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Check against delivery

Thank you for that kind introduction Jim.

The Ontario Energy Board pays a lot of attention to changes affecting small consumers. They make up the largest portion of the customer base. In Ontario that's 4 million electricity customers and 3 million natural gas customers.

The Ontario Energy Board Act of 2004 sets out clear legislative objectives to guide the Board. That includes protecting the interests of consumers with respect to price, and the reliability and adequacy of service -- and facilitating the maintenance of a financially viable electricity and natural gas industry.

Our public interest mandate flows directly from these objectives and invariably requires the exercise of an opinion – balancing often competing goals.

But no question, fulfilling that responsibility in the face of the issues we have been talking about -- the changes we are seeing in the sector -- is challenging.

There are a number of issues we have been asked to manage; today I will briefly address the following issues:

1. Overseeing retail competition in retail electricity and natural gas markets in Ontario.
2. Developing appropriate price and rate-making policies.
3. Implementing tools that assist consumers in managing their costs, and
4. Ensuring transparency and stakeholder participation in the regulatory process.

On this first challenge, Ontario gives consumers choice in selecting an energy supplier. It's part of the market design in Ontario's natural gas and electricity markets.

In order for choice to be effective, consumers need information and the retail companies need clear rules. We are taking steps to improve consumers' access to information about how the markets work, what choices they have and what their obligations are.

We are also addressing the issue with the retail energy companies – we work closely with them - to help them improve their consumers' understanding of the choices they have. We are ensuring these companies are meeting the rules for consumer offers through direct action on behalf of consumers.

We have also implemented rules to provide mobility for consumers so they can truly exercise their choice in an efficient manner. In the end, what matters is giving consumers choice in a fair and efficient market.

Developing Appropriate Rate-Making Policies

Next I'll comment on pricing. Infrastructure investment, cost of supply, and conservation programs all have an effect on price. The regulator has to be satisfied in certain aspects of its mandate that rates paid by consumers are just and reasonable.

One of the most visible aspects of the issues facing consumers is commodity price fluctuation and volatility. The OEB developed a Regulated Price Plan for electricity to help mitigate price volatility for eligible consumers in Ontario. It provides stable and predictable pricing while also ensuring that the price consumers pay for electricity reflects the price paid to generators. It also encourages conservation through the tiered structure of the RPP - which favours low volume consumers.

Prices are reviewed every six months, based on an updated Board forecast and on any accumulated differences between the amount that consumers paid for electricity and the amount paid to generators in the previous period. We have found consumers have adapted to the system relatively well in Ontario.

We have sought to manage natural gas commodity price adjustments for a number of years through a similar device, the Quarterly Rate Adjustment Mechanism. These prices are adjusted every quarter, also based on a forecast of North American prices.

Both price management devices are designed to recover the cost of supply over specified periods – in a way that buffers consumers from the ups and downs of market prices.

An example is how we deal with Incentive Rate Mechanism structures. As you may be aware, the Board recently approved two settlements establishing such rate structures, for Union Gas and Enbridge Gas Distribution to reflect their revenue requirements. Through a revenue cap and a price-cap mechanism respectively, the new price structures provide incentives for efficiency improvements.

However, the drive to efficiency is not to come at the expense of quality of service to consumers. The Board had previously set rules for service quality requirements. There is also the potential for earnings sharing benefits for consumers. Of course, that's on top of the way improved utility efficiency benefits consumers in terms of cost, reliability and quality of service – and potentially reduced regulatory costs.

We are in the midst of implementing an incentive regulation mechanism for electricity distribution, as well as service quality standards. In this regard, we regulate rates for about 83 LDCs in Ontario, while there are about 27 regulated in all other Canadian jurisdictions. The structure of Ontario's market leaves us with about 100 entities in total to regulate. This has led to serious challenges for those entities and, I can fairly say, for our staff and Board members.

Of course, rates depend largely on how efficiently power is transmitted and distributed. And that depends partly on long-term planning. As our Energy Deputy Minister said yesterday, we currently have before us a 20 year, \$60 billion Integrated Power System Plan for review, and how the Ontario Power Authority structures that plan can certainly have an effect on the rates that consumers in Ontario will pay in the longer term.

Promoting Cost-Management Tools

As I mentioned, the third way in which we help consumers manage issues is by encouraging and promoting tools that assist consumers in managing their costs. One of the main ways we do that is through conservation and demand management initiatives, including a role in the implementation of smart meters. These are major pillars of Ontario's energy policy, which the electricity distribution sector and the Ministry of Energy and the IESO are implementing. In terms of energy, I like to think of "power by the hour".

The Board has developed a Time of Use price structure, which some utilities with smart meters in place are already requiring consumers to use. It is designed to recover the cost of supply at specific periods of the day. It is also meant to encourage load shifting. The goal is smart prices for smart meters.

These initiatives require significant capital investment and continuing operating costs as they ramp up. We have taken steps to help electricity distributors defray these costs. In 2006, we began to permit distributors to capture part of the anticipated costs in distribution rates in advance of the installation of smart meters.

The Board has also set criteria and approved certain electricity distributors to undertake pilot projects regarding eligible time-of-use meters to gauge the impact on consumers.

We are learning as we go. The OEB itself conducted a smart meter pilot with Hydro Ottawa. One of the preliminary things we learned regarding Time of Use price structures is that cost management is not the only reason consumers are motivated to use the meters. They also want to help ensure a reliable supply of power – and contribute to a cleaner environment.

And consumers using the meters in that pilot were very receptive to monthly billing. They want to see whether their load shifting is showing results.

But as you know, monthly billing can be costly for utilities. That's one of the issues we've asked stakeholders to comment on in a discussion paper we just posted as part of a price structure review of Time of Use issues.

Transparency and Stakeholder Participation

Which brings me to another important point in terms of managing change – public participation and transparency.

It seems to me that this is without doubt, both in terms of adjudication as well as regulatory policy development, an absolute necessity in Canada. There will always be questions regarding the increased complexity of hearings and policy proceedings, as was discussed here yesterday afternoon. Efficiency is important for you as well as for the regulator. But, energy regulation is complex, it is not an exact science and with increasing environmental concerns, it is becoming even more complex. That is why our processes encourage intervenor participation through funding for both hearings and policy proceedings. We need to continue to debate what makes better regulation, because we recognize we can't claim perfection and there is always room to improve on how we perform.

Conclusion

Let me conclude with a few comments on the public interest. Balancing interests, taking a longer view, seeking widespread participation, hearing different perspectives and expertly testing and weighing the evidence are important elements of satisfying the public interest from the perspective of regulation by the OEB.

Of course, regulating in the public interest is also understanding that the public interest continually evolves. Probably the most significant component of that evolution is government policy which, as you know, has set broad sectoral objectives directed towards affordability, reliability and environmentally-sensitive energy supply.

As such the Board's independent view of the public interest will need to evolve to account for those imperatives. There is a great line in Lester Thurow's book "Zero Sum Society", where he says: "The role of government is to represent the future to the present." As a regulator, we are to some extent a custodian of the future as well.

We must protect the interests of consumers **AND** promote the financial viability of the sector. We have to ensure that consumers are paying a fair price for what they get, and getting fair value for what they pay for.

Thank you.