

20

FINANCIAL REVIEW  
MANAGEMENT RESPONSE

21



## Context

Financial accountability is an essential characteristic of all public facing organizations. The Ontario Energy Board (OEB) is funded by those it regulates and as such, it must be both accountable and transparent as it drives a mandate of organizational modernization. To that end the OEB commissioned a financial review with broad parameters and full exposure to all aspects of financial and operational management within the OEB.

A full financial review was conducted in late 2020 as a basis for establishing the 2021/22 operating budget and providing a three-year roadmap for activities which will sharpen the financial focus and deliver better value for money for those regulated by the OEB.

## Observations and Management Response

The Final Report included 21 Observations that addressed: Financial efficiency at the OEB; Efficiency measures benefitting the Sector; and Investments. The following provides Management responses to those Observations.

### 1. Stakeholder the budget

#### OBSERVATIONS

“Stakeholder” the Budget on an Annual basis, then finalize through the Board and send to the Ministry. This is done by other organizations in Canada in the sector.

#### OEB RESPONSE

Accepted

Management will develop a plan for stakeholding the annual budget and reviewing the Cost Assessment Model in the context of the 2022 to 2025 Business Plan.

Management will commence implementation of this recommendation in the summer of 2021.

## 2. Separate output from outcome metrics and report on results on a more frequent basis

### OBSERVATIONS

The OEB is reviewing, with an objective to improve, its Performance Management Framework in which it captures its metrics and reports on those metrics. There are opportunities in this review to separate output from outcome metrics and to report on results on a more frequent basis.

### OEB RESPONSE

Accepted

As part of its work to become a top quartile regulator, Management is considering how to further separate outputs and inputs and is examining the establishment of Key Performance Indicators (KPIs) based on best practices in comparable jurisdictions.

This work will be informed by the research conducted as part of the Top Quartile Regulator project and by information gleaned from the recent Ipsos survey.

As an immediate first step, the OEB has established a pilot program which helps applicants and intervenors track the timing as an application is processed. The results of this pilot project will be assessed throughout 2021/22 and efforts will be scaled as appropriate through the end of 2023/24.

## 3. Annual “Forward Work Programme”

### OBSERVATIONS

Consider introducing an approach that is used by the Office of Gas and Electricity Markets (OFGEM) in the UK, which publishes an annual “Forward Work Programme”. OEB could adapt this to include financial reporting and the modernization efforts it plans to implement in that year under the principles of Independence, Accountability, Certainty, Effectiveness and Efficiency as identified by The Panel.

### OEB RESPONSE

Accepted

Strategic and business planning are meaningfully integrated with financial reporting and all modernization efforts at the OEB. As part of our commitment to transparency and stakeholder engagement we will publish details on budget assumptions, policy and initiatives.

The OEB will host an annual "Policy Day" with stakeholders that will inform future strategy and business plans.

#### 4. Public Affairs Division's spending

##### OBSERVATIONS

The Public Affairs Division's current spending seems more oriented to external, brand building activities. This does not seem to align with the internal cultural change and regulatory transformation that should be the focus. So, approx \$600K could be repurposed and/or reduced. Some investment in the internet and intranet sites and communications of modernization plans and results should be considered.

##### OEB RESPONSE

Accepted

2021/22 budget has been reduced to address this recommendation.

Management will adjust the organization of the Public Affairs Division to effectively support cultural change, modernization and digital optimization. Then, Public Affairs will develop a Communications "Playbook" to set out a communications strategy that among other things, tells the stories of OEB modernization, supports change management and includes a digital roadmap that ensures OEB digital channels are leveraged effectively, modernized and continuously improved.

#### 5. Use of consultants

##### OBSERVATIONS

Undertake a detailed review of the use of consultants, in the areas of expert opinions generated for the OEB, external legal services and in back office and policy functions, to ensure that they provide true value add and contribute to capacity building.

##### OEB RESPONSE

Accepted

Management will examine and rationalize the use of consultants. The 2021/22 Operating budget (i.e. Section 26) for consulting services has been reduced by 9% in anticipation of savings.

To ensure Executive oversight and the proper prioritization of consulting engagements, a CEO consulting reserve fund will be established, and CEO approval will be required to utilize this reserve.

## 6. Roster of legal HR resources

### OBSERVATIONS

Should consider examining the long-term contract for HR legal advice (\$1.7M) should be examined to reduce costs, especially given the OEB is in the off cycle of negotiations for a Collective Bargaining Agreement; given there are 10-12 grievances only per year; etc. Consider the episodic use of a roster of legal HR resources for advice on any departures.

### OEB RESPONSE

Accepted

Management will initiate a competitive process in 2022 to procure employment legal services to compliment increased HR legal capability internally to fulfill our legal requirements in the most cost-effective manner. Utilizing a roster of legal resources would be less cost effective in that each firm would need to familiarize themselves with the OEB, resulting in additional billable hours overall.

Consideration will be given to augmenting internal HR Legal resources so that more work is done “in-house” and reliance on external vendors is reduced over the next three years.

## 7. Consider space reductions and lease reductions

### OBSERVATIONS

It is recognized that a long-term lease has just been recently renewed for OEB’s office accommodations, in early 2020 pre-pandemic. However, given the swift move to work from home arrangements due to COVID-19 distancing requirements; the move to virtual hearings; the fact that the space standards are in excess of Ontario Public Service’s standards; and, among other things, the increased application of digitization, the OEB should look at space reductions and lease reductions in order to decrease its spending on this expense at the expiry of the current lease.

### OEB RESPONSE

Accepted

Management will create a lease plan by the end of 2022/23 that reduces space and decreases spending at the expiry of the current lease at the end of December 2024. This plan will be completed with the assistance of Infrastructure Ontario and will consider lease directives from the Ministry. This plan will be presented to the CEO and the Board of Directors in early 2023 for approval and implemented to ensure that significant expense reductions will be realized beginning January 1, 2025.

## 8. Operating reserve

### OBSERVATIONS

Carrying an operating reserve to fund working capital and for unforeseen in-year costs and/or requirements which the OEB may be asked to take on is a prudent financial management approach. However, over the last 5 years there has been underspending of the OEB's budget on an annual basis. There are several good reasons for this underspending (e.g. transitional year where various expenses were not realized). Even with these valid reasons the current operating reserve seems to be quite high (approximately \$8M). The OEB has plans to reduce this reserve over the next 3 years (\$500K/year). However, the OEB should consider a deeper reduction over the next 2-3 years to have the reserve settle at \$3M. A reduction of \$1M to \$2M in each of the next 3 years would allow for the implementation of any required changes to financial processes and would help to ensure that the financial impact of the reduction to \$3M is smoothed over time. This combined with a conservative underspending of say \$1M in any given year seems to be achievable and a good signal of self-prudence to regulated entities and ratepayers.

### OEB RESPONSE

#### Conditionally accepted

Management will review and amend the current Operating Reserve policy to establish principles that govern the use of and potential reduction in the Operating Reserve. The revised policy will be presented to the CEO and the Board of Directors by June 2021 for review and approval.

The Cost Assessment Model will be informed by the revised Operating Reserve policy.

## 9. Optimized organizational structure

### OBSERVATIONS

Encourage the examination of structural organizational elements of the OEB to determine if they are optimized.

### OEB RESPONSE

Accepted

The destination operating model will be shaped in response to the OEB Financial Review, Ipsos survey results and stakeholder feedback. The OEB will be focused on ensuring that it has the resources needed to deliver on modernizing the OEB. The destination operating model will be presented to the Board of Directors in early 2021.

The OEB will focus on defining “core business activities” in the context of its legislated mandate. The OEB will pursue with the Ministry of Energy, Northern Development and Mines the potential transfer of the administration of the OESP Program which is not a core function of the OEB.

## 10. Comprehensive review of all procedures, processes, rules, codes and requirements

### OBSERVATIONS

Over the 3-year modernization journey, conduct a comprehensive review of all procedures, processes, rules, codes and requirements, with a goal of increasing efficiency within the adjudicative process; reducing the costs of rate filings; and, delivering increased value to ratepayers. In addition, it should also examine various thresholds (e.g. leave to construct thresholds need to be updated to reflect current costs to construct).

### OEB RESPONSE

Accepted

Management will undertake a review and rationalization process of OEB procedures, processes, rules, codes, and requirements. This work will be a multi-year undertaking that will be completed under several initiatives including the Chief Commissioner’s plan and the Top Quartile Regulator and Filing Requirements projects.

## 11. Assess assertive case management models

### OBSERVATIONS

Assess assertive case management models for their applicability in adjudicative hearings for the OEB, for example:

- more effectively managing Issues Lists generated during rate application reviews;
- be more deliberate about managing In Scope requirements;
- assess cross examinations based on their relevance to directly informing an adjudicative decision;
- consider a more strict definition of who is impacted by a project;
- track duplicative requests and cluster together for efficiency, if possible.

### OEB RESPONSE

Accepted

Management is undertaking a number of initiatives to improve the efficiency of its processes for adjudicative hearings while respecting the requirement for procedural fairness. Management will:

- review the timing and approach to Issues Lists
- provide greater definition on what constitutes a "substantial interest" for intervention in OEB proceedings
- address the findings of the Top Quartile Regulator project.

## 12. Environmental assessment processes

### OBSERVATIONS

Assess legislative requirements for the OEB's role in ensuring Environmental Assessment processes have been followed in capital applications. If this is not legislatively required, then a harmonization opportunity with the relevant Ministry should be explored and communicated as a revised process to regulated entities.

### OEB RESPONSE

Accepted

Management agrees that the streamlining or integration of project approval processes can provide efficiencies for project proponents but notes that (a) agency overlap or duplication in responsibilities regarding environmental assessment matters is limited; and (b) leave to construct proceedings are appropriately scoped and managed to address attempts to have the OEB engage in areas that fall within the mandate of another agency.

Management will engage the Ministry of Energy, Northern Development and Mines to ascertain the Ministry's interest in, and perspectives on, harmonization opportunities in relation to environmental assessment matters in leave to construct proceedings.

### 13. Engagement with applicants outside of application

#### OBSERVATIONS

At times there may be a reluctance to engage with an applicant in advance of an Application as it would be seen to prejudice the adjudicative decision. However, there needs to be the “space” to have these types of dialogue, without prejudice to any future decision.

#### OEB RESPONSE

Accepted

Management will incorporate participation of Commissioners in the Applicant Orientation Session by July 2021.

Management will create a new forum for dialogue by fiscal 2021-22.

Management will continue the practice of engaging with large utilities before filing when required and will provide this opportunity for smaller utilities.

### 14. Innovation Sandbox

#### OBSERVATIONS

The Innovation Sandbox present an opportunity to more effectively explore regulatory innovation and transformation. While it is a nascent concept, it also would benefit from being elevated in its prominence in the organization and properly resourced to be able to have genuine dialogue and as a means to drive innovation. A meaningful mandate should be applied for the next 2 years which would need to demonstrate innovations that increase value to the sector and ratepayers.

#### OEB RESPONSE

Accepted

The OEB will raise the profile of the Sandbox within the organization and across the sector to increase understanding of its purpose in the context of the OEB's broader work to facilitate innovation.

Management will give consideration to the organizational placement of the Sandbox as it works to define the areas of focus, roles and benefits of sectoral and interjurisdictional partnerships.

**15. Top Quartile Regulator project**

**OBSERVATIONS**

The OEB has already begun an initiative to respond to the Panel’s recommendation of being a top quartile regulator, entitled: The Top Quartile Regulator Project. This is a positive sign and it should be able to demonstrate that the OEB is in or has arrived into the top quartile among global regulators by “ranking” itself against best practices; publicly report the findings; update transparently its journey to being in the top quartile; and, zealously implement the changes and continuous improvement necessary to reach that goal. This assessment and its results should also be a guide for internal transformation for the OEB.

**OEB RESPONSE**

Accepted

The Top Quartile Regulator project began in October 2020 and has made significant progress. The project will identify best practices in other jurisdictions, compare these to our current practices and put plans in place to close the gaps. This project will inform the OEB's Strategic Plan. This Plan will be refreshed each year to ensure continuous improvement and identify the appropriate targets for each year.

A Phase 1 summary of the Top Quartile Regulator project will be shared with the sector by the end of March 2021.

**16. Benchmarking all key administrative functions and costs**

**OBSERVATIONS**

In addition, the OEB should consider benchmarking all key administrative functions and costs against other regulators; set public targets to achieve future cost savings and commit to a set of improvements to be delivered over the next 2-3 years.

**OEB RESPONSE**

Accepted

Management will develop a plan to benchmark specific administrative functions within the OEB during fiscal 2021-22.

This work will be a multi-year undertaking that will target specific administrative functions for improvements each year. Based on the benchmarking results, proposals will be presented to the CEO to realize any savings and achieve best practices identified through benchmarking. Targets will be established and the OEB will implement tracking on the achievement of those targets.

## 17. Clarity of delegated decisions

### OBSERVATIONS

Increase the clarity of when delegated decisions are triggered to improve the sector's understanding of their use. In addition, consider increasing the use of delegated decisions especially for applications that are less than inflation, e.g. quarterly rate adjustments (pending a review of the legislative implications of doing so).

### OEB RESPONSE

Accepted

The OEB has delegated authority to senior staff to make determinations for numerous types of applications under specific conditions and restrictions. Management will assess whether changes to the conditions and restrictions may result in further matters being delegated to OEB staff.

Approximately 80% of decisions issued by the OEB each year are currently decided by delegated authority. Management agrees that it is appropriate to make public what matters have been delegated to OEB staff. Once the OEB has completed its review of current delegations, a list of what has been delegated will be posted on the OEB's website in a clear and easily accessible way by the end of 2021.

## 18. Re-apply filed information in subsequent hearings

### OBSERVATIONS

Consider what filing information could be re-applied in a subsequent hearing (e.g. cost of capital), with the objective of examining and reducing the total cost of rate filings.

### OEB RESPONSE

Accepted

Management will assess the potential for further reductions in filing requirements through reliance on the Reporting and Record Keeping Requirements (RRR) in terms of non-incentive rate applications. Utilities file information through the Reporting and Record Keeping Requirements that could be assessed for use in rate filings.

The OEB has created an instrument for the mechanistic incentive rate-setting applications that relies on the utility's RRR filings and allows each utility to automatically download historical information (such as consumption and demand by class). This has reduced utilities' efforts in preparing these annual rate applications.

## 19. Filing requirements of LDCs by size

### OBSERVATIONS

Given that approximately one half of all LDCs are small (by OEB's definition), consider whether they still need to file a capital plan every 5 years. Perhaps this timeframe could be extended thereby decreasing filing costs.

### OEB RESPONSE

Accepted

Management will review the filing requirements including the content and timing of the filing of updated distribution system plans as part of its proportional review initiative for small utilities who have under 20,000 customers. The results of this review will be made public by spring 2021.

## 20. Employee training

### OBSERVATIONS

Consider increasing the amount allocated for training for employees. The types of training that could be considered would be in leadership skills, emerging technologies and change management. This should build on the HR talent management plan of the OEB.

### OEB RESPONSE

Accepted

The training budget for fiscal year 2021-22 has been increased to support focused training and professional development for a defined cohort of employees.

The Chief Commissioner will prepare a training plan for new and current Commissioners and investments will be made, as appropriate, in training and development which supports key operational outcomes.

Key elements of the HR People Plan will focus on delivering business success through people by assessing talent requirements and developing effective solutions to enhance performance. The OEB has established a Key Performance Indicator (KPI) to regularly track and measure employee training/skills development programs and costs.

## 21. Blockchain

### OBSERVATIONS

Research and assess the future application of blockchain solutions perhaps for authenticating data and addressing the likely impact on the industry as energy technologies continue to evolve and rapidly get more “local” (e.g. microgrids). Or, to be able to better assess the impacts of crypto currencies; the Internet of Things (IoT) devices and their impact on the grid; impacts on time of use; role of aggregators; future development of smarter energy grids; etc.

### OEB RESPONSE

Accepted

The OEB is pursuing research on the use of blockchain in regulatory settings and will present findings to the Board of Directors in Q1 of 2021. These efforts will support further consideration of the uses and potential of blockchain's application to the OEB's regulatory processes and approaches. Applications of blockchain to the broader Ontario energy sector will also be considered.

## Conclusion

The external Financial Review has provided a “roadmap” for the OEB to follow over the next three years. All 21 observations have been accepted by Management and will be acted upon in a systematic, rigorous and thoughtful manner as the OEB demonstrates its accountability to the energy sector and the people of Ontario in an open and transparent manner.