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What I would like to discuss today is the role of the regulator in a green energy economy. The world is changing rapidly particularly in terms of financing major economic projects.

But even before the credit crisis and economic downturn, it was generally recognized that change was on the horizon, and the Ontario Energy Board would be dealing with greater uncertainty and have to examine new techniques to manage risk.

Over the last year, Ontario's energy sector has also witnessed considerable change. Ontario's energy policy has been transitioning from a world where the focus has been on resolving a forecast imbalance in the demand and supply of electricity, reflecting the true cost of power, and increasing the amount of conservation and green energy. We are moving to a new regime, where green energy is a key component of a broader industrial and environmental strategy and where time is of the essence.

In this kind of environment, is the need for regulation to establish a sense of order and stability greater than ever? Should the role of the regulator change? We cannot and should not change for change's sake. The reason for this is that stability in the regulatory regime has won much for the public, by fostering confidence. But, can network utility regulation be used as a wider tool, through network pricing and access priorities, to secure a green energy future?

Public policy is clearly the biggest driver of change in the sector. This is inevitable and, at the same time, critical.

Just over 10 years ago, Bill 35 established a competitive market, where producers competed against each other to supply consumers. It also created a significant regulatory role for the Board in relation to the electricity sector. While new, that role was fairly clear and well understood. Electricity network regulation in Ontario was, among other things, developed to facilitate competitive outcomes to serve the interests of producers and consumers.

Under this regime we were asked to ensure that network energy infrastructure development was economically optimal, met reliability expectations and allowed for competitive supply. Network investments in this regime, such as greater interconnection with Quebec and under Lake Erie, while never completed, reflect the policy of increasing competition in Ontario supply. We were also tasked with ensuring equitable treatment amongst market participants.

Under this competitive system, the total quantity of supply and the mix of fuels were to be determined by the market. Of course, this never fully materialized. Bill 100 replaced this competitive market with a hybrid structure, where the quantities and mix of generation were determined by the government and procured principally by the Ontario Power Authority. The hybrid market did not

fundamentally alter the objectives of network regulation, but it did make the overall regulation of the sector more complex. Generators still competed with each other, either through the market or through competitive procurements. Network investments were still needed for this to occur.

An updated green energy and industrial strategy will once again shift the energy policy framework. Under a feed in tariff system, as we have seen in various European jurisdictions including Germany and Spain, renewable generators do not essentially compete with each other. Networks must be expanded, not to enhance competition, but to accommodate renewable energy producers to achieve broader environmental, industrial and social policy objectives.

I expect that the implications for network regulation may be profound. The Board will likely need to ensure that transmitters and distributors are responsive to their generation clients. Network owners will be required to provide information to generators identifying the good places to connect to the system and plan their networks to accommodate and manage increasingly large amounts of renewable generation. The necessary investments must also be made.

With this change in orientation, where the connection of renewable generation is a priority, the Board's involvement in ensuring the economic optimization of network infrastructure will be important. Cost responsibility, cost allocation, prudence, and cost recovery rules are thus likely to remain important functions of the Board and are likely to be the forces driving efficient generator connections.

The equitable treatment of market participants is also likely to remain a key function. In an ideal world, we would have a network without limits, able to economically connect any amount of green energy. But, we obviously do not live in an ideal world. Countries such as Germany that have been at the forefront of a green energy and industrial strategy recognize this by making the right to connect subject to economic tests and technical limits. In this environment, our current codes will need amending to ensure that access to capacity is managed equitably and efficiently.

In this policy environment, we will need to proactively identify and implement solutions that facilitate the achievement of this policy. The Board is already looking at cost responsibility, cost allocation, and cost recovery rules. Our focus is on ensuring that the right structures and incentives are in place to promote investment in facilities that anticipate future need and economically efficient outcomes. Our transmission cost connection review is a prime example of this assessment.

In a recent report on this very subject, the Office of the Gas and Electricity Markets (Ofgem) concluded that there is currently no strong financial incentive for transmission companies to undertake anticipatory investment. Ofgem stated that there is no increased reward for undertaking such investment in an efficient

manner, to counteract the higher downside risk of investment being fully or partially disallowed.

Incentives are at the top of the agenda these days. Ofgem and the National Regulatory Research Institute have both recently published papers discussing incentives. In the former case, from the point of view of accelerating the connection of renewable resources in conjunction with the UK's energy and climate change goals. And in the latter case, in the context of the need to attract the significant investment dollars necessary for infrastructure expansion and replacement in the US.

For the purposes my of my talk today, I ask whether this may usher in a new era for utility regulation.

Regulators will have to make difficult choices about investments and incentives which become a key focus of the work.

Incentives can take various forms:

- Recovery of construction costs during, rather than only after, construction;
- Advance approval of project development costs;
- Approval of formula rate structures, which allow for automatic recovery of certain types of costs;
- Single issue rate increases, rather than general rate cases; and
- Rate of return and innovative risk/reward options.

As important as the use of incentives will be, we will also need to ensure that an appropriate balance is reached. We will still have to determine how much ratepayer money should be committed, when ratepayer money should be committed, and the conditions under which these commitments should be made. These are not trivial questions, particularly when, from a ratepayer's point of view, the cost of utility services is increasing consistently over time, never declining.

For example, the Board presently allocates asset utilization risk, construction and project execution risk, delivery risk and cost risk between ratepayers and utilities. It is clear that a green energy and industrial framework has the potential to change risk allocation patterns. The ratepayer could bear more risk, as investment decisions will be based on anticipated rather than contracted demand. Overall program success will be dependent upon whether the assumptions in the planning process prove to be correct and whether investments are in fact in place when generation is ready to connect.

It is evident that planning, at the distribution and transmission system levels, must occur if this green energy and industrial approach is to succeed. These

plans must also be implemented, and it will be incumbent on the Board to ensure that regulatory incentives are designed to induce the appropriate behaviours.

The continued evolution of government policy means that the Board must also be proactive and ensure that the right regulatory policies are in place at the right time. These are not new ideas. They are ideas and concepts that have been central to the Board's approach for the last five years.

But, there should be no sudden lurches in regulatory direction, even though the customer of network utilities in the new framework is no longer just the consumer of electricity, but also the renewable generator.

Our processes, whether adjudicative or consultative, are transparent, objective and independent and are therefore likely to increase the commitment to and acceptance of different outcomes.

New renewable connections, heavier promotion of distributed generation, and smart grid developments all ask new questions of the infrastructure and therefore of the regulator.

In this environment, the need for regulation to establish order and stability is greater than ever.