MEETING NOTE:
MOECC-ENERGY Deputies and Chiefs of Staff Monthly Meeting

3:00 PM – 4:00 PM on Friday, June 2, 2017
Hearts Block, Floor 4, Executive Boardroom

PURPOSE: **Discuss items of mutual interest**

ATTENDEES:

Ministry of Energy
Andrew Teliszewsky, Chief of Staff
Serge Imbrogno, Deputy Minister

Ministry of the Environment and Climate Change
Paul Evans, Deputy Minister
Mandy Maghera, Chief of Staff

FORMALIZED AGENDA ITEMS:

1. Relief from Diesel Charges for IPA Remote First Nation Communities
2. Green Ontario Fund
3. Long-Term Energy Plan
4. Funds for Indigenous Communities for Energy Planning

OTHER POSSIBLE TOPICS OF DISCUSSION:

5. Renewable Natural Gas
6. Free Overnight Charging

NOTES ON FORMALIZED AGENDA ITEMS:

1. Relief from Diesel Charges for IPA Remote First Nation Communities

- MOECC has been directed to consider exempting certain fuels delivered to reserves for use by First Nations from the program.
- This was proposed later in 2016 to complement the *Climate Change Mitigation and Low-carbon Economy Act, 2016,* but is not a minuted CCAP action.
- Communities serviced by Hydro One Remote Communities Inc. (HORCI) are not expected to be impacted in the short-term by cap and trade, however, communities served by Independent Power Authorities (IPAs) are expected to experience a moderate impact due increased fuel costs.

Suggested Response:

- **ENERGY recognizes the importance of managing the impact of cap and trade on diesel-dependent communities, and I am interested in keeping informed of MOECC's progress on this initiative.**
- **Given the number of rate mitigation and Indigenous energy programs that the Ministry of Energy is responsible for, it will be good for us to stay informed to ensure that our ministries are aligned in our approaches.**
- **ENERGY staff have been working with MOECC staff to explore alternatives, but at this time ENERGY does not have an appropriate vehicle or source of funds to support short-term funding to the IPA communities to fulfil this commitment.**
- **ENERGY would support MOECC in seeking Treasury Board authority for a short-term fund if that is required to ensure that the impact of cap and trade does not fall to IPA communities in the interim before regulatory amendments coming into place.ENERGY is happy to continue sharing our knowledge and experience of legal and / or implementation issues with MOECC as you develop a plan for providing relief to remote communities in the face of increasing costs as a result of Cap and Trade.**

Background:

- The Environmental Bill of Rights Registry for the final greenhouse gas cap and trade regulation proposed a complementary regulation under the *Climate Change Mitigation and Low-carbon Economy Act, 2016*. The proposed regulation would provide for First Nations impact mitigation, by excluding certain fuels delivered to reserves for use by First Nations from the cap and trade program. MOECC is currently working on recommendations for how to fulfil this direction, with a focus on the remote diesel-reliant First Nations.
    - In the long term, ENERGY's work to reduce diesel use in remote communities (both through grid connection and through a microgrid program for un-connectable communities) will serve to offset the impact of cap and trade; however, in the interim, MOECC would like to establish an alternative way of assisting First Nations with the impacts of elevated diesel prices due to cap and trade.
- There are no measures in place for 2017 to mitigate costs for diesel dependent communities, and while HORCI served communities are not expected to be impacted in the short-term (since rates for 2017 have already been set by the OEB), communities served by Independent Power Authorities (IPAs) are expected to experience a moderate (MOECC estimates $600K across the 10 communities) impact due increased fuel costs.
- MOECC has reached out to INAC at the staff level to discuss funding pressures in IPA communities, and are working to draft an official letter from the MOECC to Minister McKenna, from the federal Department of the Environment and Climate Change highlighting this issue and seeking their support.
- They have also been actively engaging with ENERGY staff to determine whether any existing Ministry programs or new programming being developed under the Fair Hydro Plan could be used to offset price increases in the short-term for IPA communities. ENERGY has indicated to MOECC that our current suite of programs is not suitable for meeting the objectives of this initiative (including options such as relying on RRRP, or expanding the Ontario Rebate for Electricity Consumers program)

- ENERGY anticipates that MOECC will want to communicate to HORCI serviced communities that their rates in the short term will not be impacted due to the RRRP mechanism and expected rate filing dates for HORCI.ENERGY staff understands that to properly address this issue, MOECC is considering regulatory amendments to compliance obligations (effectively exempting fuel distributors from buying credits for fuel that will be delivered to First Nations). However, MOECC still needs to consult with industry stakeholders to understand how such an amendment would be administered (this could be challenging given that the fuel changes hands several times between producer and final destination in the First Nation). Any mitigation measures would need to be in place by fall to apply in 2018.

- MOECC staff have informed ENERGY staff that they are in the process of developing materials to use to consult with petroleum producers and distributors on a potential exemption.

- ENERGY is not responsible for establishing the interim plan to protect remote First Nations from the impacts of cap and trade, but staff have been offering support and recommendations to support MOECC's work, including:

    - Helping MOECC to understand how fuels are distributed to the communities;

    - Explaining the funding structures for energy costs in remote communities (in both IPAs and HORCI-serviced communities), and helping them to understand how remote customers might or might not experience the impacts of higher cost for diesel under the different models;

    - Explaining ENERGY's approach to applying the 8% rebate in IPA communities; and

    - Explaining ENERGY's current approach to mitigating rates in First Nations, including explaining the recommendations from the OEB regarding First Nation rates.

- ENERGY has encouraged MOECC to pursue an exemption; however, there are significant complexities associated with applying such a policy.

- MOECC has indicated that they may instead wish to provide a reimbursement to HORCI and IPAs at a value in line with the anticipated impact on diesel costs (approximately $.05/L), which could be refunded to the LDCs on the basis of fuel receipts remitted, however this reimbursement would not be eligible for funding under the GGRA.

2. <u>Green Ontario Fund</u>

Update on the status of the Green Ontario Fund website and program development. Discussion regarding key next steps, including a Minister's amending direction and agreement between IESO and MOECC to deliver programs for Summer/Fall 2017.

Suggested Response:

- **ENERGY and IESO staff have drafted a Minister's amending direction to facilitate the IESO's role as a delivery partner for Green Ontario Fund programs and shared the draft with MOECC staff for comment.**

- **We look forward to continued collaboration between our two ministries to achieve efficiencies and ensure that the goals of both the Conservation First Framework and the Green Ontario Fund are served.**

- **I understand that IESO is making good progress on the Green Ontario Fund website development. Could you please provide an update on the plans and timing for launch?**

Background:

Key Next Steps

- IESO has communicated to MOECC that two elements would be needed for the IESO to deliver the Green Ontario Fund program streams identified for IESO delivery in MOECC's May 30, 2017 Treasury Board submission. These two elements would reduce the risk to the IESO of operating outside of its legal authority in offering GHG reduction programs targeting other fuels:

    1. Amending direction to the March 31, 2014 direction establishing the 2015-2020 Conservation First Framework (CFF) to enable IESO to deliver Green Ontario Fund programs to complement CFF programs.

        - ENERGY and IESO have prepared a draft amending direction and has shared with MOECC for comment. ENERGY is working to have this ready to be issued by the end of June (consideration would need to be given to the timing of the direction, given communications implications for MOECC since directions are posted on the IESO website).

        - The direction should be issued before an agreement (see #2 below) with MOECC is signed by IESO.

    2. Collaborative agreement between IESO and MOECC. This agreement would be in addition to the Service Level Agreement (SLA) currently in place.

        - The collaborative nature of the agreement is important from a legal authority perspective. IESO's objects under the *Electricity Act, 1998* all relate to electricity. An agreement where both parties mutually benefit and are delivery partners, rather than IESO being a delivery agent, lessens its direct responsibility for the delivery of non-electricity programs. IESO would still maintain a direct tie to electricity conservation through programs that delivered packaged measures.

  - MOECC and IESO are using the TPA template as a base with additional provisions and schedules as needed to make the agreement more collaborative.

  - Given the complexity of the agreement, and based on the time involved in developing the Service Level Agreement between IESO and MOECC, ENERGY is of the view that an agreement could be in place by late July at the earliest.

- An amendment to the definition of CDM would be required for LDCs to count savings that result from duplicative Green Ontario Fund programs towards their CDM Targets.

- In the longer term, IESO has communicated to MOECC that in order to deliver programs that do not include an electricity component, and to support integration with existing conservation programs, IESO may require changes to its objects under the *Electricity Act, 1998*.

SLA Between MOECC and IESO

- On April 28, 2017, MOECC and IESO executed a Service Level Agreement for the IESO to:

  1. Design, establish and maintain a website that will provide a clear and consistent message to website visitors and provide information and resources to the Green Ontario Fund audiences.

  2. Provide client relations management services to all clients aiming to reach out to the Green Ontario Fund for assistance and information.

  3. Provide early advice to the MOECC to inform the development of new programs to meet the requirements of the Green Ontario Fund mandate.

  4. Conduct any agreed upon follow-up assignments related to the above.

  5. Work together to be in a position to transfer control and operation of the website, call centre data and toll free number to Green Ontario Fund.

- ENERGY also sits on the Green Ontario Fund website working group, which includes PO, CO Communications, MOECC (MO, Comms and policy staff), IESO, and Q3 (IESO's website vendor).

- The Green Ontario Fund (GreenON.ca) website is anticipated to launch in early July or in August 2017 along with a Minister's media event (TBD). Sign-up for the home energy concierge service to be operational for the website launch.

MOECC TB Submission

- On May 30 and May 31, 2017, MOECC reported back to TB and Cabinet, respectively, to seek approval for several items, including, based on the draft submission:
  - Proposed program offerings.
  - An announcement of $378 million in 2017-18 for the Green Ontario Fund, including an immediate release from holdback of $50 million to be transferred to the Cap and Trade vote item.
  - Ability to enter into multi-year transfer payment agreements with the IESO, and other third parties.
  - Operational requirements for the new agency (agency estimated to be comprised of 60-75 staff).
- The following program streams were identified for delivery by IESO in the TB submission. To note, IESO had, before May 30, only had significant discussions with MOECC regarding *residential* program delivery:
  - Home Energy Concierge Service: program to offer free installation of a smart thermostat for 100,000 homes, a walk-through assessment of energy savings opportunities, and information on incentive programs for owners of single family homes.
  - Province-wide Smart Thermostat Rebate: rebate to provide $100 off a homeowner's purchase of a smart thermostat from a retail store
  - Low Carbon Technology Incentives for homes and multi-unit residential buildings (MURBs): rebates for a variety of low carbon technologies (e.g. solar PV, geothermal, air source heat pumps).
  - Low Carbon Technology Incentives for small and medium sized commercial businesses (similar technologies as for homes and MURBs).
  - Concierge Service for Manufacturing Small and Medium Sized Businesses/Enterprises (SMEs): program to provide an on-site walk-through or audit, technical advice and outreach to SMEs.

3. Long-Term Energy Plan (LTEP)

<u>**Suggested Response:**</u>

- **The LTEP, like the CCAP, is an iterative process. Each plan will inform the other to help ensure alignment of government priorities.**
- **The LTEP presents an opportunity for the government to further elaborate on Ontario's new climate change mitigation and adaptation policies as they relate to the energy sector.**
- **Pending Cabinet approval, the Ministry of Energy expects to release the LTEP and Implementation Directives in September 2017.**

- **The Ministry of Energy provided an update on the LTEP development process at a multi-ministry meeting on June 19, 2017.**

- **The Ministry will work with other ministries both where policy areas overlap, and also to help ensure alignment with other government initiatives.**

- **The Ministry will continue to share updates through the LTEP ADMs' Forum, including modelling results and specifics of LTEP initiatives.**

- **The Ministry recently released an interactive LTEP story map that demonstrates what we heard during the engagement process. The map can be found at http://www.energy.gov.on.ca/en/ltep/ontarios-long-term-energy-plan-2016-2017-consultations/**

<u>Background:</u>

- The consultation and engagement phase of LTEP development was preceded by the release of technical reports on the electricity and fuels sectors.
    - Each of these reports contained a ten-year review and twenty-year outlooks to 2035 that were affected by CCAP initiatives and assumptions.

- The LTEP engagement process officially began on October 13, 2016 with the release of the LTEP discussion guide, an in-person engagement schedule, and the Environmental Registry Notice. The Environmental Registry notice closed on December 16, 2016.
    - The Ministry received over 1,500 submissions through the Environmental Registry, emails and other channels.

- Some stakeholders (e.g., ECO) noted that the energy supply outlooks in LTEP technical reports do not align with Ontario's 2030 emissions reduction target.
    - The Ministry will continue to work with partner ministries to help develop policies and incentives for areas of the energy sector that reach beyond the mandate of the Ministry of Energy (e.g., transportation, housing).

- The Ministry will strive to balance clean supply with the other four principles outlined by the *Energy Statute Law Amendment Act, 2016* in the next LTEP. These principles include clean energy, as well as cost-effectiveness, reliability, community and indigenous engagement, and conservation and demand management.

- The LTEP will aim to be technology neutral. New technologies such as storage and electric vehicles were taken into account in the IESO's demand forecasts which are being used in LTEP development; however the Ministry will not promote specific technologies in its planning of Ontario's future electricity system.

- The Ministry is considering making necessary changes to implement capacity auctions once IESO's Market Renewal stakeholder initiative is complete.

- Capacity auctions can inject greater competition into Ontario's electricity market helping to ensure that capacity is secured at the lowest cost, leading to lower bills for consumers.

- As part of this approach, the government will need to consider how best to achieve climate change (e.g. setting carbon neutrality as an auction principle, having generators with emissions pay for allowances through the cap and trade system etc.)

The Ministry is considering measures in the LTEP that will enable the sector to prepare and adapt to the effects of climate change.

4. **Funds for Indigenous Communities re: Energy Planning**

- The CCAP specifies up to $25 million in funding for the development of energy plans for municipalities, First Nations and Métis (Land Use Planning, Action 2.2).

- The current Greenhouse Gas Reduction Account (GGRA) proposal led by MOECC focuses on funding for municipalities only and how the funding can be used to complement the Ministry's Municipal Energy Plan (MEP) program.

- At this point, there has been limited consideration for how funding would flow to Indigenous communities or whether there are opportunities to leverage or bolster the funding available for Indigenous energy planning under the IESO's existing Aboriginal Community Energy Plan (ACEP) program.

- If the GGRA proposal could be amended to make clear how funding could be made available to Indigenous communities, there is the potential for CCAP funding to flow to IESO to bolster the existing Aboriginal Community Energy Plan (ACEP) program rather than developing a duplicate program, similar to what is being proposed for the MEP program.

Suggested Response:

- **We understand that there may be a window of opportunity to make amendments to the current GGRA proposal to more clearly articulate how this funding could be made available for Indigenous communities.**

- **The Ministry of Energy is supportive of making amendments to align with the commitment outlined in the CCAP and is happy to work with MOECC to move this forward.**

<u>Background:</u>

- The IESO has provided funding for Aboriginal Community Energy Plans (ACEPs) since 2013. To date, 97 First Nations are participating in the program.

- There remains continued interest from Indigenous communities in developing energy plans as well as interest in energy plan implementation.

- The IESO has a $10 million annual budget for all its programming, including Education and Capacity Building, Energy Partnerships Program, and the ACEP program.

- Additional funding to the IESO via GGRA to support energy planning, would free up funds to support energy plan implementation.

OTHER POSSIBLE TOPICS OF DISCUSSION:

5. Renewable Natural Gas (RNG)

- ENERGY and MOECC are in ongoing discussion to determine how best to implement RNG in Ontario. Work continues with the OEB and MOECC to determine the appropriate funding amount (e.g., more from GGRA), preferred timelines, points of regulation and the appropriate role of government and regulator (i.e., OEB).

- MOECC proposes consulting on an RNG regulation in Fall 2017 and filing by year-end 2017.
    - ENERGY staff propose waiting until the OEB's analytical frameworks are fully in place and the utilities have some experience with integrating RNG into their supply plans.

__**Suggested Response:**__

- **The Ontario Energy Board (OEB) is currently developing analytical tools to make informed decisions on the adoption of RNG by natural gas utilities.**
    - **The OEB has over 50 years of experience and well established processes to regulate the natural gas sector in the public interest.**

- **Specifically, the OEB is aiming to establish a "common understanding" of greenhouse (GHG) abatement opportunities such as conservation and RNG. The OEB is also assessing the "cost-effectiveness" of these opportunities based on a long-term outlook for carbon prices (i.e., over ten years).**
    - **In addition, the OEB is studying the supply availability, barriers and enablers for including RNG in the natural gas supply mix.**

- **The OEB's current analytical work and general experience with "system gas" customers provides a strong foundation to further inform the government and stakeholders for RNG implementation (i.e., both system gas and non-OEB regulated natural gas consumers).**

- **I would encourage MOECC to utilize the findings of the OEB in developing its plan to consult on and implement a fuel standard regulation (i.e., minimum RNG requirement).**

- **Preliminary results from the OEB's analytical studies suggest the potential for a "shortfall" in RNG availability relative to MOECC targets in 2020 (i.e., 2% of system gas supply). Moreover, GHG abatement costs from RNG are projected to be well above the cost of cap and trade allowances.**

- **Therefore, additional GGRA funding may be required to add RNG supplies to the system at a reasonable consumer cost.**

Background:

OEB Regulatory Activities

- On September 26, 2016, the OEB released its *Regulatory Framework for the Assessment of Natural Gas Utilities' Cap and Trade Activities*. To support the OEB's assessment of natural gas utilities' cap and trade compliance plans, the OEB committed to developing the following analytical tools:

    - Marginal Abatement Cost Curve (MACC): 10-year generic estimate of the $/tonne cost of GHG abatement activities (e.g., conservation, RNG) to be used by utilities and the OEB in evaluating compliance options; and

    - Long-Term Carbon Price Forecast (LTCPF): 10-year consensus forecast to be used by utilities and the OEB in evaluating the cost-effectiveness of greenhouse gas (GHG) abatement activities versus purchasing allowances.

- **Note:** In February 2017, the OEB established a Technical Advisory Group to develop the MACC and LTCPF. ENERGY and MOECC staff are participating in the group.

- On May 31, 2017, the OEB issued the LTCPF Report which presents a set of forecasts for 2018-2028. Key assumptions include:
    - Ontario's cap and trade program will be deemed to meet the requirements of the federal carbon-pricing benchmark; and
    - Ontario will join Western Climate Initiative (WCI) in 2018 with a shortage of allowances, which will cause the joint market to enter shortage sooner.

- The LTCPF ranges in real $ are:
    - Minimum: $17/tonne in 2018 rising to $27/tonne in 2028;
    - Mid-Range: $17/tonne in 2018 rising to $57/tonne in 2028; and
    - Maximum: $67/tonne in 2018 rising to $108/tonne in 2028.

- OEB advises that the final MACC is expected by the end of June 2017.
    - Preliminary results indicate a wide range of RNG costs from $0.33 /m3 up to $3.73/m3 (equivalent to GHG abatement costs of $70-$1,450 per tonne). Note: MACC analysis assumes conventional natural gas at $0.20/m3 without the cost of emission allowances.
    - MACC analysis also indicates RNG supply availability of 2.6 PJ (from all Canadian sources) by 2020. This is significantly below the required 10 PJ of supply to meet a 2% requirement for system gas.

- These analytical tools will help to inform the development of the natural gas utilities' cap and trade compliance plans. OEB expects the utilities to file their compliance plans by August 2017.

OEB's Role in RNG Implementation

- In December 2016, the Energy Minister wrote to the OEB on advancing RNG implementation. On March 16, 2017, the OEB announced the launch of its Framework for the Assessment of Distributor Gas Supply Plans, which includes consideration of RNG.

- On April 26, 2017, the OEB announced the establishment of a Technical Working Group to gather input from stakeholders and assist OEB staff in developing the Framework, with an initial focus on RNG.

    - Key issues for the working group will include understanding the current RNG marketplace, availability of RNG supply and key metrics for the OEB to evaluate the appropriate contribution of RNG in the gas supply mix.

    - ENERGY staff participate in this working group.

- OEB expects to finalize the gas supply framework by the end of 2017.

MOECC's Regulation Process with Respect to RNG

- MOECC staff propose the following implementation timelines:

    - Mid-August: ADM-approved MTCC materials due to Cabinet Office (CO);

    - September: MTCC meeting (TBD);

    - September/October 2017: Stakeholder consultation on regulation;

    - November/December: MOECC and ENERGY take regulation to LRC; and

    - End 2017: RNG Regulation proposed to be filed.

Note: MOECC advises that it is still interested in a regulation that would begin with a minimum RNG requirement in 2020 for regulated utilities and for marketers/direct purchases in 2025.

- In June 2016, the Climate Change Action Plan (CCAP) outlined an initiative to establish a low carbon requirement for natural gas: "Ontario intends to introduce a renewable content requirement for natural gas and provide supports to encourage the use of cleaner, renewable natural gas in the industrial, transportation and buildings sectors".

- The CCAP commitment did not specify a level of RNG content. However, the accompanying modelling assumed 2% of total natural gas demand was to be met by RNG by 2020.
  - The natural gas utilities have suggested RNG supplies of "up to" 2% of the system gas customers by 2020 (Note: System gas customers are those who buy the natural gas commodity from their utility and they account for about 50% of total demand).
  - The Fuels Technical Report noted a 2015 ICF International study undertaken for Enbridge Gas and Union Gas forecasting Ontario's potential RNG supply reaching 155 PJ (nearly 4.3 million cubic meters) per year by 2035 (i.e. about 16% of current natural gas demand).

6. Free Overnight Charging

- The Climate Change Action Plan committed to a four-year, free overnight electric vehicle (EV) charging program for residential and multi-unit residential customers to start in 2017. MOECC received Treasury Board approval to allocate only $8.7 million for this program, down from the $15 million provisionally allocated in the CCAP.

Suggested Response:

- **The program contemplated in the CCAP has two general objectives. The first is to incent the purchase of EVs with the promise of free electricity. The second is to encourage overnight charging instead of during peak times when natural gas plants are in use.**

- **There is not enough funding to meet these goals with a program that is available across the province. As an alternative, the Ministry is proposing a staged approach for this program, starting with a limited deployment for the first year and evaluating program effectiveness to determine next steps.**

- **The data generated from this approach would be invaluable for government – we simply do not have any information of this quality on how EVs are used in Ontario.**

Background:

- Discussions between ENERGY and MOECC have been held to discuss the challenges related to delivering on CCAP objectives for overnight charging.

- The average cost of charging an EV overnight around $15 to $20 per month at current Time-of-Use rates. The Ministry estimates that, using the $8.7 million of allocated funding, credits to the expected 55,000 EV owners will be no more than $5 per month. If administration and program operating costs are added in order to incentivise EV owners to charge overnight, the credits will be lower still.

- To maximize value-for-money, a targeted time-limited project on a small-scale could generate valuable data on EV behaviour while addressing all of the program objectives. This approach would require partnerships with select LDCs, a supplier for the devices needed to track charging behaviour, and support from MTO / MOF to ensure deployment for EV owners not paying electricity bills (e.g. multi-residential tenants).