

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... And thank you [John Loucks] for the introduction.

Firstlet me say.... what a pleasure it is to be here this afternoon.

You know....I last spoke at the OEN over three years ago ... in April 2014.... I’m not sure if its something I said back then...but it certainly has taken a while to get invited back!!!!

When I was last here.... ...I spoke about the importance of maintaining consumer confidence in a period of rapid change...and the important role the OEB plays in that respect....

Today.... I want to share some thoughts on the ongoing changes we are seeing ...and how energy sector evolution continues to inform ...regulatory evolution.

But before I begin....let me take a moment to acknowledge OEB staff and Board members ... who are here with me today....

Much of what I am going to talk about today...has been the result of their collective efforts...and I want to thank them....for willingly embarking on this journey with me....

Now...back to sector and regulatory evolution....

So what is “regulatory evolution”?

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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 all of you in this room....that those changes can be complex...and ...disruptive

Changes that are driven by

...technological innovation

....the emergence of new business models

....heightened consumer expectations about service and affordability

....and...of course.... new public policy initiatives....

Over the last little while... many stakeholders... in the energy sector have been calling for a more modern regulatory framework....that can better keep pace... with the speed and degree of transformation occurring ...both in energy markets and systems...

Let me say ...at the outset...that the OEB agrees

As a regulator....we have strived to be ... knowledgeable.....engaged.....and proactive.. ...

We have demonstrated our willingness... and our commitment... to anticipating... and responding ...to energy sector transformation...and the many challenges and opportunities that will come from it...

Now ...as I said...it's been 3 years since I last spoke at the OEN.... and much has happened since then....

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- 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 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
- ...
-
- **[further investments in renewables – but suspension of LRPII – Aleck to complete]**

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- 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
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- And, as we continue to invest in modernizing our energy system ... the impact that has had ...over the past several years on pricesparticularly electricity prices and the new measures that were adopted just a few months ago ... under the Fair Hydro Plan.... to moderate those increases
- And...of course ...we are now awaiting... .. the next LTEP that will set out ... how the province proposes to maintain ... a supply of reliable, clean and affordable energy into the future.

These policy initiatives ...and the many other disruptive changes occurringhas ...or will impact ..the energy sector.... and the work of the Ontario Energy Boardin significant ways ...

Regulation and Public Policy

Their scope and complexity highlights the need... to look at the work of an energy regulator ... like the OEB ... in the context of a much broader public policy environment ... particularly ... when that environment is as... dynamic ... as it has been ...here in Ontario

But this trend ... is not new... and is not unique to Ontario

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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 more vulnerable ... and have low incomes

These points ... of overlap ... and ... interconnection ... have...quite understandably... heightened the interest of governments... in what energy regulators do ...

We see this ... not only in Ontario... but in other jurisdictions ... such as New York, ... the UK ... and California ... where ... energy regulators have emerged ... as thought leaders ... on energy regulation ... in a sector that is changing rapidly.

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.

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When I last spoke about regulatory evolution ...at APPrO ...some two years ago ... I said that the OEB's approach ... to sector change ... would be "paced ... and measured"

I stressed thatas we address the changes underway in the sector....
...we must not lose sight of some key principles ...or objectives...

Principles thatat least in our vieware 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...
-andthe 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....

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.

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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 forrobust 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

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- More recently ... we have moved forward ... with our initiative to promote good governance in the utility sector ...
- 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...
 - .
- With respect to consumer literacy ... and consumer empowerment...
 - We have introduced new ways to give consumers a better

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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 doneto address the changes underway in the sectorand ... to equip both the OEB ... and the entities we regulate ... to address those changesin 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 dropof a broader ... and enduring ... strategic approach

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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.

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 ... effectiveness ... innovation ... value for consumers ... and our own effectiveness as a regulator....

It will continue to support our shared objectiveof 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.

Introduction to the “Blueprint”

We have chosen ... to call... our new strategic direction ... a “blueprint... because that term... denotes ... our expectation ... that it will be used ...

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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...

We looked at trends in consumer behavior...technology innovation...trends in utility ownership and structures...and the actions of other regulators.

Changing Consumer Dynamics

We noted the ... heightened ... consumer expectations ... about ... service ... and affordability ...

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

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In Ontario ... consumers ... seem focused ... less on ... the promise of technology ... and much more ... on the “basics” of ... service ... and price

This concern ... about electricity prices ... is an important reminder ... of the need ... to be sensitive ... to the economic impact ... on consumers ... of new infrastructure investment ... including investments to support ... the deployment of new technologies

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

Technological Innovation

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

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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

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 the OEB regulates

But, ... over the longer term ... the impact of the Climate Change Action Plan ... and the shift away from fossil fuels ... will be felt throughout ... the broader energy sector ... including ... the electricity distributors ... and ... transmitters we regulate

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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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 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

And noted the IESO's emphasis on the need to remain flexible ... to understand the drivers of change ... and risk in the sector... and ... to

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address regulatory frameworks that may not meet the needs of an evolving sector

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...

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

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

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

[Reference to Business Plan to be added – can Viive find me the reference Rose mentioned]

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

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, ... effectiveness, ... innovation, ... value for consumers, ... and our own effectiveness as a regulator

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.

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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 –]

- 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

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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

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

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