Ministry of Energy

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Ontario

Mr. Bruce Campbell
President and Chief Executive Officer
Independent Electricity System Operator
1600–120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Campbell:

RE: Non-Utility Generators (NUGs) under Contract with the Ontario Electricity Financial Authority (OEFC), Feed-in Tariff (FIT) Procurements, 2015-2020 Conservation First Framework, and Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program

I write in my capacity as the Minister of Energy in order to exercise the statutory power I have to amend or revoke continued directions issued to the Independent Electricity System Operator (IESO) under the *Electricity Act, 1998,* as amended (the "Act").

BACKGROUND

NUGs under Contract with OEFC

On December 14, 2015, IESO was directed to discontinue negotiations for New Contracts (as defined in that direction) for NUGs, while continuing to engage stakeholders, including NUG representatives as relevant, in IESO's development of an Ontario capacity auction, rules and protocol for Ontario-based capacity exports and to continue to consider NUGs as options to maintain regional reliability.

A number of the thermal NUGs (OEFC NUGs) have contracts (OEFC Contracts) with the Ontario Electricity Financial Corporation (OEFC) that have not yet ended. The terms of those OEFC Contracts, which were originally signed nearly twenty years ago, provide incentives for most of the OEFC NUGs to operate as baseload electricity resources.

Ontario has put in place legislation for its new cap and trade program to limit greenhouse gas pollution while moving to a low-carbon economy. Given the evolution of Ontario's electricity system, there are opportunities to increase system value, reduce costs for Ontario electricity consumers and lower carbon emissions in the province, if

IESO is able to negotiate replacement contracts (IESO Contracts) with OEFC NUGs that incentivize them to operate in a manner that is better aligned with the integrated power system's needs.

FIT Procurements

In the 2013 Long-Term Energy Plan, the Ministry of Energy committed to exploring the evolution of the microFIT program to net metering. To support this process, the Ministry established an Advisory Working Group and undertook stakeholder engagement including a posting of proposed updates to Ontario's 2005 Net Metering regulation on the Environmental and Regulatory registries in August 2016. Proposed updates include, for example, removal of the existing 500 kW limit on net metered facilities and enabling storage. The Ministry is proposing to bring forward amendments to the regulation in the near future and has identified other potential changes for further consultation in winter 2017.

The Ministry has also commenced work on the development of the next Long-Term Energy Plan, with stakeholder and Indigenous engagement to be concluded this month. The development of the next LTEP provides an opportunity to examine the future role of distributed renewable energy generation under an updated net metering regulation and in a manner that recognizes the province's robust electricity supply. It is anticipated that the next LTEP will be published in spring 2017.

2015-2020 Conservation First Framework

On March 31, 2014, the IESO was directed to continue to provide, through its Conservation Fund, support and funding for new and innovative electricity conservation initiatives as a means to assist licensed electricity distributors (Distributors) and others in their conservation efforts.

On November 16, 2015 the Ontario Energy Board (the "Board") issued its five-point multi-year *Regulated Price Plan Roadmap* (Roadmap) to redesign the Regulated Price Plan (RPP) to better respond to policy objectives, improve system efficiency, and to give consumers greater control.

One of the major elements of the Roadmap is the implementation of pilot projects for new pricing models and non-price tools (Pilot Projects). The Pilot Projects would, among other things, test alternative pricing options that are aimed at achieving objectives of the RPP. The results of the Pilot Projects would provide an objective basis to inform future decisions about RPP pricing and the design of new tools for customers to manage their electricity usage and provide for increased system efficiency.

On July 18, 2016, the Board issued its *Regulated Price Plan Roadmap: Guideline for Pilot Projects on RPP Pricing,* inviting Distributors to participate in developing and implementing Pilot Projects. A number of Distributors have filed applications with the Board for that purpose.

These Pilot Projects will be funded through the Conservation Fund so the IESO may use the Pilot Project results to help identify potential complementary Conservation and Demand Management programs or initiatives that could assist RPP customers in responding to different pricing mechanisms.

Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program

With the Conservation First Framework and renewed Industrial Accelerator Program now underway for close to two years, opportunities have been identified to improve the availability of programs province-wide for customers. A list of all approved Province-Wide Distributor CDM Programs, Local Distributor CDM Programs and associated program rules are located on the IESO website.

DIRECTION

Therefore, pursuant to my authority under section 25.32 of the Act, I hereby make the following amendments to the directions listed below:

1. NUGs under Contract with OEFC

The direction dated December 14, 2015 titled “Non-Utility Generator Projects, Combined Heat and Power Standard Offer Program 2.0, Chaudière Falls Hydroelectric Generation and Whitesand First Nation Biomass Cogeneration” is amended as follows:

1.1 Paragraph 1.1 is amended to read as follows:

“Subject to paragraphs 1.4 and 1.5 below, discontinue negotiations for New Contracts for NUGs.”

1.2 The following new paragraphs 1.4 and 1.5 are added:

1.4 Enter into negotiations with the OEFC NUGs regarding a new IESO Contract to change the incentive structure for supplying electricity or capacity so that the facilities operate in a manner that better aligns with the integrated power system’s needs and that would satisfy all of the following requirements:

(i) Expected cost and operability benefits for the Ontario electricity system are greater than the cost and operability benefits afforded under the current OEFC Contract;

(ii) All IESO obligations under the IESO Contract end no later than the date on which the current term of the existing OEFC Contract expires

1.5 IESO is not required by this direction to enter into an IESO Contract with an OEFC NUG where IESO is unable to reach agreement with the OEFC NUG on terms that satisfy the requirements set out in paragraphs 1.3 and 1.4 of this direction.

2. FIT Procurements

FIT 5 Procurement Target

The direction dated June 24, 2015 titled “Feed-in Tariff (FIT) Program” is amended as follows:

2.1 The paragraph that reads: “For greater clarity, the IESO shall include any unallocated capacity from each future annual microFIT target to the subsequent FIT procurement target” is revoked.

2.2 The paragraph that reads: “Similarly, the IESO shall add any remaining unallocated capacity from FIT procurements to the subsequent FIT procurement target.” is revoked.

The direction dated April 5, 2016 titled “Future Renewable Energy Procurements” is amended as follows:

2.3 Paragraphs 2.2 and 2.3 are revoked.

2.4 A new paragraph 2.2 is added that reads: “The FIT 5 procurement target shall be up to 150 MW.”

FIT 6 Procurement

The direction dated June 12, 2013 titled “Renewable Energy Program” is amended as follows:

2.5 By revoking the paragraph that reads: “Furthermore, in each of the next four years, starting in 2014, the OPA will award up to 150 MW of contracts for Small FIT Projects. If the full annual Small FIT MW procurement target is not allocated in a given year, the remaining capacity will be added to the Small FIT MW procurement target in the following year.” and replacing that paragraph with a new paragraph that reads: “Furthermore, in each of the next three years, starting in 2014, the IESO will award up to 150 MW of contracts for Small FIT Projects. If the full annual Small FIT MW procurement target is not allocated in a given year, the remaining capacity will be added to the Small FIT MW procurement target in the following year. The final FIT application period will be held in 2016. The IESO shall cease accepting applications under the FIT program by December 31, 2016 and any unallocated procurement target at the end of that procurement process will remain unallocated."

3. 2015-2020 Conservation First Framework

Support and Funding for Research and Innovation

3.1. The direction issued on March 31, 2014 entitled "2015-2020 Conservation First Framework" is amended by adding the following new paragraphs to the section titled "Support and Funding for Research and Innovation":

8.3 The IESO shall provide, through its Conservation Fund, support and funding for pilot projects for new pricing models and non-price tools (Pilot Projects) specified by the Board.

8.4 Since the Pilot Projects are adhering to the Board's guidelines and processes related to such Pilot Projects, the IESO shall provide such Conservation Fund funding without adherence to the Conservation Fund's application process or other requirements. The IESO will create a simplified process for enabling Distributors delivering Pilot Projects to access Conservation Fund funding.

8.5 The IESO shall make Conservation Fund funding available for the Pilot Projects in such amounts as determined by the Board.

8.6 The IESO shall fund only Distributor costs for delivering the Pilot Projects in accordance with the Board specified Pilot Project expenditures. The IESO will pay the Distributor for Pilot Project costs on the terms set out in the procurement contract with the Distributor delivering the Pilot Project.

8.7 The IESO shall enter into one or more procurement contracts with Distributors selected by the Board to fund the Pilot Projects specified by the Board. The IESO shall use a simplified and expedited procurement process for that purpose.

4. Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program

Commented [PJ1]: Comment from IESO: IESO is concerned with the removal of the budget limit and the requirement that funding be made available in such amounts as determined by the OEB and for any projects approved by the OEB. From a governance perspective, the IESO will have no accountability or oversight for amount of funding allocated to and paid out of an IESO fund. We are concerned with this approach to a direction being issued to the IESO to fund another entity's pilots.

We are proposing that this direction be limited to only those pilot projects submitted by LDCs prior to August 22, 2016. This will introduce limits on number of projects and as a result at least indirectly limit the potential budget, without specifying a dollar amount.

Commented [CM2]:

The IESO had included the provision to limit the pilot budget to $40 million.

However, in light of the Minister's recent public comments on giving consumers more choice on electricity pricing, the OEB is suggesting that a budget limit not be included in the direction to allow greater flexibility to deliver additional pilots in the future that have not yet been costed.

ENERGY's understanding is that the RPP pilots currently being contemplated by the OEB will require a budget of up to $30 million.

Commented [PJ3]: Comment from IESO: the removal of EM&V being conducted by IESO would mean the IESO would essentially have no role in these pilots other than as funder.

IESO suggests adding the following paragraph:

8.3 The IESO shall undertake Evaluation, Measurement and Verification (EM&V) of the Pilot Project results based on criteria that the IESO develops or utilizes in consultation with the OEB.

4.1. The direction issued on March 31, 2014 entitled “2015-2020 Conservation First Framework” is amended by adding a new sub-section 3.6 to Section 3: CDM Plans and Programs, as follows:

3.6 i. Further to the Distributor CDM Requirement that includes making available a core set of province-wide CDM programs in their licensed service areas, and despite Section 1.3 of the Conservation First Framework Direction, the IESO shall request that Distributors that are not making available one or more approved Province-Wide Distributor CDM Programs, considering the eligible program participants in their licensed service area per the program rules, resubmit revised CDM Plans by May 1, 2017 outlining how they will make all approved Province-Wide Distributor CDM Programs available in their licensed service areas beginning in 2017 using their allocated CDM budget. As new approved Province-Wide Distributor CDM Programs and associated program rules become available, the IESO shall request Distributors with eligible program participants to resubmit revised CDM Plans within four months outlining how they will make the new approved Province-Wide Distributor CDM Program available in their licensed service area.

ii. Where a Distributor with eligible program participants is not making an approved Province-Wide Distributor CDM Program(s) available to eligible program participants in its licensed service area, the IESO shall deliver the Province-Wide Distributor CDM Program(s) in that Distributor’s licensed service area if a Distributor has not submitted a revised CDM Plan indicating an intention to do so per the timelines in Section 3.6(i).

iii. The IESO shall establish a budget to fund the approved Province-Wide Distributor CDM Programs that are to be delivered by the IESO that is within the budget established under Section 1.4 of the Conservation First Framework Direction.

iv. Where the IESO delivers an approved Province-Wide Distributor CDM Program in a Distributor’s licensed service area, the associated electricity savings shall not count toward that Distributor’s CDM Target.

4.2. The direction issued on July 25, 2014 entitled “Industrial Accelerator Program” is amended by adding the following new sub-sections to section 3.1, as follows:

Commented [PJ4]: Comment from Conservation Policy: IESO edits now state that province-wide programs that LDCs opt into must be funded through their existing allocated CDM budget. ENERGY staff misunderstood IESO’s original intention and agree that this approach is more fair to those LDCs already delivering most/all province-wide programs, and would avoid potential ratepayer impacts with LDCs requesting more funding. IESO has emphasized that LDCs have significant unspent budget.

Commented [PJ5]: Comment from Conservation Policy: IESO removed the list of existing province-wide programs and instead made reference to the approved province-wide programs on its website. ENERGY staff agree with this approach as it will allow the list to be updated as new programs are approved. IESO also establishes a continuous process whereby LDCs can opt into new approved province-wide programs, as they’re posted to the IESO website.

Comment from IESO: List of programs may change (and Small Business Refrigeration is not a Province-wide program yet. Preference is to reference approved province-wide CDM programs. New programs such as whole home and small business refrigeratioin can be developed and added to the list. IISO is working to turn small business refrigeration program into a province wide program in the near future.

vi. The IESO shall undertake a pay-for-performance pilot program for customers that are eligible for the Industrial Accelerator Program that is consistent with the Centrally-Delivered Pay-for-Performance Multi-Distributor CDM Program.

vii. The IESO shall allow transmission-connected customers with distribution-connected sites to elect to have their transmission-connected and distribution-connected sites administered through the Industrial Accelerator Program. Any associated electricity savings that result from distribution-connected sites participating in the Industrial Accelerator Program shall count toward Distributor CDM Targets under the Conservation First Framework Direction.

Commented [PJ6]: Comment from Conservation Policy: Flagging a change – IESO is saying dx projects would still be funded out of LDC budgets and count toward their targets. IESO originally proposed costs would come out of IAP budget.

5. General

5.1. This direction supplements and amends previous directions to the extent that a previous direction is inconsistent with the provisions of this direction. All other terms of any previous directions remain in full force and effect.

This direction takes effect on the date it is issued.

Sincerely,

Glenn Thibeault
Minister

c. Tim O'Neill, Chair, Independent Electricity System Operator
Rosemarie Leclair, Chair and CEO, Ontario Energy Board
Serge Imbrogno, Deputy Minister, Ministry of Energy
Carolyn Calwell, Director, Legal Services Branch,
Ministries of Energy; Economic Development and Growth; Infrastructure; Research, Innovation and Science; and Accessibility