

CCRE Energy Leaders Invitational Roundtable 2013

April 3 – 5, Hockley Valley, Ontario

Summary of Proceedings

“Salon”: a gathering of people under the roof of an inspiring host held partly to amuse one another and partly to refine the taste and increase the knowledge of the participants through conversation.

In a series of interactive and discursive sessions the delegates to CCRE’s Energy Leaders Invitational Roundtable 2013 canvassed a broad array of topics regarding the electricity sector. The writer had the privilege of acting as “rapporteur”; “a person who is appointed by an organization to report on the proceedings of its meetings”. Following is a write-up of the summary provided at the end of the sessions. While the summary provided attempted to capture the impressions and assertions of the discussion leaders and the participating delegates, the emphases and characterizations are those of the writer.

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Emerging challenges in the electricity distribution sector. Technology is coming, competition for the customer and customer services is coming, the large telecom and cable companies are coming, and to a large extent the electricity distribution sector is unprepared for that. There is a need for capital, there is a need for strategic clarity. There were questions raised about the regulatory framework and the scope of the electricity distribution business and there were points made and questions raised about the reality of municipal ownership and the implications of that ownership structure for the appropriate role of the electricity distributor.

Perceptions, trends and the media. What voters care about is the economy, jobs and healthcare in particular, and law and order. There is a perception that government is part of the problem, not part of the solution. Something interesting about the natural environment; as a politician you can screw up on it but you can’t really win on it. Energy falls into that category as well. A review of polling results indicate that many people think that nuclear is a thing of the past. Consider those 1950’s style control rooms, the

Jetson-like knobs and levers and lights and the nuclear industry's attempt to enter into discussions with the public which seem to focus on past successes. When a car company advertises they don't advertise what they've done right, they advertise the next concept vehicle, the next cool engine, but that's not what the nuclear industry seems to have done.

The polling also tells us on an Ontario specific basis that there is strong support for a cleaner energy mix still, which is encouraging, including wind. Wind is perceived as cheap, though many would argue with that. Wind is perceived as clean, and few would argue with that. Wind is also perceived as loud and ugly so there are some challenges remaining there.

People don't want to think about electricity, they want to take it for granted. If the electricity industry wants trust from people then the industry has to trust them and be honest with them.

The electricity industry is doing better in four areas in particular; reliability, environment, safety and cost. There is a view that there is a lot more transparency in the electricity sector now. The greater the transparency, the less the ability to "spin" things, that is a generally healthy development. The public's energy literacy is greater as a result of the transparency, or perhaps the transparency is greater as a result of the public's energy literacy, but either way that seems to be a healthy cycle.

Discussion topics included the value of electricity. There is a view that the sector is never going to win that argument, that while there is tremendous value to electricity people just turn on the switch and expect the lights to come on and that's all they need to know. People want the big picture, they don't want to know the details, and as an industry the electricity sector participants need to find the right formula – the right level of detail - to explain to people what's happening and to engage the public. The challenge is to somehow match the broad bush appetite of the public with the transparency to explain to them what happens in what is often a relatively complicated sector.

Social licence for energy infrastructure. It is important to recognize and understand the lens through which the public and, in particular, the segment of the public that we seeking to engage, sees things. There is value in a collaborative dialogue which engages people, as opposed to a presentation style approach.

Confucius on dialogue: Tell me and I might forget, show me and I might remember, engage me and I will understand.

What is “social licence”? *“The public’s acceptance of a business or industry which allows it operate”*. It’s opaque. It’s hard to understand what it is. It’s hard to know when you’ve got it. It’s perception based; the facts don’t really matter. While we name this thing, knowing what it is and more particularly, knowing how to get it and when you’ve got it and what to do with it, is a very, very difficult question.

Some characteristics of public consultations that have been successful include: i) providing quick responses to concerns raised; ii) providing clear, factual responses; and iii) hearing people out. *“Never argue with a fool in public because the public doesn’t know the difference.”*

The comment was offered that the Oakville gas fired power plant was difficult because the only alternative to the plant was no plant. Perhaps, though, a lack of reliability or a transmission line near or through Oakville are also alternatives. Maybe the public can’t be so cavalier and inattentive to the value of electricity and maybe that’s part of the problem that we need to try to solve. Comment was made that the literacy in the political class has never been lower in respect of energy than it is now, which is a troubling observation.

We need to hear from the people and not the organized interests if we want to pursue some of these energy infrastructure initiatives. We have to go out to the soccer field and not just sit at the Town Halls where the organized interests come to talk and they’ve got an important role too but if you want to talk to the people you’ve got to figure out another way to do that.

The role of government. The government needs to set the guidelines at a high level. The government needs to put in a place a regulatory regime that supports pricing and credit metrics. If the government is going to be the referee they can't be the owner at the same time.

It was commented that the Ontario Ministry of Energy has the same number of staff dealing with electricity as does the Ontario Energy Board to cover that Board's entire mandate. Discussion was had as to whether that belies an appropriate degree of government oversight, or not.

The directive powers in the iterations of the legislation governing the energy sector (primarily the *Ontario Energy Board Act, 1998*) have been increasing in their appearance and in their use. A problem with the increasing use of directives is directives are by their nature unstable. Ministers come and go, bureaucrats come and go and to the extent that those are the folks writing and issuing the directives, there is a lack of stability, there is a lack of check and balance that is built into the broader political system and that is a problem in a sector that relies on stability and predictability. Concrete suggestions for action included; i) downsize the Ministry; ii) remove directive authority; iii) strengthen the agency appointment processes; and iv) to the extent that parameters and/or a framework are required, put them in the legislation and imbue them with that stability that the sector asserts is important.

There was a striking range of very interesting perspectives on this topic of governance, which belies the difficulties inherent in the area. Additional thoughts offered included; i) the issue is not the government staying out of the sector, but rather is the government getting out of the sector, which after 100 years of history is a much more difficult issue; ii) if agencies are really independent, they can't be telling the Ministry; iii) that you can't just walk in to the OEB, you have to have an application to bring, but you can always walk over to the Ministry and that's why the politicians need to be able to answer to things; iv) public works always invoke government involvement but things get built anyway; v) ownership and governance don't mix; vi) we've done pretty well in Ontario, we've had considerably policy stability over the years; vii) our money is going abroad

because there is no place to put it here; and viii) the discipline of private capital that we sought to inject into the sector has failed, we have an oversupplied system and we have 20 year government contracts in place.

Inter-regional electricity trade. A fantastic presentation was provided on the Muskrat Falls and related transmission project being carried out by Nalcor, which was characterized as *“moving ahead under heavy fire”*.

If one believes that markets work then there are gains from trade, which would suggest that the appropriate scope and scale and geographic range of trade for electricity is a topic that merits a more attention.

There was discussion of Canada’s role as either an energy “superstore” – selling energy to the highest bidder – or an energy “superpower” – involving moving up the value chain to create jobs, encourage economic development and build a nation. A hypothesis was offered for discussion that the Canadian innovation strategy has been big projects, rather than national frameworks. Wither the nation nation-building politicians? Do we need a crisis to drive major projects as has happened in the past? Perhaps we have business leaders that are nation-builders, and maybe that is where we should be looking. Query, however, whether energy is effectively constrained to be a provincial rather than national matter.

Dinner Speech: Matthew Coon Come, Grand Chief, Grand Council of the Crees. Grand Chief Coon Come provided a wonderful set of remarks over dinner. He pointed out to start with that 10 years ago mega projects were built without consultation with aboriginal interests or participation by them and now that would be completely unthinkable, which indicates how much has changed. It is really remarkable how much the aboriginal leaders have achieved in levelling that playing field and leading our society to be more inclusive than we’ve ever been in the past. The Grand Chief emphasized that the aboriginal communities have moved from their traditional way of life to join modern society, largely our modern society, in the space of 35 years so;

about a generation and a half. Comment was offered about how could one possibly maintain a balance between such cultural change speed on the one hand and traditional values on the other? The Grand Chief suggested that the balance is maintained through “sustainable development”; development for the benefit of all, but at the same time preservation of, in the case of the aboriginal peoples, the traditional ties to the land.

The Grand Chief also tried to convey a lesson that if you want to do something that’s never been done before, you need to be focussed, you need to be reasonable, and you need to be hard-working. He reiterated many times that aboriginal peoples are not opposed to development, they just want a say in how the development takes place.

Forces affecting the energy sector in the next decade. It was suggested that the future of energy policy needs to be based on sound economic policy and sustainability. Issues of price and carbon figured prominently in discussion of this topic.

Rising energy costs are driving innovation. It was commented that there is going to be community involvement in energy decision making going forward and that’s going to shift the way policies are made. The notion of “integrated community energy solutions” was discussed. In this context there was also discussion of local distribution companies (LDCs) as community partners, and that the dialogue would become a two-way dialogue. It was commented that this could present a very different dynamic from the historically paternalistic approach taken by LDCs in attending to community interests by offering their services and inviting communication in the event of a problem. It was also noted that a gap between community drivers and provincial policy drivers will have to be addressed.

There discussion of natural gas and related issues in the “futures” context. The new reality is that gas supply is plentiful and gas prices are low and stable and they will be for many, many years, perhaps hundreds of years, which is a very long time in the context of a discussion regarding the pace of innovation. The role of natural gas as a carbon-sensitive fuel was a subject of some debate, as was the role of natural gas as a

complement to renewable electricity generation.

In contrast to a quiet and incremental approach to the role of natural gas in energy and transportation, energy storage may be spurring a revolution in energy infrastructure development. A breadth of energy storage technologies are being investigated, and there was discussion about the range of services those technologies can provide. Energy storage is being applied to bridge supply and demand timing gaps from as much as days down to hours or even seconds in the provision of grid stability services. The need for new market structures to incorporate those sources of supply and grid regulation and stability was discussed, with a proposition that we need to think about our electricity market operation in a different way given the emergence of, and future role for, these technologies.

In the face of change, the topic of sunk infrastructure costs came up, which could present a negative inertia to change. An example explored was new nuclear. If we are going to make a decision on new nuclear build, and it's going to be a 30 plus year decision, how would that impact our ability to develop and take advantage of new technologies emerging at an increasing pace and with the potential to change the way that our electricity systems are built and operated? Perhaps new nuclear will be "smaller" and more manoeuvrable than in the past, and this might allow reconciliation of investment in new-nuclear with the increasing pace of technological change.