

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” ...

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 ...

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 know that the OEA ... and its members ... have spent considerable time thinking about ... and writing about ... these developments

The OEA’s submission last year ... regarding the Long Term Energy Plan... was a very thoughtful commentary ... on the significance of those developments ... for Ontario

That submission ... 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”

Let me say at the outset that ... I agree with that statement

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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 implementation of the Climate Change Action Plan ... with a new cap and trade regime ... and commitments to significant emission reductions over the next 30 years
- The implementation of the Fair Hydro Plan ... to moderate the increase in consumer electricity bills... over the next 4 years and beyond....
- And the development of a ... new Long Term Energy Plan ... that will set out how the province proposes to maintain ... a reliable supply ... of clean ... and affordable energy

Each of these initiatives ... has impacted ... or will impact ... the work of the Board in significant ways ...

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

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

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need ... for collaboration ... between regulators and governments ... to address changes in the sector

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 APPrO speech two years ago ... I said that the OEB's approach ... to sector change ... would be "paced ... and measured"

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 ...

We all ... have to respect these principles

This is the right approach

An approach that is paced ... and measured ... and that has regard to these basic principles ... is the best way to maintain 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 ... for utility system planning that paces and prioritizes investment over the longer term ... and for planning on a regional basis ...
 - It seeks ... measurable improvements ... in utility performance ... while giving utilities ... the flexibility to choose a rate-setting method that suits their circumstances
- 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 adopted ... an approach to rate making... in the post-merger period... that ... in our view ... balances the interests ... of the utilities involved ... and their customers

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- More recently ... we have moved forward ... with our initiative to promote good governance in the utility sector ...
 - 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 be sharing ... and seeking comments... on our proposed guidance ... regarding corporate governance
- 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 implemented ... the regulatory framework to govern ... the compliance by natural gas distributors ... with their important obligations ... under the new cap and trade regime ...
- 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 set out the Board's expectations

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regarding cyber-security ... to protect the privacy of consumer information ... and the system reliability on which consumers depend

- We are revamping electricity rates and prices ... so consumers will be in a position to make decisions about their own consumption ... and investments ... in that regard ...
 - We redesigned electricity distribution rates ... for residential customers ... to give them ... a better signal regarding the cost of the delivery service they receive ...
 - We are now in the midst of similar review of the distribution rates ... for larger commercial and industrial customers ...
 - We are reforming ... the Regulated Price Plan ... to give low volume consumers greater choice and choice ... several pilot programs are now underway
- With respect to consumer literacy ... and consumer empowerment...
 - 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 consumers...
 - We have adopted 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 making sure that ... their concerns are ... considered ... and addressed

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

We recognize that ... more needs to be done ... to address the changes underway in the sector ...

And to equip both the OEB ... and the entities it regulates ... to address those changes ... in a way that delivers long term value for consumers

We have also concluded ... that this further work... should take place ... against the back drop of a broader ... and enduring ... strategic approach

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

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

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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

The “blueprint” will address a number of the issues raised in the OEA’s recent Energy Platform ... including ... the need to consider ways to enhance the OEB’s incentive framework for utilities ... the need for stronger coordination ... and collaboration ... during this period of change and uncertainty ... and the need to address any regulatory barriers to the adoption of low-cost and innovative solutions – work that will be assisted by ... the new Innovation Forum ... that we recently established...

I look forward to sharing more ... about our “blueprint” ... in due course

In the mean-time am eager to hear the thoughts of the distinguished panelists who follow me

Thank you very much