

Ministry of Energy

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MC-994-2022-850

October 21, 2022

Mr. Richard Dicerni
Chair
Ontario Energy Board
2300 Yonge Street, 27th floor
PO Box 2319
Toronto ON M4P 1E4

Dear Mr. Dicerni:

Congratulations on your reappointment as Chair of the Ontario Energy Board (OEB). In keeping with my responsibilities as Minister of Energy, I am writing to provide you with a renewed Letter of Direction, including updates on the government's priorities for the energy sector and my expectations for the OEB in the upcoming three-year business planning period.

It has been two years since the OEB's modernized governance structure came into effect on October 1, 2020. This marks the end of the modernization transition period. Effective October 1, 2022, the OEB's board of directors began exercising its full authorities under the *Ontario Energy Board Act, 1998* (OEBA), including the authority to appoint the team of Commissioners. I am pleased with the transformational work the OEB undertook during the transition period, including the advancement of the Chief Commissioner's Plan, and that Cabinet has approved your reappointment as Chair and the reappointments of your fellow Board of Directors members. I know as the Board of Directors exercises its new authorities it will ensure the independence of the persons hearing and determining matters within the OEB's jurisdiction.

The transition period is ending at a time when the OEB's role as energy regulator has never been more important: the push for further electrification and the transition to cleaner energy sources will require innovation and leadership from the OEB. The government has a vision for the energy system in which Ontario leverages its clean energy grid to promote electrification and job creation while continually enhancing reliability, resiliency and customer choice. In my previous mandate letter, I noted specific initiatives that I viewed as critical to the health of Ontario's energy sector and necessary for the OEB to prioritize. This work remains both relevant and necessary to the OEB's overall modernization agenda and should continue. I appreciate the OEB's efforts to incorporate these initiatives into its ongoing work via previous business plans.

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Priorities to Advance in the Near-Term

At this time, I wish to highlight areas where I will be expecting significant progress over the coming year. While previous mandate letters have referred to these priorities, there is urgent need to advance them in the next 12 months and thus I am providing the OEB with my timing expectations:

- **Supporting the Electrification and Energy Transition Panel:** Over the next 12 months, I will receive advice on how to support the transformation of the energy sector from the Energy Transition and Electrification Panel (Panel) chaired by David Collie. Ontario must take action to accelerate this transformation to secure the associated environmental and economic development benefits, while ensuring investments across the energy system are made in the interest of ratepayers. I know that the OEB has begun considering its role in this transformation, particularly through the work of its Innovation Task Force. **I am counting on the OEB, informed by the work of its Innovation Task Force, to provide the Panel with its best advice on potential changes to the OEB's mandate and operations, including any necessary legislative amendments.** This advice should include, but need not be limited to, opportunities to incorporate environmental and economic development benefits into the OEB's regulation of the sector, approaches to integrating the regulation of the electricity and natural gas systems, and enhancements to how the OEB and the Market Surveillance Panel oversee the acquisition of energy resources, regulate the Independent Electricity System Operator (IESO) and review long-term planning efforts.
- **Regulatory Framework:** The government's vision for a clean energy grid that promotes electrification, attracts investment and creates jobs while continually enhancing reliability, resiliency and customer choice will require utilities to make new investments. I recognize that the OEB cannot make substantive changes to its regulatory approach without a legislative amendment; however it is critical that the OEB not wait until it has been provided with additional legislative authority before it begins to consider these reforms so that its work can proceed expeditiously. **Therefore, I ask that the OEB launch workshops in 2023 that explore how the OEB could enable electrification related investments while protecting consumers' interests to deliver on the government's vision.**
- **Distribution Sector Resiliency, Responsiveness, and Cost Efficiency:** Ontario's electricity distribution sector will have a critical role in Ontario's electrification transition. As the pace of the electrification of the economy increases and extreme weather events as a result of climate change impact our businesses and communities, there will be pressure on local distribution companies (LDCs) to continue to provide high levels of reliability and resiliency to their customers, be responsive to changing consumer expectations and new government mandates, and to do it all at an affordable price. This year, Ontario experienced two extreme weather events, which affected LDC infrastructure across Eastern Ontario.

As our climate changes, the OEB will have an important role to play in ensuring LDCs are preparing their distribution infrastructure for these kinds of events. LDCs will need greater capacity to meet these expectations – capacity that can be enabled by aggressively pursuing efficiencies through consolidation or enhanced shared services, adoption of innovative technologies and processes, collaboration on responsibilities like cybersecurity, and changes to the utility remuneration and incentive structure that ensure LDCs make the right investments for their customers. The time to reconsider the structure and regulation of the distribution sector is now.

I ask that the OEB provide me with advice and proposals to improve distribution sector resiliency, responsiveness, and cost efficiency by June 30, 2023. Please work with the Ministry of Energy and other partners as needed to ensure proposals reflect current and anticipated future extreme weather impacts and best practices in climate change resilience, including insights from the Ministry of Environment, Conservation and Parks' Provincial Climate Change Impact Assessment. This report may also, as possible, reflect input from the workshops being held on the future of the OEB's approach to sector regulation.

- **Electric Vehicles (EVs):** Within the context of the OEB's ongoing work to facilitate innovation in the energy sector, the previous mandate letter requested that the OEB "issue guidance to [LDCs] on system investments to prepare for EV adoption." I understand the OEB has developed its plan to enable system readiness for EV adoption, consider distribution rates for EV charging (including demand charges), and examine connection processes for EV charging stations. This includes studying barriers to EV charger connections through the Distributed Energy Resources Connection Review Working Group, updating filing requirements in December 2022 to underscore that distribution planning activities must include consideration of EV adoption, and being ready to consult with the sector on the EV charging analysis in 2023. **This work has my full endorsement and should proceed as quickly as possible.**
- **Strengthening the Performance Measurement Framework:** In my letter of April 1, 2022 approving the 2022-2025 Business Plan, I noted my expectation that future business plans include increased specificity in the performance measurement framework to demonstrate how outcomes will be measured and how they advance the OEB's strategic goals. As the OEB continues in its journey to become a top quartile regulator, it is critical that the OEB hold itself to a high standard, including setting performance measures that clearly define the OEB's impact in the sector and establishing stretch goals that contain the possibility of failure. I am accountable to the Legislative Assembly for the OEB's performance – including, at some point in the coming years, requiring an effectiveness review of the OEB as specified in s. 128.1 of the OEBA – and thus I expect that I and the Board of Directors will be aligned on what constitutes fair and aggressive performance targets. **I ask that this refined performance measurement framework be submitted to me for refinement and approval in the upcoming business plan submission due on December 31, 2022.** Note that as I review the draft plan, I may request changes to be reflected in the final submission.

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- **Red Tape Reduction:** Reducing the cost of regulation on businesses and consumers remains a government-wide priority. In the 2021 Burden Reduction Report, the government reported a 6.5 per cent reduction in regulatory compliance costs between 2018 and 2021 and we continue to find ways to cut red tape. While the OEB has made some progress in this area, including its ongoing review of utility filing requirements and intervenor processes, I continue to hear from stakeholders who are concerned with onerous and costly regulatory requirements without clear justification. **In the performance measurement framework that will be submitted to me in the next business plan, I ask that the OEB propose aggressive targets for continuing to reduce the number and cost of regulatory burdens by the end of the current business planning period (i.e., March 30, 2026), with regular updates to me on progress toward those targets throughout the current business planning period.**

Work Continuing over the Business Planning Period

The OEB continues to execute on a significant volume of critical work that aligns both with my expectations for the evolution of the energy sector and its own Strategic Plan. I wish to recognize the ongoing importance of that work:

- **Facilitating Innovation:** The release of the Framework for Energy Innovation's (FEI) Working Group Report marks a significant milestone in the evolution of the OEB's approach to utility regulation. The OEB must maintain momentum in this space by making use of stakeholder feedback to propose meaningful changes to how utilities can make use of Distributed Energy Resources to cost-effectively meet emerging local and broader system needs and how non-wires and non-pipeline alternatives are considered, given their significant potential to replace or defer the need for more costly traditional infrastructure; this work is connected to my request in this letter for proposals to reform the distribution sector and to advise on enhancements to the OEB's mandate. I also wish to commend the OEB and the IESO for its collaboration and joint work to promote innovation in the sector, including through the Grid Innovation Fund's joint targeted call. I encourage both parties to find additional opportunities for collaboration.
- **Ultra-Low Overnight Price Plan:** As you are aware, I am pleased with the OEB's March 31, 2022 report on the design of an ultra-low overnight electricity price plan. I know the OEB is undertaking considerable effort to support LDCs in meeting the May 1, 2023 implementation target, including through stakeholder consultations and the development of new codes and manuals. Please keep my Ministry apprised on the progress of this work.
- **Dynamic Pricing Pilot for Class B Customers:** Over the past year the OEB has advanced the development of a new dynamic pricing pilot for Class B customers not on the Regulated Price Plan (RPP). Following stakeholder consultation, the application process will begin before the end of 2022. I look forward to updates on this important initiative.

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- **Green Button:** I am pleased that the OEB is continuing its work to facilitate the implementation of the government's Green Button initiative. I acknowledge that over the coming year, the OEB will consider stakeholder input on how to support LDC implementation and will consider appropriate compliance steps for LDCs that have not made reasonable progress on the November 1, 2023 implementation deadline.
- **Supporting Broadband Expansion:** Delivering high speed broadband to all Ontarians by 2025 remains a top priority for the government. I appreciate the OEB's efforts to meaningfully engage with my Ministry, the Ministry of Infrastructure and Infrastructure Ontario to help clarify roles and responsibilities with regard to enforcing the new legislative and regulatory instruments that promote broadband expansion. I ask that you continue this work, to ensure the OEB's dispute resolution process can provide clear and timely outcomes.
- **Conservation and Demand Management/Demand-Side Management (CDM/DSM):** I am pleased to see the continued collaboration between the IESO and Enbridge Gas Inc. related to CDM and DSM programs in the low-income space and encourage further collaboration, as appropriate. I request that the OEB work with the IESO to reduce barriers, to the extent practicable, for LDCs that wish to deliver CDM activities through distribution rates to address local distribution level electricity needs. This will help guide the co-ordination of LDCs' CDM activities with IESO-led CDM programs in the cases where the distribution level benefits coincide with province-wide system benefits. With the nation-wide launch in 2021 of the Canada Greener Homes Program and Enbridge's efforts to co-ordinate with their residential DSM program in Ontario, I am looking to the OEB to ensure Ontario natural gas ratepayer interests are protected and that Ontario takes every opportunity to generate deeper retrofits, more natural gas savings and greater emissions reductions.
- **Net Metering Regulatory Changes:** I thank the OEB for its collaboration with the Ministry on the new Community Net Metering (CNM) regulation and regulatory amendments to clarify eligible third-party ownership (TPO) net metering arrangements, including its work to implement these regulatory changes through release of regulatory code amendments and consumer protection information documents. I ask the OEB to continue with its work to provide regulatory oversight and guidance for the implementation of the CNM demonstration project authorized under the CNM regulation and to monitor market activities and regulatory compliance of TPO net metering arrangements.

Next Steps and Broad Government Priorities for Agencies

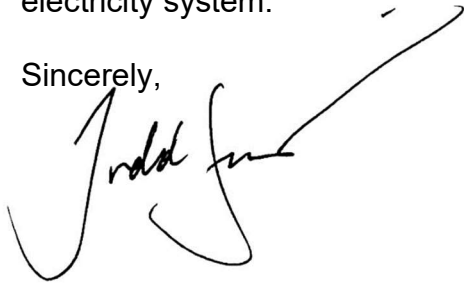
Please continue to provide quarterly updates on the OEB's progress against these expectations. If, in executing any of these priorities, the OEB identifies that legislative or regulatory barriers are preventing the OEB from delivering on expectations, please engage my Ministry with analysis and potential solutions to resolve the barriers. As I've made clear throughout this letter, the Ministry is prepared to take action to ensure the OEB has the tools, authority and resources it needs to advance the government's vision for the energy sector.

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Appended to this letter you will find the government-wide priorities for Board-governed agencies for 2023-24. All provincial agencies are expected to act in the best interests of the people of Ontario and ensure that they provide value for money. I am confident that the OEB will reflect these priorities in its work ahead.

My thanks to you, the Board of Directors, and all OEB executives and staff for the work they do in support of Ontarians. I look forward to receiving the forthcoming business plan and continuing to work together in support of a clean, reliable and affordable electricity system.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Smith", with a long, sweeping horizontal stroke extending to the right.

Todd Smith
Minister

c: David Donovan, Chief of Staff to the Minister of Energy
Tyler Lively, Deputy Chief of Staff to the Minister of Energy
Jason Fitzsimmons, Deputy Minister of Energy
Susanna Zagar, Chief Executive Officer, OEB

APPENDIX: Government of Ontario Priorities for Board-Governed Agencies

1. Competitiveness, Sustainability and Expenditure Management

- Identifying and pursuing opportunities for revenue generation through partnerships, where appropriate.
- Identifying efficiencies and savings through innovative practices, and/or improved program sustainability.
- Operate within the agency's financial allocations.
- Complying with applicable direction related to supply chain centralization, including contract harmonization for planned and pending procurements, accounting practices and realty interim measures for agency office space.
- Leveraging and meeting benchmarked outcomes for compensation strategies and directives.

2. Transparency and Accountability

- Abiding by applicable government directives and policies and ensuring transparency and accountability in reporting.
- Adhering to accounting standards and practices, and responding to audit findings, where applicable.
- Identifying appropriate skills, knowledge and experience needed to effectively support the board's role in agency governance and accountability.

3. Risk Management

- Developing and implementing an effective process for the identification, assessment, and mitigation of agency risks, including COVID-19 impacts and any future emergency risks.

4. Workforce Management

- Optimizing your organizational capacity to support the best possible public service delivery, including redeploying resources to priority areas, where needed.
- Supporting the implementation of the Community Jobs Initiative (CJI) by identifying opportunities to relocate new or existing agencies to lower cost communities.

5. Diversity and Inclusion

- Developing and encouraging diversity and inclusion initiatives by promoting an equitable, inclusive, accessible, anti-racist and diverse workplace.
- Adopting an inclusion engagement process to ensure all voices are heard to inform policies and decision-making.

6. Data Collection

- Improving how the agency uses data in decision-making, information sharing and reporting, to inform outcome-based reporting and improve service delivery.
- Increasing data sharing with Supply Ontario when applicable regarding procurement spending and planning, contract arrangements and vendor relations to support data-driven decision-making.

7. Digital Delivery and Customer Service

- Exploring and implementing digitization for online service delivery to ensure customer service standards are met.
- Using a variety of approaches or tools to ensure service delivery in all situations, including pursuing delivery methods that have evolved since Covid-19.