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Speech

Ontario Energy Network

Luncheon

April 19, 2005

Check against delivery

Thank you.

And thank you to the Ontario Energy Network (OEN) for inviting me to join you today.

One of the stated purposes of the OEN is “to improve the overall effectiveness of the energy industry and increase benefits for constituents, community and consumers.”

We have a lot in common. The Ontario Energy Board (OEB) also has an important role to play in the effectiveness and efficiency of Ontario’s energy sector - one in which consumers are protected and investors and shareholders can receive a fair return for their investment, where Ontarians know their energy needs are being met at reasonable cost and where they have the information they need to make informed decisions.

Today, I would like to discuss the role of the OEB, a tribunal some of you may not be familiar with doing a number of things you might not really expect. In all cases our role clearly engages and enables the public interest.

The National Energy Board defines public interest as:

“The public interest is inclusive of all Canadians and refers to a balance of economic, environmental and social interests that changes as society’s values and preferences evolve over time. As a regulator, the Board must estimate the overall public good a project may create and its potential negative aspects, weigh its various impacts, and make a decision.”

We regulate not only from the perspective of economic efficiency, but also of protecting the interests of energy consumers. And not just residential customers, but all energy consumers.

As a tribunal, we do often rely on adjudicative procedures to make decisions both utility specific and sometimes industry wide.

But we often engage alternative procedures because we often face industry wide policy issues that implicitly or explicitly require the OEB to make economic and financial decisions about future events and conditions. I will discuss some of these procedures in my remarks today.

As a regulator, we focus on transparency and equity, exercising a clear oversight role regarding rates, budgets, costs and fees of various entities - all of which ultimately end up being funded or paid by Ontario’s energy consumers. That, in a nutshell, is why it is important to have an economic regulator in place.

I’ll have more to say about that in just a few moments.

Some of our responsibilities are obvious – rate regulation, licensing, developing codes, ensuring compliance.

Others are not so obvious – such as our involvement in the development of the Regulated Price Plan (RPP) for electricity; developing a draft implementation plan for smart meters, or our responsibilities in conservation, such as approving conservation and demand management activities of local distribution companies (LDCs).

Our significant regulatory goals - together with our strategic objectives - are contained in our Business Plan for 2005-2008 which is now public and posted on our website.

In it, we set out six key objectives, how they will be achieved, and how our performance can be measured. The Plan speaks to accountability - setting clear goals, providing clear timelines, and measuring results through clear benchmarks.

I won't go into detail on the various elements of our Plan, but I do want to give you a sense of how we see our role writ large and the fundamental principles that will guide us.

Now, I mentioned a moment ago that looking out for the public interest is an important part of our mandate. Included in the public interest is protecting the interests of consumers.

Most people, when they think of consumer protection, think only about keeping rates as low as possible. But it's more than that. It's also about the quality of service consumers receive. It's about the reliability of supply.

And so our responsibility to consumers leads us, inevitably, to ensuring a strong, viable industry, because without it, service quality will suffer and supply could be jeopardized.

The simple fact is that if we are going to have a viable industry, we need to be mindful of the need of investors to receive a fair return on their investments. Protecting consumers, therefore, must exist alongside the legitimate interests of the industry.

Doing so means balancing. Different needs. Different perspectives. Different interests.

This may sound obvious, but as apparent as it seems, it is complex. Moreover we must be careful to match the prospective policy issues with the administrative procedure selected.

And it must be done in a way that is fair, transparent and efficient.

At the OEB, we make every effort to lead, to take the longer view, to look ahead. This is goal-oriented regulation.

That's really what our Business Plan tries to accomplish. In looking ahead to the next three years, we've identified a number of key challenges that we need to understand better and get ahead of now.

Let me illustrate by focusing on three specific issues: the RPP, the Natural Gas Forum and transmission or supply issues as evidenced by system adequacy in York Region.

All three engage complex economic, financial, and social issues which use or will use somewhat different procedures to achieve our goals.

First, the RPP - or new pricing plan for electricity in Ontario.

As you know, Bill 4, the Ontario Energy Board Amendment Act, gave the OEB the legislative responsibility to develop new mechanisms for setting electricity prices in this province.

Speaking last month in Banff, Minister Duncan said, "we're moving from a situation where, for over a decade, the price of electricity has been artificially capped to one in which consumers pay the true cost of power...and we've taken the politics out of electricity pricing for good by handing pricing issues to our independent regulator."

On the face of it, our mandate was clear: come up with a new pricing structure that better reflects the prices paid to generators, while providing greater stability for consumers.

Well, as is so often the case, what appeared straight forward on the surface ended up being anything but! It wasn't just a matter of preparing a forecast and then picking a price. We had to look at a whole range of factors - many of them unpredictable - such as weather - and create a retail pricing structure that captured all of them.

To begin with, we had to look at all of the elements that go into the *commodity* price of electricity in this province.

First, there is the market price of electricity, as determined by the Independent Electricity System Operator (IESO) wholesale market. Then there is the price which the government sets for Ontario Power Generation's designated assets - output from the nuclear and "baseload" hydro generating stations.

Next, there are prices established under long-term contracts between the former Ontario Hydro and the Non-utility Generators, or NUGS. And then, there's also the price set under any future contracts which the Ontario Power Authority might enter into with private generators for new supply or demand management, as well as an amount to cover Ontario Power Authority (OPA) costs.

In addition, we had to factor in conservation incentives, with a structure that encouraged Ontarians to use less electricity. We also had to develop a way to smooth out price fluctuations so that consumers wouldn't be vulnerable as prices varied in response to market forces, the weather or unexpected events.

This "smoothing out" of price fluctuations for consumers was very important - we didn't want Ontarians to face any nasty surprises - or retroactive billings.

For our part, the OEB also wanted to develop a pricing formula that would be fair to residential customers who may have less choice about how much electricity they use, particularly for heating their homes. And so we proposed a "winter threshold" which allows people to use more electricity in the winter months at the lower-tier price.

Finally, we had to devise a way of making sure it all balanced in the end. If the weather was colder – or hotter – than expected, if the market price was higher – or lower – than we forecast, if consumers conserved more – or less – than anticipated, we had to have a way of making adjustments in as smooth and stable a way as possible.

That's why the RPP variance account, held by the OPA, was created. As you know, if the total cost of the RPP annual supply is more than expected, costs will be rolled into prices in the following year. If the total cost is less than expected, that variance will also be reflected in prices for the next year.

The goal, at the end of the day, is to ensure that RPP consumers pay electricity prices that will recover the costs of their supply.

So this was an extremely detailed process, requiring a rigorous analysis of a myriad of factors and conducted with input from stakeholders at every stage resulting in three final products, a Report, a Standard Supply Service Code and an RPP Manual.

Now that the new pricing plan is in place, we are monitoring it very closely. Working with LDCs as they implement it. Watching wholesale prices and the OPA variance account. Tracking supply and demand trends. Adjusting our forecasts to account for new information on supply and demand. And observing to what extent conservation measures are affecting consumers' behaviour.

As the year progresses, we'll be looking to set next year's prices. To do that, we'll need to know the government's price for OPG (Ontario Power Generation) - if different from the present one - as well as all the various contract prices and the expectations of supply from those contracts. In addition, we'll make our own forecast about the wholesale price.

Now, given the complexity of this exercise, some people have asked why we also included smart meters in the new pricing plan. Two reasons.

First, it just made sense to consider smart meters at the same time new pricing was being introduced because these new meters will give consumers greater control over the costs of the electricity they use. Indeed, the RPP was carefully constructed to ensure that there was a significant incentive for consumers to do just that.

And, second, given that the government's policy is to have 800,000 smart meters installed by 2007, it was imperative that we have a pricing plan in place which complemented the introduction of the technology. The two have to work together - a pricing plan that encourages behavioural change and offers incentives to consumers to save on their electricity costs... and the smart meters that give them the means to do so.

So that's why we introduced smart meter pricing as part of the RPP and why we will continue to monitor the roll out of smart meters very closely.

Let me just quickly touch on two other issues - the Natural Gas Forum Report and energy adequacy in York Region.

We have just recently released the results of our Natural Gas Forum which we launched, by way of a technical conference, in order to update our policy understanding of issues related to the gas sector. As you well know, the demands of the sector are changing and we wanted to make sure that our regulatory approach not only keeps pace, but sets the pace.

Indeed, I believe that the interface between gas and electricity is going to be one of the most important issues facing all of us in the years ahead as more and more natural gas is used to generate electricity.

In our Report, we point out that it's essential that Ontario have adequate gas infrastructure - as well as an appropriate rate design - in order to facilitate this increased reliance on gas-fired generation.

That's why the first action item coming out of our Report will be a comprehensive review to determine the impact of increased gas-fired generation on two key components of the system - storage and transportation. These will be critical to ensuring a reliable supply of both electricity and gas.

Why? Because not only will the amount of gas we use increase, but the way we use gas is also going to change.

Traditionally, natural gas storage facilities have been used to provide seasonal load balancing. It was purchased and shipped in the spring and summer when prices were lower and delivered to market in winter, when it was needed.

In the future, however, increasing use of gas-fired generation will mean a more consistent, year-round demand. What's more, because these new gas plants are expected to operate as midload or peaking plants, they'll need the ability to acquire and dispose of gas at very short notice as prices in the electricity market move up and down.

This is very different from the traditional loads that the gas system - and the gas markets - were designed to serve. So we need to understand these changes and prepare now for what's ahead.

What's more, without the appropriate infrastructure - for both transmission and storage - together with the right pricing - the electricity generated by gas could become more costly.

By getting ahead of the curve, however, understanding the issues involved and preparing now for future need, we can put in place the framework which will result in gas-generated electricity at a reasonable price and protect consumers with respect to energy supply.

Let me turn now, very briefly, to the system adequacy issues in York Region.

Last year, in its 10 Year Outlook, the IESO said, "there are a number of immediate and emerging concerns regarding the ability of the existing transmission facilities in the GTA to maintain an acceptable level of supply reliability.....Issues of immediate concern include the ability...to supply the rapidly growing load in the Newmarket and Aurora areas."

As you know, growing demand in that region has resulted in concerns about reliability of supply, perhaps as early as 2006-2007. Hydro One's 10 Year Plan had included provisions to build a new 230 KV transmission line from Markham to Newmarket to address these concerns.

This proposal met with significant public opposition, primarily over environmental concerns, and Hydro One withdrew its class environmental assessment.

It is clear that environmental and energy issues need to be resolved satisfactorily and in the public interest. To that end, the OEB will commence a process to review whether Hydro One should reinforce its transmission system in the York Region, pursuant to its transmission license.

The first issue, of course, is whether there is a threat to the adequacy of the transmission system in York Region and that question will be answered only in a public hearing.

A second option could be new generation, including demand reduction. This option has become more available since the creation of the OPA earlier this year.

If it is determined that generation is the best option, requiring the financial support of the OPA, the OPA would first need to apply to the OEB for approval to recover the costs from consumers of such a supply contract. Once again, these costs would be approved only after a public hearing.

Clearly, in making these kinds of decisions, the OEB has to balance the interest of numerous parties.

Which brings me, as I close, to where I began - talking about the OEB's responsibility to regulate in the public interest, to execute our work in a way that looks ahead and adapts to changing demands.

Because whether it's understanding the longer term adequacy needs of York Region, or implementing a smart metering pricing structure, or planning ahead for the evolving gas storage and transmission needs of the province, or developing a comprehensive pricing plan for electricity, the OEB's role is not only to make decisions and to implement government policy, but to anticipate emerging issues.

The issues are complex, but the responsibility is clear. Ontario needs and Ontario deserves, the best possible regulation of its energy sector. We will make every effort at the OEB to provide that type of regulation.