Ministry of Energy

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MC-2018-XXXX

Lynn Dollin
President
Association of Municipalities of Ontario
200 University Ave. Suite 801
Toronto, ON, M5H 3C6

Dear Ms. Dollin:

Thank you for your letter of December 18, 2017, regarding our 2017 Long-Term Energy Plan (2017 LTEP) and the changes ahead in the energy sector. I appreciate your feedback and I am pleased to respond.

We recognize that distributed energy resources (DERs) are likely to play a significant role in the future of Ontario's energy mix. As articulated in the 2017 LTEP, the Ministry has taken a number of steps to investigate and unlock the value of these technologies.

For instance, on July 1, 2017, a first round of changes to Ontario's net metering framework took effect. These regulatory updates remove the size limit on eligible net-metered renewable generation systems and allow them to be paired with energy storage technologies. This enables a variety of electricity customers to participate in net metering and offset their electricity usage with renewable power generated on-site. The Ministry is currently consulting on a second phase of updates to the net metering framework and other regulatory actions to address related implementation considerations. The proposed updates would enable third-party ownership of net-metered generation facilities and allow for virtual net metering demonstration projects. I understand that ministry staff has reached out to AMO regarding these regulatory postings.

The Ministry is also working with the Independent Electricity System Operator to develop a program to support a select number of innovative renewable distributed generation projects, paired with other DERs and smart grid technologies, as well as virtual net metering demonstration projects. As articulated in the 2017 LTEP, these projects will help to inform the value of distributed energy resources to customers and the grid, and to inform future net metering and grid modernization policy.

Further, we recognize that the optimization of distributed energy resources depends on the appropriate mix of intelligent control systems that can effectively integrate new technologies with traditional distribution assets. I know that facilitating this "DER enabling platform" is a key pillar of the Electricity Distributors Association's Power *to Connect* vision that you referenced in your letter. In order to promote both non-wires solutions and the platforms that enable them, the Ministry – through its grid modernization framework – aims to create the right environment for utilities to pursue business and system modernization where it results in greater efficiency, reduces costs, and provides customers with more choice.

One of the goals of grid modernization is addressing and overcoming barriers to the adoption of cost-effective innovative technology. As you noted, some of these barriers are regulatory in nature. As part of the 2017 LTEP, the Ministry articulated barriers it has identified as inhibiting the deployment of DERs and other non-wires solutions, and signalled its expectation that the Ontario Energy Board (OEB) will explore these barriers through their 2017 LTEP implementation plan, with an aim to enable the cost-effective modernization of Ontario's electricity system.

The *Power to Connect* also addresses the challenges LDCs will face in evolving their business processes and cultural adaptation to DERs and other new technologies. The Ministry is similarly focused on addressing cultural barriers to innovation. For example, the renewed Smart Grid Fund will aim to address, among other objectives, non-regulatory barriers to smart grid, including reducing risk and uncertainty around LDC investments. As part of their work on their implementation plan, the OEB will also consider further opportunities for encouraging a culture of innovation in the electricity distribution sector. These actions aim to give Ontario's municipally-owned LDCs the tools seize the opportunities that DERs and other technologies represent in the years ahead. I encourage municipalities as shareholders of LDCs to think about their roles in addressing cultural barriers to innovation.

The Independent Electricity System Operator's (IESO) Market Renewal project is moving ahead on schedule and we support the various initiatives as an opportunity to improve the efficiency and operation of the electricity system and prepare for future changes. As you noted, the move to a Single-Schedule Market includes a review of the pricing framework, including the potential for a move to regional pricing. The pricing structure design must address trade-offs between market incentives and policy goals, while addressing a number of key design considerations. The IESO has published its design element options and preliminary decisions for the Single-Schedule Market stream of the Market Renewal project and expects to begin finalizing design decisions in Q3 2018.

The 2017 LTEP recognizes that renewable natural gas (RNG) is an innovative low-carbon source of energy which can be produced from materials found in Ontario's landfills, forestry and agricultural residue, green bin and food and beverage waste, as well as the waste from sewage and wastewater treatment plants. As such, many sources of RNG are currently under municipal jurisdiction. The Ministry of Energy will continue to work with the Ministry of Environment and Climate Change to support the introduction of RNG in Ontario, including coordination of RNG policies with municipal waste diversion strategies.

Thank you again for writing and please accept my best wishes.

Sincerely,

Glenn Thibeault
Minister