

OEN Speech - Modernizing energy regulation to keep pace with an evolving sector

“Modernizing energy regulation to keep pace with an evolving sector”

Introduction

Good afternoon... Thank you [John Loucks] for the introduction

First let me say what a pleasure it is to be here this afternoon ... to share with you Some thoughts and insight into how the OEB is modernizing regulation to keep pace with sector evolution

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

In our world ... three years is a very long time

Just consider our head table ... a distinguished group of people ... but back in 2014 ... I think only one ... aside from myself ... was in their current role

The exception ... of course ... is Anthony Haines... who seems to have been at every head table I can think of!

Just reflect on ... what else ... has happened ... in the Ontario energy realm ... in those three years:

- We have seen the changes at Hydro One ... from a government agency ... subject to tight oversight ... and direction ... to an investor owned enterprise... with new leadership ... and a new strategy
- In the electricity distribution sector ... we have seen the creation of a new mega-utility in the GTHA ... and other mergers and acquisitions ... that have extended the footprint ... of a growing

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number of LDCs ... outside ... and beyond ... the territory of their municipal owners

- We have seen a growing interest on the part of some LDCs ... to pursue and develop businesses ... outside their core distribution business ... and... indeed... the government has now removed long standing restrictions ... on the business activities ... of electricity LDCs and their affiliates
- Consolidation in the electricity sector has been matched by M&A activity in the natural gas sector ... such as the merger of Enbridge and Spectra... the owners of the two largest gas distributors in Ontario... and the entry of a new player, Epcor, ... with its purchase of NRG...
- And we now see real rivalry for the expansion of gas distribution facilities to service new communities and territories
- 2016... saw the introduction of ... a new framework for ... long term energy plans ... and ... the designation and procurement of electricity transmission facilities ...
- We are now all awaiting ... the new LTEP ... expected later this Fall ... that will set out ... how the province proposes to maintain ... a supply of reliable, clean and affordable energy into the future
- In support of the LTEP, the IESO has completed its 20 year planning outlook ... which notes several key features of Ontario's electricity supply...

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- By 2015... 90 per cent of Ontario's electricity was coming from non-fossil sources ... from OPG's hydro and nuclear facilities ... and from a range of other renewable resources
- The outlook also highlighted... the growing importance ... of energy resources ... embedded in the province's distribution systems
- 2016 brought the Climate Change Action Plan ... that commits the province to ... significant emission reduction ... 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, finally, we must remember ... the increasing public controversy about electricity prices ... over the past several years ... and the new measures ... the Fair Hydro Plan ... that were adopted just a few months ago ... to address concerns about the affordability

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

Regulation and Public Policy

This brief summary 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

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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 new... and 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

In that period ... we have also seen... 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 ...

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

As I have reflected on these trends there are several conclusions ... or observations ... that ... I would like to share with you.

First - 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

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Second- Many of the issues we face ... such as the challenge of sector evolution... call for ... dialogue ... and coordination ... among the government, ... the OEB ... and other agencies ... just think what things would be like if we were pulling in different directions

Third – I am confident the we can have the dialogue we need ... and achieve the coordination the sector needs... without compromising ... the independence of the OEB

The independence ... and the expertise of the OEB are ... critically important...

Our own ... extensive engagement ... with consumers ... over the last 5 years ... has demonstrated to us ... that ... the perception ... of the OEB as ... an independent ... and expert decision maker ... is a key driver of ... consumer confidence

Strengthening ... and sustaining ... that consumer confidence ... will be even more important ... and more challenging ... going forward ... during a period ... of increasing change... and uncertainty

“Consumer Centric” Regulation

When I was here 3 years ago, ... I spoke ... about the OEB’s commitment ... to “consumer centric” regulation

By “consumer-centric” regulation... I mean the commitment ... by the OEB ... to keep the consumer ... “front and center” ... in everything we do as a regulator... and to think about the consumer value ... and benefit in all our adjudicative ... and policy development work

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

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

- They are 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 calls for utility system planning that paces and prioritizes investment over the longer term ... and for planning on a regional basis ...
 - It sets out the OEB'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 assist ... and empower... consumers...
 - 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 roadmap for reforming the Regulated Price Plan will 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 cyber-security framework ... will help protect the privacy of consumer information ... as well as

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the system reliability on which consumers depend

- 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.

The OEB's commitment to "consumer centric" regulation ... has provided ... a strong foundation ... for the next 5 years

We recognize that ... in many ways...what's been accomplished is just the beginning...and much more needs to be done

- ...to address the changes underway in the sector ...
- ...and ...to equip ... both the OEB ... and the entities we regulate... to address those changes ...
- in a way that continues to deliver long term value for consumers.

Introduction to the "Blueprint"

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

That conclusion is reflected in our current business plan ... that was approved by the Minister... earlier this year

In that business plan... we commit ... to outlining an approach ... to the regulatory reforms ... that may be needed ... to address the implications of technological innovation

We reached ... that conclusion ... because of the complexity we see ... in the changes underway in the sector ... and because of the uncertainty about both the pace at which those changes may occur... and the outcomes we will ultimately see

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 regulatory frameworks ... that are both ...robust enough... and flexible enough... to adapt to ... changing circumstances

As in all good strategic planning exercises, we started by asking ourselves a simple question: *“Where do we want the OEB and the sector it regulates to be in five years?”*

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

In particular, we looked at:

- changing consumer dynamics
- trends in public policy

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- technological innovation
- changes in the structure of the Ontario energy sector
- market and planning outlooks, and
- the work of other regulators

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

Changing Consumer Dynamics

We 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 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

in Ontario ... 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

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Prices... and simple economics ... will key factors ... in determining ... the pace at which new technologies are deployed.

Trends in Public Policy

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

Technological Innovation

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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

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... we see ... the evolution of “smart grid” technologies ... with 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... we see 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

Changes in the Structure of the Ontario Energy Sector

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

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savings ... for the electricity distribution sector ... and better equip ... distributors ... to address ... the changes ... underway in the energy sector

I have already noted ... the increased M & A activity... in the electricity sector... particularly ... among electricity distributors

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, ... density... geographic footprint ... growth... and investment requirements.

Market and Planning Outlooks

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

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”.

The Work of 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...

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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

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 ... public policy commitments... and the other considerations... suggest ... that a different approach ... is needed

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We believe that 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
- 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 ... our focus on efficiency, ... cost-effectiveness, ... innovation, ... value for consumers, ... and our own effectiveness as a regulator

[still need reference to where Rose has spoken about “knowledgeable” regulator, etc.]

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

Strategic Challenges

The new strategic “blueprint” will reflect 4 key areas of focus for the OEB

We have come ... to call these areas of focus our “Strategic Challenges”:

[Use the dynamic slide here – the concentric circles –]

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1. Transformation & Consumer Value – How can ... the OEB help ensure ... that the evolution of the sector... brings a stronger focus ... on demonstrable value to consumers?

A key area of focus here ... 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:

- Stronger customer engagement by utilities
- More robust system planning ... and regional planning, ... and
- As I indicated earlier, ... 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

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

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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

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

Our commitment to undertake that assessment is already set out in our business plan.

We will also need to ensure that utility system planning reflects the continuing evolution of the sector... and the impacts ... on a local ... and ... regional basis

We will need to ... more actively monitor... the impacts of sector transformation ... on the way ... in which both electricity and natural gas networks ... are used ... and on the financial position ... of regulated entities

2. Innovation & Consumer Choice – How can... the OEB ... incent and enable innovation... that will benefit consumers... by giving them more choice and control?

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Any changes to the RRF should encourage utilities to adopt and facilitate innovative solutions – whether they be capital or non-capital solutions

We need to continue and advance our design of network and commodity rates in order to support the efficient use of infrastructure and enable greater customer choice and control

We will also need to review our codes and rules to ensure that they meet the needs of an evolving sector ... our rules will need to be more flexible and adaptable... they need to avoid barriers to the adoption innovative and low-cost solutions

[Getting the rates, prices and rules right will be a key step in helping ensure that consumption and investment decisions are based on sound economics]

3. Consumer Confidence – How can... the OEB ... best work... to strengthen ... and sustain... the confidence of consumers ... during ... a period of accelerating change?

We will continue our work to inform, assist and empower consumers...

- Helping consumers understand their rights and choices
- Making sure consumers are treated fairly by utilities and other service providers

We will also continue to work to make sure that consumer perspectives are welcomed, respected and addressed in all regulatory processes

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We will encourage and support efforts to ensure that the benefits of innovation and sector transformation are realized by all types of consumers... **[including low income consumers and indigenous communities]**

4. Regulation “Fit for Purpose” – How should... the OEB equip itself ... to meet ... the challenges... of sector transformation?

We need to ensure that the OEB has the expertise needed to address sector evolution

Our own organization and processes will need to remain flexible and adaptable to changing needs

Our work will need to be supported by effective engagement and collaboration ... with consumers, ... with regulated entities, and all our stakeholders **[and coordination with the government and other agencies]**

Conclusion

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

The development ... 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

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

Thank you