MEETING NOTE

NAME OF ORGANIZATION: Secretary of the Cabinet

DATE/TIME OF MEETING: March 6th 2018 – 2:00 PM

LOCATION OF MEETING: SoC Board Room – Whitney Block

ATTENDEES:

Ministry of Energy
Serge Imbrogno, Deputy Minister

Cabinet Office
Steve Orsini, Secretary of the Cabinet

AGENDA:

1. Standing Committee on Public Accounts (SCOPA)
2. MTO / Metrolinx Hydrail Feasibility Study

NOTES ON AGENDA ITEMS:

1. SCOPA – Chapter 2 and 3

__Suggested Response:__

- **On December 20, 2017, SCOPA called the Ministry of Energy to provide responses to recommendations made in the 2017 Annual Report of the Auditor General (AG).**

- **The AG report issued recommendations directed at the Ministry of Energy regarding:**

    - **Ontario's Fair Hydro Plan accounting (in Chapter 2: Public Accounts of the Province); and**

    - **Electricity market oversight and the Industrial Conservation Initiative (ICI) (in Chapter 3: Reports on Value-for-Money Audits).**

- **The Chapter 2 hearing was held on February 28, 2018; the Chapter 3 hearing is scheduled for March 7, 2018.**

- **The Ministry remains committed to working with the office of the AG and agrees with the need for strong electricity market oversight.**

- **The Ministry disagrees with a number of the findings in Chapter 3, including the characterization of the Independent Electricity System Operator (IESO)'s reliability programs and Industrial Conservation Initiative (ICI).**

<u>Background:</u>

- On December 6, 2017, the Office of the AG tabled its 2017 Annual Report.

- Recommendations made by the AG in Chapter 3 directed at the Ministry of Energy include:

    - Recommendation #3: Suggests the government review the legislative power and authority of the Ontario Energy Board (OEB) to initiate review of a market rule on its own motion and to consider expanding its authority where potential abuse is not being adequately addressed;

    - Recommendation #4: Suggests that the government review the impact of ICI on other classes of ratepayers; and

    - Recommendation #10 suggest the government gives IESO's Market Assessment and Compliance Division (MACD) explicit legislative authority to compel evidence in the course of its investigations.

Market Oversight

- The Ministry agrees with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including:

    - The powers of the OEB's Market Surveillance Panel (MSP) and IESO's MACD, including the potential need for additional legislative authority to assist MACD in performing its duties (i.e., investigative powers vs. audit function); and

    - The role of the OEB in the market rule review and amendment process.

- Ontario is currently undertaking a review of OEB in the interests of building on its mandate and adapting to the evolving electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss market oversight issues later this month.

- The AG criticized two IESO reliability programs, Congestion Management Settlement Credits (CMSC) and the Real-Time Generator Cost Guarantee (RT-GCG), which have been subject to market gaming and have been criticized by OEB's MSP. According to the AG, IESO did not address these criticisms in a timely fashion.

- IESO has revised numerous market rules in response to MSP recommendations and continues to take strong action when market participants contravene the market rules. According to IESO, the immediate removal of these programs would put reliability at risk.

    - Market Renewal will include replacing the RT-GCG program and CMSC with more efficient and transparent mechanisms.

Industrial Conservation Initiative (ICI)

- ICI has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers.

- ICI also promotes fairness by ensuring that consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, and vice versa.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

    - The results of the ICI program are publicly available in monthly IESO reports and the quarterly Ontario Energy Report.

Chapter 2

- The AG issued a number of recommendations regarding OFHP accounting, including suggesting the government follow the accounting standards established by the Public Sector Accounting Board.

- The Ministry has maintained that OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

- In developing the policy to refinance the Global Adjustment, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

2. MTO / Metrolinx Hydrail Feasibility Study

Suggested Response:

- **On March 1, 2018, ENERGY and IESO met with IO and Metrolinx to discuss the Hydrail Feasibility Study that was released on February 22, 2018. Note: The study was informed by pricing data provided by IESO.**

- **Based on the findings of the study, MTO / Metrolinx have indicated that a policy that guarantees low cost electricity between 2024 and 2050 would significantly benefit the business case for the use of Hydrail in the electrification of GO transit.**

- **We understand Metrolinx is intending to pursue a "Design-Build-Finance-Operate-Maintain (DBFOM)" model under which the province, and not electricity consumers, would take on the risk for electricity price.**

- **ENERGY will continue to work with MTO and Metrolinx to help quantify the uncertainty and risk associated with a long term electricity price forecast for a potential Hydrail project.**

    - **The period of analysis is between 2024 and 2050, extending 15 years beyond the forecast timeline in the 2017 Long-Term Energy Plan (2017 LTEP). Under such an extended timeline, any price forecast assumption will be speculative and have significant uncertainty associated with it.**

Background:

- Metrolinx is pursuing a Regional Express Rail (RER) project aimed at electrifying the GO transit network which currently relies on diesel trains. As part of the RER project, in February 2018, MTO and Metrolinx released a feasibility report on Hydrail as an alternative to conventional electric rail.

    - In addition, Metrolinx announced that it is engaging with train manufacturers Alstom and Siemens to produce concept designs that incorporate hydrogen fuel cells into bi-level trains similar to those currently used by GO Transit.

    - Metrolinx is also expected to issue a request for proposals (RFP) for designs for a hydrogen fuel cell-powered locomotive, which could lead to a prototype rail vehicle that would be tested on the GO rail network.

- The report identifies electricity pricing as a key factor that would need to be successfully addressed if Hydrail is to be cost effectively implemented.

    - Hydrail would require substantially more electricity than conventional electric rail; however, capital costs of Hydrail are likely to be lower (i.e., retrofitting existing rail in infrastructure for electric rail can be costly and disruptive).

    - The report makes a set of 10 recommendations on next steps in support of a potential procurement process, including “discussions with the provincial government to develop an electricity price policy that could be applied to the Hydrail system”.

- The business case for Hydrail would be greatly improved by an ongoing supply of surplus electricity that could be used to produce hydrogen.

    - Based on the Supply and Demand Outlook in the 2017 LTEP such surpluses are very unlikely over the long-term, particularly as NUGs reach the end of their contracts, Pickering Nuclear Generating Station comes off-line (in 2024) and initiatives such as market renewal increase the efficiency of the electricity markets.

IESO Input on Study

- IESO has advised that it provided the report’s consultants with a number of electricity sector relevant materials, including links to public information on Ontario’s electricity system, planning process, costs and surplus baseload generation.

    - IESO also provided the report’s consultants with detailed 2017-2035 forecast estimates for hourly demand and Hourly Ontario Energy Price (HOEP) (not available publicly).

- In addition to providing reference material, IESO also reviewed the “Electricity Policy and Pricing” sub chapter in the report and provided comments and suggested edits covering content on surplus baseload generation, electricity supply, exports, demand forecast and electricity pricing.