

## ISSUES NOTE: AUDITOR GENERAL REPORT ON ELECTRICITY SYSTEM PLANNING

**ISSUE:** The Auditor General's Report on Electricity Power System Planning was tabled on December 2, 2015,

- The Auditor General's report was critical of the Province's electricity system planning process.
- The Ministry agreed with the AG's recommendations and responded by introducing new legislation.

| AG Criticisms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Ministry Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Status of New Legislation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| <ul style="list-style-type: none"> <li>• The planning process has broken down without an Integrated Power System Plan in place and with limited oversight by the Ontario Energy Board.</li> <li>• The Minister of Energy has relied too heavily on the use of Ministerial Directives and Directions, resulting in a lack of transparency, a lack of oversight and in increased costs to consumers.</li> <li>• There are problems with generation procurement decisions whereby electricity surpluses have increased costs for consumers, excessive prices were paid for renewables and other generation projects have not been cost effective.</li> <li>• Conservation and demand management initiatives have been ineffective during times of electricity surplus and many CDM programs are not cost-effective and were not evaluated for cost-</li> </ul> | <ul style="list-style-type: none"> <li>• The Ministry agreed with the Auditor General's (AG) recommendations and committed to implement the AG's recommendation through two pieces of legislation: <i>The Energy Statute Law Amendment Act, 2015</i> and the <i>Strengthening Consumer Protection and Electricity System Oversight Act, 2015</i>.</li> <li>• Governing is about choices. Our government has been clear we are committed to a clean, modern, and reliable electricity system.</li> <li>• Narrowly focused value-for-money audits always show it would have been cheaper to burn dirty coal, we chose cleaner air, a healthier future, and the single largest climate change action in North America was a choice the people of Ontario support.</li> </ul> | <ul style="list-style-type: none"> <li>• On July 1, 2016, the <i>Energy Statute Law Amendment Act, 2015</i> came into force. It enshrines the Long-Term Energy Plan (LTEP) process in law. As with the 2013 LTEP, the next LTEP will also be built around five key principles – cost-effectiveness, reliability, clean energy, community engagement and putting conservation first.</li> <li>• The <i>Strengthening Consumer Protection and Electricity System Oversight Act, 2015</i> received Royal Assent on December 3, 2015 and sections amending the Ontario Energy Board Act (OEBA) were proclaimed into force on March 4, 2016.</li> </ul> |

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| effectiveness.                                                                                                                                                                                                                                                                                                                               |  |  |
| <ul style="list-style-type: none"> <li>There are problems with transmission system planning, including problems in regions that have been outstanding for years, not enough capacity to connect renewable generators and lack of analysis regarding increasing Ontario's transmission capacity to accommodate contracted imports.</li> </ul> |  |  |

## **BACKGROUND:**

### ***Standard AG Audit Process***



### **Status of Electricity Power System Planning Audit (2003 – 2015)**

|                                |                                                                  |
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| <i>Date Audit Released</i>     | December 2, 2015                                                 |
| <i>Committees and Defenses</i> | Not Called                                                       |
| <i>Follow-up</i>               | 2017 Annual Report<br>(follow-up on 2015 Value-for-money Audits) |

### ***Background on Bill 135 and Bill 112***

*Enshrining an Enhanced LTEP Process: The Energy Statute Law Amendment Act, 2015 (Bill 135)*

- On October 28, 2015, the Minister of Energy introduced the *Energy Statute Law Amendment Act, 2015* (Bill 135) to replace the lengthy and ineffective Integrated Power System Planning (IPSP) process with an enhanced LTEP process that is transparent,

efficient and able to respond to changing policy and system needs.

- This legislation built upon previously introduced government legislation in 2012 to remove the IPSP and replace it with a more customer-focused, consultative process.
- These plans set out comprehensive direction for the energy sector and were designed to balance the principles of cost-effectiveness, reliability, clean energy, community engagement and an emphasis on conservation and demand management.
- The enhanced LTEP process replaces the previous Integrated Power System Plan (IPSP) process, which was unresponsive to the changing environment of the energy sector and was time consuming and costly.
- The amended legislation enshrines this LTEP process to ensure that energy planning is done transparently and pragmatically and that future LTEPs are developed consistent with the principles of cost-effectiveness, reliability, clean energy, community and Aboriginal engagement, and emphasis on conservation and demand management.
- As new transmission projects are identified in future LTEPs, the IESO is authorized to plan and undertake competitive approaches for transmitter selection and procurement of transmission projects, when appropriate, to ensure that ratepayers get the greatest value from new infrastructure investments.
  - Previously, the IESO could only procure generation assets and electricity capacity but it lacked the authority to undertake procurement for transmission.
  - In the past, Hydro One was directed to undertake certain transmission projects. More recently, competitive approaches (OEB Designation, involvement of Infrastructure Ontario, see S. 1 – Proposal Context) have been used to allow new entrants to participate in new projects and ensure ratepayers receive the best value.
  - Bill 135 has enshrined amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA) that expands the IESO's mandate to include procurement of transmission projects, and requires the IESO to develop and implement selection or procurement processes for transmission projects as part of its LTEP implementation plan, as approved by the Minister.
  - Subject to approval by the LGIC the IESO can undertake selection or procurement for transmission projects that are identified in between LTEPs. Amendments to the OEBA ensures that the IESO's transmitter selection or procurement process is not bypassed and that only winners of the IESO's process can obtain leave to construct.

- The amended LTEP process also clarifies the roles of the Ministry of Energy and the IESO in developing future Long Term Energy Plans, with a requirement that the IESO develop a technical plan that would be used by the Province in consultations on and development of the LTEP.
- The enhanced process also provides for the development of implementation plans by the IESO and the OEB.

*Strengthening Consumer Protection and Electricity System Oversight Act, 2015 (Bill 112)*

- Bill 112 amended the OEBA to enhance the Ontario Energy Board's (OEB) tools to regulate the sector including improved tools to ensure continuity of service, requiring appropriate processes for consumer representation at OEB proceedings and increased discretion when levying penalties for non-compliance

Division/Branch: Strategic, Network and Agency Policy Division  
Approved by: Michael Reid, ADM, SNAP  
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