

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

OEB Perspectives on Regulatory Evolution

Good morning... 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 OEB’s approach to regulation is evolving to address the changes underway in the broader energy sector ...

Those changes are complex ... as the keynote speaker just indicated in his remarks

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 in significant ways ...

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

The scope ... and the complexity ... of these initiatives highlights the need to look at the work of the regulator in the context of the broader public policy environment ... a public policy environment that is increasingly dynamic

This phenomenon is not unique to Ontario

The last decade has brought into sharp focus the overlap of energy regulation and environmental policy ... particularly policies to address climate change

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 National Energy Board ... 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 to sector evolution 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"

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

I also stressed that as we 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 should be planning for the future...

When I say “we” here... I mean not only the OEB ... but also utilities and other market participants ...

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

These principles are reflected in our key achievements over the past five years ... let me briefly recounts some of those achievements ...

- We renewed the regulatory framework under which the Board sets the remuneration for regulated utilities...
 - That framework emphasizes the need for robust customer engagement ... and for utility system planning that paces and prioritizes investment over the longer term ... and for planning on a regional basis that recognizes the integration of transmission and distribution investments...

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

- It seeks demonstrable improvements in utility performance, while giving utilities the flexibility to choose a rate-setting method that suits their circumstances
- The RRF aims to shift regulated utilities away from a focus simply on costs and cost recovery towards a stronger focus on long term value for consumers
- Alongside the RRF, we have adopted other measures ... to promote ... the long term viability ... of the electricity distribution sector
 - Most notably ... we have clarified the OEB's approach... to the approval of mergers and acquisitions ...
 - We have ... an approach to rate making... in the post-merger period that ... in our view ... balances the interests ... of the utilities involved ... and their customers
- We have also strengthened the focus on system reliability ... for instance ...
 - We have added new reliability measures to the Board's assessment of utility performance ... and made them accessible to consumers through our annual utility scorecards
 - And ... very recently... we released a new framework setting out the Board's expectations regarding cyber-security ... to protect the privacy of consumer information ... and the system reliability on which consumers depend
- We are revamping the rates and prices charged electricity consumers ... so consumers will be in a position to make decisions about their own consumption and investment ... in that regard ...

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

- We redesigned 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
- We are in the midst of similar review of the distribution rates for larger commercial and industrial customers ...
- We are reforming the Regulated Price Plan in order to achieve better results for the electricity system and energy consumers ... and ... ultimately ... to give consumers greater choice and choice ... several pilot programs are now underway
- In the gas sector... we have assessed the changing dynamics of the North American gas market ... and considered the implications for Ontario ...
 - We have provided new guidance for the expansion of the gas distribution service in Ontario ... whether by the incumbent utilities ... or potential competitors and new entrants...
 - And we have developed the regulatory framework to govern the compliance by natural gas distributors ... with their important obligations ... under the new cap and trade regime ... that is the center piece of the Climate Change Action Plan
- With respect to consumers...
 - We have introduced 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

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

- We have implemented new consumer protection measures regarding the conduct of energy retailers... and a Consumer Charter setting out the rights and responsibilities of residential energy consumers...
- We are giving consumers a clearer voice in regulatory proceedings ... including rate hearings ... and ensuring that their concerns are considered
- More recently, we have moved forward ... with our initiative to promote good governance in the utility sector ...
 - Last week ... I met with over [number] utility CEOs to discuss that initiative
 - We are convinced ... that our promotion of good governance ... will help utilities achieve the outcomes embedded in the RRF ... namely customer focus ... operational effectiveness ... public policy responsiveness ... and financial performance
 - In the near future we will be setting out our conclusions regarding
 - The particular aspects ... and attributes ... of utility governance that we feel are most important ... in achieving the outcomes we seek
 - The means by which we will set out our expectations
 - The way in which our guidance ... regarding good corporate governance ... can be used to make our regulatory processes ... more effective and ... more proportionate

All this work ... this diverse, complex and ongoing work ... has focused ... and continues to focus on ensuring ... that the entities we regulate ...

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

are equipped to deliver ... and are delivering ... value to consumers over the long term...

This work is ... a strong foundation ... for the next 5 years

My colleagues and I recognize that more needs to be done

[Please note that section below is awaiting further information re the assessment undertaken by Applications re the RRF]

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

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

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

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, the OEB is developing ... and close to finishing ... a new strategic direction or “blueprint” for the next 5 years

That “blueprint” ... will set out the OEB's view about ... the role that it can best play ... in **helping** lead the sector ... through a period ... of evolution ... and of uncertainty

It will consider ... how the OEB can ... provide that leadership ... through the use of its traditional regulatory tools ... fixing utility remuneration... designing rates and prices... and establishing rules, codes and other guidance

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

DRAFT OEA Speech – Perspectives on Regulatory Evolution - CONFIDENTIAL

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 mean time ... I eager to hear ... the perspectives ... of the distinguished panelists who follow me.

Thank you very much