# Perspectives on Regulatory Evolution

- Welcome
- Thank you [name] for the introduction
- I will be sharing with you my perspective on "regulatory evolution" – where we are and where we are going
- By "regulatory evolution", I mean how the Board's approach to regulation has evolved or developed to address the changes underway in the broader energy sector
- Those changes are complex
- They are driven by technological innovation, the emergence of new business models, heightened customer expectations about service and affordability, and new public policy initiatives, particularly regarding carbon emissions and climate change

- I last spoke at length about regulatory evolution almost two years ago at the APPrO conference in November 2015
- Just think about what has happened in the two years since then:
  - The Climate Change Action Plan was released in June 2016
  - The Fair Hydro Plan went into effect in July 2017
  - The Long Term Energy Plan is under development and is expected this fall
- Each of these initiatives has impacted or will impact the work of the Board
- The scope and complexity of these initiatives highlights the need to look at the work of the regulator in the context of a dynamic public policy environment
- This phenomenon is not unique to Ontario

- The last decade has brought into sharp focus the overlap of energy regulation and environmental policy
- This overlap – quite understandably – has heightened the interest of governments in what energy regulators do and has increased the need for collaboration between regulators and governments
- We see this not only in Ontario but at the federal level at the NEB and in other jurisdictions - such as New York, the UK and California – where energy regulators are among the leaders in addressing sector evolution

- We have much to learn from looking at what our fellow energy regulators in other jurisdictions are doing – indeed we have already learned a lot
- But our own approach must ultimately reflect the particular institutional arrangements and market conditions in Ontario

- In my speech two years ago I said that the OEB's approach to sector change would be "paced and measured"
- I also stressed that as the Board, utilities and others address the changes underway in the sector, we must not lose sight of a number of key principles:
    - the need to provide a reliable supply of energy at a good price for consumers
    - the need for rates to be predictable
    - the sector should be financially viable and competitive
    - the sector should be flexible enough to allow for innovation
    - we – meaning the OEB, utilities and other market participants - should be planning for the future
- This is the right approach

- An approach that is paced and measured and that has regard to these basic principles is the best way of maintaining consumer confidence during a period of change – and uncertainty

- This approach is reflected some of our key achievements over the past five years:

    - The renewal of the regulatory framework under which the Board sets the remuneration for regulated utilities
        - That renewed framework emphasizes the need for robust customer engagement and utility system planning that paces and prioritizes investment
        - It sets out the Board's expectations for demonstrable improvements in utility performance, while giving utilities the flexibility to choose a rate-setting method that suits their circumstances
    - The incorporation of new reliability measures into the Board's ongoing assessment of utility performance
    - The redesign of electricity distribution rates to give residential customers a better signal regarding the cost of the delivery service they receive, while providing distributors greater financial stability
    - The adoption of a multi-year roadmap for the reform of the Regulated Price Plan in order to achieve better results for the electricity system and energy consumers
    - The adoption of a framework to govern the compliance by natural gas distributors with their requirements under the new provincial cap and trade regime;
    - The development of a new framework setting out the Board's expectations regarding cyber-security in the electricity and

natural gas distributions sectors
  - The introduction of new ways to give consumers a better understanding of the work of the OEB and, in turn, to provide the OEB with deeper insight into the perspectives of energy consumers
  - The implementation of new consumer protection measures, including stronger rules regarding the conduct of energy retailers and a Consumer Charter setting out the rights and responsibilities of residential energy consumers
  - The development of guidelines to promote good corporate governance in the utility sector
    - We have confidence that this measure will help ensure that utilities have the capabilities they need in a changing environment
  - Ongoing improvements to the OEB's own decision - making and adjudicative processes
    - For instance, we are moving forward with reforms that will align our rate application process with performance-based regulation
    - We will achieve that alignment by reducing the regulatory process for high-performing utilities and focusing our resources on utilities and issues that present the greatest risk and that warrant a more detailed review

- All this work provides a strong foundation for the next 5 years

- My colleagues and I recognize that more needs to be done

- Going forward, a key area of focus will undoubtedly be the Renewed Regulatory Framework – the framework that sets out the OEB's approach to the remuneration of utilities

- The RRF was first introduced in late 2012
- Our expectation was that the RRF would shift regulated utilities away from a focus simply on costs and cost recovery towards a stronger focus on long term value for consumers
- To date, we have considered over 275 applications under the RRF
- Regulators in other jurisdictions are considering new approaches to the remuneration of utilities
  - In particular, they are looking at ways of treating traditional capital investments versus non-capital expenditures that might better encourage the adoption of innovative and least-cost solutions by utilities
- Given the changes underway in the sector, we should assess whether similar regulatory reforms are warranted in Ontario and how they might further enhance efficiency and innovation in the energy sector
- But we have also concluded that this assessment should take place against the back drop of a broader and enduring strategic approach to the changes underway in the sector
- The OEA's submission last year regarding the Long Term Energy Plan stressed the need for [and I quote]:

  *"A modernized regulatory framework should keep pace with the speed and degree of transformation in energy markets and systems"*

- We agree

- Accordingly, my colleagues and I are developing and close to finishing a new strategic direction or "blueprint" for the next 5 years at the OEB
- That "blueprint" will set out the OEB's role in supporting and guiding the continuing evolution of the Ontario energy sector
- We think that the pace and complexity of the changes underway in the sector warrant a longer term and more strategic approach than that which could be accommodated within the OEB's standard 3-year business planning cycle
- That "blueprint" will not represent a break from the past – far from it
- It will build on our work over the past 5 years
- It will maintain and sharpen our focus on efficiency, cost-effectiveness, innovation, value for consumers, and our own effectiveness as a regulator
- It will combine the OEB's current approach to consumer-centric regulation with a stronger emphasis on the new and different challenges posed by sector transformation

- I look forward to sharing more about our "blueprint" in due course
- In the meantime, I look forward to hearing the perspectives of the distinguished panelists who follow me.

Thank you very much