



Ontario Energy Board

Commission de l'énergie de l'Ontario

Affiliate Relationships Code Update

Brian Hewson
Chief Compliance Officer

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OVERVIEW

- Purpose of the Code
- Key ARC Sections for LDCs
- Compliance Activities
- Self-certification Guide
- Next Steps



AFFILIATE RELATIONSHIPS CODE FOR DISTRIBUTORS

- The objective of the Code is to keep ratepayers harmless from the dealings between distributors and their affiliates.
- The standards in the ARC are intended to: protect confidential information, ensure equal access to monopoly systems and minimize the risk of cross subsidization.
- The Code sets the requirements so that an LDC can conduct business with its affiliates on a basis that balances shareholder and consumers' interests.



KEY ISSUES FOR LDCS

- Independent members on the LDC board
- Sharing of employees
- Transfer pricing
- Equal access
- Energy services providers



INDEPENDENT LDC BOARD MEMBERS

- Section 2.1.3 of the Code requires that a minimum of 1/3 of the LDC's board members be independent .
- Compliance Bulletin 200601 defines independent
 - Not an employee/director or officer of an affiliate, and not an employee of the LDC
- Survey of LDCs found widespread compliance
- Status:
 - Some LDCs delayed due to restructuring or ownership changes.



SHARING OF EMPLOYEES

- LDCs may not share with affiliates employees that have access to confidential information or have responsibility for network operations.
- Purpose of the prohibition is to ensure confidential information should not be accessible to an affiliate in a manner that could result in the use of that information for unregulated activities.
- Affiliate staff who provide distribution services may not be the same staff who are involved in unregulated activities within the distributor's service area.



TRANSFER PRICING

- The transfer pricing provisions require that the distributor pay an affiliate no more than fair market value.
- As a first step, distributors must determine whether a market for the service exists.
- If there is a market then use the market price.
- If there isn't a market then use a cost based price.



EQUAL ACCESS TO SERVICES

- Often communication to customers does not distinguish between the affiliate and distributor.
- Communication must clearly identify the distributor as the regulated service provider.
- Customers should be able to access information on distribution services without contacting an affiliate which provides unregulated services.



ENERGY SERVICE PROVIDER

- Code restricts LDC relationships with ESP affiliates, in terms of physical separation and equal access.
- ESP is an affiliate that is involved in supply of energy or sales of energy and consumer activities.
 - Generation, retailing energy, appliance sales/service/rentals, streetlighting



SELF-CERTIFICATION

- OEB's Reporting and Record-Keeping Requirements (RRR) establish minimum record keeping for ARC matters.
- LDCs must self-certify compliance with ARC.
- OEB's 2006-2009 Business Plan identified a project to develop a tool that assists LDCs' in the self-certification process.



SELF-CERTIFICATION TOOL – What is it?

- The SC Tool will provide a guide to assist the CEO and other senior LDC officers who are required to self-certify compliance with the Code by setting out statements that test compliance.
- We envision a series of questions/statements that will serve as a checklist related to each section of the Code and each self-certification statement.



SELF-CERTIFICATION TOOL – Next Steps

- Consulting with select distributors to gather information on current practice – September '06
- Develop questions that test each section of the Code and issue proposal – October '06
- Finalize self-certification tool and issue – December '06



Contact Information

- Market Operations
 - Market.operations@oeb.gov.on.ca
 - 416 440 7604
- Brian Hewson
 - brian.hewson@oeb.gov.on.ca
 - 416 440 7628

