

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



September 13, 2006

TO ALL NATURAL GAS AND ELECTRICITY STAKEHOLDERS IN ONTARIO

Dear Sir/Madame:

RE: REGULATORY COST MEASURES

In its 2006-2009 Business Plan the Ontario Energy Board (the Board) committed to publish an appropriate measure of regulatory cost beginning with the results of its 2006-2007 fiscal year. To determine what the appropriate measure should be, the Board engaged Elenchus Research Associates (ERA) to survey regulatory agencies in Canada, the USA, Australia and Europe to examine the methodologies they use to determine and monitor regulatory cost and recommend an appropriate measure(s) for the Board.

The ERA survey addressed two important issues with respect to the regulatory cost measures used by other regulators. First, it examined the advantages and disadvantages of each identified measure and second it assessed the “fit” of different approaches by examining the differences and similarities between the Board and the other regulatory regimes examined.¹ ERA concluded: “...based on its review of practices of other regulators, that there is no single regulatory cost benchmark currently in use that will serve as a reliable standards and/or comparative measure of the OEB’s regulatory costs. It is nevertheless useful to publish one or more measures of the OEB’s regulatory cost in order to monitor cost trends and ensure that the trend is reasonable and justifiable, both internally and externally.....Averaging will correct for year-to-year variations (up or down) caused by unusual regulatory demands that do not represent the longer term trend.”

ERA recommended that the Board adopt three regulatory cost measures. They are:

1. 3-year moving average percentage change in operating expenses
2. 3-year moving average of operating expenses as a percentage of industry revenue
3. 3-year moving average of operating expenses per end-use customer.

ERA went on to say: “It should be noted that it would be inappropriate to draw general conclusions about the organizational efficiency from the absolute level of any individual cost measure...Organizational efficiency in general relates to the level and quality of outputs per

¹ Reflects ERA’s view, based on the survey, of the comparability of each regulator to the Board for purposes of cost benchmarking.

level of input. For a regulator, the operating environment and legislative mandate significantly affects the outputs required of the regulatory agency. The cost per customer represents nothing more than a measure of “regulatory overhead” over time (in self-comparison standards) and across jurisdictions (in comparative benchmarking).”

In summary ERA noted: “In order to capture the total costs of the regulatory process that are controlled by the Board, as opposed to only the Board’s direct costs, it may be informative to track all costs associated with the regulatory process of the Board. A measure of regulatory process costs would include both direct OEB costs... and cost awards ordered by the Board.... A truly comprehensive measure of the regulatory cost in Ontario would also capture the private costs incurred by utilities and other stakeholders. However, the Board does not have access to the information required to provide a consistent and defensible measure that includes third-party costs.”

The Board accepts ERA’s conclusions and adopts the three recommended regulatory cost measures. Beginning with the 2006-2007 fiscal year results, the Board will report these regulatory cost measures in its annual report.

Publishing regulatory cost measures is part of the Board’s commitment to continue to work more effectively and use our resources more efficiently in the interests of our stakeholders and the public.

Attached for your information and review are ERA’s *A Review of Potential Regulatory Cost Measures* and *A Survey Conducted by Elenchus Research Associates Inc.* For further information about the Board’s position on regulatory cost and the measures it has adopted, please contact me at 416-440-7738 or Catherine.BarkerHoyes@OEB.gov.on.ca.

Yours truly,

Catherine Barker-Hoyes
Managing Director
Business Services