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Leading Change, Together

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CHECK AGAINST DELIVERY

Thanks so much for that introduction Ray – and for the opportunity to speak at your AGM again this year.

You know, this is now my fifth year in a row of helping to open your AGM. That's a huge honour.

So I was going to start by thanking you for your excellent taste and obvious good judgement. But then I thought about that old saying, "save the best for last". So I'm not going to let it go to my head.

As always, I am delighted to be here with you this morning, and to share with you a bit about what we've been doing at the OEB since I was last here, and what we're thinking about at the moment.

Looking at this morning's program, I think that a lot of what I have to say complements some of your other panels.

Before I begin let me take a moment to acknowledge a few people.

The theme of my remarks today is about change and how we adapt to, and lead, that change.

Today marks an important day of change at the EDA.

Today Ray Tracey will complete his term as Chair for the past year. I know it's a demanding role, one that gets more demanding every year. Ray, I want to thank you, not only for your leadership at the EDA this past year, but for working with us at the OEB, on behalf of the EDA, on so many of our initiatives.

And to your incoming Chair, Todd Wilcox, Congratulations! I know we've worked together in the past and I'm looking forward to working with you in this new capacity.

Another defining change – you appointed your new President and CEO – who assumes her new duties tomorrow.

But before I talk about Teresa, I want to take this opportunity to acknowledge and thank John Loucks for his interim leadership over the past several months.

And to Teresa, Congratulations!! I know you have a long history of working with the OEB on regulatory reform and we're all looking forward to continuing to work with you in your new capacity.

And, a special congratulations to the EDA Board of Directors, on appointing your first woman President and CEO, in your 114 year history. Welcome to 2016!

There's a deep pool of leadership in the EDA. But that shouldn't be surprising. I look around this room and that's what I see, people who are leaders in electricity distribution.

I want to acknowledge each of you, as well, for the work that you do and the services that you provide, every day, seamlessly to Ontario's 4.8 million electricity customers. I know that as this sector continues to evolve, as customer demands continue to increase, and as the pace of change gets faster and faster, the job is no longer as simple as it once was.

You know, I was thinking back, as I was preparing this speech, to how much has changed in the past five to ten years across the sector. I don't only mean those things that we as the regulator have changed or affected, I mean change in the business and regulatory environment, in a larger sense.

Constant change – technological, economical, cultural – doesn't surprise any of us, anymore. It is our new normal. And yet as much as people want innovation and want to embrace change, in times of rapid change they also look for stability and predictability. And that's what we all strive to deliver.

For the EDA, it's right out in the open, in the values you've posted on the EDA website: continuous improvement, collaboration, respect, customer service, results, innovation and creativity.

The great thing about those values is that they're not only the values of this organization. They're values that I think are pretty universal and shared across all LDCs by the sector as a whole: governments, regulators, producers, distributors and consumers.

They are the values that very much define the work that the OEB has undertaken over the past 5 years and the way in which we have, and will continue to approach our work.

Because, in a time of constant change when we need to adapt and evolve to meet changing demands, values help focus us, and they help guide us. They're the difference

between simply being passive bystanders to change and leading change. And looking at the work we are doing, together, I think it's pretty clear that we are leading change.

Let me give you a few examples.

Value for Consumers

Like you, we at the OEB also value collaboration. And we have great respect for all of our stakeholders.

When I was first appointed in 2011, I spoke about the need and the importance of working much more collaboratively across the sector.

Over the last several years, we've demonstrated our willingness to do that: to engage, listen and respond to new challenges, to ensure that, together, we deliver a robust, financially viable and sustainable energy sector for the future.

Like you, we also put a premium on continuous improvement, customer service and getting results.

In 2012, when we launched the Renewed Regulatory Framework, we set out to meet customer expectations for value by creating incentives for better utility performance and ongoing continuous improvement, as well as delivering value by giving customers a voice in the process and by requiring utilities to better understand customer needs and expectations and deliver on those expectations. That's at the heart of our consumer centric outcomes-based approach.

But the RRFE went one step further. We recognized that keeping pace with growing customer expectations would require innovation. That regulation would not only have to keep pace with the evolution of the sector but should better motivate and support new ideas that could benefit customers. Because as I said our goal isn't just to read about changes in the sector, but to help lead those changes.

So let's look at some of the profound changes occurring in the Ontario distribution sector as we speak.

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 LDCs in the province of Ontario. Today, there are 73. Those are seventy three utilities with very different customer profiles, different service area profiles, different asset profiles and different revenue profiles, all delivering exactly the same service.

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. In fact, it intensified following the report of the Ontario Distribution Sector Review Panel in late 2012, and the report of the Premier's Advisory Council on Government Assets last year.

We've started to see more interest among LDCs and their shareholders to consider transactions that can create greater efficiencies and benefits for their customers, as well as making resources available to LDCs to better support and deliver on the technological advancements and service innovations that customers expect.

Over the last two years, the OEB has approved five mergers of LDCs. And we expect to see more applications soon, including the application by the big four HGTA utilities.

For some time now, we've heard that some of our OEB policies and processes can be a barrier to consolidation. I want you to know we take those concerns seriously because as I've said, we value continuous improvement and innovation. And because we know that sometimes, leading change simply means getting out of the way and letting it happen.

That's why, in 2014, we began to review our policies and practices to make sure they don't actively or inadvertently discourage good business decisions that benefit utility customers.

And we've already taken action on some of what we heard.

Industry associations, including the EDA, have often cited our mergers and acquisitions policy as a barrier saying the rate deferral period is too long and, at the same time, not long enough.

That's why, last spring, we released a new policy which extends the rate-rebasing deferral period from 5 years to up to 10 years, to allow the new consolidated entity to capture and retain efficiencies from the transaction.

We also protected customers 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, ensuring that reliability and quality of service are maintained – something we know customers value.

We've also heard that the OEB's approval process and criteria could be clearer and that our decisions on transactions could be more timely.

So, in January, we released our Handbook to Electricity Distributor and Transmitter Consolidations. The Handbook tells applicants, shareholders and customers how we will assess the merits of consolidation applications. It describes the test we will apply and the issues that will be in scope for a consolidation hearing. It also clarifies how we will set post-consolidation rates. Providing better information will enable better applications and timelier decisions.

And, just last week, OEB staff and I met with a number of utility CEOs and the EDA Chair to help us better understand perceived barriers and potential regulatory responses. This is another example of our respect for regulated entities and stakeholders and our commitment to collaboration as we adapt to, and lead, change.

Ownership

Not only are the structures changing, the ownership profile of Ontario's LDCs is also evolving.

Twenty years ago LDCs were municipally and provincially owned. This ensured strong public oversight and supported public confidence. That ownership profile, with only few exceptions, has remained largely unchanged.

But as the demand for large-scale investments to modernize distribution networks continues, and as governments continue to deal with fiscal challenges, capital will need to flow into the system from other sources if we are to maintain a financially robust sector, capable of delivering on customer expectations for reliable, quality service.

And while we don't know how much or how fast, we do know that significant change is on the way.

And that private sector investment in Ontario utilities will become more common. We're already seeing that change unfolding — with EPCOR's Innisfill transaction that was announced late last year.

And, of course, there's the Hydro One IPO. Phase 1 was completed last fall and there's more to come.

And while private sector investment in electricity distribution is a significant change in Ontario, it is not uncommon in the broader electricity sector in Ontario, or to distribution network providers beyond our borders.

With the increase in private sector investment and ownership comes an enhanced focus on maintaining consumer confidence.

Maintaining Consumer Confidence

Which brings us to Bill 112, which was passed late last year. The new law makes a number of amendments to the OEB Act that enhance our oversight powers and offer better consumer protection.

For example, the OEB can now appoint a Supervisor where LDCs are failing to meet reliability or financial standards. This is much more effective than what is now our only recourse, substituting with another distributor.

And the OEB will also be able to levy higher fines than we do today – up to \$1 million, for failure to comply with conditions of license or other enforceable provisions.

Bill 112 also points to how important it is for customer concerns to be heard and considered by the OEB. This is something I touched on a little earlier and something that is central to the RRFE and our consumer centric approach to regulation.

To expand on the consultation LDC's have been doing as you develop your rate applications, the OEB has introduced what's become known as our "Community Days." These are days when we go to the community after an application has been filed, but before a decision is made, to hear from customers directly.

We've held community days for Entegrus, Milton Hydro, Halton Hills Hydro and Ottawa River Power this year. Your colleagues who were involved will tell you that community days are an opportunity for LDCs to explain – in a customer-focused way – the asks in

their applications and for the LDC and the OEB to hear the questions and concerns that customers have about those asks.

It's also an opportunity for customers to learn about the OEB's process and about how they can participate – and be heard – in an informal and non-intimidating setting. By reaching out, we're giving customers better access to our process and we are able to hear the voices of the very people who pay the bills.

That's leadership, too. It means we're listening and making better, more informed decisions. So you can expect to see more community days as we process more rate applications this year.

You should also know that we're very close to finishing a broader review of alternative approaches to Consumer Representation in OEB proceedings. This is something we announced last summer and expect to complete this fall when we release a comprehensive consumer engagement and representation framework.

The new framework will give residential and small business consumers an opportunity to be more actively and inclusively engaged in the OEB's decision-making process. It will build on the steps we have already taken such as simplifying our notice and introducing community days so customers have more ways to become more informed about an application and to speak to us more directly.

In fact, our goal is to engage with customers throughout the entire decision making process.

We're going to do that by providing meaningful opportunities and tools:

- While the utility is preparing its application, but before it is filed with the OEB
- After the application is filed, but before the OEB hears the application, and
- During the OEB hearing process.

Taken together, the measures included in the new Consumer Engagement and Representation Framework will enhance consumer literacy and awareness and make the our adjudicative process much more accessible, comprehensible and less intimidating to customers. And most importantly, it will give people the input they want and need into our decision-making process.

We know how important it is to maintain and enhance 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 we can do to help strengthen and lead Ontario's energy future.

Bill 112 also addresses 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 per cent of voting shares, and for expansion of a distributor's business.

The OEB is also looking at how we can improve both consumer and investor confidence in the network businesses by encouraging strong governance practices.

Recently, we reviewed LDC governance structures to identify best practices and minimum expectations that could be considered for regulated utilities. We hope to issue our report and consult with stakeholders later this spring.

And it's clear to us that we'll need much more than legislation and regulation to maintain consumer confidence in Ontario's energy sector.

To be blunt – customers and municipal shareholders don't know enough about the OEB and our role in service standards, rate setting and protecting the public interest. And so, guided by our values, we're looking to lead the way in bridging that knowledge gap.

Last fall, we pulled together a Consumer Panel made up of 100 consumers from different Ontario regions. This panel will act as an early sounding board for OEB initiatives aimed at improving energy literacy, the hearing process, consumer protections, service standards, and so on.

We're working with them now on three important initiatives: to develop a baseline on consumer literacy that will help us measure our progress, to develop a Consumer Charter or Bill of Rights that could replace or enhance many of our prescriptive customer service rules and to help us improve our customer-facing materials designed to provide retailer protections.

Technology Revolution

Technology is also changing consumer expectations, our expectations of the distribution system and the distributor business model.

How energy is produced, transported, and consumed continues to evolve. But given the innovation and creativity we see in our sector – and indeed in our province – it's not surprising to see this kind of change take place.

We know 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.

It's also opening the door to new roles for distributors in enabling those changes. And that means that we, all of us, need to start thinking differently about the future role of distributors and the network services that are provided today and in the future.

We need to think about the value of the distribution assets and grid services in this new energy world.

These issues are not unique to Ontario. They're already being addressed by regulators all around us in New York, California, Minnesota to name just a few. So we need to lead the way here in Ontario.

At our first ever Energy Leaders Forum last October, we started to address how changes in technology and increasing customer control will affect distribution companies and regulation. We gathered senior executives from across the energy sector to discuss changes and highlight issues that we all need to be considered. I know that many of you in this room were part of that conversation.

We are now using your advice to help shape our thinking around how regulation can support innovation, encourage greater adoption of technologies at a distribution, or customer level, that benefit consumers by helping reduce consumption, reduce infrastructure investments and make better use of existing assets.

As we consider how to best address the evolution of the sector and the future role of the utility we want to stay true to our values and make sure the customer stays as the focus.

In Ontario LDCs enjoy a strong relationship of trust with their customers. That's a relationship that we can build on to better achieve our public policy objectives, to speed

up the adoption of technologies that will reduce system costs , save on infrastructure spending and reduce consumption through changes in consumer behavior. It's an opportunity to leverage the strengths of the monopoly distributor, grids and customers with the new technology opportunities of the competitive market.

To give effect to these changing roles we'll need to consider whether we have the right incentives.

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

We've announced that we'll be moving to a fixed distribution rate for residential customers – which will be phased-in over the next 4 years.

The new rate structure recognizes the changing role and use of distribution networks and the value it provides. It also recognizes that conservation is an important way to eliminate or defer major investments in generation and transmission. And it points to the important role of LDCs – a role recognized in the last LTEP – in promoting conservation by eliminating a disincentive to looking for opportunities beyond current contractual obligations with the IESO. Fixed distribution rates also help consumers better understand the difference between the cost to serve and the commodity they consume.

We're also looking at smarter distribution rates for other customer classes. And we'll soon be issuing a discussion paper that identifies the issues and the options for rate design for those classes.

Smarter rates goes beyond distribution rates and rate setting.

Late last year, we released our Regulated Price Plan Roadmap.

The report recognizes that our existing pricing structure no longer meets public policy objectives or consumer expectations.

So we've set out a five-point plan to move from our one size fits all approach to pricing energy in a way that gives customers the control they want, and pricing in a way that reduces the need for new infrastructure expenses in the future.

In the next few months, as part of our roadmap, we will be looking to LDCs to work with the OEB to carry out a variety of pilot projects. We'll look at different pricing options, and the needs of different customer classes, to look at how we can provide real choice for customers.

Once again, by putting customers first, and responding to changes in the business environment, we hope to make changes that will be truly innovative.

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

Our world is changing, and changing fast, which means regulation needs to keep pace. I'm confident regulation won't disappear but it does need to anticipate change. As the regulator in times of change, we need to be knowledgeable, thoughtful and proactive. And that starts by being rooted in values.

When we focus on values such as continuous improvement, collaboration, respect, customer service, results, innovation and creativity, we become leaders.

We begin to look beyond the immediate. We no longer simply react to change. We start focusing on how we inspire the right behaviors for the future. We ensure that we really are providing value to customers by supporting innovation and good decision making.

I believe we've made a good start in all of this. But there's more to do – so much more. There always is.

The good news is that it's not the OEB leading change, or the EDA, but all of us, and so many more, working collaboratively, throughout the sector, who are leading this change, together.

I'm confident that together we'll continue to lead change in a way that works for consumers, for businesses and for all Ontarians.

Thank you.