



Hydro Ottawa REGULATION OF LOCAL DISTRIBUTION COMPANY ELECTRICITY RATES



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Hydro Ottawa's distribution rates are set by the Ontario Energy Board (OEB), based on applications submitted by Hydro Ottawa for rate changes. Typically, Hydro Ottawa applies for a rate change annually.

The OEB regulates all electricity distribution companies in Ontario, as well as Hydro One's electricity transmission rates, and the Regulated Price Plan rates that change each May 1 and November 1. The OEB also sets rates for Ontario's natural gas distribution companies. Its mission is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services at a reasonable cost.

The distribution-rate-setting process is rigorous and transparent, with opportunities for public participation. The OEB conducts its distribution-rate-regulation function through oral and written public hearings.

GOVERNING LEGISLATION

The Ontario Energy Board's mandate and powers in relation to regulating the energy sector are set out principally in three statutes — the *Ontario Energy Board Act, 1998*; the *Electricity Act, 1998*; and the *Energy Consumer Protection Act, 2010* — as well as in regulations made under those statutes.

THE NEED FOR ENERGY REGULATION

Energy utilities such as electricity distribution companies are more closely regulated than many other industries because of the unique characteristics surrounding energy supply and delivery. Unlike many other industries in which there are numerous companies competing to sell the same product or service, electricity distribution is considered to be a "natural monopoly".

Regulation of electricity utilities is a form of "economic regulation". Laws, regulations and other requirements have been designed to address the natural monopoly position of these energy companies, acting as a substitute for the economic forces that would normally influence them in a competitive market. Economic regulation of the activities of monopoly service providers is designed to protect the interests of consumers.

BALANCING CONSUMER AND UTILITY INTERESTS

As a regulator, the OEB's goal is to balance the interests of consumers and utilities.

Consumers benefit if both the pricing and the standard of service being provided are fair and reasonable. To achieve this, the OEB's mandate includes setting distribution rates that are "just and reasonable" and establishing standards and conditions of service for utilities to follow in their operations.

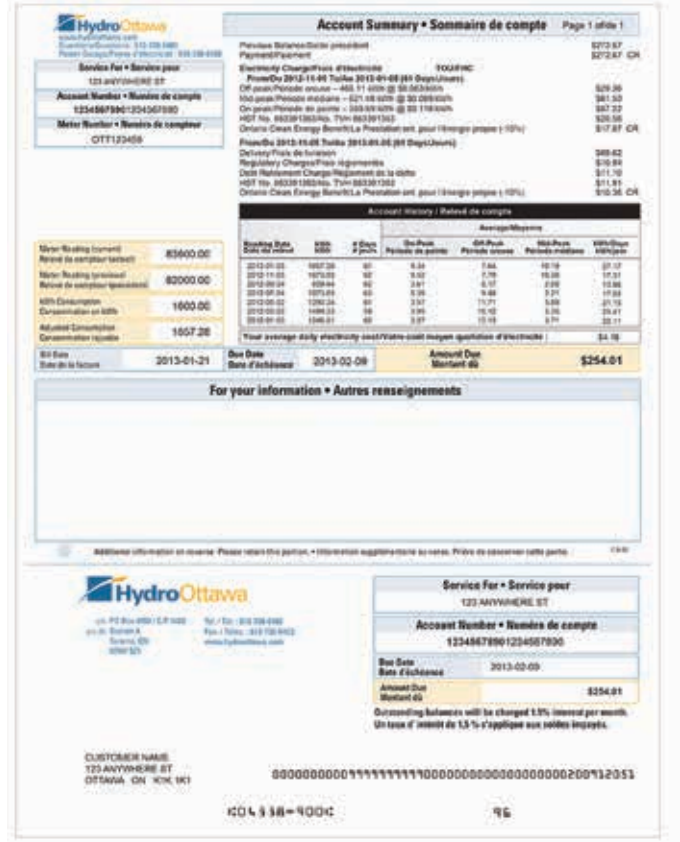
Utilities benefit by remaining financially viable. Utilities must have a reasonable opportunity to recoup costs and earn a fair return for the significant financial investment they make in supplying and delivering energy to consumers.

SETTING RATES

The Board sets rates using a quasi-judicial process that requires utilities to present evidence to justify any proposed rate increases through an open and transparent public hearing.

The OEB's current rate-setting process establishes base rates for each electricity distribution utility through a comprehensive review of the utility's costs as detailed in its rate application. This review currently occurs every four years for electricity distributors. In the intervening years, the Board provides for inflationary increases adjusted by a productivity measure. (See also *Backgrounder on Hydro Ottawa Electricity Rates.*)

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INTERVENORS

Intervenors are stakeholders who request to provide arguments either challenging the need for a rate increase, or favouring the applicant. Typically, interventions are made by stakeholders such as consumer groups, education interests, groups representing low-income customers, environmental groups, and industry and business associations.

As part of the regulatory process, some intervenors request that their costs to participate be recovered from the applicant. At the conclusion of the hearing, these intervenors submit their cost claims to the OEB according to the OEB's rules for cost claims.

As part of the process, distributors such as Hydro Ottawa are afforded the opportunity to review and scrutinize the cost claims of intervenors, and to challenge the potential award of costs.

The costs awarded to intervenors are recovered from electricity customers through rates.

OTHER ASPECTS OF OEB REGULATION

To protect consumers and other participants in the energy sector, the OEB has imposed a number of responsibilities and obligations on entities operating in the energy sector. For example, the OEB has established minimum standards for the operation of electricity distribution systems, and standards for the quality of service to be provided to consumers by electricity distributors.

The OEB conducts audits, carries out compliance inspections and examines any allegations of non-compliance, to ensure that regulated entities are complying with their legal and regulatory obligations. The Board can undertake enforcement action where appropriate if a regulated entity is not in compliance.

The OEB also oversees the financial viability of regulated utilities. Electricity distributors are required to file financial data with the OEB annually. The OEB publishes a Statistical Yearbook on its website that provides the financial and service quality results for each regulated distributor for the preceding year, to provide transparency on each distributor's performance.

Other responsibilities of the OEB include:

- > providing consumers with a broad range of information about electricity on its dedicated consumer website, consumer education campaigns and province-wide community outreach programs;
- > investigating consumer complaints about an energy supplier;
- > developing programs and rules to help low-income energy consumers better manage their bill payments and energy costs, in cooperation with utilities, social agencies, consumer groups and other energy sector participants (an example is the Low-Income Energy Assistance Program which Hydro Ottawa administers within its service territory; see *Backgrounder on Electricity Rates – Assistance for Low-Income Customers*);
- > licensing participants in the Ontario electricity sector, which provides permission to operate and outlines regulatory requirements; and
- > monitoring the wholesale electricity market through its market surveillance panel to identify inappropriate conduct or design flaws and inefficiencies in the structure of the market or the market rules.

Source: Ontario Energy Board website; OEB backgrounder on "Energy Sector Regulation – A Brief Overview"

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