

**Financing Ontario's Energy Future**

Remarks by

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Thank you for inviting me to be part of this debate on financing Ontario's energy future.

By way of background ... OMERS is a large energy investor in Canada, the United States and Britain. We have equity interests in nuclear power, municipal utilities and natural gas distribution. We are also a green technology leader.

These investments give us a window on how different jurisdictions manage and finance their energy future. Our experience in Ontario is very different from what we see in the U.S. and the U.K.

The U.S. and U.K. are very favourable investment energy markets.

- Their regulators are independent of government.
- Investors know where they stand because the system is transparent and accountable.
- Industry models are streamlined and efficient.
- Private sector investing is plentiful and competitive.

As an Ontario-based capital pool, we ask ourselves: where can we invest in the energy sector to protect capital and earn attractive, risk-adjusted returns?

We have invested in Canada, principally in Ontario, and we are generally pleased with our investments.

Other large Canadian capital pools have not done so ... but they have no trouble bidding for and investing in energy assets in the U.S. and the U.K.

The question is why? And the answer is that the other Canadian capital pools see that the U.S and U.K. jurisdictions offer greater security of capital with attractive, risk-adjusted returns.

The rules in these jurisdictions are clear ... and their processes are transparent ... two important features in creating a positive investment climate.

Can Ontario evolve to a similar platform and attract capital pools other than OMERS?

The answer is “yes” ... but not before stakeholders in the Ontario energy sector accept two conditions for proceeding.

These two conditions are collaboration and investment risk transfer.

**First**, it is time for the public and private sectors to learn more about one another’s motives and priorities.

It is time to collaborate.

Together, we can craft a sustainable long-term business model to finance the development, expansion, consolidation, replacement and renewal of energy production, transmission and distribution.

We can create a model that benefits producers, distributors, consumers, investors and governments.

But the natural question is who should referee the inevitable conflicts between public and private interests? Today, in Ontario, the government is the referee **and** the advocate of the greater public interest ... an untenable position.

My personal view is that the referee should be independent of government not unlike the separation of the Ontario government from the Ontario Securities Commission.

The OSC regulates open markets free of special interest groups and day-to-day government involvement.

A **second** condition is investment risk. This is a systemic issue.

Our view is that investors – not taxpayers – should bear the investment risk in generating, transmitting and distributing electricity -- as is the case in the U.S. and U.K.

To encourage such investment ... we need to move to a competitive open market with a regulatory system that is independent and transparent.

How can we move to a competitive open market that can deliver acceptable risk-adjusted returns to investors ... and affordable rates and service quality to ratepayers?

I would respectfully recommend a four-point framework plan.

**First**, create independent regulators to promote investment, innovation, competition and respect for the environment ... along with protecting consumers against the power of monopolies.

The U.S. and U.K. both have independent regulatory models from which we can take inspirational lessons.

The U.S. Federal Energy Regulatory Commission ... and the U.K. Office of the Gas and Electricity Markets ... are responsible for regulating energy suppliers and distributors ... promoting competition among energy sources ... ensuring there is adequate investment ... overseeing environmental issues ... and protecting the interests of consumers.

An Ontario regulatory system with similar powers would encourage a productive private sector role in resolving inefficiencies in allocating capital to ensure economically sound energy supply, transmission and distribution.

**Second**, phase out subsidies to economically unsound producers that create capital inefficiencies and higher costs for taxpayers and consumers.

**Third**, remove tax barriers (such as the transfer tax) that negatively impact municipalities to respond to the needs of their residents and impede the formation of larger and better capitalized utilities.

**Fourth**, let investment rates of return find their natural competitive level in financing energy security within the framework of an independent regulatory system.

I know that on first blush that some of you in the audience will not immediately endorse this four-point framework plan without careful analysis.

What I trust is that you will agree that we should pause and together map out a clearer path to the future.

No government can or should be expected to create this path by itself. Responsible collaboration among all stakeholders will be required ... and no one should expect overnight solutions.

The government should appoint an independent reviewer to bring about this collaboration and clearer future in a thoughtful manner that engages all interested parties.

The Ontario government successfully implemented this approach for pension reform with the appointment of Professor Harry Arthurs to review the pension system ... with many of Professor Arthurs' recommendations currently being implemented by the Ontario government.

The independent reviewer should be given the mandate to recommend how to make the energy system more consistent, efficient, sustainable, and financially sound.

No doubt the review and consultative process will produce many conflicting views among stakeholders with different expectations on the way forward.

But we can get there from here if we commit to candid and open collaboration.

Consider how the Canada Pension Plan was put on the path to long-term financial security. It took a carefully led consultative process to find collaborative solutions among the federal and provincial governments as well as business and labour groups.

The reviewer's recommendations on how we can finance and secure Ontario's energy future should in turn be reviewed by a legislative committee for reconciliation at the political level.

If implemented, a big bonus of this four-point plan ... based on a competitive open market energy sector with an independent regulator ... would be that the Ministry of Energy could withdraw from day-to-day technical regulatory details.

The Minister of Energy would be freed up to meet with U.S. and U.K. regulators ... as well as the European Union energy secretariat ... in developing a strategy to carry Ontario's energy sector forward for the next 20 years.

The additional time to focus on this international outreach and other policy issues such as negotiating access to, and sharing of, energy resources with other provinces to avoid the heavy costs of building new and expensive power plants or subsidizing economically unsound energy alternatives ... would be time well spent.

The time has arrived to put the financing of our energy future on a competitive basis in a global context ... especially compared with the U.S. and U.K.

The time has arrived to encourage an increased level of participation based on market principles ... especially participation by prudent, responsible and long-term investors like OMERS and other pension funds ... as well as corporate investors.

As a major pension fund, we have the staying power, the financial resources, tight risk management practices and a propensity for owning assets long-term to advance Ontario's socio-economic wellbeing.

OMERS has stepped up ... and we will continue to step up.

But other major capital pools must also do so if we are to ensure the successful financing of Ontario's energy future.

To get started, we encourage the Minister of Energy to duplicate the success of government's pension reform program by appointing an experienced Ontarian who would be tasked to review the structure and working framework of our energy sector and to provide a report on reforms in the first quarter of 2012.

I am confident that this first step will trigger successful collaboration among stakeholders that will lead to solutions which will secure the long-term financing of Ontario's energy future and the sustainability of the sector.

Thank you.