

DRAFT OUTLINE - OEN Speech – Our “Blueprint” for the Next Five Years - CONFIDENTIAL

## **Our “Strategic Blueprint” for the Next Five Years**

### Introduction

Welcome

Thank you [name] for the introduction

I last spoke to the OEN over three years ago ... in April 2014

**[consider making comment about those at the head table – very few of the folks at the head table today were here three years ago – except for Anthony Haines [David McFadden] who seems to have been at every head table I can think of!]**

In the world of the Ontario energy sector... three years is a very long time indeed

Just think about ... what has happened ... in the energy realm ... in those three years:

- In 2015 ... the government released ... the Clark Report ... about Hydro One ... and the electricity distribution sector
- And we then saw ... the subsequent IPO of Hydro One, ... the creation of a new mega-utility in the GTHA ... and a growing number of mergers and acquisitions in the electricity distribution ... and transmission ... sector
- 2015 ... also brought new laws ... that removed long standing restrictions ... on the business activities of electricity LDCs and their affiliates ... and... that strengthened the oversight ... of the retail energy market... including ... a ban ... on door to door sales

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- The following year ... 2016... saw the introduction of ... a new framework for ... long term energy plans ... and ... the designation and procurement of electricity transmission facilities ...
- 2016 also brought the Climate Change Action Plan ... that commits the province to ... significant emission reduction targets over the next 30 years ... the centerpiece of that plan is, of course, the new cap and trade regime that went live earlier this year
- And this year ... 2017 ...also new measures ... the Fair Hydro Plan ... to address concerns about the affordability of electricity in Ontario...
- And we are all awaiting ... the new Long Term Energy Plan ... expected later this Fall ... that will set out ... how the province proposes to maintain ... a supply of energy ... that is ... reliable... clean ... and affordable

Each of these policy initiatives is ... important, ... significant and ... complex ... for the Province ... the sector ... and for the OEB

### Regulation and Public Policy

This list highlights ... the need... to look at the work of an energy regulator ... such as the OEB ... in the context of the ... broader public policy environment ... particularly ... when that environment is as... dynamic ... as it has been in Ontario

This is a point I made in my recent remarks to the OEA conference ... and it is worth repeating

We also need to remember... that this trend ... is not unique to Ontario

The last 10 years or so ... has brought ... into sharp focus the overlap of ... energy regulation... and environmental and climate change policy

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As well as ... the interconnection... between ... energy regulation ... and broader concerns ... about economic development ... and the welfare of our citizens and consumers, ... particularly those who are vulnerable ... and have low incomes

These points ... of overlap ... and ...interconnection ... have heightened ... the interest of governments... in what energy regulators do ... and has increased the need ... for collaboration and coordination ... between regulators and governments

We see this ... not only in Ontario... but at the federal level ... where the Expert Panel on the NEB ... has recommended a major realignment of the roles of the regulatory and the government ... regarding the review of major energy transmission projects...

And we see it in other jurisdictions ... such as New York, ... the UK ... and California ... where ... the regulators have emerged ... as thought leaders ... about the role of energy regulation ... in a sector that is changing rapidly

In Ontario ... the OEB ... has played ... and will continue to play ... an important role ... as an independent ... and expert advisor ... to government ... regarding energy policy matters

I am confident that the OEB ... in conjunction with government ... and the other agencies... has a key leadership role to play ... in addressing ... the far reaching changes ... in technology ... business models ... and consumer expectations... that are ... underway in the sector

## “Consumer Centric” Regulation

When I was here 3 years ago... my theme was ... “consumer centric” regulation

By “consumer-centric” regulation... I mean ... the ways in which the regulator... can exercise its mandate ... and pursue its objectives ... in order to ... better align ... the interests of ... legislators, ... utilities and ... consumers and ... to keep the consumer ... “front and center”.

Three years on... I can say ... that the principles ... of “consumer-centric” regulation ... are deeply ... and firmly ... embedded ... in the OEB’s approach to regulation

Those principles are reflected in some of our key achievements over the past five years:

- It is reflected ... perhaps first and foremost ... in the renewed regulatory framework we put in place in 2012:
  - That renewed framework emphasizes the need for... robust customer engagement ... in the development of utility system plans ... and rate proposals
  - It sets out the Board’s expectations ... for demonstrable ... measurable ... improvements in utility performance ... and establishes a public “scorecard” ... for utility performance ... that is ... accessible and meaningful to consumers
  - Above all, it includes ... rate setting methodologies ... that seek to shift utilities ... away from a focus simply on costs and cost recovery ... towards a stronger focus on long term value for consumers
- It is also reflected in a range of measures ... designed ... to protect consumers... and also ... to empower them

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- For instance, ... the OEB’s redesign of ... electricity distribution rates ... gives residential customers ... a better signal regarding the cost and value of the delivery service they receive
- Our adoption of a multi-year roadmap for the reform of the Regulated Price Plan will ultimately lead to ... consumers ... having ... greater choice and control ... several pilots to test consumer response to different pricing options will start shortly
- The development of a new framework... setting out the Board’s expectations regarding cyber-security ... will help protect the privacy of consumer information ... as well as the system reliability on which consumers depend
- The new Consumer Charter sets out ... for residential consumers ... in clear and simple language... what their rights and responsibilities are... vis a vis electricity and gas utilities ... and retailers
- Our new website and ... our program of public meeting give consumers a ... better understanding ... of the work of the OEB
- Our adjudicative processes ... are now... more accessible... and more meaningful... to consumers
  - We hold “community meetings” ... within the service territory or territories affected by a cost of service ... or other major application
  - We give consumers ... more opportunities ... to share their ... perspectives ... with the applicant, ... with Board staff and ... with the Board Members hearing the application
  - We require applicants ... to consider and address ... the input ... received ... from consumers **[Do you want to refer to the recent H1 PO?]**

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All of these initiatives... are key to ... sustaining ... public confidence ... in the OEB’s governance of the sector

Indeed, the results from a recent survey ... by IPSOS ... show that a key driver to building consumer trust going forward ... will be consumer understanding of the Board’s approach to rate making ... particularly... consumer understanding ... that the OEB ... holds utilities to account for the cost effectiveness and efficiency of their operations ... before ... approving any rate increase

**[The above was based on information provided by SK via VS – need to double check that I got it right]**

### The RRF

All this work ... to “keep the consumer front and center” ... provides ... a strong foundation ... for the next 5 years

Over the next five years... we need to do more ... to ensure ... that the sector is delivering ... long term value to consumers

In that regard, 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 ... electricity and gas utilities

The RRF was introduced ... five years ago

Our expectation at the time ... was ... that the RRF would... drive:

1. Stronger customer engagement by utilities
2. More robust system planning ... and regional planning, ... and

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3. As I indicated ... a few moments ago, ... a stronger focus ... by utilities ... on long term value for consumers

I am confident that we have achieved the first two objectives ... we are seeing utilities engage more effectively with their customers ... and undertake more robust system planning

Each of these achievements is important

But I am less confident ... that we are seeing ... the stronger focus... on longer term value for consumers ... that we had expected ... and hoped for

We are still seeing a preference by utilities... particularly in the electricity distribution sector ... for “like for like” capital solutions ... over ... non-capital solutions... that may ... in fact ... be lower cost

This is disappointing ... but we recognize that this bias towards capital investments is “hard wired” ... into ... the way we remunerate utilities ... that is ... utilities are remunerated on the basis of the capital they invest ... rather than the service they provide

This bias is of our making ... and we need to address it

Energy 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

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We need ... to assess ... whether similar regulatory reforms ... are warranted in Ontario ... and how they might ... further enhance ... efficiency ... and innovation ... in the sector

### Introduction to the “Blueprint”

But we have ... also concluded ... that ... this assessment ... should take place ... against the back drop... of a broader ... and enduring... strategic approach ... or “blueprint” ... for the next five years

We reached ... that conclusion ... because the changes underway in the sector are ... so complexity... and because ... the pace ... and ultimate outcome... of those changes... is so uncertain

Given that... complexity... and uncertainty... we concluded that the OEB ... needed ... a longer term ... and more strategic approach... than ... what could ... be accommodated ... within the OEB’s standard ... 3-year business planning cycle

We have chosen ... to call... our new strategic direction ... a “blueprint... because that term... denotes ... the expectation ... that it will be used ... to build... new frameworks ... new regulatory frameworks ... that are ...robust enough... and flexible enough to adapt to ... the complexities ... and the uncertainties ... we face

At the outset of the work... to develop... our new strategic “blueprint”, ... we posed... to ourselves... this question: *“Where do we want the OEB and the sector it regulates to be in five years?”*

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As we formulated our answer to that question ... we considered ... developments ... in the energy sector ... both in Ontario and more ... broadly...

Let me share with you some of our thinking about these developments...

### Technology

We noted the ... scope of ... technological innovation ... in both the electricity ... and ... natural gas sectors

That innovation is ...well canvassed ... in a growing body of ... regulatory ... and academic literature:

In the electricity sector... new Information technologies for managing networks, distributed energy and storage resources, microgrids, and new uses for electricity such as electric vehicles

In the natural gas sector... technologies that enable ... the use of natural gas ... as a transportation fuel ... and ... growing interest ... in renewable natural gas ... as a source of supply

Some of these new technologies ... support “traditional” utility functions and customer relationships, ... while... others ... may impact the utilization ... of existing infrastructure ... and challenge or “disrupt” ... existing business models

However, ...the pace and pattern ... at which... these technologies ... will be deployed ... is uncertain

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## Public Policy

We also recognized ... that ... much of this technological innovation... in the electricity and natural gas sectors... has been driven by ... the focus ... on reducing carbon emissions

As I mentioned earlier... Ontario is now committed to significant GHG emission reductions over the next 30 years under the new Climate Change Action Plan ... and its centerpiece... the new cap-and-trade system

Obligations ... under that system ... will fall most heavily ... on fossil fuel distributors... including the natural gas distributors we regulate

However, ... over the longer term ... the impact of the CCAP ... and the shift away from fossil fuels ... will be felt throughout ... the broader energy sector ... including ... the electricity distributors ... and ... transmitters we regulate

For instance, ... the accelerated deployment ... of distributed energy technologies, ... electric vehicles and ... electric-powered mass transit, ... together with ... increased investments ... in energy efficiency ... will impact all aspects of ... utility operations ... and planning

Although the pace of these developments is uncertain, the potential significance ... and complexity of their impact ... is clear

They will present ... new risks .... to be assessed ... and managed

Both... the OEB ... and the entities we regulate ... must be ... equipped ... to anticipate ... and to address ... these trends

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### Consolidation

We also considered the trend ... towards consolidation... in the Ontario distribution sector

The reports of ... both ... the *Distribution Sector Review Panel* ... in 2012 ... and the *Premier’s Advisory Panel on Government Assets* ... in 2015... concluded ... that consolidation ... could facilitate ... efficiencies and cost savings ... for the electricity distribution sector ... and better equip ... distributors ... to address ... the changes ... underway in the energy sector

Indeed... the past two years ... have seen ... increased M & A activity... in the electricity sector... particularly ... among electricity distributors

However, other electricity LDCs and their municipal shareholders have made the decision not to sell or merge.

As an alternative ... to formal consolidation, ... some distributors have formed ... alliances ... or associations ... to share services and resources

We think that... over the 5 years of the “blueprint” ... the Ontario electricity distribution sector ... will likely continue ... to be characterized... by considerable ... diversity ... among LDCs ... as to size, ... geographic footprint ... and investment requirements.

### Consumer Expectations

We also noted the ... heightened ... consumer expectations ... about ... service ... and affordability ... that I discussed in 2014 OEN remarks

Large commercial ... and industrial customers ... have been engaged ... in managing their energy consumption for many years ... –incented ... in

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some cases ... by programs ... such as the recently expanded Industrial Conservation Initiative

New technologies ... including smart appliances ... home energy systems, ... distributed generation, ... and small energy storage units ... are bringing ... the same opportunities ... to smaller customers as well

This trend ... may heighten ... consumer expectations ...regarding ... reliability ... and power quality

However, ... in Ontario ... smaller consumers ... seem focused ... less on ... the promise of technology ... and much more ... on the “basics” of ... service ... and price

Concerns ... about ... the impact of electricity prices ... is reflected in ... the implementation ... of the Ontario Electricity Support Program ... and ... the recent Fair Hydro Plan

This concern ... about electricity prices ... is a reminder ... of the need ... for ... acute sensitivity ... regarding ... the economic impact ... on consumers ... of new infrastructure investment ... including investments to support ... the deployment of new technologies.

### IESO 20 Year Planning Outlook

We found the IESO’s 20 Year Planning Outlook very helpful ... in thinking ... about the next five years

Many of you have read it ...

It outlines a range of “low”, ... “flat” ... and “high” demand outlooks for the next 20 years .... reflecting different assumptions regarding ... the

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shift from fossil fuels ... and ... the level of electrification ... arising from ... the province’s climate change policies

Most important ... for our work ... was the IESO’s conclusion ... that Ontario ... will have sufficient resources to meet demand requirements across all outlooks over the next decade

We were also struck by the IESO’s emphasis on the need to remain flexible ... to understand the drivers of change ... and risk in the sector... and ... to address regulatory frameworks that may not meet the needs of an evolving sector

We thought that ... these observations ... are particularly pertinent ... to the development of ... our own strategic “blueprint”.

### Other Regulators

Finally, ... we looked ... at the ways in which ... other energy regulators ... are thinking about ... or... addressing sector evolution

Some regulators ... are ... adopting a “proactive” approach ... and seeking to lead ... utilities to ... a particular model ... sanctioned by the regulator...

While others ... are adopting ... a “wait and see” approach ... and ... reacting ... to the challenges of sector evolution... as they arise

No regulatory model... has yet emerged ... as the preferred ... “industry standard...

But many ... of the key questions that other regulators are grappling with are instructive ... and very similar to the ... challenges... facing the OEB

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As interesting ... and as instructive ... as the work of other regulators is... we concluded that ... our approach ... must be grounded... in an appreciation... of the circumstances... in Ontario

The ways in which ... other energy regulators ... are addressing... these issues ... reflect ... the particular institutional arrangements, ... the market structure and ... broader policy framework ... prevailing in their jurisdictions

The same should be true... of the OEB

We think ... it is premature... to sanction or mandate... as some regulators have... a particular new business model for utilities... or a specific new “platform” ... to accelerate ... the deployment ... of distributed resources

However, we think that ... a simple “wait and see” approach ... is not sufficient ... for Ontario

In our view ... the complexity ... and the uncertainty ... associated with the potential impacts ... of both technological innovation ... and public policy commitments... suggest ... that a different approach ... is needed

The OEB has the opportunity ... and the responsibility ... to play a leadership role in *supporting* ... and *guiding* ... the sector it regulates ... through the evolution underway

- By *Supporting* ... I mean helping prepare utilities... other market participants ... and consumers ... for the change and uncertainty ... that lies ahead

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- By *Guiding* – I mean working ... to secure the benefits ... and mitigate ... any adverse consequences ... of that change and uncertainty

We think that... the OEB ... can best provide ... that *support* ... and *guidance* ... by maintaining ... and sharpening ... its focus on efficiency, ... cost-effectiveness, ... innovation, ... value for consumers, ... and our own effectiveness as a regulator

We can provide ... that *support* and *guidance* by using our traditional regulatory tools ... including ... rate making... infrastructure approvals... licensing ... codes and rules .... and policy development

In this regard... the strategic “blueprint” .... combines .... the principles of consumer-centric regulation ... that I outlined in 2014 ... with a stronger emphasis .... on the new and different challenges ... posed by sector evolution.

### Strategic Challenges

We are proposing... to organize ... the new strategic “blueprint” ... around 4 themes

We have come ... to call these themes... our “Strategic Challenges”

**[consider using a dynamic slide here – the concentric circles – see below – I will circulate separately]**

They are ... as follows:

- **Transformation & Consumer Value** – How can ... the OEB help ensure ... that the evolution of the sector... brings a

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- stronger focus ... on consumer value?
- **Innovation & Consumer Choice** – How can... the OEB ... encourage innovation... in a way that enhances consumer choice and control?
  - **Consumer Confidence** – How can... the OEB ... best work... to strengthen ... and maintain... the confidence of consumers ... during ... a period of accelerating change?
  - **Regulation “Fit for Purpose”** – How should... the OEB... as an organization... equip itself ... to meet ... the challenges... of sector transformation?
- For each ...of these **Strategic Challenges** ... we have set out ... a **Strategic Goal** ... and a number of ... corresponding **Strategic Objectives**.
  - The **Strategic Goals** ... represent ... the specific outcomes ... we aim ... to achieve with respect to ... each of the ... corresponding Strategic Challenges
  - The **Strategic Objectives** ... describe ... the particular areas ... on which ... we will focus ... in order ... to attain ... each of the Strategic Goals

**[I would suggest using a updated set of dynamic slides we used at the June CAR meeting and the Managers/Lawyers meeting – I will circulate the slides separately]**

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I want ... to acknowledge ... the role ... which ... Board Members ... and the OEB’s leadership team ... have played... in the development ... of the new strategic blueprint

Throughout ... the process ... they demonstrated ... a readiness ... to bring ... a fresh perspective ... to the work of the OEB

We had ... many lively discussions along the way ... and that dialogue ... has been key ... to the refinement ... of the blueprint

I also want ... to thank ... the members of the Chair’s Advisory Roundtable ... or CAR ... for their comments on an earlier version of the blueprint...

As you may know, the CAR is made up of ... senior individuals ... from both industry ... and from consumers

Their constructive ... candid... and expert input ... was precisely what I was hoping for... when we established the CAR

Our strategic “blueprint” ... sets ... ambitious goals ... for both ... the OEB .... and the sector we regulate

The preparation ... of the “blueprint” ... has in a way ... been the easy part

Once ... the “blueprint” ... is finished ... we will face ... the much more... challenging ... task ... of working ... through the details ... of how ...we will meet ... our strategic goals and objectives

There will ... undoubtedly ... be much controversy ... and debate along the way

But ... everyone at the OEB ... understands ... that ... meeting the goals ... and objectives ... in the “blueprint” ... will demand ... continued ... and

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constructive engagement ... with consumers, ... regulated entities ... and all our stakeholders.

Thank you