



Today's Electricity Sector Risks and Opportunities

Pamela Nowina

Vice-Chair, Ontario Energy Board

AMPCO Members Fall Meeting

Toronto

November 17, 2005



The Challenges We Face

- Electricity sector undergoing fundamental changes

- Result:
 - Tremendous uncertainty in the marketplace
 - Concern over pricing, adequacy of supply
 - Demand for clarity, greater understanding of OEB role



Focusing on Key Areas

- The evolving electricity marketplace – risks & opportunities

- The evolution of industry regulation
 - Who's responsible for what

- Initiatives this past year and in the immediate future



Risks and Opportunities

- Electricity pricing & Reliability of supply
 - Critical to your operations and profitability
 - Prices being driven by new mix of generation
 - Increased distribution costs



Distribution Costs

- OEB reviewing 2006 electricity utilities' distribution rate applications

- Vast majority seeking increases



Threats Bring Opportunities

- Conservation

- Introduction of alternative processes & technologies

- Can become N.A. leaders in conservation

- Use new technologies & processes to:
 - reduce our need for electricity
 - better manage costs we face

The Current Climate

- OEB bringing stability to sector through:
 - Adapting to changing needs
 - Utilities must complete full rate setting procedure under regulation
 - Rates subjected to review of revenue needs & cost allocation



The OEB's Goal

- An effective and efficient electricity sector
 - Fair prices & adequacy of returns
 - interests of consumers protected
 - investors & shareholders receive fair return on investment

- Regulatory certainty

Why We Regulate

- Gas and electricity utilities
 - Absence of market forces
 - Total annual revenue requirements exceeding \$5.8 billion
 - Commodity price would double cost

- Board's economic regulation is vital
 - Regulation has cost
 - Ensures that revenue requirements balance interests of consumers and needs of industry

- OEB working to reduce overall regulatory costs without compromising our mandate



Increasing Consistency & Predictability

- Streamlining processes
 - Releasing new Performance Measures for Processing Applications
 - Issuing regular bulletins & streamlining administration

- Goal:
 - Greater timeliness & efficiency in processing applications
 - More certainty and clarity in the process
 - Reduced decision time
 - Easier planning, therefore less cost



Players & Roles - OEB

➤ OEB

- Protects interests of consumers
- Develops new mechanisms for setting electricity prices
- Monitors market to ensure efficiency, fairness, transparency & competitiveness
- Now includes Market Surveillance Panel

Players & Roles - OPA

➤ OPA

- Manages supply, capacity and demand through procurement processes
- Develops forecasts for electricity demand and resource adequacy for the medium and long term
- Develops and contracts for new electricity resources
- Prepares Integrated Power System Plan (IPSP) for generation, transmission, and conservation



Players & Roles - IESO

➤ IESO

- Operates Ontario's electricity system
- Balances demand / available supply through wholesale market & directing flow across transmission system

2004-2005 OEB Initiatives

- Key Initiatives Undertaken:
 - Regulated Price Plan
 - Smart Meter Implementation Report
 - Approval of new utility Distribution Rates
 - Natural Gas Forum Report

- Applications processed:
 - 300 electricity
 - 98 natural gas

The Road Ahead

➤ Key Initiatives:

- Gas-electricity interface
- Hydro One transmission rate hearings for 2006, 2007, 2008
- Requiring electricity distributors to file cost allocation studies
- Examining potential rate design changes
- Reviewing revenue requirements of all Ontario utilities
- In 2007, setting rates by using an incentive mechanism

Ensuring Value for Conservation Investments

- Stringent controls in place at the front end
- Rigorous standards applied to assessment at the back end, including:
 - Audits of utilities' books
 - Business cases required for CDM initiatives
 - Required comprehensive evidence filings
 - Opportunities for intervenors to review submissions
 - Quarterly reporting of CDM initiatives
 - Ahead – required annual reporting with cost-benefit analyses
 - Required LDC cost-benefit analysis filings prior to Board approval of CDM initiatives



In Summary

- Our Goal:
 - Protecting interests of consumers
 - Allowing investors to earn reasonable rate of return
- Focused on greater transparency, clarity and timeliness
- Major advances made in
 - Regulated Price Plan
 - Smart Meter Implementation Report
 - New distribution rates for Electricity Distributors
 - Natural Gas Forum
- Our role: Ensuring effective, efficient, fair and transparent regulation of electricity sector