LEGISLATION AND REGULATIONS COMMITTEE
BRIEFING NOTE

Energy
Industrial Conservation Initiative

LRC/CAB April 10, 2017	Effective Date Upon Filing

Summary of Proposal

The proposed amendments do not vary with previous Cabinet direction.

Proposal:

All electricity consumers and market participants with average monthly peak demand of greater than 1 megawatt (MW) are eligible to participate in the Industrial Conservation Initiative (ICI).

The Ministry of Energy (ENERGY) is proposing to amend Ontario Regulation 429/04 under the *Electricity Act, 1998* to expand ICI eligibility to electricity consumers and market participants in the manufacturing and greenhouse sectors with an average monthly peak demand greater than 500 kilowatts (kW) and less than or equal to 1 MW.

In addition, ENERGY is seeking to amend Ontario Regulation 429/04 to allow electricity consumers to continue their participation in the ICI if their demand falls below the monthly peak demand threshold due to participation in certain conservation and demand management (CDM) programs or Ontario Climate Change Solutions Deployment Corporations (OCCSDC) Programs and Pilots.

On March 2, 2017, the Government of Ontario announced plans to further reduce the ICI threshold from 1 MW to 500 kW and to target more small manufacturing and industrial consumers.

Background:

The ICI was implemented in January 2011 to help large industrial electricity consumers reduce their electricity costs by reducing electricity consumption during peak periods. Reducing peak demand increases the reliability of the electricity system, reduces greenhouse gas emissions, and helps defer the need to procure new resources.

As of July 2017, ICI is available to electricity consumers and market participants with an average monthly peak demand of greater than 1 MW.

There are two defined classes of ICI consumers:

- "Class A" consumers are large electricity consumers with an average monthly peak demand exceeding 1 MW. These consumers are charged Global Adjustment (GA) proportional to their share of total provincial peak electricity demand measured during the five highest-peak hours in the year.

- "Class B" consumers are smaller electricity consumers, who are charged the remaining costs recovered through GA volumetrically based on their total consumption regardless of when it occurs.

The ICI provides an incentive to eligible consumers to moderate their consumption during peak demand periods. For most large consumers, being billed on a Class A basis is much more cost-effective than being billed on a Class B basis.

Why does Ontario need these changes? Why now?

On March 9, 2017, as part of Ontario's Fair Hydro Plan, the government set out the commitment to expand ICI to enable greater participation from the manufacturing sector in Ontario. Following the announcement, a decision was made to include the greenhouse sector in the updated regulation.

ENERGY would like the amendments in effect as soon as possible to allow eligible consumers time to opt in to the ICI by June 15, 2017, so they can be considered Class A for the upcoming annual billing period starting on July 1, 2017.

What is the expected cost to government?

ENERGY has not identified any direct cost to government resulting from this proposal.

How will the changes be communicated?

The Independent Electricity System Operator and local distribution companies would communicate the new eligibility requirement to prospective ICI Class A consumers.

Terms you need to know:

- **Industrial Conservation Initiative (ICI):** Ministry of Energy program implemented in January 2011 to help large industrial electricity users reduce their electricity costs by shifting electricity consumption away from peak periods. The ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.
- **Independent Electricity System Operator (IESO):** Agency responsible for Ontario's electricity system planning, management of generation and conservation contracts, and day-to-day operation of Ontario's electrical system.
- **Local Distribution Companies (LDCs):** Local electricity utilities, responsible for

distributing power from transmission lines to people’s homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)

Cabinet Office Analysis

The proposed amendments would allow eligible electricity consumers and market participants in the manufacturing and greenhouse sectors in Ontario with an average monthly peak demand of greater than 500 kW and less than 1 MW to opt-in to the Industrial Conservation Initiative (ICI).

The proposed amendments would also allow any ICI participants to retain their Class A status after having experienced a reduction in demand (below 500 kW for manufacturers or greenhouses or below 1 MW for all other consumers and market participants), so long as they participate in one of the following CDM or OCCSDC programs:

- Conservation and CDM Programs and Pilots delivered under the 2015 to 2020 Conservation First Framework, administered by IESO
- CDM Programs and Pilots under the 2015 to 2020 Industrial Accelerator Program, administered by IESO
- IESO Conservation Fund Projects
- IESO Demand Response Auction
- IESO Demand Response Pilots
- Ontario Climate Change Solutions Deployment Corporation Programs and Pilots

Expanding the ICI to consumers in the manufacturing and greenhouse sector between 500 kW and 1 MW would help to:

- Reduce electricity peak demand and electricity system costs by incenting more consumers to lower their electricity demand during peak periods; and
- Lower electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ENERGY predicts that expanding ICI will increase electricity bills for non-ICI participants to ensure full cost recovery in the electricity system. The extent of the impact on other non-ICI participants would depend on the uptake in the newly expanded ICI, but the cost increases are expected to be modest.

Delivery:

The proposed amendments in this submission would take effect upon filing.

Commented [JJ(1]: CO Q: What will be the impact of new eligibility for the overall ICI program. Will the new manufacturers and greenhouses between 500 kW and 1 MW be a small amount relatively to the total number eligible/participating in the ICI?

Commented [LH2]: ENERGY A: Data regarding the number of consumers by size and sector is unavailable. Thousands of potential consumers could become eligible, and a smaller portion may choose to opt-in. However, the overall load of the newly eligible consumers is expected to be relatively small.

The Independent Electricity System Operator, local distribution companies, and electricity consumers would be responsible for following and implementing the proposed amended regulation in relation to the expanded ICI program.

ENERGY regularly monitors electricity prices and electricity demand for all classes of consumers and will be able to assess the potential impacts of the proposed regulatory amendments, if approved, starting after July 2017.

Stakeholder consultations:

On March 9, 2017, ENERGY posted a proposal for comment on the Regulatory Registry to provide stakeholders with the opportunity to comment on the proposed expansion of ICI. Two comments were received on the posting.

ENERGY hosted an LDC Working Group session on March 16, 2017. Nearly 30 LDC representatives attended in person or by phone and were briefed on the implementation of Ontario's Fair Hydro Plan, including the ICI expansion.

Linkages:

The ICI is one of a number of industrial electricity rate mitigation initiatives in Ontario. Other programs include the Industrial Electricity Incentive, the Industrial Accelerator Program, and the Northern Industrial Electricity Rate Program.

Average industrial electricity prices for ICI participants in northern and southern Ontario are less than the United States average (as reported by the U.S. Energy Information Administration), yet greater than Manitoba and Quebec.

Ontario's Long-Term Energy Plan electricity system forecast and implementation directives will be updated in 2017, and will include policies and programs spanning the energy sector.

Commented [JJ(3]: **CO Q:** Energy, can you provide details on if the proposed changes are in response to stakeholder requests/concerns, and who they may include (e.g., greenhouse associations)

Commented [JJ(4]: **CO Q:** Details on the comment?

Commented [LH5]: **ENERGY A:** Pending end of the comment period.

Commented [JJ(6]: **CO Q:** What were responses heard through the working group session?

Commented [LH7]: **ENERGY A:** LDCs acknowledged the changes to the program and did not flag any issues related to implementation.

Commented [JJ(8]: Are these statements still true?

Commented [LH9]: Yes, as per Q4 2016 Ontario Energy Report.

Commented [CD(10]: Out of scope of the reg amendment.