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CCRE

Annual Energy Leaders Roundtable

Hockley Valley Resort,
Orangeville, Ontario



CCRE Energy Leaders Invitational Roundtable 2015 Summary of Proceedings

April 22-24, 2015

in partnership with



CCRE Energy Leaders Invitational Roundtable

April 22-24, 2015, Hockley Valley, Ontario

“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.

“Forums like this are absolutely critical.”

[2014 ROUNDTABLE PARTICIPANT]

In a series of interactive and discursive sessions the delegates to CCRE's 3rd Annual Energy Leaders Invitational Roundtable (2015) discussed hard issues and creative solutions across a broad array of topics related to the electricity and broader energy sectors. 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 report provided at the end of the sessions. While the write-up attempts 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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Recurring Themes. As the roundtable proceeded through its agenda of purposefully chosen topics and facilitated discussions, a theme which repeatedly emerged was the human aspect of energy planning and policy. Delegates explored the premises that:

- Public opinion really does matter
- Public energy awareness is increasing but energy knowledge is lacking
- “Permission” is based on understanding

To be effective energy policymakers must plan and operate within the context of public opinion. The somewhat sympathetic role of politicians and policymakers being stuck between the public and the experts in a very complex sector must be considered.

Public Opinion Trends. “Public opinion really does matter”, and, it was observed, decision makers are still not properly considering the risks associated with public opinion, public perception, and public angst about energy and related infrastructure. The winds of public opinion are always blowing but they're often blowing in various directions, which makes it very hard to skipper, or even anchor, the boat.

Surveys show that most people don't know and don't trust regulators (and this is even more so in Canada than in the United States). Just doing what the regulator requires one to do or allows one to do is not, in the forum of public opinion on energy, a persuasive reason for doing it. Governments and regulators provide permission but permission

does not equal support.

A company which is well-liked and well thought of at the outset has an easier time getting public “permission” and support. Trying to be liked while asking for permission is a difficult task.

Public Opinion and the Energy Sector. That public opinion drives energy policies is, like it or not, a fact. Accepting this as a construct within which to work can help with understanding how and why energy policies are made and can help guide policy implementation.

News media can be a challenge and often gets it wrong. Media fragmentation and an “ADD” public exacerbate the challenge. While awareness of energy issues is on the rise, public knowledge remains very low.

While supporters are important, to assist in legitimizing a project those supporters must be properly informed. Thus proponents must talk with supporters as well as with opponents.

The roundtable considered the curious case of the Bruce Power steam generators to be shipped overseas for disposal. An innocuous plan from an environmental, safety and security perspective, but wholly misinformed press and public opinions distracted the project and fruitlessly ate up a lot of time, attention and energy.

The roundtable considered, with some sympathy, the position of politicians; in between citizens on the one hand and experts on the other hand. Experts see the issues as complex and interactive, while the public does not. How, then, do you communicate to politicians who are caught between the public on one hand and experts on the other? How are politicians supposed to communicate the expert opinions to the public?

It was observed that opinion is nascent and can have limited information supporting it, while judgment is more mature, more informed and reflects values and ethics. To move from energy policy opinion to sober judgment takes time, in particular with people outside of the sector who are not immersed in these topics every day.

People use shortcuts to assimilate information and they interpret information to their own preconceptions. Was one clumsy when they tripped coming in the door, or was their recovery elegant? Depends on the preconceptions of the observer. It is imperative to understand people’s anchors, their values and ethics, to effectively communicate about energy issues. The issues are complex, and the listener will filter that complexity through his or her own screens of values and ethics.

Reputation is a depreciating asset, which not only has to be established early before public support is needed, but also requires constant reinforcement. “Facts fade fast, feelings tend to stick.” In the forum of public opinion, it is less about the facts than it is about the impressions.

Compartmentalized thinking is a problem. Contextual thinking in the energy sector requires consideration of safety, reliability, price, environment and economics, and putting all of this together when considering energy options and implementation. Political policy is too often influenced by partially informed, compartmentalized conclusions drawn by “25 year olds in short pants”.

In a positive note, complement was given to Ontario Energy Board policy requiring distributors to consult with, and show how they’re responding to, their customers’ needs. While often difficult to do from a distributor perspective, it was agreed that this activity can be important.

Recent regulatory emphasis on regional planning also enhances the potential to get support for energy infrastructure projects, since good planning includes consideration of alternatives and a balancing of issues. The process of regional

planning can validate the resulting choices, perhaps making them easier to communicate in a manner that facilitates public support.

The roundtable also considered the value of early education; teaching kids science, so that as adults they will have more context for, more interest in, and less fear of complex energy and related infrastructure choices. Educating the new politicians - the “kids in short pants” who are often responsible for energy policy – and others engaged in energy issues, such as the Auditor General, could also assist. There is significant concern that there are poor performers in offices such as that of the Auditor General, who hold the energy sector to account based on a flawed understanding of how the sector works. Sector participants need to call these situations out when they occur, and educate those involved so that they are less prone to hasty and ill-informed conclusions.

Aboriginal Relations in Energy Sector Development. Roundtable delegates heard that the time is right to fix the way the energy sector works with First Nations. First nations are tired of going to the courts, and tired of confrontation. It's very expensive and time consuming.

At the root of the challenge, it was suggested, are broken relationships with the Crown. Project proponents need to realize this and get on with the discussions which need to be had with the affected communities. People need to understand, businesses need to understand, and understandings and ultimately accords are built on relationships.

The legal standard for aboriginal “consultation” is really a low bar. It is very superficial. The duty that we should actually aspire to is one of collaboration. Engage early, mutually define successes and then focus on outcomes. Businesses can't succeed in communities that fail. Delegates were urged to take a longer term view of these relationships.

Proponents need to engage with First Nations communities and their leaders, to understand what is important to them. Leader to leader discussions are very important. The aboriginal culture is an oral one, and one based on relationships that develop over time. Project proponents and politicians need to understand that and work with that. It is a gradual, incremental, reparative, process. We have to take our time and we have to do it right and it has to be more than superficial. Establishing lasting working relationships and capacity building takes effort over time.

Businesses want certainty. They want to value, compartmentalize, and hedge risks, and then move on. Aboriginal communities want flexibility. They don't know what their future is going to hold. Aboriginal communities are in a process of continuing to change from the societies they were to the societies they want to be, because in many cases they don't want to be the societies they are now. We have to recognize there may be a “certain uncertainty” in these ventures for awhile.

It was also noted that some communities have a lot more capacity than in the past, and they have really good supporting resources for these discussions. However, in other instances capacity and resources are lacking. An effective approach is very much community specific.

Business Risks in Regulated Infrastructure. The roundtable considered the story of the TransCanada mainline, and the declining state in which it found itself at the start of the decade. In the end, the “market”, or perhaps the major market players, took care of it. The national energy regulator provided tools and parameters, and the parties sorted it out, though it was suggested that risks with this significant piece of Canadian energy infrastructure remain. One of the implications that this consideration of the story of the Mainline is the need to think about the implications for future regulatory models of what's happened with the Mainline. What room is there for creativity in meshing regulation and commerce to get to solutions in a sector that, in some ways, is very much in flux?

The roundtable also considered Alberta's determination to invite competition for energy infrastructure capital investment and thus put downward pressure on significant impending capital costs. It was suggested that the process for such investment in Alberta was designed so that the risks would ultimately rest with those best able to manage them. Risks that developers and operators can control were to end up resting with the operators and developers. But there are some risks, like political risks, which the financial community is very nervous about. These are harder to predict and they're extremely difficult to quantify.

It was posited that; "financial markets are agnostic, show us the contract and we'll price it". Yet dealing with these difficult to predict and quantify political risks, if they are to rest with developers, conservative quantification and self-insurance will be required. Thus it may not be economic to pass these types of risks on to the developer.

These considerations bear on when, and how, to invite private capital and competition into sectors like the energy sector which are particularly susceptible to political risks. Transferring controllable risks to developers provides those developers with the incentive to control associated (controllable) costs and facilitates economically efficient solutions. If transferring uncontrollable risks only incents self-insurance this may not enhance overall economic efficiency. Distributed Energy and the Grid. Automated metering infrastructure (AMI) has changed everything. Consider 40 points of visibility in the large GTA distribution grid becoming 400,000 points of visibility, right down to the level of individual meters. There has been a huge change in expectations associated with those 400,000 plus metering points.

At the same time, electricity service prices are going up dramatically and consumption is going down. Distributed energy promises to disrupt the traditional utility model, with energy being generated by customers who seek back up from the grid, rather than the other way around as has historically been the case. It was suggested that distributed energy makes it easier to get "social licence" for investment, is better for the climate, is declining in price, is more publically accessible and understood, and offers very high reliability in the face of growing concerns regarding weather events, aging infrastructure, and associated concerns about the risk and cost of grid outages. The roundtable considered energy generation, storage, demand response, and many other aspects of how people now use and work with energy.

It was suggested that in this rapidly changing environment, distributors must move from the current model to the next by embracing change. A death spiral is one way to look at it, a new equilibrium is another. The roundtable considered ways to grow the business of electricity distributors, and the need for new capital and new governance, all both inside and outside of regulation.

Challenges to this new energy paradigm include reliance on government direction to move forward, and risk averse utility cultures. As yet unclear is how to incent utilities in the face of emerging threats to their traditional way of doing business and earning a return. A forward looking vision should determine what we should be incenting, and how. As is happening in New York and California, we need to plan and build for the future system that is going to be based on new technologies. Rather than reactively incorporating these new technologies we should start thinking about a system in which they can be best put to use. Consider "the opportunities from having everything connected".

Energy Policy in Alberta and Ontario. Ontario used to provide low cost reliable power. It started with harnessing the impressive resource presented by Niagara Falls. It proceeded through building large coal plants and then large nuclear plants.

Then at some point we got to the large Ontario Hydro office building on prime real estate in downtown Toronto across from Queen's Park, where the wage package that was 20% higher than comparators. There was a need for change.

The Roundtable heard a strong view in favour of the value of the competitive market to accomplish that change, but

a lamenting of the halting political approach taken which made it too easy to re-regulate, and then layer public policy onto electricity production and supply through green energy and GHG reduction legislation. It was suggested that Ontario's electricity tale has become one of an interventionist government and not electricity deregulation.

In contrast, Alberta has maintained a political will to stay the course and maintain a clear policy favouring a competitive market.

The Politics of Energy. The Roundtable considered the politics of energy across a number of jurisdictions.

It was suggested that in Newfoundland energy, politics and the environment are well intertwined. The historical "wrong" perceived by the Newfoundland public resulting from that province's fateful electricity deal with Quebec has resulted in very strong public support for the new Churchill Falls development, and the self-control of that project which the new deal with Nova Scotia promises. It was also noted that recent power outages in the province resulting from a storm curiously led to angst about utility governance, in turn prompting a symbolic political response.

In Alberta, the energy royalty framework has been blamed for driving investment out of the province. A perceived mismanagement of Alberta's energy resource and associated provincial "nest egg" influenced the rise of the Wildrose party. Roundtable delegates discussed the influence of particular politicians and the way they have shaped the energy sector (Jim Prentice in Alberta, George Smitherman in Ontario).

The roundtable considered whether a national energy strategy could really embrace distinct provincial energy concerns and agendas. Should we be considering regional strategies rather than national strategies? Our mountains and rivers go north-south, after all, and not east-west. On the other hand, could Alberta offset carbon with nuclear from Saskatchewan or Hydro from Manitoba? What role could the national government play?

At its conclusion, the roundtable discussion returned to justification of energy policies; the importance of analysis of need and what's the best option which impacts the fewest, determined through a fair process. It was also recognized that the politics of energy should be dealt with by governments. Governments need to deal with social justification, proponents can't do it all.

It can be complicated, though. Properly functioning, politics should lag, and thereby reflect, public opinion. Then policy lags politics, and finally regulation lags policy, and this temporal reality can complicate things in a fast evolving energy sector.

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