

Regulatory Harmonization

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By

Hans R. Konow

President & Chief Executive Officer

Canadian Electricity Association

Regulatory Harmonization

- Defining the Challenge
- Survey of Electricity Issues
 - Performance Based Rates
 - Opportunities for Harmonization
- Conclusions and Suggestions

What's the Problem?

- 3 levels of government
- Constitutional clarity vs operational ambiguities
- Multiple processes = lost time, uncertainty, investor fatigue
- Competitive pressures demand shorter timeline
- Investors particularly risk averse post “Enron” meltdown
- Delivery infrastructure (T&D) experiencing substantial under investment

Siting New Facilities

- Major projects involve Federal and Provincial regulations, even municipal at times
- Siting usually engages local communities
- Proponents need single co-ordinated, timely and certain process
- NIMBY almost always present
- Delay = Defeat
- Interjurisdictional wrangling = Delay



Environmental Regulation

- Often involves major project approvals
- Federal powers over fish, water, toxics, transport, etc., offer many triggers for CEAA
- Efforts to streamline and harmonize federal/provincial processes have been beneficial
- More to be done if decision timelines to be made more consistent with today's competitive realities

Environmental Regulation (cont'd)



- Siting delays and project approval timelines must be shortened

	Historic	Required
Major hydro projects	10-14 years	6-8 years
Major transmission	8-20 years	2-5 years

- Process model must ensure single, timely and certain outcome

Climate Change

- A textbook case on lack of harmonization
- Federal unilateral decision on Canada's Kyoto target
- Little effort to develop harmonized action plan
- Unilateral ratification decision
- Little provincial participation in current negotiations
- Result – Industry feels like “the meat in the sandwich”
- Possibility of “double jeopardy” if left as is

Incenting Needed Investments



- \$150 billion in new investment by 2020
- Companies in competitive and non-competitive markets and segments tap into private capital markets
- Today rates of return in Canada are 3-5% lower in Canada than the U.S.
- Low ROR = Low investment
- Low investment = inadequate, unreliable infrastructure

A Prescription for Performance



- More than one way to arrive at “California” style problems
- Inadequate generation, transmission and distribution capacity equals price volatility and reliability problems
- Flashlights and BBQs not the solution!
- New social compact needed: Fair returns for excellent performance

The Role of Performance Based Rates



- Not everyone excited by the model
- Can be arbitrary and confiscatory
- Must be founded on sound data and sound objectives
- Can incent desired behaviour (FERC "candy")
- Can deliver benefits to consumer (better service, fair and stable prices)

Performance Based Rates (cont'd)



- Must not make “perfection the enemy of the good”!
- Done right – harnesses market forces
- Can address reliability, power quality, adequacy, environmental performance
- Is complex and sensitive to local conditions and circumstances

Harmonization: Key Principles



- Respect jurisdictional pre-eminence
- Collaborate rather than compete
- One project – one process
- “Time is money”
- Thorough, transparent process
- Clear and certain decisions

Conclusions

- Project proposals will continue to increase
- Investment will flow to best returns
- Process clarity, certainty and timeliness vital
- Jurisdictions need to collaborate on process harmonization
- Regulatory co-ordination should be “client focused)

Conclusions (cont'd)

- Incent desired outcomes through process “fast lanes”
- Standardize data needs where possible
- Reward process efficiency