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Preparing For The Future – Creating More Value

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CHECK AGAINST DELIVERY

Thank you very much Ruth for inviting me to join you. I really appreciate the opportunity to be here today.

Since joining the OEB, I have tried to stay connected, as best I can, with the folks that are instrumental in the operation and delivery of our energy services. The EDA district meetings have provided an important vehicle to do just that. Some years I've been able to get to all of the meetings. Some years, only a few.

But as Ruth knows, the Georgian Bay District meeting is one of my favorites. I think my record in making it here is maybe 4 out of 5 since being appointed Chair of the OEB.

One of the reasons I like to attend these meetings is that it gives me an opportunity to talk a little bit about what's on the OEB's mind, and to provide a bit of context to some of our initiatives. What we are trying to achieve and why.

Over the last few years, you've heard me talk often about enhancing utility performance and the importance of delivering value to customers by better understanding and meeting their needs. That's very much one of the central themes of the RRFE.

You've heard me talk about consumer literacy and the importance of empowering energy consumers by providing better information, meaningful access, influence in decision making that affects them, and the tools needed to help them make informed energy choices.

All of these things continue to be priorities for the OEB, and are very much reflected in our approach to regulating Ontario's energy sector.

You've also heard me speak about how Ontario's energy sector, and in particular the electricity distribution sector, has evolved over the last 15 to 20 years, and how important it is for regulation to keep pace with that evolution.

In fact, it is the OEB's acknowledgement of that evolution that resulted in our new outcomes-based approach to rate-setting through the RRFE, and our focus on strengthening the consumer voice in our regulatory process.

And while some of us may think that we have seen significant transformation in our sector, most of us acknowledge that there is much more to come.

So today, I want to focus my remarks on the transformation that is underway and talk to you a bit about how the OEB is, as best we can, "preparing for Ontario's energy future".

The Changing Structure

Let me start with the changing structure of distribution.

Back in 2002, when the electricity sector was restructured, there were more than 300 LDC's in the province of Ontario. Today there are 73.

Seventy three utilities with very different customer profiles, different service area profiles, different asset profiles, and different revenue profiles.

While much consolidation occurred in the early years, that pace slowed considerably in more recent years.

But as the costs and complexities of serving customers, maintaining an aging asset pool, and modernizing the distribution system have risen, the push for greater consolidation and private sector investment has also increased and, in fact, intensified over the last two years or so with the report of the Ontario Distribution Sector Review Panel in late 2012, and the report of the Premier's Advisory Council on Government Assets earlier this year.

We have started to see a renewed and increased interest among LDCs and their shareholders to engage in transactions with a view to realizing greater efficiencies and benefits for their customers.

And to enable their utilities to have the resources needed to respond to the pressures and opportunities of growing customer expectations and technological advancements.

Over the last year, in fact, the OEB has approved five mergers of LDCs and more applications are soon expected.

The OEB has often heard that some of our processes can be a “barrier” to consolidation. To address those concerns, we have started to review our policies and practices to ensure that they do not, by design or by default, discourage good business decisions that can benefit utility customers.

One recent example:

Industry associations, including the EDA, have often cited our MAADs policy as a barrier, citing that the rate deferral period is both too long and at the same time not long enough.

In March of this year, the OEB released a new policy which extends the rate rebasing deferral period from 5 years to up to 10 years, to allow the new entity to capture and retain efficiencies from the transaction. We also provided protection for ratepayers by requiring an earnings sharing mechanism in the outer years.

And we’ve provided access to capital funding during the deferral period to allow the new utility to meet significant capital requirements, if needed, ensuring that needed work gets done to maintain reliability and quality of service for customers.

Ownership

Not only are the structures changing, the ownership profile of Ontario's LDCs is also evolving. Twenty years ago LDCs were exclusively municipally and provincially owned. A framework that ensured strong public oversight and underpinned public confidence. That ownership profile, with only few exceptions, has remained largely unchanged.

But the expectation is that significant change is on the way and that private sector investment in Ontario utilities will become more common.

A few examples:

EPCOR's Innisfill transaction that was announced recently. And in the coming days, HONI will issue its public offering to "broaden" its ownership structure.

With the move to increased private sector investment and ownership comes an enhanced focus on maintaining consumer confidence.

Bill 112, which was recently introduced, proposes a number of amendments to the OEB Act which, if passed, will enhance the OEB's oversight powers and offer better consumer protection.

The OEB will be able to appoint a Supervisor where LDCs are failing to meet reliability or financial standards. Something which is much more practical and effective than the process we have today. Currently, our only recourse is to revoke a distributor's license.

And the OEB will have the ability to levy significantly higher fines than it does today - up to \$1M for a first offence and \$2M for subsequent offences, for failure to comply with conditions of license or other enforceable provisions.

The importance of having a visible and effective means of representing consumer concerns to the OEB is also reflected in Bill 112. This very much underscores the importance of work the OEB has already been doing through our consumer centric approach and that we have asked LDCs to undertake as well.

Increased and meaningful consultation in the development of your rate applications. The introduction of community days, where the OEB goes to the local community to hear from customers directly.

So far this year, we've been to Ottawa and Kingston and we'll be doing more as applications are processed.

And, of course, we are undertaking a broader review of alternative approaches to Consumer Representation. Something we announced earlier this year and that we expect to complete before year end.

Maintaining Consumer Confidence

The OEB is keenly aware of the importance of maintaining, and enhancing, consumer confidence in the energy sector. Particularly, in an environment of significant change and one where consumers feel powerless.

We believe that maintaining confidence in the sector is one of the most important things that we can do to help position Ontario's energy future.

Bill 112 speaks to some elements of utility governance, like ensuring that head offices are located in Ontario, that corporate records are kept here, that executive functions are carried out in Ontario, that OEB approval is required for sales of more than 10% of voting shares, and for expansion of a distributor's business.

The OEB is also looking at how we can enhance confidence through governance, both ours and consumers.

Recently, we undertook a review of LDC governance structures, with a view to identifying best practices and minimum requirements that could be considered for regulated utilities, and how best to give effect to our findings.

We will be issuing a report on our proposed next steps later this year.

And it has become clear, through recent media coverage of various proposed transactions that we will need much more than legislation and regulation to maintain confidence.

There is a significant lack of understanding among customers and municipal shareholders about the OEB and our oversight role in service standards and rate setting. And so, in keeping with our focus on improving energy literacy and empowering customers with information that is credible, we are actively looking at opportunities to bridge that information and knowledge gap.

Technology Revolution

Technology, enabled by evolving public policy, is also having a profound impact on consumer expectations, our expectations of the distribution system, and the distributor business model.

How energy is produced, transported, and consumed continues to evolve. The information age is fast revolutionizing the energy sector.

The OEB has recognized that in this new era of distributed generation, smart grids, storage and conservation very real changes will emerge in the way consumers engage

in the market and their expectations of distributors.

And that means that we need to start thinking differently about our approach to regulation and the role of distributors and the service they provide.

The OEB has already taken some significant first steps to recognize the evolution underway.

Earlier this year, we announced that we will be moving to a fixed distribution rate for residential customers to be phased in over the next 4 years.

The new rate structure removes some of the barriers to technological changes by providing greater revenue stability for LDCs.

It also recognizes the importance of conservation as a means of eliminating or deferring major investments in generation and transmission and the important role of LDCs in promoting conservation by eliminating a disincentive.

Fixed distribution rates also provide an effective means of improving energy literacy for consumers, by differentiating between the cost to serve and the commodity consumed.

And it provides greater line of sight and comparability of utility performance as some of the variability of uncontrollable factors is eliminated.

Finally, it simplifies the regulatory review, or as many of you like to say, it removes another “regulatory burden”.

We are now reviewing the design of rates for other customer classes. Over the summer, we conducted an initial round of discussions with LDCs, generators and customer groups about the approach we should take.

There was broad agreement that a rate that takes into account peak capacity is fair, but different approaches are needed for different sizes of customer. If we want to value customer-owned generation, for example, we need to recognize that these values need to be location specific.

There was also agreement that any rate changes should be made gradually and be supported with effective consumer education.

We are now reviewing comments and expect to issue a discussion paper later this fall.

The OEB has many other initiatives underway that will help position us for the changing reality.

For example, we have just completed the first phase of our review of TOU pricing. The review provides good insights into how best to move forward.

We expect our report to be released in the coming weeks. Setting out a roadmap to improve understanding, visibility and response to pricing signals among consumers, to provide greater flexibility in developing pricing options that will meet desired policy objectives, and to develop pilot projects, with the help of LDCs, that can help inform future rate designs and provide greater consumer control and consumer choice.

Conclusion

In conclusion, let me say that, obviously, we don't know exactly what tomorrow's energy model will look like and we can't anticipate everything.

We do know, however, that we need to start planning, as best we can, for tomorrow not just react to it. We want to be knowledgeable and as proactive as possible.

The OEB knows that means better connecting, so we better understand what is keeping CEOs up at night, and what's on the customer's mind. We want to learn from both, as well as others beyond our borders.

We have introduced a number of new forums to help us do just that. Our first annual Executive Energy Leaders Forum, to be held in October; the Chair's Advisory Roundtable, that brings together leaders in industry and consumer groups; and a Consumer Panel, composed of ordinary low volume customers.

Ultimately, the OEB wants to help shape our energy future as much as it will continue to shape us.

By staying connected and working closely together, we believe that empowers both consumers and energy utilities, and that enables our sector to create greater consumer value.

That in my view, is the single greatest preparatory step we can collectively take – over and over again.

Thank You.