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*Ensuring the regulatory
system keeps up with the
pace of change*

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CHECK AGAINST DELIVERY

Thank you Glenn for that very kind introduction.

Before I begin I want to say thank you to all of you.

As someone who has attended her fair share of conferences over the years, I know these are tremendous opportunities to connect with each other, learn from one another, and prepare for the months and the year ahead.

I also know that conferences are also a bit of a sacrifice. They take you away from your work in the office and from your families. They're a real commitment.

So I want to thank you for taking time out of your very busy schedules to have a conversation that I think has never been more important, or timely, than it is now.

It's a real honour for me to be here at APPrO once again to talk about some of the changes we face and the opportunities before us in a sector that is not only itself a crucial driver of opportunity, particularly economic opportunity, but one that has also been an agent of change – real, radical, disruptive change - here in the province of Ontario.

What I want to talk to you about today are not the changes we've already made, but the changes to come.

Not about what we've already done to make sure energy providers can respond to change, but what we will be doing to make sure all the players can continue to respond to the changes to come.

Now, before we do that, I want to take a step back. A few steps back, actually, to 1986.

That was a big year. I'm speaking to those of you old enough to remember — and you know who you are.

That was the year “Top Gun” came to the theatres. One of the big music hits was “Walk like an Egyptian” by the Bangles. There was Expo '86 in Vancouver, and in the middle of all that APPrO was founded as the Independent Power Producers' Society of Ontario.

For some of us, 1986 doesn't seem all that long ago, and really, it isn't, but I want you to consider the disruptive change that has swept through industries since then.

The top technology company in 1986 was IBM. People still brought their film to Fotomat. Mobile phones were brand new, about the size of a brick and cost a small fortune.

Since 1986 not just companies, but whole industries have been born and died. And in the case of Apple been reborn in the time your group has been in existence.

The energy sector has been no different.

In 1986 and through the early 90s there was still one, monolithic integrated utility - Ontario Hydro. Deregulation came in 2002 opening the market for privately owned generators, and creating the foundation for a competitive sector. Tight supply and high prices led to the rate freeze of the early 2000s, and in 2005 the OEB began setting commodity prices to provide greater price stability for consumers.

Then, starting in 2009, we saw a new focus on green energy and sustainability - a new emphasis on conservation. Coal plants came down, and natural gas plants, wind turbines and solar panels went up.

So not only were there substantive and powerful regulatory changes that occurred within the industry that we, as insiders, are keenly aware of, but the sector has changed so dramatically that the actual, physical landscape of the province has literally changed.

None of these disruptive sector changes were foreseeable back in 1986 any more than any of us can foresee future disruptive technological change. And the pace of that change is accelerating.

Think of how Netflix has disrupted the cable providers and the big US television networks in just a few short years. How Amazon has disrupted retail stores. Or the threat that Apple Pay poses for big banks. You can bet that there are bank CEOs who are losing sleep over that change alone.

The lesson for us is that no industry, no sector, including the energy sector that has remained fairly stable for decades, is immune to disruptive change.

And as we know the change that we are experiencing is not unique to Ontario.

We need look no further than California or New York for examples of how others are preparing.

Many of us are closely observing Governor Cuomo's and the NY PUC's *Reforming the Energy Vision* strategy.

The only certainty for us, as participants in this system, is that this change will continue.

My responsibility, as Chair of the Ontario Energy Board, is to ensure that regulatory change matches the pace of system change, if not staying slightly ahead of the game. And your role, as generators, is to continue to innovate, continue to create jobs and prosperity, and continue to provide consumers with the energy they need in a safe, reliable, secure and sustainable way.

The good news in all of this is that I believe that it is possible to prepare for change, and keep pace with it. By working together, as we already have so often, to respond to the many transformational changes of the recent past.

So how do we prepare?

How do we evolve?

What are our next steps?

Well, before we talk about where we go next, we should first talk a bit about what guides us - our principles.

And as diverse as our interests sometimes are, all of us involved in the sector - Governments, Regulators, Producers, Distributors, Consumers - we all share some of the same principles when it comes to the system we depend upon:

First — that it must provide reliable supply at a good price for the customer.

Second — that rates should be predictable.

Third — that the sector should be financially viable and competitive.

Fourth — that the sector should be flexible enough to allow for innovation.

And Fifth — that the sector should always be planning for the future.

There are more, of course. This isn't an exhaustive list by any stretch, but it does show — and we hear this time and again — that there is actually a lot of shared purpose among the players in the energy sector.

So while we can, and must, do our best to anticipate and prepare for change, we can only do that by keeping grounded in the guiding principles we share.

Now when I think of change I think of the often quoted words of Donald Rumsfeld, who once said:

“There are known knowns. There are things we know that we know.

There are known unknowns. That is to say there are things that we now know we don't know.

But there are also unknown unknowns. There are things we don't know we don't know.”

Now, I'm not going to speak to you today about the things we already know. I'm going to speak about the known-unknowns.

The things we know that we don't know.

And for us, in the energy sector, they fall into two categories:

- technological change,
- customer control.

We know that significant technological change is transforming the way energy is produced, transported and consumed. We have seen some of the implications of that change already, as technology has paved the way for distributed generation. Residential and small business consumers are producing their own power through solar and other means.

New communities are being planned using distributed generation and micro-grids. Large commercial and industrial consumers are looking at the economics of energy self-sufficiency to respond to the price signals in the market.

And the evolution growing reliability and adoption of new storage technologies — battery power, if you will — is making the integration of variable renewable distributed generation possible, and providing opportunity for increased flexibility and resiliency at the regional level.

The traditional and standard model of a large central supply transported through massive interconnected networks is being challenged.

That's a change we enabled deliberately and collectively, and I dare say successfully, across the province over the course of the last decade. And while this doesn't mean the end of a central supply, at least not in the foreseeable future, it does mean that more and more consumers have greater choice, and greater control, and will be less reliant on the central supply system as we know it today as their only option.

So, as the regulator, we need to take a serious look at the way the grid will operate in the future, how it will be used by producers and consumers, and what will be needed and expected.

New technologies are having a real impact on the business model for energy providers and grid operators.

As the regulator, we need to look at what that means for how we value, price and regulate energy services. We need to recognize that a lot of technological changes in the system are not simply better ways of doing business. They will change the way we use energy and, in so doing, the business model itself.

So we need to change our regulatory focus from the immediate to the longer term, so that we can price electricity in a way that supports technological change and investments over that long term.

That brings me to the second known-unknown:

Consumer control.

Consumer control is a powerful driver of change. Not just in our industry, in every industry.

Look at taxis. Taxi cabs were a well-regulated, 150-year old sector that was doing just fine until it got sideswiped overnight by Uber.

Uber came along because it satisfied the needs of consumers who wanted more control and, to a certain extent, new, entrepreneurial operators who saw the opportunity for a piece of the action. All of it enabled by a single, disruptive technology: smartphones.

Ten years ago, Uber couldn't have existed. And no one would have predicted it. Now it's causing huge regulatory and political headaches.

All it takes is one technology.

In our industry, we already know that consumers want more choice. Choice in the type of energy they use. Choice in the way they are billed for use that reflects their choice in how and when they use energy.

All of which presents a challenge for the future business model.

But standing in the way of consumer demand or technology-driven change is like trying to hold back the tide. So, we have no choice but to provide choice.

So how are we preparing for those two known-unknowns?

Technological change and changing customer expectations?

It will not surprise you to hear that we at the OEB are taking a paced and measured approach to change.

But to be frank, I think that's always been a particular strength of our regulator. We have excellent people who will study these changes from every possible angle, then make

recommendations about ways the regulatory system, framework and pricing methodologies can enable those changes.

Already, we're looking at the implications of these new technologies and consumer demand on the way we price network services. We're starting by examining ways to decouple distribution-service pricing to make sure it supports changing consumer demand.

We've already announced that we will phase-in fixed distribution rates for residential consumers over the next four years, and we're studying how to move forward with decoupling for commercial and industrial customers.

We believe pricing should encourage innovation, while at the same time, meeting the needs of those customers who can't — or won't — participate in new technologies.

We also need to look at innovation in terms of the value it brings.

How do you fully value something like storage or distributed generation that provides value not only to customers who are relying on it, but benefits all consumers by increasing capacity and flexibility of the network?

Because we need a well-functioning and properly financed grid if we want to integrate new technologies so customers can take advantage of them, and if we want to stay true to our shared principles of reliability of supply, support for innovation, and long-term planning.

Ten years ago, one of the results of Ontario's long-term planning, support for innovation and desire for a reliable supply was an electricity price plan. One that provided stable and predictable electricity pricing, encouraged conservation, and ensured the price consumers pay for electricity better reflects the price paid to generators.

The OEB has been administering that plan — the Regulated Price Plan or RPP — since 2005.

Today, about 4.9 million consumers are billed under the RPP.

I think it's safe to say the RPP has served Ontario well for the last decade. But looking to the decades ahead — we see the need to make changes so we can continue to support the guiding principles of all the participants in the system.

Looking at the current stability of Ontario's electricity system given the IESO's most recent forecasts of supply and demand, we believe the time is right to put in place a multi-year roadmap to evolve the RPP to make sure it's able to meet the challenges of the future.

That Roadmap is set out in the OEB's Regulated Price Plan report, which was released yesterday.

I won't take you through all the changes, but I can tell you about the principles behind them.

It comes down to three things:

- Supporting the investments Ontario needs in the electricity system over the long term.
- Pricing energy in a way that increases system efficiency and reduces the need for expensive system expansion in the future.
- And pricing in a way that gives customers the control they want.

Some of the specific things we're doing are simple, customer-friendly changes. For example, we're making sure consumers get better information on the bill itself.

We'll make sure their bills are easier to understand. We'll make sure there are better descriptors for the pricing plans, and that customers have access to technology to make taking action to reduce their bills easier.

We'll also begin pilot projects to test different price structures. We'll look at options that are simpler and provide more choice for customers, while benefiting the system as a whole - things like critical peak pricing.

We need to set a price for energy in a way that reflects the needs of the system and provides value to customers. A pricing plan that does not rely on the past but looks to the way we expect consumers to behave and the system to operate in the future.

We're doing all this — the research and the pilot projects — because we think it's important to get the energy pricing right.

The bottom line is that improving the way we price energy service is essential to preparing Ontario's energy system for the known-unknowns of the future.

Of course, that still leaves the unknown-unknowns.

Those technological changes or consumer changes that we don't know.

Ultimately, there isn't much we can do to prepare for those, to be honest. All any of us can do is recognize that our traditional energy system is undergoing transformational change, like so many industries already have. And we can learn from that by creating a culture within our sector of innovation, creativity and responsiveness to change.

For our part, the OEB has been spending a lot of time thinking about how the changes we are seeing will change the future role of distributors and others.

We don't want to create a regulatory framework that entrenches a redundant or archaic business model. So we've been asking: "What will the future look like for the electricity sector in Ontario?"

Last month we held a day where we gathered over 100 energy sector leaders to look at the evolution of the energy sector.

We heard a lot of different views about how far, how much, and how fast? But we heard one consistent view - that the role of the distributor is going to change.

And we need to be ready.

Ready for innovations that come to the sector either as a result of industry investments in as yet-unknown new technology, or in response to changing consumer demand, or both.

That's why I believe we must always be on the lookout for innovation and thinking about its implications. As well as adapting to what consumers want - choices, flexibility, control, and stability.

Because if we don't, we could easily be blindsided by changes we can't anticipate. Our world is changing, and fast. Which means regulation needs to keep pace.

I'm confident regulation won't disappear, at least not in the short term, but what we regulate and how we regulate it will change.

As the regulator, we can affect the way new innovation and technologies are introduced and we can protect consumers from significant risks while allowing them to benefit from the promise of innovation.

We need to be knowledgeable, thoughtful and proactive in our approach.

For me, that means doing a better job of connecting with you, too.

We need to better understand what's keeping CEOs up at night, just like we need to know what's on the customer's mind.

We need to keep abreast of what's happening beyond our borders. Be engaged with the sector and those influencing it and take the time to meet at events like this one where there is so much opportunity to learn from one another. Share best practices and tackle problems together.

Now, I've spoken about the OEB's response to current and anticipated changes in the sector.

And in the panel that follows I know you'll speak about all of this and more in much greater detail. But I want to conclude by coming back to three certainties:

One: we live in an era of disruptive change.

Two: the energy sector has not been immune to that change, and in fact, it has driven that change and will continue to do so.

And three: we as the OEB will continue to help enable that change, as we relentlessly focus on aligning the interests of legislators, consumers and industry.

While our world is changing, our principles remain constant.

We will continue to build consumer trust and stakeholder confidence in the sector.

We'll continue to provide consumers with the information they need and engage directly with them so that we better understand their preferences.

And we'll continue to be systematic and thoughtful as we work with you so we can continue to provide regulatory policy that is responsive to change, allows the sector to seize new opportunities, and that creates a system that serves both consumers and stakeholders.

Thank you.