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Good afternoon. It is a pleasure to be with you today. Congratulations to the organizers on a great program. There is so much that I could discuss with you today that I have had a hard time limiting my remarks. I think I am safe in assuming that almost everyone here has a stake in the changes occurring in the power industry in Ontario. I also believe I am safe in assuming that each of you wants your interests weighed fairly in decisions that affect the industry. And my experience with the Ontario Energy Board (Board) tells me I am safe in assuming that sometimes your interests will conflict with other stakeholders, perhaps the person sitting next to you.

As the independent regulator, our responsibility has been to weigh the interests of the stakeholders and to facilitate the business of the power industry. If you thought the Board had a passive role in that, you were mistaken. We have been, and are, very active. In fact, I will show you today that we have been very busy trying to get ahead of the curve of these changes, on your behalf.

I believe that, as the independent regulator, we have to be ready to appropriately consider the variety of stakeholder interests as the changes take effect. We have to be prepared to regulate in order to expedite decisions on industry proposals under the new renewable power generation policy and legislation.

Today, I would like to talk to you in some detail about a number of initiatives that the Board is currently moving aggressively on to support the objectives of the *Green Energy and Green Economy Act, 2009*.

Some of the concepts I will be outlining here are still being developed. I want to make it clear that because we are facing fundamental changes and are moving so quickly, there will be false starts. Elements will be missed. Corrections will need to be made. But we do not want to wait until all the details are known before we act. That would mean ignoring the urgency of the task before us. We are not doing that; we are moving quickly. 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. We understand the government's objectives for renewable energy in Ontario, and the urgency to implement the Act. We understand that the Board has to be ready to facilitate investment. And we understand the best way to do that is through independent regulation.

The *Green Energy and Green Economy Act, 2009* establishes three new objectives for the Board. They are:

1. The promotion of renewable energy, including the timely connection of renewable energy projects to transmission and distribution systems.
2. The promotion of conservation and demand management; and
3. The facilitation of the implementation of a smart grid.

The government's objectives for increased renewable generation has created an acute need for investment in both transmission and distribution infrastructure. Not to be forgotten is that the Board's current objectives remain in place. And they include:

1. The protection of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
2. The promotion of economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity.

So the Board will continue to have an important role in ensuring that the network infrastructure is built efficiently and economically. Our first task is to consider how to get utilities investing in this infrastructure more quickly.

I would like to tell you about some of the things the Board is doing now to facilitate that investment. To provide some context for the changes we are proposing, I want to point out that the Board's regulation of electricity was established in a market where investment in generation was driven by supply and demand, and investment in networks was driven by load growth.

Now, unlike the competitive procurement system Ontario has used primarily up until now, renewable generators will no longer compete with each other. And, under the new legislation, investment in networks will be driven by the needs of the renewable generators. So network investment cannot be limited to supporting generation that Ontario customers need, at least in the short term. It has to expand to meet the need for generators to transmit their power. The Board's oversight must be responsive to this change in orientation to ensure networks get expanded.

So how are we doing this? I am going to briefly discuss six Board initiatives. We are making a number of changes to make it easier for renewable generators to connect to our system.

The first area to tackle is reforming the allocation of distribution capacity to generators, the so-called "queue". Over the past two years, we have been monitoring the effectiveness of the connection process contained in the Distribution System Code. As a result of this monitoring, our view is that the existing connection process can be improved to avoid the waiting lists for capacity that some generators have experienced and to encourage projects that have capacity allocated to them to move ahead. We expect a large number of connections will be required for generation facilities using renewable sources of energy, and we want to ensure that those renewable generators who are most able to move forward have the available capacity to do so.

Earlier this month, we proposed new rules for allocation of capacity to generators wishing to connect to distribution systems to ensure that it works harmoniously with the Ontario Power Authority's (OPA) Feed-In Tariff program. We also want to ensure that viable generation projects, particularly renewable generation projects, are connected to

the distribution system in a timely manner. We expect that these changes will address the current backlog of generation projects waiting to connect to the distribution grid. They should also help to clarify the rules related to capacity allocation for distribution connected generation.

The next important area is the determination of who pays the cost for generators to connect to the distribution system. As it stands now, generators are required to pay for system upgrade costs associated with connecting their generation to a distribution system. These costs are payable up front, and are not added to the rate base of the distributor.

But the role of the distribution system is changing. We are moving to distribution systems that must provide access to renewable generation. And we expect that the Feed-In Tariff policy will result in many more renewable generators requiring connection. Many of the investments required will be generic improvements to make the distribution system more “generator ready”. Other investments will be aimed more at accommodating specific generators.

Furthermore, the OPA needs to know the Board’s cost responsibility policy in order to set the appropriate Feed-in Tariff. We are currently examining our rules in light of this changing context. We are likely to propose that the cost connection assets dedicated to a specific generator would continue to be borne by that generator. However, some improvements are required to enable the system to generally accept renewable generation. Under consideration is that these types of improvements might be borne by load customers, the ratepayers.

And system expansions, for example extension to lines, might be shared between the renewable generator and the distributor using a cap mechanism. For example, the distributor, and as a result the ratepayer, might pay the costs of any system expansions up to a cap per megawatt. Any expansion costs beyond the cap would be borne by the generator.

We expect distributors to file plans with the Board that will identify investments they will make in anticipation of the connection of renewable energy generation projects. And we expect generators will pay close attention to these plans and site and time their projects to take advantage of capacity that is available or is planned to be available, such that their connections will not trigger unplanned and inefficient expansions.

The third topic I want to discuss is transmission system costs. We have proposed new rules to enable clusters of renewable resources to be connected to the transmission system more quickly and efficiently. In this scenario, we envision that a new line would be required to connect the renewable generation.

We propose that the Board would designate a transmitter to coordinate the development of a transmission solution that would connect a cluster of renewable generators. Initially, the cost of approvals throughout the development process, as well

as the labour and procurement process, would all be borne by the transmitter with costs shifting to generators at the time of connection. When generators do connect, they would pay a pro-rata share of the cost of the enabler facility, based on their nameplate capacity. Because generators would not have to carry the financial risks incurred over the development period of the enabler facility, they could focus their efforts on the development of renewable generation.

We will review the comments we have received from stakeholders, as well as to take into account the requirements of the *Green Energy and Green Economy Act, 2009*, in considering whether further amendments are required.

Let's talk about generation that will be owned by an electricity distributor. Under the *Green Energy and Green Economy Act, 2009* distributors are now permitted to own and/or operate certain generation. This activity had previously been prohibited.

It is not known yet how distributors will be compensated for this generation activity. For example, will a distributor who chooses to undertake generation come to us for traditional rate treatment, similar to that used for distribution activities? We understand that a regulation may be forthcoming. In the meantime, we are considering a number of possible treatments.

- Affiliates of distributors have always been allowed to own generation, and this option still exists. Under this scenario there would be no new regulatory oversight, other than a continued requirement for compliance with the Affiliate Relationship Code.
- Another possibility is that generation would be part of the distribution business, but recovery of costs and a return on equity would not be borne by rate payers. The project would be financed via long-term debt and/or equity. The distributor would presumably enter into a feed-in tariff contract with the OPA, guaranteeing a long-term price over a 20-year period. The profit for the project would therefore go to the distributor's shareholders. Ratepayers would bear none of the risk and would not be entitled to any of the rewards.
- A third scenario under review involves including distributor-owned generation in rate base. In this scenario, the distributor might also enter into a feed-in tariff contract with the OPA. A regulation would be required to allow the Board to set rates related to generation. If that were to happen the Board could allow utility rate-regulated recovery subject to a prudence review and other considerations. In this scenario, rate payers would pay the distributor for its costs and a return on equity and the rate payers would receive the benefit of the revenue stream from the OPA.

When appropriate, the Board will seek input on alternatives.

If you have been keeping track, I am now moving to my fifth topic, distribution planning. In order to accommodate as much distributed renewable generation as possible, and to

ensure that investments are made systematically and rationally, distributors will be required to develop and file plans for reinforcement and expansion.

The implementation of so-called “smart grid” technologies is an integral part of the investment that will be required to achieve these objectives. Our role is to review and assess these expansion plans.

We have begun work on the guidelines that will aid the development and filing of these plans. The Board has met with a number of executives from utilities, as well as ratepayer groups and other stakeholders, to discuss some of the strategic aspects of how to approach system planning in terms of the government’s goals. We will issue a letter to distributors soon outlining the principles for the plans and to provide more information as to what we will be expecting from them and when.

These plans must also be implemented, which leads me to my last topic. It will be the responsibility of the Board to ensure that the right cost recovery approach is in place to encourage the necessary investment and to ensure such investment takes place quickly.

To that end, our Chair stated on April 3, 2009 that the Board will be undertaking a consultation process for the early approval of electricity infrastructure investment. In that letter, the Chair acknowledges the need for greater regulatory certainty when it comes to cost recovery for network owners to make investments in transmission and distribution. The consultation process will look at tools for assuring cost recovery for investment such as:

- the ability to recover construction costs while construction is in progress;
- the ability to recover certain project costs as they are incurred or based on the achievement of certain milestones;
- the imposition of rate riders or surcharges to allow for recovery of certain specific cost increases; and
- the ability of the utility to apply to the regulator for a rate increase outside the normal cycle.

These regulatory approaches are not mutually exclusive but could become part of an integrated cost recovery approach for infrastructure costs, one that would move beyond the Board's traditional practice.

Encouraging investment is important but we will also need to ensure that an appropriate balance of risk and reward is reached. We still have to determine how much ratepayer money is to be committed, for what purpose, and under what conditions. For example, the Board presently allocates development risk, construction and project execution risk, cost risk and asset utilization risk between ratepayers and utilities. A scheme to encourage investment may place more risk on ratepayers. This is not a trivial issue when the cost of electricity service is expected to increase consistently over time.

As the Chair has said, “this is an opportune time for the Board to ensure that the proper cost recovery approach is in place to encourage needed investment while protecting the interests of ratepayers.” The Board is expected to launch the consultation very soon.

I hope that I have made it clear that the Board has much work in progress. I have told you about some of the work that we are doing to facilitate investment so that the electricity sector can appropriately implement the government’s new energy policy. I have also told you how the Board is working to ensure the right regulation is in place to make this happen. Regulation that will enable generators to connect more quickly and with certain costs. Regulation that will encourage network owners to spend more money on expanding their systems, but to spend it prudently.

You may ask: will all this have an impact on electricity pricing? Of course, it will have a definite impact on a kilowatt-hour basis. However, conservation measures that are underway will create the potential for savings, and the overall bill may not go up significantly. It is the Board’s responsibility to ensure that the ratepayer’s money spent to achieve the government’s objectives is money well spent.

There is much that the Board is doing that I have not touched on today. I have not gone into the work we are doing on conservation and demand management target setting, programs, incentives or evaluation. I have not touched on the coming changes to time-of-use pricing. I have also not explored the special purchase charge. We are waiting for the regulation on this. And I have not addressed the cost of capital review which is currently underway. I would be happy to take your questions on any of these topics and tell you what I can at this stage.

In closing, I would like to make a brief comment on the ministerial powers within The *Green Energy and Green Economy Act, 2009*. The Act gives the minister a great deal of directive power. We will not know how he is going to use this power until directives are issued. But we have every reason to believe that the government wants to maintain a strong, independent and transparent regulator - a regulator that can consider the interests of the stakeholders and facilitate investment through independent regulation. And that is what we intend to deliver.

Thank you for your attention.