Ontario

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CHECK AGAINST DELIVERY
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Thank you, Mark [Rodger] for that kind introduction.

And a special thanks to the organizers of this event, not only for inviting me to speak, but for staging a very relevant program yet again.

When Mark spoke to me about participating, he promised an informal, yet thought-provoking two days, with many opportunities to engage with some of the brightest minds in the industry. And I must say, his promise was not exaggerated.

Of course, that meant I gave extra thought to what I should cover in my remarks today.

Since assuming my role as Chair of the OEB some nine months ago, I have had many opportunities to address the industry and other stakeholders. As we all know, we often attend many of the same industry events, so I did struggle a bit, not wanting to be repetitious, but ultimately, I've decided to talk once again about regulatory reform and more specifically about the Board's renewed regulatory framework for electricity. I believe it is both a timely and relevant topic, because much has been said recently, both privately and publicly, about the Board's regulatory processes and the need for change.

Since the start of my term, the Electricity Distributor's Association (EDA) has authored two papers on regulatory reform, and the Ontario Energy Association has prepared a Blue Print outlining its views on changes needed in the sector. The Auditor General has also weighed in, echoing concerns expressed by some utilities about the increasing "regulatory burden".

I have also reached out to and met individually with many CEOs in the industry, as well as the heads of the consumer groups who regularly participate in Board proceedings, to give each of them an opportunity to share their perspectives.

Many of you have spoken about the Board's strengths, and have shared suggestions for improving the Board's policies and processes. In particular, you have raised the need to balance costs of regulation with the benefits to customers, the need for greater emphasis on outcomes and less on process and the need for a more streamlined and predictable regulatory framework.

To quote from a letter from the CEO of the EDA, "a regulatory framework that does not discourage much needed investment in the electricity system, and that leads to more stable and gradual rate increases that can be more easily incorporated into the family or operating budgets of our customers".

As a former CEO of a regulated utility, believe me, I understand the challenges facing the industry and distributors. I have walked in your shoes not that long ago, so your comments have not been lost on me. And, as a former municipal public servant and the head of a municipally owned utility, a ratepayer/taxpayer owned utility, the importance, indeed the necessity, of considering the needs of individual ratepayers as well as the public interest, is also not lost on me.

Given the OEB's mandate to regulate in the public interest by ensuring a viable and efficient energy sector, I can safely say that the regulator and the industry have already achieved significant alignment – at least conceptually. But we need to go beyond that.

Our challenge - and I say "our" because it is one that is shared by everyone in this room - is achieving an appropriate alignment between the needs of shareholders/investors, utility managers and ratepayers, so that we can continue to maintain a sustainable electricity system for today's and tomorrow's consumers.

The Board's Renewed Regulatory Framework for Electricity is intended to help the Board do just that - design a new framework for regulated utilities that takes a long term view and facilitates that ongoing alignment.

This is an ambitious and defining initiative for the Board, one that I will be working on very directly. It is an initiative that must be approached thoughtfully, inclusively, transparently and expeditiously. And we will do just that.

Before we talk about what the future of regulation might look like, I think it's important that we take a step back and look at how utilities and consumers have been served by the Board's current rate setting process.

I am sure that each of us has our own perspectives on this. The Board will want to look at the conceptual application of its policy. Others will want to look at the technical application. Both are valid, but both depend on underlying assumptions about what might or might not happen in reality. The best approach, in my view, is to look at our experience to date.

One of the reforms that we will be considering as part of a renewed framework is a greater reliance on outcomes to assess utility performance and whether the Board's policies are achieving desired results. So it is through that lens – outcomes - that I think we should evaluate the success of the current incentive rate-making regime.

When the current Incentive Rate Mechanism (IRM) for electricity was implemented, the Board's goal was to set rates in a way that creates incentives for greater efficiency, ensures appropriate quality of service for customers and creates an environment that is conducive to investment.

The Board did not adopt its approach blindly. We took a look at what we had learned when we established prior multi-year incentive regulation plans for both electricity and gas. We knew that stability, predictability and incentives were important. The Board wanted to make sure that utilities had sufficient revenues and the ability to attract capital to support their ongoing operation and investment in assets and a regime that provided more stability and predictability.

For shareholders, the Board wanted to continue to ensure a fair rate of return so as to attract ongoing investment and to provide an opportunity to improve on that return through the utility's productivity and efficiency gains.

For customers, we wanted to provide a transparent process that would allow for predictable and paced adjustments to rates that would be tempered by the utility's enhanced productivity and efficiencies.

So has the IRM worked? By almost any measure, looking at the outcomes, the incentive based regime has been successful for both consumers and utilities.

Looking at data from eight of Ontario's largest distributors currently on IRM – representing more than one-third of ratepayers/consumers, we see:

- Quality of service has been maintained with reliability indices remaining stable
- Investments in capital have remained consistent throughout the IRM period with some growth
- Changes in public policy have been accommodated
- Actual return on equity has remained within established parameters: 7.5-10%, and higher
- And distribution/delivery rate increases have been modest throughout the last IRM period, averaging about 1.6% per year, in line with inflation.

The Board's view is that IRM has delivered what it was designed to do and has served both industry and consumers well.

This view is echoed by Standard & Poor's (S&P) in its recent utility ratings report, issued on December 9, 2011. S&P comments that, "the Ontario Energy Board's regulatory framework supports stable cash flow ... the framework allows for the recovery of prudent costs and the opportunity to earn a modest return. Regulatory cost recovery is generally predictable, and timeliness is improving."

S&P goes on to say that "the OEB has exhibited increased scrutiny of requested cost increases in the distribution sector and the associated rate pressure on customers. While we expect tempering rate increases will remain an important consideration, we believe the regulatory compact remains consistent in the province and that the OEB will continue to honor its mandate to balance customer needs and the utilities' ability to earn a modest return."

Based on the data, the performance metrics that the Board has on file from utilities and the financial community assessment, the IRM regime has in the recent past resulted in a pretty good alignment of various stakeholder interests.

Can it be improved? Does it need to be improved? Absolutely.

The Board understands that we are in a different situation than we were a decade ago, when we had relatively stable rates. Rates are rising and customers want value. Every cost increase is being scrutinized. We need to look at what we are doing to see how we can make it more effective.

The Board understands, and having been there, I understand, the very real pressures utilities are facing: the need to renew and modernize aging assets, to plan for system expansion, to respond to public policy change, to respond to and plan for changing consumer behaviour and expectations and to deliver a fair return for investors. We also recognize the importance of balancing regulatory costs with customer benefits.

As I have said many times in the last few months, aligning the interests of the sector with the interests of the consumer, and achieving the right outcomes is, I believe, the most significant challenge facing the OEB today. And that is exactly what is driving the Board's initiative to renew our regulatory framework.

We want to build on our successes and address opportunities for improvement. We want to create an even more efficient and cost-effective approach to regulating the electricity sector that will serve industry well, and bring added value to today's consumers and the consumers of the future.

Our Renewed Regulatory Framework is about taking a new approach, one that recognizes interdependencies in the system and takes a more holistic view, one that acknowledges that despite the corporate and governance structures, electricity operates as a system, that consumers should have a say in the service they receive, the level of reliability they can expect and the price that they are prepared to pay for it.

As we consider the needs of utilities and their investors, we need to remember that for distributors, this is a monopoly business, consumers do not have a choice of distributors, they cannot change their service provider to Bell, or Rogers when their rates spike or reliability deteriorates. Electricity is an essential commodity, although we can encourage consumers to reduce their consumption, consumers cannot eliminate that consumption entirely.

So we, collectively - regulator and industry - need to be mindful of, and responsive to, these consumer realities. We need to recognize that it all comes together on the customer's bill, and we need to develop a regulatory framework that not only speaks to industry issues but also brings value to consumers, a framework that will continue to achieve that critical alignment.

Our current approach to regulating the industry has served the consumer and industry well since its inception. But much has changed in the last ten years. It is time, and it is appropriate, to take stock of where we are, and ensure that the new regulatory framework that is put in place is well suited to the challenges of the next ten years.

The papers we released in the fall as part of the Renewed Regulatory Framework have kick-started important discussions that need to take place, and that will continue over the next several months.

As a first step in our consultation, I will be inviting executives from industry, as well as executives from consumer and industry associations, the academic and financial communities to participate in a series of roundtable sessions. These sessions are intended to provide an opportunity to discuss some of the Board's early thinking on the issues, and receive your feedback before we move forward.

The renewed regulatory framework will be performance-based. It will be less prescriptive and much more flexible to individual utility circumstances. It will encourage efficiencies in day-to-day operations, and provide for long-term funding for capital additions and reasonable financial returns for shareholders while being sensitive to cost to consumers. The framework will be much more focused on outcomes, those outcomes that are valued by consumers.

More details on the framework and its components will be provided as we get closer to the round table meetings so that participants can consider and come prepared to share their perspectives.

The Board will want to hear from you about issues such as:

- The appropriate set of outcomes that will ensure the utility performance is aligned with consumer expectations, and leads to a viable electricity industry
- How to optimize planning across the sector to make the best investment decisions to achieve the level of reliability and supply security that consumers demand and are paying for
- Whether the framework should allow for flexibility in relation to timing of reviews based on an individual utility's investment requirements, growth and performance against expectations
- Whether the system should include a streamlined, essentially automated rate adjustment for those utilities that based on performance warrant it
- How **best** to give consumers a voice in the process.

This is the type and the depth of discussion that I think is essential whenever the Board is considering changes that can have significant impacts on the businesses that we regulate. It is the type of engagement between the Board and leaders from both industry and consumers that must be ongoing, so that the regulator can continue to be knowledgeable about issues facing the sector and, ensure that our processes and policies continue to evolve with the sector, that Board continues to be forward looking and, continuously brings value and improves upon the Board's work.

The OEB's mandate has evolved over the years, as have the mandates and structures of utilities. I expect that that evolution will continue, as will the opportunities and challenges that come with a changing environment. As it does, we all must be prepared and positioned to respond accordingly. But our basic responsibility has remained the same over time: to serve the needs of Ontario energy users as efficiently and effectively as possible.

The Board's work on the renewed regulatory framework for electricity, demonstrates the Board's willingness and commitment to respond proactively to the sector's ongoing evolution while continuing to meet our basic responsibility.

The Board plans to stay very close to the consumer in our day-to-day operations. With your help, I am confident that we can and will keep them front and centre throughout the rebuilding of our regulatory framework.

Thank you.