

Howard I. Wetston, Q.C.

Chair

Ontario Energy Board

SPEECH

**Electricity Distributors Association
Annual General Meeting**

Toronto, Ontario

March 31, 2008

Good morning. Thank you David [Collie] for that introduction. I understand that your term as Chair of the Electricity Distributors Association is drawing to a close, so first let me congratulate you on a job well done.

And thanks to the Electricity Distributors Association for inviting me back again this year. I always look forward to meeting with you, since yours is the largest group of utilities that we regulate. Your theme is “mapping the course.” That implies that there is one, and I agree with that. I will take stock of where we are and hit some of the highlights.

My theme today is a simple one: *regulation is what we do, and regulation should be a core element of what you do.* Because regulation is the core consideration for both of us, we have a "mutuality of interest". And we share responsibility for working to further our mutual interest in terms of ensuring that distribution rates are just and reasonable, that you maintain the reliability and quality of service that your customers have come to expect and that you can continue to evolve and adapt.

The Board understands that, in doing its job, it can and will have a profound effect on your business. This leads to what I think are three inescapable conclusions:

- First, because Ontario Energy Board regulation is central to utility operations and business strategy, it must remain a focus for Chief Executive Officers and Boards of Directors. Regulatory management will continue to rely on the input of specialists such as lawyers, consultants and expert staff, but it cannot be their exclusive domain.
- Second, it is critical that the Board maintain an in-depth understanding of the distribution business in Ontario and of how it is evolving.
- And last, but by no means least, it is also key that we be aligned in our expectations for that business and its regulation, and in our understanding of the public interest being served by that business and its regulation.

Much of the Board’s work to date has been aimed at improving this alignment, and in ensuring that our work does not have the unintended effect of turning your good commercial decisions into bad outcomes. Regulation is complex as it must often respond to unforeseen events and developments in government policy. These events and our response can pose risks for your business. We want to minimize your business risk, not increase it. With this in mind we have tried to be proactive and transparent in developing a regulatory framework that is more predictable and responsive to your needs and the needs of your customers.

With your commitment and participation, we have together achieved a great deal. This morning I would like to reflect on some of our accomplishments, and then talk about where the Board is headed in the coming year and how we are preparing ourselves for the future.

In 2006 I spoke to you about our plan for "better regulation" of Ontario's distribution sector. A key element of our plan was aimed at achieving a more efficient and more predictable rate-setting program. We are now about half way through that program. At this time we are in the process of issuing decisions on distribution rates for May 2008 for more than 80 distributors. As of today, we have issued 58 incentive rate decisions and six cost of service decisions. This has been a huge achievement. It has entailed an extraordinary commitment of resources on our part, and on your part.

I will come back to the rate-setting plan a little later in my remarks. First, let me spend a few moments on some of our other initiatives. In our continuing efforts to stay ahead of the curve, and to let you know our thinking in advance, the Board has formulated and disseminated policies on a number of key issues. These include:

- cost of capital and rates of return for electricity distributors;
- cost allocation and appropriate revenue to cost ratios; and
- the rate treatment of various distributor activities, including mergers and acquisitions and conservation and demand management programs.

On this last point, you will have seen that just last Friday, the Board released the final version of its guidelines for conservation and demand management. This marks the culmination of work done over several years to create a solid and comprehensive regulatory framework for conservation and demand management. I was pleased to note the degree of interest with which you and other stakeholders approached this initiative, which supports an important element of government policy for the sector.

The Board has also provided direction on the implementation of smart metering and smart sub-metering, which are also cornerstones of current government policy. And Board staff is currently working with you and others on important implementation and communications issues with a view to facilitating the transition to smart meters for consumers.

We are moving forward in our comparison of distributor costs. We recently released for comment the final report from the consultant that staff engaged to examine benchmarking in relation to those costs.

As I promised in 2006, we are continuing to work on refining our incentive rate regulation mechanism. You will have seen the staff discussion paper and the consultant's report that were released last month, and I know that a number of you participated in the stakeholder meeting last week. So you know that we are in the process of revising the formula based on experience gained to date and on the more current and better data that is becoming available.

While I am on the topic, I would like to spend some time on the importance of data and information such as your cost allocation filings, your cost of service filings and your

filings under the Board's Reporting and Record Keeping Requirements (the "triple Rs"). All of this information allows the Board to be more thoroughly informed about your businesses. For example, the information that we now have and are continuing to gather will allow us to better assess current efficiencies and where incentives could lead to improvements. It will also allow us to better determine what service level improvements are worth the cost to consumers. That is why, in part, we ask you for all of this information.

It is important in assessing costs, service quality and rate structures for the more than 80 electricity distributors that exist in Ontario today. Your community is not only large in number, but also diverse in terms of scale, scope, cost structure and customer base. In this context, good information is particularly critical because it allows us to better understand how and the extent to which greater standardization in regulation can be successful.

We do recognize the amount of work that regulatory filings and reporting creates for you. Regulation is not without cost, and the Board would like to reduce this cost where possible.

This year, the Board will review the "triple R" requirements, to ensure that we only ask for information that we can and will put to good use. We will be looking for opportunities to simplify and streamline the reporting requirements where we can.

As a good example of our streamlining efforts, I can point to the recent arrangement that we have made with Statistics Canada. Under that arrangement, the Ontario Energy Board will, with your consent, share your "triple R" filing with Statistics Canada. The time and resources that you would otherwise have had to spend in making a separate filing with Statistics Canada can now be devoted to running your utility business.

Looking to the future, it is clear that your sector will need to keep adapting and responding to change. Conservation, renewables, increasing recognition of the environmental impact on the costs of energy, distributed generation, smart meters and new smart grid technologies – all of these developments – will affect your business and your customers. Regulatory strategy has to be a fundamental part of our business strategy. They will also affect our regulation, and we are well aware of the need to keep an eye to the future. Like you do in your business planning, the regulator needs to be informed, be aware, and be prepared to address barriers or devise incentives to allow your business to evolve in response to external developments and government policy.

Anticipating the potential impact of smart meters and future grid technologies on the way people use electricity, we are looking at possibilities for future distribution rate design. Later today we will be posting for comment a Board Staff Discussion Paper entitled *Rate Design for Recovery of Electricity Distribution Costs*.

The Board is continuing its work on connection policies and cost recovery models to prepare for incorporation of more renewable, embedded and distributed generation into our system.

One of our focuses this year will be on electricity distribution asset management practices, which will include consideration of line losses. Under the Board's filing guidelines, your cost of service filings include information on asset condition. This year we will be gathering more information on best practices for distributor asset management.

As the economic regulator, it is the Board's responsibility to set rates. Those rates are set to allow you to recover expenditures on new infrastructure and technology which we think serve the public interest.

To do that, the Board needs to be fully informed of the current state of distribution infrastructure, and how investments will affect service quality. The Board will also need to consider how grid investments might further the government's electricity policy on matters as diverse as smart metering, conservation and demand management and the connection of renewable and distributed generation.

Related to grid investment is the area of service quality. The Board will be continuing its work on developing electricity service quality requirements and on ascertaining what level of reliability is appropriate, relative to the costs of achieving it.

Earlier this month, the Board released a staff discussion paper on customer service, customer classification practices and specific services provided by distributors. This is really the bread and butter of your business in terms of how it affects your customers, and I hope you will agree that this effort towards ensuring the consistent and fair treatment of electricity consumers across Ontario is worthwhile.

Before concluding my remarks, I want to return to our distributor rate-setting plan. I think it is fair to say that it has been challenging for us, and I know for you as well. We have all learned a great deal. We continue to believe that the plan is an important element of effective regulation of this sector. But regulation is not an exact science. It needs to be informed by judgement and experience, and be flexible enough to respond and to incorporate new ideas and approaches. We want to continuously improve regulation and we know that you want to continuously improve your processes.

The Electricity Distributors Association has asked to meet with Board staff for a debriefing on the 2008 electricity distribution rate-setting process. I think that is a very good idea and expect that it will happen later in the spring. I encourage you to be candid in providing your feedback on the experience to date, and to provide input on how we might improve our respective approaches going forward. I believe that an exchange of this nature is a critical component of effective and responsive regulation. I might say that this kind of continuous dialogue, and the information that flows from it, is the Ontario Energy Board's version of "renewable energy".

I know that we have kept you very busy. But I hope that I have conveyed today that your valuable input into our policy development initiatives is what makes regulation work for your business and for your customers.

As one of my Board Members puts it, “If your business strategies and operations *build in* regulatory requirements, rather than *bolt them on*, the Board and the sector will be better able to move forward together to further our *mutuality of interest*.”