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Chair

Ontario Energy Board

Speech

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Check Against Delivery

Let me begin by thanking both Ken and Charlie for the great work they've done, not only on your behalf, as members of the EDA, but also on building the relationship between the EDA and the Ontario Energy Board.

Initiatives such as "Getting to Know Your Regulator", help to open doors and expand understanding. As a result of their efforts, our relationship is stronger, more productive and on a much better footing to deal with the challenges before us.

Let me also congratulate you, Robert, on being named as the new Chair of the EDA and say how much I am looking forward to working with you in the days ahead.

As I was preparing for today, and reflecting back on the year since I was last with you, I was again struck by the pace of change that we are all facing in the electricity sector.

And I was reminded of a story that is told of an American Ambassador who found himself in a rather difficult situation. He had received several boxes of very fine Havana cigars, but because no formal relations existed between the United States and Cuba, he really wasn't in a position to accept them.

But he was resolute. He knew what had to be done. He accepted them but decided to burn the cigars. One by one.

It seems to me that we could learn something from his example - we need to take on new challenges and deal with them - one by one.

Today, I would like to discuss some of those challenges and I'd like to do so by focusing on three main themes.

The first is how the regulation of your sector is evolving and why it's important that we as the regulator understand your concerns.

Second, I want to talk about the importance of working together as we face common challenges.

And finally, I want to outline the OEB's commitment to you to be an effective, efficient and responsible regulator of key aspects of this province's energy sector.

So let me begin with how the regulation of electricity is evolving.

Of course, the government has now lifted the restrictions of Bill 210, restoring to the Board its previous regulatory authority over electricity distribution. As you well know, historically, this is not a sector that has been extensively regulated in terms of rates.

Ken Quesnelle put it very well in his remarks to the Standing Committee on Social Policy with respect to Bill 100, when he pointed out, and I quote, “under the old system, when we were just approving rates through Ontario Hydro, our regulator at the time, we would show our costs and our revenue requirements and, if it was in line, it was approved. Going forward, we don’t have that mechanism with the Ontario Energy Board.” end quote.

Ken’s right. The regulatory process is different now. And this is a new experience for *all* of you. It’s a challenging experience for *many* of you. And it’s an important additional responsibility for *us* at the OEB.

Indeed for all of us, this will be the first time that Ontario’s utilities will have completed a full rate setting procedure under regulation - the first time electricity rates have been subject to a basic review of revenue needs and cost allocation analysis.

You’ll recall that the initial rates - those set when the market was opened - were created by using a formula that unbundled rates that were in place prior to restructuring. And *those* rates had been put in place by Ontario Hydro.

Subsequent adjustments to rates were also made prior to market opening, including increases related to the phase-in of higher rates of return and to cover new requirements for payments in lieu of taxes.

And then, before the full transition to market-adjusted revenue requirements was complete, prices and rates were frozen, leaving many utilities in very tough circumstances.

Finally, last year, rates were increased to cover 25% of the “regulatory assets” - the costs incurred in preparing for market opening - as well as a few other expenses.

The bottom line?

Today’s rates are the result of a lot of incremental changes to rates set many years ago, under different circumstances.

Now, I know that nothing that I’ve said is new to you. You have lived these changes; lived these ups and downs.

But the reality is that this history has brought its own baggage and created a backlog of issues - issues that need to be addressed before we can settle into a predictable rate regime.

The good news is that the OEB has a plan for doing just that. Let me touch on some of what's ahead in terms of our rate-setting initiatives.

For the 2005 rate year, we expect to provide some certainty on the regulatory assets that can be recovered and allow the second installment of those to be reflected in rates. We will also allow the final rate increase related to utilities' rate of return, subject, as you all know, to your spending on conservation measures.

For 2006, we intend to complete a cost of service analysis - a review of the revenue requirements for each one of the over 90 utilities in our province. Applications for new revenue requirements are expected in July of this year so that the new rates can be ready to go for 2006.

There are also other issues, such as cost allocation and incentive rates, that we know are of interest and importance to the industry. At the Board, we've been thinking hard about these issues, especially in the context of the fundamental changes which the electricity industry has undergone since we took over regulation of the distribution sector. And quite frankly, our thinking has evolved along with these changes.

With respect to cost allocation, for example, the Board will continue its review, but we will do so in light of new developments such as smart meters and the greater focus on conservation. The fact is that these new developments change things - including the potential for significant adjustments to rate design and classifications.

Our current review of cost allocation, will, therefore be based primarily on the existing rate classifications and on a limited number of rate design changes. This will allow us to address anomalies on a utility by utility basis for 2007 rates.

It will also enable us to consider what rate issues have to be dealt with immediately and those which can be deferred until we have a better sense of how the sector is evolving.

With respect to revenue requirements, there are also a number of outstanding issues. As we work through them, I believe we should do so with two goals in mind. First, to reduce the need for annual rate-setting. And second, to provide incentives to utilities to provide distribution services in the most efficient way possible.

Specifically, the Board foresees setting rates, beginning in 2007, by using an incentive mechanism applied to the rebased revenue requirements determined for 2006. Our goal will be a simple and straightforward rate adjustment mechanism.

A multi-year rate plan would also allow the Board to selectively rebase the revenue requirements of some utilities, while focusing on the key issues to ratepayers, the regulator and utilities.

All of these initiatives, as I've said, must be undertaken in the context of the recent changes to the electricity sector. The Board has begun to do some initial work in these areas and once we get a better handle on them, we will be seeking your input and advice.

We will be sending a letter to the industry shortly about our plan going forward on the rate regulation side.

So that's a quick overview of the path ahead.

Before moving on, let me say that the OEB is very aware, and very sensitive to, the demands that being regulated places on all of you. We understand the anxiety about moving to an adjudicative process. And we know that your resources are often limited and already strained.

Our goal is to help you manage the new regulatory requirements you face.

We will do so in a number of ways, including streamlining administration, but perhaps most fundamentally by developing a rate-making process that is less cumbersome and more standardized.

To that end, I would encourage all of you to use the Distribution Rate Handbook that we have prepared. By following its processes and procedures, we can serve you better; save you time and save you money.

This cannot be - and will not be - a matter of shoe-horning all utilities into one mould. We recognize that there are anomalies and we'll address those situations appropriately. But for the vast majority, *standardizing* the process means *expediting* the process.

And given the large volume of complex applications we receive, the more we can handle expeditiously, the better it is for everyone.

Moreover, some of the backlog issues will be addressed through the timetable I just laid out. Costs incurred in the run up to market opening and issues dealing with rate of return, for example, will be dealt with in the 2005 rates; a number of other revenue items will be covered for 2006 rates and discrepancies between classes will be resolved for 2007 rates.

Throughout, we will be updating the Handbook so that it remains your best means of receiving faster service from the Board.

As you know, we have also developed an annual regulatory calendar, posted on our website and updated periodically, so that you will know in advance and in good time, when issues will be scheduled, discussed and decided.

I should also point out, that while being regulated may be challenging, it does bring certain benefits. For starters, no monopoly, providing essential services to the public, would long survive without being regulated. Consumers would not accept it and government would not permit it.

Regulation also provides legitimacy in matters such as rate increases because the public can be confident that such increases have been fully vetted, fully justified and fully explained.

And finally, regulation, when done well, can lead to streamlined procedures and lower costs.

So my message to you today is that there *is* a process in place to deal with the backlog issues. There *is* a method to our madness in terms of our filing procedures. And there is a conscious and concerted effort to reduce the regulatory burden for all of you.

Central to those efforts is a clear recognition that those of you who distribute electricity to over four million Ontario homes, businesses and public institutions, deserve a fair return for your labours. To me that is self-evident - and crucially important.

Without a fair return, there will be little incentive for future investment. And without future investment, reliability of supply will be at risk.

One of our strategic goals for the next three years is to help meet Ontario's challenge for renewal of energy infrastructure and supply. And in regulating rates, it is incumbent on the Board to strike the proper balance between customers and the utilities.

Moreover, protecting the interests of consumers is about more than just rates. It also involves service quality, reliability, ensuring the deliverability of the product and a whole range of other services - none of which can happen if there isn't a viable industry to provide them.

Let me turn now to my second major theme - that is working together.

As you know, we will soon be presenting the new Regulated Price Plan - or RPP - following an extensive and comprehensive consultation process. We heard from many parts of the energy sector; as well as from a range of consumer groups.

We listened carefully and learned a lot and we believe the plan we are proposing will better reflect the prices paid to the electricity generators while providing consumers with the ability to plan for - and manage - their electricity costs.

As we move forward with the RPP, as the prices consumers pay for the electricity they use change to better reflect the prices paid to generators, as smart meters are introduced and become part of the conservation culture in Ontario, we need to combine our efforts to communicate, to inform, to explain.

For our part, we need to look closely at the impact on consumers and I know that you will also play an important role in providing information to your customers.

When I was here last year, I expressed my appreciation for your agreeing to carry an insert in your monthly bills explaining the two-tiered commodity pricing system and distribution rate changes.

This year, I want to thank you for carrying our flyer on the RPP. This kind of cooperation between us is essential - and appreciated.

I also want to say how much the OEB valued your input and advice on some of the other key initiatives I've talked about today - smart meters, conservation and demand management - and the Regulated Price Plan.

In each case, you have been active participants. The OEB has benefited enormously from your cooperation and these initiatives are stronger for your involvement.

With respect to smart meters, many electricity distributors contributed to what we believe is a very sound, thorough and workable implementation plan. In developing it, we took into account a number of factors, including the structure of the distribution system in Ontario, the need to begin implementation quickly in order to meet the

government's timelines for installation and, of course, the estimated cost of the proposed system.

That plan is now in the Government's hands and it will determine how to proceed with its smart meter policy.

Let me just return to the RPP for a moment. The EDA and LDCs made a number of submissions to the OEB. We listened and we acted.

Indeed, we took into account a number of your operational requirements in developing the RPP.

Just a couple of quick examples.

In response to your concerns, we have proposed that for the first seven months of the RPP, the consumption thresholds - currently in place under the two-tier price plan - remain the same. This will reduce the burden on utilities in terms of having to make changes to your billing systems.

We have also proposed that for the first three months of the RPP, LDCs will not have to do a true up for anyone who leaves the plan.

This will give you time to change your systems to allow for the true up calculation and test it before implementation. And we have simplified our earlier proposal for calculating the true up.

Finally, we have given LDCs the option to introduce "time of use" pricing for the first year of the RPP for smart meter customers.

After year one, it will be mandatory, but by making it optional in the first year, we have provided a longer period for you to adjust. All of these elements of the RPP were the result of electricity distributors, the EDA and the OEB working closely together.

I believe that spirit of consultation and cooperation must continue.

I firmly believe that the right regulation, applied in the right way and at the right time, can make an enormous contribution to fostering a strong, dynamic and viable energy sector in this province - that a regulator can play an important role in creating the conditions for efficient electricity distribution, with the resulting benefits to distributors and consumers alike.



But it isn't enough just to speak in general terms or to suggest large goals.

You deserve to know exactly what our key objectives are - and whether we are meeting them; what our key initiatives are and whether we are implementing them; what our performance standards are and whether we are achieving them.

That is why, for the first time, we published a Business Plan - and put it online. This Plan, which took us through to the end of March, 2005, set out an ambitious agenda, with key initiatives and objectives, outlining how we would achieve them and the specific results by which you could measure our progress.

We have now presented a draft Business Plan for 2005-2008 which sets out our vision and mandate, our strategic objectives and the external factors that will affect our success in achieving them.

It also presents some of the key initiatives we are planning and the performance measures by which we will hold ourselves accountable.

In drafting that Plan, we have taken careful notice of the EDA's extensive input. Two of the key issues you raised were with respect to the costs of regulatory activity and the need for regulatory agencies to coordinate better in order to avoid duplication.

We heard you. In the final drafts of the plan we have focused specifically on these two issues - streamlining regulation and ensuring better coordination with others.

In drafting our Plans, our goal was to make the OEB as open, transparent and accountable as possible. All of our stakeholders - and the public - deserve nothing less.

A key part of providing good regulation is providing timely regulation. When you make an application to the Board, you want it dealt with quickly and efficiently. Our goal is to render a decision within 90 days of the end of the application process, 90% of the time. I am pleased to report that as we approach the end of our first year as a crown corporation, we are meeting that goal.

And, as promised in our Business Plan, we are now telling you, within 10 days of receiving your complete application, exactly when you can expect to have a decision from us. No more uncertainty. No more waiting to hear.

What's more, all of our performance targets, indeed all of the objectives set out in our Business Plans, will be independently audited, so that you can know with certainty what we're doing well and where we can do better.

Let me just touch on one final area before wrapping up - and that's the issue of compliance. As you know, the OEB has a mandate to ensure that all regulated energy companies meet their regulatory obligations.

Compliance promotes confidence in the industry and enhances the protection of consumers.

The role of our Compliance Office is to review and respond to any allegations of a licensee not meeting their regulatory obligations.

That said, our goal is always to work with you, to resolve these issues cooperatively.

The process we have developed is both transparent and efficient and ensures that you receive a full and fair hearing. And let me be clear: we will not issue a formal compliance order without first holding a hearing.

A formal compliance order from the Board will always be a last resort - not a first step.

We also think that if you understand your obligations, you'll ensure that you're in compliance. So we'll be posting more information about the Board's compliance process online. And I hope that you will use this as a resource to assist you in your efforts.

Let me close by again thanking all of you for the assistance you've provided in addressing many of the issues before us. For our part at the OEB, we have a clear plan to work through the legacies of the past and the right people and organization to build for the future.

The three themes I have touched on today - how the regulation of your sector is evolving, the importance of working together and our commitment to you to be a fair and efficient regulator - all speak to the relationship we seek and to the challenges we face.

And we will move ahead, working with you, making steady progress, one step, one issue, one cigar at a time.