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**Guelph Hydro Inc.**

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Check against delivery

Thank you for the invitation to join you today. I'm very pleased to be in Guelph. This community has a reputation as a leader in sustainable development and conservation. I wanted to get to know more about Guelph Hydro before I spoke to you, so I reviewed the biographies of the Directors on the website. I was struck by the themes of community involvement, environmental and energy experience, public policy engagement, and consumer and business expertise. So I am sure that all of you recognize the environmental, and economic stimulus, effects of the Ontario government's new energy policy. The government has given great responsibility to the energy sector – especially those responsible for electricity distribution – many of you in this room today. The Ontario Energy Board shares that responsibility.

So, the most important thing that I can tell you today, is that as your energy regulator, we understand. We understand that there are new things coming down the pipe for you. We understand the government's objectives for renewable energy in Ontario, and the urgency to implement *The Green Energy Act*. And we understand that we have to be ready to balance the interests of consumers and the energy sector in this new world.

Until the Bill is passed, regulations implemented and directives issued, there is going to be a level of uncertainty. Yet we all must be prepared to hit the ground running. I'm here today to tell you what the Ontario Energy Board is doing to prepare itself – and the sector – for the implementation of *The Green Energy Act*.

We have been – and are – actively working on a number of initiatives, especially with regard to renewable generation. We are prepared to take further action. We will work to develop guiding principles. We will have ongoing dialogue with you and with other interested parties.

The Ontario Energy Board Act sets out clear legislative objectives to guide the Ontario Energy 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.

*The Green Energy Act* proposes three new objectives for the Ontario Energy Board. They are:

1. The promotion of renewable energy projects, and particularly the timely connection of such projects to transmission and distributions systems
2. The promotion of conservation; and
3. The facilitation of the implementation of a smart grid.

These new objectives must mesh with, and be complementary to, our old objectives. They don't alter our overarching mandate, which is always to regulate in the public interest. Some of the things I will be discussing are still being developed – but in this policy environment, we want to proactively identify

and begin to develop solutions that will deliver on the intent of the government's policy.

One thing is clear. In order to meet the government's goals for renewable generation, the role of the distributor will change. Under *The Green Energy Act* it will be easier for distributors to build, own and operate generating capacity; and distributors will have an obligation to connect renewable generation – although this obligation will be subject to technical and economic requirements.

In order to accommodate as much distributed renewable generation as possible, distributors will be required to develop and file plans for the reinforcement and expansion of the distribution systems. The implementation of so-called "smart grid" technologies are an integral part of the investment that will be required to achieve the government's objectives. The Ontario Energy Board's role is to review and assess these expansion plans.

We are already working with distributors to write guidelines that will aid the development and filing of these plans. Earlier this month, we met with a number of executives from utilities to discuss some of the strategic aspects of how to approach distribution planning in terms of the government's goals. Your President, Art Stokman was there.

Yesterday, we followed up with a technical conference to determine what needs to happen, and when to develop plans that can be filed with the Ontario Energy Board. We will issue a letter to distributors mid-May outlining the principles for the plans and providing more information as to what we will be expecting from them and when.

The Ontario Energy Board will continue to have an important role in ensuring that the network infrastructure is built efficiently and economically. We are already looking at cost responsibility, and cost recovery rules. As you may be aware, we are reaching the end of a process to amend the Transmission System Code to deal with enabler facilities. Enabler facilities are lines connecting a proposed cluster of generators to the transmission grid. We expect to have the final amendments in the code next month.

However, the introduction of *The Green Energy Act* and the associated "Feed in Tariff" regime for acquiring renewable power generation – combined with our experience with the Renewable Energy Standard Offer Program – suggests we need to make changes to the Distribution System Code as well. There is an urgency to these code developments.

The first area to tackle is how distribution capacity is allocated to generators. Over the past two years, the Ontario Energy Board has been monitoring the effectiveness of the connection process contained in the Distribution System Code. As a result of this monitoring, the Ontario Energy Board is of the view that the existing connection process can be improved on the one hand to avoid the

“waiting lists” for capacity that some generators have experienced; and, on the other, to encourage projects that have had capacity allocated to them to proceed with the development of their projects. I expect these changes will address the existing applicants for capacity as well as future applications anticipated under the Feed-In Tariff program.

The second set of code changes involves the allocation of the cost of connecting generators to the distribution system. The Distribution System Code currently requires the generator to pay the system upgrade costs associated with connecting their generation to a distribution system. This policy protects the consumers of that distribution system from paying these costs.

But the role of the distribution system is changing. We are moving to distribution systems that will be required to provide access to renewable generation. The Feed-In Tariff policy is expected to lead to major investments in distribution to accommodate these generators. Many of the investments required will be generic system modifications – to make the distribution system more “generator ready”. Other investments will be aimed more at accommodating specific generators.

And, the Ontario Power Authority needs to know what cost responsibility policy we will have in order to set the appropriate Feed-In Tariff, so we are moving quickly to develop proposed changes to the Distribution System Code. These amendments will be coming out for comment in the near future.

With need for investment so acute, the Ontario Energy Board wants to ensure that the right cost recovery approach is in place to encourage that investment, while protecting the interests of ratepayers.

Our Chair recently announced that the Ontario Energy Board is looking at ways to create conditions that would foster timely investment by utilities to reinforce and expand their infrastructure. The Ontario Energy Board plans to undertake a review of our current approach to cost recovery from ratepayers for capital investments. Modifications to our approach may be required to better facilitate utility infrastructure investments. Some of the tools that we will be considering include:

- The ability to recover construction costs while construction is in progress;
- The ability to recover certain project costs based on the achievement of milestones;
- The ability of a utility to apply to the regulator outside of the normal rate application cycle for a rate increase as a result of a single capital project; and
- The imposition of rate riders or surcharges to allow for the recovery of certain specific cost increases without the need for a general rate case.

These tools will be assessed as possible elements of an integrated cost recovery approach for infrastructure costs – an approach that goes beyond the model with which we are familiar.

Another area where we have tried to look ahead is with our current cost of capital review. The Ontario Energy Board's approved cost of capital sets the amounts utilities can recover for their cost of debt, as well as the return on equity they can make.

In February, we initiated a consultative process to help us determine whether the current economic and financial market conditions warrant an adjustment to the cost of capital parameters – the return on equity, and long- and short-term debt rates. The objective of this review is not to reconsider the Ontario Energy Board's established methodology, but rather to test whether the values produced – and the relationships among those values – are reasonable in the context of the current economic and financial market conditions.

If the values are not reasonable, what are the implications, if any, to a distributor? What adjustments, if any, should be made to the cost of capital elements to compensate – or correct – for the current economic and financial conditions? Should the Ontario Energy Board consider changing the timing of its cost of capital determination? These are some of the areas that we are currently seeking comment on. Written comments, which are due on April 17, will be considered by the Ontario Energy Board in our determination as to whether adjustments to any of the cost of capital parameter values for the 2009 rate year are required, and if so, what they might be. If adjustments are warranted, we will establish a mechanism to adjust rates in 2009. We expect to determine if there is merit to making changes by early June.

The final element of *The Green Energy Act* I would like to comment on is conservation. *The Act* states that an objective of the Ontario Energy Board will be to promote conservation. This is an extension of our current role.

Distributors will have a very important role with respect to conservation and demand management. *The Act* clearly indicates that distributors will have a target for conservation, and those targets will be set for every distributor as a licence condition. We also know that there will be a requirement for conservation programs for low-income consumers. What is not as clear at this time is exactly how conservation targets will best be met.

While we are still working out the details, what we believe *The Act* provides is greater flexibility in tailoring conservation programs to the needs of your customers. You know your customers best. To the extent that the province-wide Ontario Power Authority programs are appropriate for your customers, you can choose those. Where utility-specific programs make sense, you will be able to propose those to the Ontario Energy Board.

There is also a provision in *The Act* for the recovery of distributors' conservation costs from the global adjustment mechanism rather than through rates. This means that these costs will be shared equally across the province. We don't have all the details yet as to how this will all work, so stay tuned. I can tell you, though, that we are looking at proposing a code for conservation that ties into the licence conditions for conservation targets.

The code would set out the requirements for criteria:

- for programs,
- costing and budgets,
- cost allocation,
- evaluation mechanisms and
- filing requirements.

This will provide certainty as to the rules for conservation on a go-forward basis. It will help to streamline the process. We will start informal consultations and discussions soon.

So, there is a lot on our plate, and a lot on yours. I have told you about the work that we are doing so that the electricity sector can appropriately implement this new government energy policy. I want to make it clear that because things are moving so quickly, there will be false starts. There will be corrections to be made. Elements will be missed. I know that you and other participants in the sector will certainly let us know when this happens. And we will respond. But to wait until all the details are known before we act, would be to ignore the urgency of the task before us. We are not going to do that. We are moving quickly.

But I also want to assure Boards of Directors and municipalities that own utilities, the Ontario Energy Board will continue to consider your interests as a business and as leaders in your community – as well as the interests of your rate-payers – in a transparent, fair manner. That is our commitment to you.

Thank you for your attention.