

Governance, Governance, Governance

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Outline

- 1. Present governance in electricity in Canada**
- 2. Lessons from the academic literature: telecoms and finance**
 - Better outcomes
 - More attractive to investors
- 3. Lessons from Alberta: The Alberta Public Agencies Governance Act**
- 4. Implications for electricity governance in Canada**

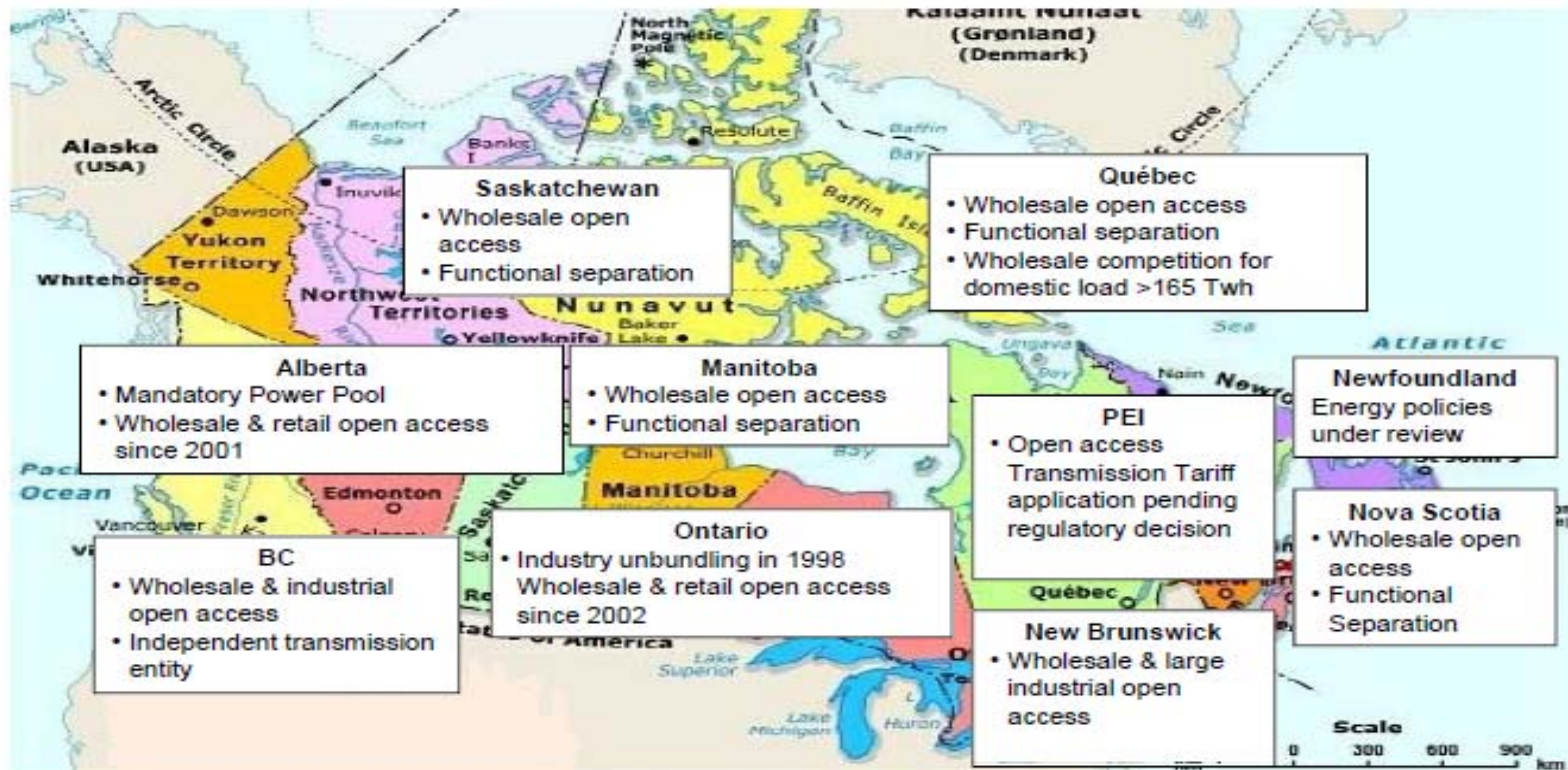
1. Governance in Electricity in Canada



Canadian Electricity Association

Association canadienne de l'électricité

Status of Market Restructuring



1. Governance in Electricity in Canada

- **Preponderance of government owned assets**
- **Limited competition**
- **No clear division of powers between an independent regulator and the government**
- **Unclear governance process for renewables**
- **Politicised governance process**

Looks like Telecoms in much of the world outside USA and Canada in the 1980's – i.e. POOR GOVERNANCE

2. Lessons from the Academic Literature

A. *Lessons from Telecoms*

The five important components of Regulatory Governance

- Regulatory Transparency
- Independence
- Resource availability
- Enforcement on licensees
- Market Conditions (private enterprise + public control)

(Waverman and Koutroumpis, 2010)

Holburn: Need to attract capital is paramount

GOVERNANCE MATTERS!

2.b) Academic Literature- Finance

- i. There Is a Link Between Effective Governance and Firm Returns for publicly traded firms**
 - **the best governed firms, generated annual ROI and ROE measures that were 18.7% and 23.8% higher than the measures for the more poorly governed firms (USA)**
 - **adherence to the TSX corporate governance guidelines at the time of the IPO led to much higher average holding period returns (Canada)**

ii) Effect of Board Size

Stock market reacts to a significant change in board size:

Decreases in size resulted in a 2.9% gain (reduction of four to seven directors)

Increases in size resulted in a 2.8% loss (addition of four to six directors)

(USA)

iii) Importance of Board Independence

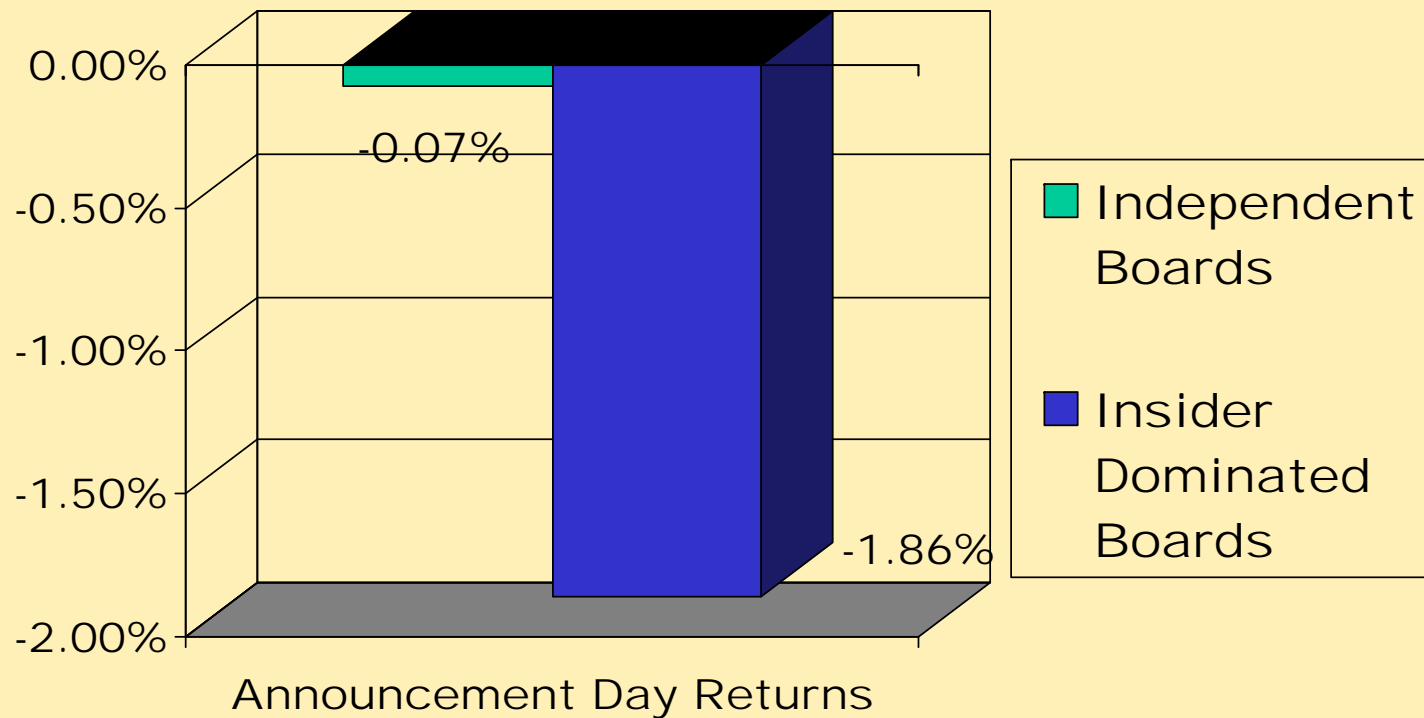
US Studies have documented the benefits of boards that are independent of management

- **Boards dominated by outsiders are more likely to replace CEOs following poor firm performance**
- **Earnings releases contain more information (and thus have a larger stock market impact) when the audit committee is independent of management**

iii) Importance of Board Independence (con.)

[Byrd and Hickman (1992), Journal of Financial Economics]

- Boards with a majority being outsiders make better acquisitions



Conclusions of Academic Literature

- Liberalization in the Telecoms sector when co-ordinated with proper governance improves efficiency and social outcomes
- Many academic studies have found a positive link between effective corporate governance and firm performance
- Shareholders consider effective corporate governance as a signal of higher expected future performance and will pay a premium for a more effectively governed firm i.e. *can attract capital*

Implications of Academic Literature for Electricity Regulation

- Independence of management (and regulators) is essential
- Transparency is essential
- Do not change structure often (e.g. BC , Ontario)
- Boards such be smaller rather than larger
- Outside directors are critical (as in GEMA - UK)
- Role of Board Chair, method of choosing is crucial

3. Developments in Alberta

- **October 1 2007, Board Governance Review Task Force Report (At A Crossroads)**
- **February 2008, Province of Alberta Public Agencies Governance Framework**
- **2009, Alberta Public Agencies Governance Act Bill 32**

“At A Crossroads”

“Clear roles, responsibilities and mandates are the foundation of effective agency-government relations”

- **“Recommendation 6 :The Government should not appoint elected or senior government officials..”**
- **Transparent non-partisan competence based appointment process**
- **High quality orientation and development programs**
- **“The CEO needs to be hired by, and appointed, by the board.”**
- **Evaluations of board and director performance**
- **Governance Principles**
 - **Strategic vision and leadership**
 - **Accountability**
 - **Ethics**
 - **Effectiveness**
 - **Communications and transparency**

Public Agencies Governance Framework, Alberta, February 2008

3.1 Government Policy

“Agency establishment and dissolution will be based on a standardized process”

“All agencies will have clearly articulated roles and responsibilities.”

“All Agencies will be subject to regular review processes to ensure they are meeting their mandates and that they continue to be aligned with government direction.”

3.3.1 Business Case


A proposal to establish or revise an agency must include a business case

3.3.3 Review and Termination of Agencies

- Regular Review – 7 years**
- Is the Agency still relevant?**
- Responsible Minister + Agency Governance Secretariat**


Public Agencies Governance Framework, Alberta, February 2008

8.1 Government Policy

 The Government of Alberta will only appoint elected or senior officials to agencies when their input is important for the agency to archive its mandate. In such circumstances, elected officials will be compensated, at most, at the same rate as other directors.

Alberta Public Agencies Governance Act, Bill 32

Contents of Mandate and Roles Document

3. (1) Every public agency must, within 3 month of its establishment or continuation,  have a Mandate and Roles Document that is jointly developed by the public agency and its responsible Minister

Review of Document

4. A Mandate and Roles Document must be reviewed and renewed, amended or replaced within 3 years

Document to be made public

5. A Mandate and Roles Document must be made available to the public.

Obligations of responsible Minister

6. A Minister who is responsible for a public agency shall
 - a) participate with the public agency in setting the public agency's long-term objectives and its short-term targets, if any,

Alberta Public Agencies Governance Act, Bill 32

Policies

10. (1) Subject to subsection (2), a Minister who is responsible for a public agency may set policies that must be followed by the public agency in carrying out its powers, duties and functions.

Members of Public Agencies



Recruitment of members

13. (1) The process by which a member is recruited to a public agency must
- identify any skills, knowledge, experience or attributes required of the member before recruitment begins, and
 - base the selection of a person for appointment as a member on assessment of the extent to which the person possesses the identified skills, knowledge, experience or attributes.
- (2) The steps that are taken or intended to be taken in a recruitment process and any identified skills, knowledge, experience or attributes required of a member to be appointed must be made public either before or after the member is appointed.

Alberta Public Agencies Governance Act, Bill 32

18. (1) In this section, “chair” includes an acting chair.


(2) No person shall serve as both the chair and the chief executive officer of a public agency

  unless expressly authorised by

a) the public agency’s establishing enactment, or

b) the regulations.

(3) If a person serves as both a member and the chief executive officer of a public agency, the public agency shall establish and implement, to the satisfaction of the responsible Minister,

 a process by which the chief executive officer’s performance is overseen by other members of the public agency.

Implications and Summary

1. **Governance in Boards of Public agencies lags governance in publicly traded firms**
2. **Independence (within limits), transparency and minimal political interference are key to 'good' governance**
3. **Role of Chair, appointment processes of outside Board members, size of boards are also important**
4. **The academic literature in telecoms and on publicly traded firms shows that good governance is rewarded in the capital market**
5. **Alberta`s Bill 32 is a major step in the right direction but the Bill also shows that minimizing politicization is difficult**
6. **Ontario has a ways to go!**

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