

ONTARIO ENERGY BOARD

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# COST ASSESSMENT MODEL

APRIL 2022



Ontario

Ontario  
Energy  
Board

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## **1. Introduction**

As part of its ongoing path to modernization, the Ontario Energy Board (OEB) conducted a review of its Cost Assessment Model (CAM) during fiscal year 2021-2022. Designed to ensure alignment with current OEB strategic goals and business objectives, as well as regulatory best practices and market dynamics, the findings and recommendations from this review, were presented to stakeholders as an updated CAM in September 2022. Accordingly, the following CAM is now in force, with the previous CAM having been repealed.

### **1.1 Model**

The OEB uses a CAM to allocate its operating costs appropriately to the payors and sub classes of payors liable for the OEB's expenses and expenditures under Section 26 of the *Ontario Energy Board Act, 1998* (the "Act"). A majority of the OEB's costs are included under Section 26, which outlines the fiscal year operating costs needed for the OEB to deliver its mandate and execute current and future programs and activities.

### **1.2 Revenue Sources**

To ensure the OEB is financially self-sufficient, revenue sources include:

- Cost assessments issued under Section 26 of the Act
- Costs payable to the OEB, which are recovered under Section 30 of the Act, in relation to a specific proceeding or consultation process
- Costs recovered, under Section 79.2 of the Act, in relation to the administration of the Ontario Electricity Support Program (OESP)
- Administrative penalties assessed against a person, under Section 112.5 of the Act, arising from an OEB hearing and subsequent OEB decision
- Fees charged under Section 12.1 of the Act, and
- Interest earned on bank balances.

The CAM considers all costs associated with Section 26 of the Act and all revenues incurred in a fiscal year of OEB operations. Costs include operating expenses and capital expenditures, less other funding sources (see above).

### **1.3 Operating Reserve**

As a self-financing entity that is unable to access debt financing, the OEB maintains an operating reserve to support working capital requirements and cash flow management. As result, the OEB's operating reserve is targeted to 8% of current annual funding requirements by FY 2023-2024. If the operating reserve is less or required to increase, future cost assessments may be used to fund the operating reserve. Any operating reserve exceeding 8% could be used to reduce payments under future assessments.

## 2. Cost Assessment Methodology

### 2.1 Guiding Principles

The CAM is designed to allocate OEB costs to payors and sub classes of payors based on the guiding principles listed in Table 2.1:

**Table 2.1 - Guiding Principles**

- |   |   |
|---|---|
| 1 | All payor classes listed in Ontario Regulation 16/08 will be assessed.  |
| 2 | Costs are allocated in a clear, fair, repeatable, simple, timely and transparent manner.  |
| 3 | The OEB must remain financially self-sufficient and avoid the need to borrow funds.   |
| 4 | The OEB should seek to mitigate year-over-year volatility in the apportionment of its funding requirements to each class of market participant. |

### 2.2 Payor Classes

The payors and sub classes of payors listed in Table 2.2 are liable to pay an assessment based on a fiscal year of April 1<sup>st</sup> through March 31<sup>st</sup>.

**Table 2.2 - Ontario Payors and Sub Classes of Payors**

Distributors licensed under Part V of the Act
Transmitters licensed under Part V of the Act
Gas transmitters and gas distributors subject to Section 36 of the Act
The Independent Electricity System Operator (IESO)
Ontario Power Generation (OPG)
Retailers licensed under Part V of the Act to retail electricity to low-volume consumers as defined in that Part.
Gas marketers licensed under Part IV of the Act.
Unit Sub-Metering Providers

### 2.3 Cost Categories

Cost categories listed in Table 2.3, are costs incurred by the OEB in its efforts to contribute to a sustainable and reliable energy sector, while simultaneously helping consumers get value from their natural gas and electricity services. These costs can be classified as direct and/or indirect. Direct costs can be attributed to a specific payor or sub class of payor. Indirect costs cannot. The following table identifies OEB cost categories and associated classification(s)... direct, indirect, or both.

**Table 2.3 - OEB Cost Categories**

<b>Cost Category</b>	<b>Cost Type</b>
Staff Costs	Direct & Indirect
Market Surveillance Panel	Direct
Consulting and Professional	Indirect
Meetings, Seminars and Travel	Indirect
Publications, Media and Publishing	Indirect
Premises	Indirect
Information Technology	Indirect
Office, Administration and Other	Indirect
Amortization	Indirect
Capital Expenditures	Indirect

## 2.4 Direct Cost Allocation

Direct costs are allocated based on an estimated amount of OEB time and resources that can be attributed to a particular payor or sub class of payor. The OEB uses manager-level estimates on how much staff time is spent on each payor or sub class of payor for each cost category.

### Direct Cost Categories

Staff Costs

Market Surveillance Panel

Examples of direct costs include:

- Commissioners and staff costs related to applications, consumer protection and industry performance, strategic policy, and registrar, based on time spent on activities per payor class. Estimated time allocation data is updated annually.
- Public Information costs, based on the number of interactions processed during the most recent calendar year.
- Per-diem and other costs of members of the Market Surveillance Panel are allocated fully to IESO.

## 2.5 Indirect Cost Allocation

Indirect costs are all remaining costs that are not directly attributable to specific payor or sub class of payor. The OEB allocates indirect costs across all classes based on the percentage of direct costs incurred by each class.

Examples of indirect costs include administrative staff costs, premises lease and capital assets, publications expenses, training and travel costs, and other costs that do not specifically relate to a particular class.

## 2.6 Payor and Sub Class of Payor Allocation

Once all direct and indirect costs are allocated according to the most recent data, the total cost payable by each payor and sub class of payor are determined. Costs are then allocated to individual organizations within each payor group, according to the criteria listed in Table 2.6 below.

**Table 2.6 - Payor Allocation Criteria**

<b>Payors</b>	<b>Allocation Criteria</b>
Distributors	% of customers
Transmitters	% of revenue
Gas transmitters, gas distributors and storage companies	% of customers
IESO	No further allocation needed
OPG	No further allocation needed
Low-volume electricity retailers	% of customers
Gas marketers	% of customers
USMP	% of customers

## 3. Implementation

The updated CAM came into effect on April 1, 2022 and will be in place until otherwise advised.

### 3.1 Assessment Timing

Costs are assessed for each fiscal year starting April 1<sup>st</sup> and ending March 31<sup>st</sup>. Costs are invoiced quarterly. Surpluses or deficits of the previous year are used to adjust costs invoiced in the current year's assessment.

### 3.2 Frequency of Model Review

The OEB will review cost assessment methodology every 3 to 5 years to ensure the CAM represents current strategic goals, operational objectives, regulatory best practices, and market dynamics.