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Steven Zucchet
Senior Vice President
Borealis Infrastructure

Bankability of Electricity Transmission Storage and Distribution Infrastructure

- Secretary Moniz, it is a pleasure to be here today to speak about the opportunities for increasing investment in the electricity transmission, storage and distribution systems in the United States.

- Despite a general decline in the growth of demand for electricity, we are confident that there remains a significant need for continued investment in our electricity systems for a number or reasons.

- We have all come to expect that our electricity systems should reliably deliver service. Residential, commercial and industrial customers are increasingly unwilling to tolerate service outages and regulators are demanding improved levels of performance in the restoration of service following an outage. Our increasing reliance on technology is just one reason for pressure on increased SAIDI performance. As a consequence, utilities are starting to develop Smart Grids by investing in new technologies that improve overall system reliability and efficiency.

- We can debate what is causing our climate to change, but it's difficult to deny that we are facing increased levels of major storm activity which are impacting the reliability of electricity service. We do not have to look very far to see the significant impact of storm activity on the grid. In 2012, Hurricane Sandy caused New York to lose power for several days and has caused a re-evaluation of what the future grid should look like.

- Regulators are very conscious of the continued need for investment by utilities to ensure that the future requirements of customers can be met. However, there is also recognition of the immediate need to replace aging infrastructure to continue to meet just the existing demands of current customers. The challenge for all stakeholders involved in deciding what capital programs to support is balancing the customer's need for reliable service and the cost for delivering that service.

- As a result, we continue to see significant opportunities for capital investment in the electricity sector despite the fact that demand for electricity is no longer growing at historical levels. This need for investment will only be magnified if demand growth returns to previous levels.

- Pension plans such as OMERS have identified utilities as an ideal asset class for investment. Utilities represent opportunities for investment in assets that provide long term stable cash flows and, just as importantly, the opportunity to reinvest capital into long term future capital programs. This benefits pension plans by matching the need to invest pension contributions received from plan members today and in the future while also meeting the cash flow requirements of pensioners receiving pensions.

- The traditional "cost of service" regulatory model has served utilities and customers well. Regulators have generally done a fair and equitable job of balancing the cost to rate payers through competitive rates and the need to offer competitive allowed Returns on Equity ("ROE") to encourage continued investment in rate base by utilities and investors.

- Having said that, there are always opportunities to encourage additional investment in the sector, and one way is incorporating incentive rate making in rates.

- We do not have the time today to review all of the options available for incentive rate making, but simply stated, incentive rate making gives utilities the opportunity to outperform on the execution of their capital expenditure programs and operations and subsequently retain a portion of the savings. This has the obvious benefit of lower costs which aids both rate payers and investors. There is the added benefit to stakeholders of potentially making the same amount of capital go further, resulting in larger capital programs.

- In exchange for having exclusivity to provide service in a designated area, utilities are required to operate and report costs and performance with complete transparency. This has served the public well, by ensuring that only prudently incurred costs are recovered in rates. The element of transparency has also worked to ensure that utilities are held accountable to provide safe, reliable and cost effective service.

- As such, it would be an undue burden to ask utilities and investors to take on the risks associated with such issues as climate change or the impact on rates from the increased application of distributed generation. I disagree with providing higher returns in exchange for taking on such risks because it unnecessarily increases costs with the added risk that investors will over earn when these types of risks do not materialize. These types of risks should remain with the public and their associated costs passed on to rate payers as they are incurred.

- There are a number of new financing applications such as REITS and Green Bonds that are receiving increased attention and consideration. While there is a potential for these additional tools to encourage investment in the electricity grid to help address some of the needs previously highlighted, I do not see this as a priority.

- There are already significant pools of capital ready and available to invest in this sector from pension plans, infrastructure funds, insurance companies and

private developers. For example, OMERS alone has targeted an additional C$12 billion for investment in the infrastructure sector over the next five years.

- Programs are however needed to help facilitate investment from these sources of capital. One way is to take a centralized planning approach to identify the long term requirements for an electrical grid, and then establishing a competitive process to execute delivery of the plan. An excellent example of this is the CREZ program carried out by ERCOT in Texas.

- ERCOT developed a well thought out multi-year approach for connecting planned and already constructed wind generation to load centers located hundreds of miles away in its service territory. The plan was then turned over to industry participants for competitive tendering. Transmission lines were developed and constructed by both incumbent utilities and independent developers. There have been lessons learned along the way, but most would agree the $5 billion program has been a general success and a model for others to follow. This example also highlights that when barriers are removed, there is no shortage of capital available to invest in building infrastructure.

- In summary, there are significant pools of capital available for investment in this sector. These sources of capital are prepared to invest to ensure the grid needed for tomorrow is being planned for and developed today, in large part under the existing regulatory rules already in place. Changes are not needed to incentivize investment as the benefits of investing in this asset class are well understood and sought after. What is important, is the development of programs that are similar to the one applied in ERCOT for the CREZ program, that simply provide a clear framework that allows investors to participate in the development of the required infrastructure.

- Thank you.