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Ontario Energy Board

SPEECH

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Check against delivery

Thank you. I am very pleased to be here today. The province of Ontario has made a commitment to a greener sustainable economy through the *Green Energy and Green Economy Act, 2009*. And the energy sector faces the central challenges and provides the key opportunities for realizing that commitment.

The legislature has given the Ontario Energy Board (OEB or Board), which regulates the energy sector in the public interest, a unique and important role to play in making this happen. To understand the role of the OEB in contributing to this goal, it is necessary to start with our statutory mandate.

Legislation is important, not just because it specifies legal duties, but because it manifests the values that are to be realized by public authorities. The *Ontario Energy Board Act, 1998* will, once the amendments are proclaimed, present a clear statement of the new objectives that the legislature expects to be furthered: conservation, renewable energy, and technological innovation through the smart grid. However, our existing mandate, being economic efficiency, cost effectiveness and consumer protection, also remains unchanged.

Over the last number of years, the Board's responsibilities, in the electricity sector in particular, have increased. And over this period, the Board has been proactive in articulating its regulatory goals in a manner that demonstrates that it has been and continues to be open to new ideas and new ways of doing things. We are advancing how we regulate network utilities to facilitate a green energy future. For a number of months, we have been working on a whole host of initiatives, some of which precede the *Green Energy and Green Economy Act, 2009*, and some of which flow directly from the Act.

On June 1, I issued a statement which refers to three initiatives that the Board is working on to promote renewable generation and facilitate smart grid development. These three initiatives lay the foundation for an integrated and cohesive regulatory framework for electricity infrastructure development in the province.

1. Infrastructure Planning and Funding Related to Renewable Generation Connection and Smart Grid Development

The first initiative involves guidelines adopted by the Board regarding planning and funding for distribution system development to accommodate renewable energy and develop a smart grid. The guidelines will be posted to our website tomorrow.

The guidelines are designed to increase regulatory predictability and reduce perceived regulatory risk before a distributor's system development plan is approved in conjunction with the approval of and implementation of a distributor's system development plan. The guidelines provide for the establishment of new deferral accounts and a funding adder that allow distributors to get an early start

on eligible renewable connection and smart grid development investments. Distributors are thus able to make expenditures that they consider appropriate without a Board-approved plan. The prudence of those expenditures and cost recovery will be subject to a future Board process.

The guidelines also provide initial guidance to electricity distributors regarding the preparation of plans to accommodate renewable generation and to develop a smart grid. And they also set out that once a plan has been considered and approved by the Board, issues relating to prudence, need, project selection, project budget, and prioritization of expenditures will not be revisited in future proceedings, except in relation to material deviations.

I should highlight that the Board is also giving consideration to the evaluation criteria to be used to assess distributors' system development plans, particularly as we examine the early planning applications filed with the Board.

2. Initiatives to Implement an Integrated Regulatory Framework for Electricity Infrastructure Investment

On June 10, the Board released details on the second initiative mentioned in the statement. We posted a staff discussion paper on the regulatory treatment of infrastructure investment for Ontario's electricity transmitters and distributors.

The conventional approach used by the Board allows for prudent cost recovery for capital expenditures when construction is completed and the associated infrastructure is considered "used and useful". This approach may not be best-suited to promoting or facilitating timely investment arising, in particular, from the *Green Energy and Green Economy Act, 2009*.

I continue to be of the view that electricity utilities may need greater regulatory certainty prior to making significant capital investments. Accordingly, the discussion paper sets out a range of mechanisms for the regulatory treatment of infrastructure investment that could be used to support the setting of rates within an integrated cost recovery framework. Potential mechanisms include the recovery of costs of abandoned facilities, accelerated cost recovery such as including construction work in progress in rate base and depreciation adjusted to match a contract term, as well as incentive mechanisms such as return on equity adders.

The discussion paper is primarily concerned with innovative approaches to cost recovery in relation to electricity system investments. However, the cost recovery mechanisms developed through this initiative may also be available in relation to other types of energy projects in appropriate circumstances.

3. Distribution Connection Cost Responsibility

The third and final initiative discussed in the June 1 statement is distribution connection cost responsibility. On June 5, the Board gave notice of proposed amendments to our Distribution System Code (DSC). Cost responsibility associated with investments in distribution infrastructure is governed principally by the DSC.

Under the current framework in the DSC, a generator that connects to a distribution system is responsible for paying all of the costs of connecting its generation facility to the distribution network. This includes the cost of transmission and distribution system upgrades beyond the connection point.

The proposed amendments would revise the Board's current approach to assigning cost responsibility as between a distributor and a generator by having the distributor bear more, if not all of the system expansion costs associated with the connection of a renewable generation facility. The proposed approach to generation connection cost responsibility is designed to better align planning and cost responsibility with the benefits that are expected to accrue from different types of investments. This ensures that costs are allocated in a manner that protects ratepayers, and appropriate locational signals are maintained as a means of ensuring that site selection for renewable generation is economically efficient.

At this point, you are probably wondering how all of these initiatives fit together and relate to one another. We believe an initial question that needs to be answered when assessing an investment to facilitate the connection of renewable generation is the cost responsibility between the distributor and the generator. That is, how much the distributor will have to pay for and recover the cost of through rates.

The proposed distribution cost responsibility policy for distributed generation does this. Once cost responsibility is known, the distributor is then able to commence investment in advance of filing a distribution system development plan, as per the proposed guidelines.

Alternatively, the distributor can apply to the Board for approval of infrastructure investment in several ways – as part of a system development plan, as a single issue rate application, as part of the incremental capital module in third generation incentive rate making, or in a cost of service rates case. Ideally, the distributor would file a distribution system development plan. And for efficiency, that plan would be considered concurrently with a cost of service rates case. The Board recognizes, however, that a plan may be filed independently of a rate case. And this may occur in the short term.

Regardless of the method used by the Board to consider the investment, the distributor may request that one or more of the mechanisms set out in the staff discussion paper on the regulatory treatment of infrastructure investment should apply to that investment. This anticipated interaction between cost responsibility, system planning and cost recovery is expected to increase regulatory predictability and reduce perceived regulatory risk.

4. Transmission Connection Cost Responsibility

The last issue I would like to discuss this morning is Transmission Connection Cost Responsibility. Prior to the tabling of the *Green Energy and Green Economy Act, 2009*, we proposed new rules to enable clusters of renewable resources to be connected to the transmission system more quickly and efficiently.

The enabler concept flowed from the Ontario Power Authority's Integrated Power System Plan and was developed to address resource rich, renewable energy environments. The enabler code amendments are designed to first achieve greater generator coordination in the development and construction of an efficient transmission solution to connect multiple renewable energy resources.

Secondly, the code amendments are designed to reduce generator risk by shifting the risk of enabler development, regulatory approvals and construction to the transmitter from the generator. Each generator that eventually connects to the enabler facility would then pay a pro-rata share of the cost of the enabler, based on their nameplate capacity.

The proposed enabler code is a departure from our existing transmission connection cost responsibility approach, whereby generators are responsible for building and paying for their own connection facilities. Comments on the proposed approach have been received from stakeholders, and we are in the process of considering these comments.

I have told you about some of the work that we are doing to:

- Facilitate investment to expand the capability to accommodate renewable generation and implement smart grid technologies;
- Reduce perceived regulatory risk; and
- Increase regulatory predictability.

The initiatives that I have discussed this morning reflect how the Board is integrating consideration of its new objectives into its historical approach to regulation.

Each of our initiatives is intended to facilitate implementation of projects that will further the government's policy goals, while at the same time promoting economically efficient outcomes to ensure that ratepayer interests are protected.

We are using our expertise and experience to put forward approaches that we believe are well-suited to the green energy and green economy environment. The Board is mindful of the social, industrial and environmental policies that underpin that *Act*, and of how they might be considered in the Board's work.

In this regard, we remain true to our core regulatory values, which include - a long-term approach to issues; timely, and principled decisions and outcomes; and a focus on practical and workable solutions. Regulatory processes that are based on these principles are likely to increase the commitment to and acceptance of the policies embodied in the *Green Energy and Green Economy Act, 2009*.

Thank you.