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## **BY E-MAIL AND WEB POSTING**

October 27, 2010

To: All Licensed Electricity Distributors, Transmitters and Generators  
All Other Interested Parties

### **Re: A Renewed Regulatory Framework for Electricity**

Energy policy in Ontario has undergone considerable change in recent years, as it has done in many jurisdictions around the world. Environmental goals have become increasingly important in energy policy and regulation. Over the last eighteen months, the Board has completed a number of initiatives to integrate the environmental objectives of the Green Energy Act with the Board's more traditional mandate regarding economic efficiency, cost effectiveness, and consumer protection. It is now time for the Board to further integrate its objectives into a renewed regulatory framework which reflects the significant role network investment will have in the years to come.

New investment in the Ontario electricity sector has already resulted in the installation of thousands of megawatts of new generation capacity over the last few years. A similar amount of new generation, most of it from renewable energy sources, is expected to connect to Ontario's transmission or distribution systems over the next few years. Substantial investment in transmission and distribution networks will be required to connect these projects. Continued investment in transmission and distribution networks is also required for the renewal of assets to maintain appropriate service levels and system reliability. These levels of investment in generation, transmission and distribution have understandably led to a sharper focus on the total cost to consumers. How best to manage these costs is perhaps the main challenge for the entire sector.

New generation is the primary driver for these cost increases and the Board's authority with respect to new generation costs is limited. However, to the extent the Board

approves related network investment the effect will be to enable some of the new generation costs. The Board, together with consumers, transmitters, distributors and other stakeholders, must consider how to manage the pace of rate or bill increases for consumers. This approach calls for a focus on long-term outcomes that ensure that the Province's electricity system provides value for money for consumers. This outcome-based approach should encourage and assist distributors and transmitters to control costs ex ante and thereby reduce the need to mitigate rate or bill increases ex post. The success of this approach will depend to a large extent on the efforts of transmitters and distributors.

The Board will develop a renewed regulatory framework through three policy initiatives.

First, the Board will re-examine its approach to network investment planning by transmitters and distributors. This work will include an examination of ways to encourage distributors and transmitters to plan their investments with the total bill impact in mind. Efforts to manage the prioritization and pace of network investments may require an assessment of the combined cost impact of both the proposed network investment and the generation that would be connected by that investment; that assessment should help to ensure that the most cost effective network investments are made first. The Board will also assess whether planning by distributors and transmitters might yield more efficient and effective outcomes if conducted on a more co-ordinated and regional basis.

Second, the Board will review its rate mitigation policy. The Board has already indicated that it is willing to consider, on a case-by-case basis, alternative approaches and rate treatments to facilitate network investments related to the GEA objectives. This review will examine alternative approaches and rate treatments that might smooth the impact to consumers of rate or bill increases.

Third, the Board will review its current rate-making policies in light of the enhanced approach to planning described above. The key objective of this third initiative is to ensure that the Board's rate-making policies continue to facilitate the cost-effective and efficient implementation of Board-approved plans. It is important to the sector that the Board's regulatory framework sets appropriate standards for performance and efficiency and rewards distributors and transmitters that exceed these standards. Consequently, this initiative will consider new ways of setting efficiency standards and providing appropriate incentives to transmitters and distributors.

A number of existing Board projects fit well with this refocus of the Board's priorities. In particular, the Board's work regarding distribution system reliability standards, distribution cost allocation policies, and TOU price-setting methodologies will continue along side the work on the three policy initiatives set out above.

There are other projects that should not proceed further until the three new policy initiatives are substantially complete. The output from these three initiatives will be an important consideration in the Board's work regarding revenue decoupling and incentive regulation. As a consequence, the Board has decided to extend the 3<sup>rd</sup> Generation Incentive Regulation Plan.

More detail on these three policy initiatives will be issued in the near future. We look forward to working with all of you as the Board develops these initiatives in a coordinated manner. This is a transformational time for the electricity sector, and the Board has an important role to play. We intend to fulfil that role with a focus on outcomes that are consistent with our mandate.

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary