Ontario

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Perspectives on Regulatory Evolution

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OEB Perspectives on Regulatory Evolution

Good morning. Thank you Vince (Bresia) for the introduction.

First let me say what a pleasure it is to be here this morning to share with you my perspective on "regulatory evolution". A perspective that I hope will contribute to the thoughtful panel discussion that will follow.

So let me start by asking what is "regulatory evolution"?

Well for me, it's about the OEB's approach to regulation and how that approach is evolving to address the changes underway in the broader energy sector. And, it goes without saying, at least to those of you in this room that those changes are indeed complex.

Changes that 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 important and disruptive developments. The OEA's submission last year regarding the Long Term Energy Plan was a very thoughtful commentary on the significance of these developments for Ontario.

That submission stressed the need for, and I quote:

> *"A modernized regulatory framework (that) keeps 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.

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, at least on the public policy front, 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 public policy initiatives has, or will, impact the work of the Ontario Energy Board in significant ways.

Their scope and complexity highlights the need to look at the work of the regulator in the context of our broader public policy environment.

This phenomenon is not new or 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 here 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.

The OEB has 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 right here 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 some key principles or objectives. Principles that, at least in our view, are fundamental to the OEB's role as energy regulator:

- the need to provide a reliable supply of energy at a good price for consumers;
- the need for rates to be predictable;
- the need to maintain a financially viable and competitive sector;
- the need to provide sufficient flexibility to allow for innovation;
- and, the need to plan for the future a future that is still unfolding.

When I say "we", I mean not only the OEB, but also utilities and other market participants. We all have to be guided by 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.

Each of these principles is reflected in the OEB's key achievements over the past five years.

- We renewed the regulatory framework under which the OEB sets the revenue for regulated utilities:

  - The new 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 also 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 aligns the interests of the utilities involved and their customers.

- More recently, we have moved forward with our initiative to promote good governance in the utility sector:

  - We're convinced that good governance is a significant enabler to achieving the outcomes embedded in the RRF, namely, customer focus, operational effectiveness, public policy responsiveness, financial performance, and proportionate performance-based regulatory oversight;

  - We will soon be sharing our proposed guidance and seeking your comments.

- In the natural gas sector, we have assessed the changing dynamics of the North American market and considered the implications for Ontario.

- We have provided new guidance for the expansion of gas distribution service, whether by the incumbent utilities, or potential competitors and new entrants;
- 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
- And, we are now considering whether our approach to gas supply planning should also evolve.

- We have also strengthened the focus on system reliability:
  - By adding new reliability measures to our assessment of utility performance, and making them accessible to consumers through our annual utility scorecards
  - And, by setting out expectations regarding cyber-security, to protect the privacy of consumer information and the system reliability on which consumers depend.

- We are also revamping electricity rates and prices so consumers will be in a position to make decisions about their own consumption and investments. That includes:

- Redesigning electricity distribution rates for residential customers, to give them a better understanding of the cost of the delivery service they receive;

- We are now in the midst of similar review of distribution rates for larger commercial and industrial customers, to design rates that better respond to their needs and their impact on the energy network;

- And, we're reforming the Regulated Price Plan, to give low volume consumers greater control and choice. That reform will be informed by several pilot programs that 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.

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 and that consumers continue to have confidence in the sector.

Our achievements over the last 5 years are 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.

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

And so, on the heels of having completed much of what is outlined in the RRF, the OEB is now 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.

We believe that the pace complexity and uncertainty of the many changes underway in the energy sector calls for a longer term and more strategic regulatory approach.

The "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 continue to support our shared objective of delivering a high performing energy sector that aligns the interest of utilities and their customers.

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.

I look forward to sharing more about our “blueprint” in due course, as we continue our dialogue on the evolution of energy regulation in Ontario and beyond.

In the mean-time, I’m eager to hear the thoughts of the distinguished panelists who follow me and I want to thank you for allowing me to set the stage for that discussion.

Thank you very much.