related expenses are reflected in the Statement of Operations and Net Assets and are reflected as internally restricted net assets, which are summarized in note 7 of the financial statements.
- Other revenues are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

c) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following the acquisition, as follows:

Office furniture and equipment	5–10 years
Computer software	3 or 5 years
Computer equipment	3 or 5 years
Audio visual equipment	3 years
Leasehold improvements	9 months (remainder of initial lease term)

d) Financial instruments

The OEB's financial instruments are initially measured at their fair value and subsequently measured in one of the following categories: (i) fair value or (ii) cost or amortized cost. The OEB uses fair value for the subsequent measurement of cash, accounts receivable, regulatory process costs to be assessed, accounts payable and accrued liabilities.

e) Use of estimates

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards (PS) requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and recoveries for the year. Items requiring the use of significant estimates include pension liability and useful life of capital assets. Actual amounts could differ from these estimates.

Notes to the Financial Statements (continued)

March 31, 2019

f) Employee pension plans

The OEB's full-time employees participate in the Public Service Pension Plan (PSPP), which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPP, determines the OEB's annual payments to the Plan. Since the OEB is not a sponsor of the pension plan, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the OEB, as the sponsor is responsible for ensuring that the pension plan is financially viable. The OEB's expense is limited to the required contributions to the Plan as described in note 6a.

The OEB also manages a supplementary unfunded pension plan for a former Chair as described in note 6b. The OEB accrues its obligations and the related cost under this supplemental unfunded pension plan. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

3. Industry Assessments

During FY 2019, the natural gas and electricity industry participants were assessed estimated costs for FY 2019 based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The calculations of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

a) General cost recovery

	FY 2019	FY 2018
Salaries and benefits	\$ 31,753,339	\$ 29,322,280
Consulting and professional	5,664,184	5,351,320
Premises	3,059,586	2,881,736
Publications, media and advertising	1,610,556	2,940,808
Information technology	1,083,755	1,033,869
Meetings, training and travel	827,381	693,163
Office and administration	494,477	446,744
Amortization of capital assets paid by the OEB	1,367,335	1,171,922
Total expenses	45,860,613	43,841,842
Regulatory process costs, amortization of deferred revenue related to capital assets and other revenues excluding administration penalties and interest	(6,793,815)	(6,419,775)
General cost recovery at March 31, 2019	\$ 39,066,798	\$ 37,422,067

Notes to the Financial Statements (continued)

March 31, 2019

b) Current deferred revenue (True-up)

	FY 2019	FY 2018
General cost recovery (note 3a)	\$ 39,066,798	\$ 37,422,067
Capital expenditures paid by the OEB	1,092,556	1,665,485
Operating reserve adjustment	114,000	400,000
Total assessment (actual)	40,273,354	39,487,552
Total assessment (budget)	42,570,001	42,000,000
Current deferred revenue (True-up)	\$ 2,296,647	\$ 2,512,448

c) Deferred revenue related to capital assets

Revenues related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord, which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for \$3,540,400 of leasehold improvements on behalf of the OEB since the start of the lease on January 1, 2005.

	FY 2019	FY 2018
Net book value of capital assets (note 5)	\$ 3,236,237	\$ 3,772,980
Net book value of leasehold improvements paid by landlord (note 5)	(196,474)	(458,438)
Deferred revenue related to capital assets	\$ 3,039,763	\$ 3,314,542

4. Operating Reserve

As part of its self-financing status, the OEB established an operating reserve, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the OEB's operations in the event of revenue shortfalls or unanticipated expenditures. It is to be used for cash flow management and to support working capital requirements.

Based on the review of cash flow, the OEB has increased the maximum allowable operating reserve to 20% of the OEB's current annual funding requirement. The operating reserve is currently 20%.

	FY 2019	FY 2018
Operating reserve, beginning of the year	\$ 8,400,000	\$ 8,000,000
Adjustment to the operating reserve	114,000	400,000
Operating reserve, end of the year	\$ 8,514,000	\$ 8,400,000

The OEB is not subject to any externally imposed reserve requirements.

Notes to the Financial Statements (continued)

March 31, 2019

5. Capital Assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net book value FY 2019</i>	<i>Net book value FY 2018</i>
Office furniture and equipment	\$ 2,852,871	\$ 2,734,638	\$ 118,233	\$ 109,199
Computer equipment	3,364,780	2,839,806	524,974	696,476
Computer software	7,550,966	5,398,198	2,152,768	2,044,504
Audio visual equipment	618,073	576,468	41,605	39,052
Leasehold improvements paid by OEB	1,595,840	1,393,657	202,183	425,311
Leasehold improvements paid by landlord	3,540,400	3,343,926	196,474	458,438
Total	\$19,522,930	\$16,286,693	\$ 3,236,237	\$ 3,772,980

6. Employee Future Benefits

- The OEB's contribution to the Public Service Pension Plan (PSPP) for FY 2019 was \$2,005,060 (2018 - \$1,861,073), and is included in salaries and benefits costs on the Statement of Operations and Net Assets.
- The unfunded supplemental pension plan for a former Chair had an accrued total benefit obligation of \$134,642 (2018 - \$136,789) and an accrued benefit liability with respect to the OEB of \$134,642 (2018 - \$136,789). The OEB's related expense for the year was \$20,638 (2018 - negative \$46,476) and is reflected in salaries and benefits costs. Benefits paid during the year were \$22,785 (2018 - \$24,668). The significant actuarial assumptions adopted at March 31, 2019 included a discount rate of 2.25% (2018 - 2.50%).
- The OEB is not responsible for the cost of employee post-retirement and non-pension benefits. These costs are the responsibility of the Province of Ontario, a related party.

7. Internally Restricted Net Assets

The internally restricted net assets at March 31, 2019 represent revenue from administrative penalties assessed against individual market participants under section 112.5 of the *Ontario Energy Board Act, 1998*. According to the OEB Cost Assessment Model, revenue from administrative penalties will not be used to reduce payments under the general assessment. Revenue from administrative penalties plus any related interest revenue is internally restricted by the Management Committee to support activities relating to consumer education, outreach and other activities in the public interest.

The changes in internally restricted net assets are as follows:

	FY 2019	FY 2018
Balance, beginning of the year	\$ 2,495,151	\$ 2,454,999
Administrative penalties issued in the year	0	10,000
Interest revenue from administrative penalties	47,524	30,152
Expenses incurred	0	0
Balance, end of the year	\$ 2,542,675	\$ 2,495,151

Notes to the Financial Statements (continued)

March 31, 2019

8. Deferred Rent Inducement and Operating Lease Commitments

The OEB entered into a lease commitment for its office space during FY 2005, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years ending December 31, 2019, being the term of the lease.

The changes in deferred rent inducements are as follows:

	FY 2019	FY 2018
Balance, beginning of the year	\$ 591,911	\$ 930,083
Less: Amortization of deferred rent inducement netted against premises expense	(338,172)	(338,172)
Balance, end of the year	\$ 253,739	\$ 591,911

The OEB extended its lease commitment for its office space for an additional five years ending December 31, 2024. The minimum base rental payments under the operating lease, expiring December 31, 2024 and in aggregate are as follows:

FY 2020	\$ 1,204,827
FY 2021	1,535,633
FY 2022	1,627,594
FY 2023	1,779,282
FY 2024	1,930,970
FY 2025 - 9 months	1,533,552
Total	\$ 9,611,858

OEB is committed to pay its proportionate share of realty taxes and operating expenses for the premises, which amounted to \$1,948,859 during FY 2019 (2018 - \$1,739,187). These amounts are expected to be similar in future years.

9. Financial Instruments

Interest rate risk:

The OEB's financial assets and liabilities are not exposed to significant interest rate risk. Cash balances earn interest at a rate ranging from 1.60% to 2.10% (2018 - 0.85% to 1.60%). The average cash balance interest rate for the year was 1.89% (2018 - 1.22%).

A 25 basis point change in the interest rate would impact the OEB's operating surplus by \$45,889 (2018 - \$40,707).

Currency risk:

The OEB's exposure to currency risk is minimal as few transactions are in currencies other than Canadian dollars.

Notes to the Financial Statements (continued)

March 31, 2019

Credit risk:

The OEB's exposure to credit risk is minimal. The OEB has minimal credit risk exposure in regard to accounts receivable due to high historical collection rates. The accounts receivable aging is summarized below:

	<i>Current</i>	<i>+60 days</i>	<i>+90 days</i>	<i>Total</i>
Regulatory process costs	\$ 762,084			\$ 762,084
General cost recovery	800	\$ 8,291	\$ 1,765	10,856
HST recovery	536,433			536,433
Interest receivable	32,835			32,835
Allowance for Doubtful Accounts		(57)	(1,765)	(1,822)
Total	\$ 1,332,152	\$ 8,234	\$ 0	\$ 1,340,386

The OEB also has minimal credit risk exposure in regard to the \$3,478,549 (2018 - \$2,567,787) of regulatory process costs to be assessed due to high historical collection rates. Included in these costs is \$1,252,821 to be collected by related parties.

Regulatory process costs to be assessed are costs incurred by the OEB which will be invoiced in a future fiscal year after March 31, 2019.

Liquidity risk:

The OEB's exposure to liquidity risk is minimal as the OEB has a sufficient cash balance to settle all current liabilities. As of March 31, 2019, the OEB had a cash balance of \$16,485,514 (2018 - \$16,547,004) to settle current liabilities of \$10,738,323 (2018 - \$9,649,337).

10. Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of the OEB. Therefore, the Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), Hydro One, Infrastructure Ontario, Ontario Ministry of Energy, Northern Development and Mines and Ontario Ministry of Finance are related parties of the OEB, through the common control of the Province of Ontario. The total related party transactions for FY 2019 are revenues of \$11,825,087 (2018 - \$12,100,620) and expenses of \$367,307 (2018 - \$76,315). These expenses relate to information technology, advertising and leasing services.

Related party transactions pertaining to employee future benefits are disclosed in note 6. Related party transactions incurred with the establishment of the Ontario Electricity Support Program (OESP) are included in note 11.

11. Ontario Electricity Support Program (OESP) Administration

In FY 2015, the OEB entered into contractual commitments regarding the implementation and administration of the then-new OESP, a rate assistance program for low-income electricity customers that, since January 1, 2016, provides eligible low-income customers with a monthly credit on their electricity bills. These commitments include the costs associated with the centralized service provider engaged by the OEB to administer the OESP. Costs relating to implementation ended in FY 2017. Currently the OEB

Notes to the Financial Statements (continued)

March 31, 2019

incurs only costs to administer the OESP. These costs are settled through the Independent Electricity System Operator (IESO).

In FY 2019, the Statement of Operations and Net Assets has \$51,713 (2018 - \$1,591,057) of expenses related to the program. Section 79.2 of the OEB Act, together with Ontario Regulation 14/18 made under the OEB Act, enables the OEB to recover its OESP administration costs from the IESO. This section also enables responsibility for the administration of the OESP to be transferred from the OEB to a Minister of the Crown or other entity provided for in regulations. At this time the OEB is not aware of any plans to transfer the administration of the OESP.

Total revenue and expenditures included in these financial statements related to OESP are as follows:

	FY 2019	FY 2018
Revenue:		
Regulatory process costs – OESP	\$ 51,713	\$ 1,591,057
Total revenue	\$ 51,713	\$ 1,591,057
Expenses:		
Consulting and professional	\$ 15,759	\$ 0
Publications, media and advertising	35,177	1,583,761
Office and administration	777	6,591
Meetings, training and travel	0	705
Total expenses	\$ 51,713	\$ 1,591,057

12. Subsequent Event

On May 9, 2019, Bill 87, the *Fixing the Hydro Mess Act, 2019* was given Royal Assent. The legislation contains provisions that, among other things, will, when proclaimed into force, change the OEB's corporate governance structure and realign roles, responsibilities and accountabilities amongst a board of directors, a chair, a chief executive officer and commissioners, including a chief commissioner.

13. Contingencies

Contingencies refer to possible legal claims that have been made against the OEB, the ultimate outcome of which cannot be predicted with certainty. Management does not expect that the outcome of the claims against the OEB will have a material and adverse effect on its results and does not believe any provisions for losses are necessary at this time. No amounts have been recognized in the accounts for claims made against the OEB. Any settlements will be accounted for at the time of settlement.

14. Comparative Figures

Certain prior year figures have been reclassified in order to conform to the current year's presentation.

Board Members

CHAIR & CEO
ROSEMARIE T. LECLAIR
Appointed: Apr 6, 2011
Term Expiry: Jun 30, 2020

VICE-CHAIR
CHRISTINE LONG
Appointed: Jun 13, 2012
Term Expiry: Nov 3, 2018

VICE-CHAIR
KEN QUESNELLE
Appointed: Sep 6, 2005
Term Expiry: Sep 5, 2018

VICE-CHAIR
ROBERT DODDS
Appointed: Nov 21, 2018
Term Expiry: Nov 20, 2020

LYNNE ANDERSON
Appointed: May 10, 2017
Term Expiry: Aug 30, 2019
Full-time Board member

JENNI BYRNE
Appointed: Feb 21, 2019
Term Expiry: Feb 20, 2020
Full-time Board member

ALLISON DUFF
Appointed: Feb 1, 2013
Term Expiry: Nov 3, 2018
Full-time Board member

MICHAEL JANIGAN
Appointed: Apr 26, 2017
Term Expiry: Aug 30, 2019
Full-time Board member

EMAD ELSAYED
Appointed: Jun 20, 2012
Term Expiry: Jun 19, 2020
Part-time Board member

SUSAN FRANK
Appointed: Jun 3, 2015
Term Expiry: Jun 2, 2020
Part-time Board member

CATHY SPOEL
Appointed: Oct 13, 1999
Term Expiry: Aug 30, 2019
Part-time Board member

RUMINA VELSHI
Appointed: Mar 22, 2017
Term Expiry: Mar 21, 2019
Part-time Board member
Resigned as of August 22, 2018

Total remuneration: \$2,331,367

This information reflects the status of appointments as of March 31st, 2019.

Contact Information

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Toll-free within Ontario: 1-877-632-2727

For compliance and other regulatory enquiries contact:

Email: industryrelations@oeb.ca

In the Greater Toronto Area or from outside Ontario: 416-314-2455

Toll-free within Ontario: 1-877-632-2727

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