

Ministry of Energy

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MC-994-2023-864

November 29, 2023

Mr. Glenn O'Farrell  
Acting Chair  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
PO Box 2319  
Toronto ON M4P 1E4

Dear Mr. O'Farrell:

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 Ontario Energy Board (OEB) in the upcoming three-year business planning period.

It has been three years since the OEB's modernized governance structure came into effect on October 1, 2020. The modernization transition period ended last year, and the OEB's board of directors now exercises its full authority under the *Ontario Energy Board Act, 1998* (OEBA).

As I noted in my letter last year, the transition period has ended at a time when the OEB's role as energy regulator has never been more important. Electrification and the transition to cleaner energy sources requires strong, proactive thought leadership from the OEB in consultation with the sector.

Since my previous letter of direction, much has changed in the Ontario energy sector. The Independent Electricity System Operator (IESO) released its [Pathways to Decarbonization](#) report in response to my request to evaluate a moratorium on new natural gas generation in Ontario, and to develop an achievable pathway to decarbonization in the electricity system. In response, the government released our [Powering Ontario's Growth](#) plan 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. The *Electrification and Energy Transition Panel* has engaged broadly with stakeholders, Indigenous communities and energy sector experts and will be submitting their recommendations to me this fall.

In previous letters, 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 advance these initiatives through its business plans.

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I would also like to thank the OEB for supporting the province's Broadband expansion into rural Ontario, and the implementation of both the Green Button initiative and the Ultra-Low Overnight Electricity Rate to further support energy affordability.

*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. Previous mandate letters have referred to some of these priorities; however, given the urgent need to advance these items in the next 12 months, I am providing the OEB with my expectations:

**Powering Ontario's Growth:** In July 2023, Ontario released [Powering Ontario's Growth](#), outlining actions the province is taking to meet increasing demand for electricity driven by strong economic growth and electrification through the 2030s and 2040s. These actions, which include zero-emissions electricity generation, long-duration storage, and transmission lines will ensure a reliable, clean, and affordable energy system for the future. I expect the OEB will work with my Ministry on a number of initiatives that support implementation of our plan.

- **Housing, Transportation and Job Creation:** Our government has ambitious goals to build at least 1.5 million new homes, new highways, subways and improved rail transportation, and has also been successful in attracting new jobs to the province, particularly in critical minerals, electric vehicles and battery manufacturing. With this in mind, it is critical that the OEB ensures that Ontario's electricity and gas transmission and distribution systems are built to support these goals in a timely manner, while protecting ratepayers. Achieving this goal requires timely decision-making, well scrutinized costs and a regulatory environment with certainty for proponents. I encourage the OEB to review electricity infrastructure unit costs in the electricity sector and potential models for cost recovery that could help to ensure infrastructure costs are kept low and are not a barrier to growth in our province. I also ask that the OEB review its electricity distribution system expansion connection horizon and revenue horizon direction to ensure that the balance of growth and ratepayer costs remain appropriate. Please **report back on this review in June 2024**. I also ask the OEB to keep in mind the impact that delays and uncertainty can have on Ontario families, businesses and Indigenous communities, as well as economic investment in the province. Lastly, while the Ministry awaits the Electrification and Energy Transition Panel's report on energy sector governance and supporting a cost-effective energy transition, we must be mindful of affordability impacts to customers while maintaining resilient energy systems. The OEB should continue to ensure that the needs of all customers are considered in its work, and that access to electricity and natural gas in an affordable manner remains central to decision-making.
- **Facilitating Innovation within Ontario's Regulatory Framework:** The OEB's [2023 Stakeholder Survey results](#) showed that stakeholders believe the OEB can do more to facilitate innovation in the energy sector. I acknowledge recent

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announcements, such as the [OEB's Innovation Sandbox Challenge](#), are headed in the right direction. Nevertheless, as electrification and energy transition progresses, the OEB should continually explore how to maximize its flexibility to facilitate innovation within the existing regulatory framework. The OEB should continue to collaborate with the IESO, Ministry officials and sector stakeholders in this regard. Innovation in both gas and electric sectors is critical to meeting our goals of meeting future energy demand and reducing emissions.

The government's vision for a clean energy grid that attracts investment and creates jobs while continually enhancing reliability, resiliency and customer choice will require utilities to make new investments. For decades utilities' remuneration has been based on traditional capital infrastructure deployment; the OEB should consider if this approach remains the most cost-effective model.

Last year, I asked the OEB to host workshops to explore how they could enable low-carbon investments while protecting consumers' interests to deliver on the government's vision. As we look at how to remunerate utilities appropriately through this transition, I ask the OEB to take the next steps and consider what changes may be required to ensure timely investment is being made to support the right outcome. A report back on this work should incorporate a review of models deployed in other jurisdictions. These findings could be incorporated in your **Benefit-Cost Analysis Framework for Addressing Electricity System Needs** or through another report. I look forward to being updated on progress in this area and would ask for a report back by September 2024.

- **Distributed Energy Resources (DERs) and Future Utility Business Models:** Distributed Energy Resources (DERs) will become critical connectors in a clean energy economy. While electrification can be a growing challenge for ageing infrastructure, it can also be a significant opportunity for innovation across the electricity system. DERs, through behind-the-meter and front-of-meter technologies, can be used as cost-effective alternatives to conventional electricity infrastructure. They can also help consumers better manage their energy costs and capitalize on investments like roof-top solar, electric vehicles (EVs), batteries, and responsive air conditioners and water heaters. I expect the OEB will continue to work with the Ministry and the IESO toward the Ministry's stated commitment of developing and assessing local and market opportunities for DERs, including through alternative energy business models. The OEB should work closely with my Ministry to examine the potential regulatory landscape for future utility business models.
- **Electricity and Natural Gas Conservation:** Ontario continues to be a leader in energy conservation with a long history of delivering results and savings for ratepayers. While program coordination between roughly 60 local distribution electricity companies and Enbridge has historically been challenging in this space, the IESO and Enbridge have been successful in providing a one-window program for income tested customers since electricity conservation program delivery was

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centralized with the IESO. Building on this success, we must now turn our attention to delivering this same level of service to non-income tested residential customers. I ask that the OEB consult with the IESO and Enbridge and **report back in April 2024** on how electricity and natural gas low-income and residential programs could be delivered through a single window.

On July 24<sup>th</sup>, 2023, my Ministry launched a public and stakeholder engagement on the scoping of future energy efficiency and conservation frameworks. This engagement was intended to inform my Ministry's work on developing a proposed path forward for electricity conservation programming. In August, my Ministry received a report from an IESO - Local Distribution Companies CDM Working Group on an enduring approach to joint delivery of energy efficiency programming. This report proposes a new approach to funding energy efficiency programs with both bulk and local system benefits and has the potential to increase the contribution of energy efficiency in the province as a low-cost, non-emitting resource. In response to this report, in cooperation with the IESO - LDC CDM Working Group, I will be looking for OEB staff to provide guidance on an appropriate cost-sharing mechanism from the Global Adjustment and distribution rates that is grounded on the principle of beneficiary pays in order to advance the development of a funding stream for "Stream 2" CDM activities. I am also looking to the OEB to provide guidance on what changes would be needed to the OEB's CDM Guidelines to reduce barriers to LDC conservation activities as outlined in the Working Group's initial report.

With respect to natural gas energy efficiency programming, I was pleased to see the launch of new natural gas conservation programs for the 2023-2025 period this past year. As the OEB begins planning for future natural gas energy efficiency programming that would take effect in 2026, I continue to look to the OEB to ensure Ontario electricity and natural gas ratepayer interests are protected and that Ontario takes every opportunity to generate deeper retrofits, more energy savings, and greater emissions reductions while ensuring natural gas costs remain affordable, stable and predictable.

- **Electric Vehicles (EVs):** Last year, I asked the OEB to provide guidance to electric utilities when planning for EVs to ensure that Ontario is ready for the expected growth in this sector, and I appreciate the guidance provided last December. With the growth in home building across the province, it is important local distribution companies plan and build with the expectation that electrical demands per household will grow. I also directed the OEB to consider distribution rates for EV charging (including demand charges).

I strongly endorse further advancement of this file. I acknowledge the continued progress that the OEB has made this year, including completing a survey of distributors and charging companies, commissioning and receiving the Electricity Delivery Rates for EV Charging Report and continued work to review connection policies, including the recent announcement to expand the scope of the DER Connections Review to include identifying opportunities for enhancements to guidance on system readiness for EV charging connections.

The EV Delivery Rates Report considered two opportunities to support EV charging update: a time-of-use rate and a low load factor rate. I appreciate that the OEB has worked both internally and with stakeholders to consider these opportunities. Based on that work, I expect to provide guidance to the OEB on next steps early in the new year.

I also believe it is time for the OEB to take the results of its work and provide clear direction to the sector, including considering service standards, a standardized process with enforceable timelines for connecting EV charging infrastructure, and publicly available electric distribution capacity information. I also call on the OEB to go beyond consolidating existing requirements for distributors. Distributors need to be able to pre-invest in their infrastructure to support potential EV demand.

- **Intervenor Process:** In 2021, the Top Quartile Regulator Report identified that “regulators need access to external expertise and a spectrum of perspectives.” The value of intervenors, however, is significantly diminished when the remuneration structure incentivizes the creation of issues or duplicates effort. Effective case management can mitigate this risk, but additional controls are necessary. In 2021-22, Ontario’s 5.3 million electricity and natural gas customers paid \$4.4 million to fund the Ontario Energy Board’s intervenor process. I encourage the OEB to continue its work reviewing the current intervenor processes and to identify opportunities to improve regulatory efficiency and consequently reduce regulatory burden. This should include, but is not limited to, consideration around a designated consumer advocate and capping intervenor costs. I ask that the OEB **report back in September 2024** with its plan to implement reforms.
- **Performance Measurement Framework Review:** As noted in previous letters, my expectation is that future business plans include a robust performance measurement framework to demonstrate how outcomes will be measured and how they advance the OEB’s strategic goals. As the province’s energy regulator, it is critical that the OEB hold itself to the highest standard of performance, including setting performance measures that clearly define and measure how it is having a direct impact on sector outcomes. I look forward to the upcoming mid-term review, based on two years of results plus baseline, for inclusion in the 2024-2027 Business Plan. As stated in my letter approving last year’s business plan, my team is available to assist with this work throughout the review process to ensure that we have a common understanding of the outcomes the OEB is looking to achieve to evaluate its performance and how it will use the outcomes measured to improve its performance. I also endorse the OEB’s proposal to launch a small working group with the sector to provide feedback on goals and performance measurement.
- **Red Tape Reduction:** In response to my letter of direction last year, the OEB committed to a target of 5% burden reduction over the baseline measured by the Ministry of Energy in 2018 by March 2026. Please continue to keep my Ministry informed of your progress, highlight your progress in the next Business Plan, and provide me with updates, when requested, for the Ministry of Red Tape Reduction’s annual reporting.

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- **Distribution Sector Resiliency, Responsiveness, and Cost Efficiency:** Thank you for delivering the OEB's report on improving distribution sector resiliency, responsiveness, and cost efficiency on June 30, 2023, as requested in last year's letter of direction. Recognizing that the OEB is well-positioned to work directly with utilities to protect customers in a changing climate, I endorse several actions you have identified in the report and ask that the OEB begin to develop and implement policies that will require local distribution companies to:
  - Provide details and report on their current storm recovery planning and preparation activities;
  - Incorporate climate resiliency into their asset and investment planning;
  - Engage in a regular assessment of the vulnerabilities in their distribution system and operations in the event of severe weather;
  - Prioritize value for customers when investing in system enhancements for resilience purposes; and
  - Satisfy minimum targets for customer communication regarding interruptions and restoration of service following major weather events and measure and report on restoration of service following such events.

On those items related to climate resiliency and responsiveness listed above, I expect the OEB to make significant progress on development and implementation of its recommendations by the end of 2024. I also ask that the OEB post its DRRCE report to me online by year end.

I also endorse the OEB's proposals related to cost-effective service, including:

- Reviewing whether the accounting and associated rate treatment of shared services should be adjusted and develop guidance on a fair approach to cost and risk apportionment for shared service provision;
- Engaging stakeholders in a scoping exercise at the outset of the Mergers, Acquisitions, Amalgamations and Divestiture (MAADs) review;
- Reviewing elements in its incentive rate-setting mechanisms and examining distributors' spending patterns to identify where changes or incremental incentives are warranted; and
- Developing a performance incentive regime that considers aspects such as customer service, resilience, or managing peak loads to defer distribution system needs, and working with the sector to develop principles, generic designs, and other criteria for performance incentives.

I recognize that those items related to cost-effectiveness are multi-year endeavours. Over the next 12 months, I expect that the OEB begin this work and provide stakeholders with a clear plan for the timing of any reforms.

The remaining proposals, including a peer-review committee and sectoral coordination, will require additional consideration within government. My team and I will continue to engage the OEB on those recommendations you provided for government action.

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- **Electrification and Energy Transition Panel:** I will soon receive advice on how to support the transformation of the energy sector from the Electrification and Energy Transition Panel (Panel), chaired by David Collie. I appreciate the OEB's thoughtful advice to the Panel throughout its engagement process. Ontario must take action to facilitate the energy transition to secure the associated environmental and economic development benefits, while ensuring investments across the energy system are made in the interest of ratepayers. I will keep you informed on any further initiatives to be incorporated into the OEB's subsequent business plans as a result of the Panel's advice.

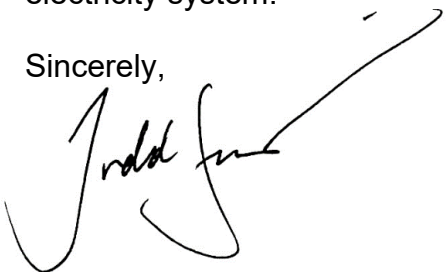
*Next Steps and Broad Government Priorities for Agencies*

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 it from delivering on expectations, please engage my Ministry with analysis and potential solutions to resolve the barriers. As I have made clear throughout this letter, the Ministry is prepared to take action to ensure the OEB has the tools and authority it needs to advance the government's vision for the energy sector and prepare Ontario for a clean energy future.

Appended to this letter you will find the government-wide priorities for Board-governed agencies for 2024-25. It is important that the Board's goals, objectives, and strategic direction continue to align with our government's priorities and direction. As part of the Government of Ontario, agencies are expected to act in the best interests of the people of Ontario and ensure that they provide value for money to taxpayers. Agencies are also required to adhere to government policies and directives.

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,



Todd Smith  
Minister

- c: David Donovan, Chief of Staff to the Minister of Energy  
Palmer Lockridge, Deputy Chief of Staff to the Minister of Energy  
Jason Fitzsimmons, Deputy Minister of Energy  
Susanna Zagar, Chief Executive Officer, Ontario Energy Board

## **APPENDIX: Government of Ontario Priorities for Board-Governed Agencies**

### **1. Competitiveness, Sustainability and Expenditure Management**

- Operating within the agency's financial allocations.
- Identifying and pursuing opportunities for revenue generation, efficiencies and savings through innovative practices, and/or improved program sustainability.
- Complying with applicable direction related to accounting practices and supply chain centralization, including leveraging Supply Ontario's bulk purchasing arrangement and working with Supply Ontario on strategic procurement initiatives.
- Complying with realty interim measures for agency office space.
- Leverage and meet 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, and providing the Minister with annual skills matrices to ensure boards have qualified appointees.
- Reviewing and updating agency KPIs annually to ensure efficiency, effectiveness and sustainability.

### **3. Risk Management**

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

### **4. Workforce/Labour 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 across Ontario (as per MBC Realty Directive, s. 5.4), as applicable.
- Aligning Human Resource and Accommodations strategies with OPS directives and policy.
- Adhering to TB/MBC labour and bargaining mandates.
- Prudently and efficiently managing operational funding and workforce size.

### **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, Sharing and Use**

- 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.