MEETING NOTE

NAME OF ORGANIZATION:	Ontario Energy Association (OEA) – Board of Directors Meeting
DATE/TIME OF MEETING:	Thursday, May 18, 2017, 12:30 PM – 2:00 PM
LOCATION OF MEETING:	OEA Boardroom, 121 Richmond Street West, Suite 202, Toronto, ON M5H 2K1

PURPOSE: OEA Board Meeting

ATTENDEES:

Minister of Energy
Glenn Thibeault

Ontario Energy Association
TBD

LAST MEETING:

ANTICIPATED AGENDA ITEMS:

1. Long-Term Energy Plan (LTEP) Discussion:
    A. Integration/alignment with the Climate Change Action Plan (CCAP)
    B. Optimizing existing infrastructure
    C. Regulatory modernization and efficiency
    D. Innovation and new technology

2. Ontario's Fair Hydro Plan (OFHP) Implementation:
    A. Total bill inflation cap
    B. Bill presentment

3. Market Renewal:
    C. Learnings from other jurisdictions
    D. Impact on existing generators
    E. Incremental capacity auction plan
    F. Supply planning governance reform

NOTES ON AGENDA ITEMS:

1. **Long-Term Energy Plan (LTEP) Discussion:**

- The Ministry of Energy is developing the next Long-Term Energy Plan (LTEP), which sets out the direction for Ontario's energy future. The OEA provided its LTEP submission to the Ministry on November 21, 2016.

- For the LTEP discussion, the OEA indicates it would like to discuss 1) Integration and alignment with the Climate Change Action Plan 2) Optimizing existing infrastructure 3) Regulatory modernization and 4) Innovation and new technology

Suggested Response:

- **To support LTEP development, the Ministry is reviewing the feedback received at in-person sessions, Indigenous engagements, and through online tools such as the Environmental Registry.**

- **Thank you for your continued participation in our LTEP engagement process. We will consider the recommendations put forward in the OEA's submission in our development of the 2017 LTEP.**

- **Pending Cabinet approval, the Ministry anticipates releasing the LTEP and Implementation Directives to the IESO and OEB in mid-2017.**

Background:

- The Ministry held in-person stakeholder and public open houses in 17 communities across Ontario. There were also 17 parallel sessions in Indigenous communities.

- OEA representatives attended the Toronto LTEP consultation session.

- The OEA's LTEP submission was developed using recommendations that came out of the OEA's own consultation with its members and a specific LTEP working group.

- The OEA's LTEP submission recommends that LTEP 2017 be founded on the following 4 core principles:

    - Security and reliability of supply;
    - Attainment of climate change objectives;
    - Ontario's economic prosperity;
    - Cost effectiveness and affordability of energy products and services for homes and businesses.

- In addition, the OEA identifies a number of specific priorities and suggest that LTEP 2017 should:

    - Be a complete energy plan (energy, not electricity)
    - Be fully costed
    - Focus on optimization (balance the preceding recommended 4 principles, as well as optimizing the use of existing infrastructure)
    - Modernize Ontario's regulatory system

A. *Integration/Alignment with CCAP*

- The consultation and engagement phase of LTEP development was preceded by the release of technical reports on the electricity and fuels sectors.

    - Each of these reports contained a ten-year review and twenty-year outlooks to 2035 that were affected by CCAP initiatives and assumptions.

    - The IESO is currently updating its assumptions to reflect the changes in the sector since that time including:
        - Fair Hydro Plan
        - Suspension of LRP 2
        - Trade deal with Quebec
        - Revised carbon pricing based on the first cap and trade auction

    - The revised base-case from the IESO will be included in the LTEP.

Suggested Response:

- **LTEP presents an opportunity for the government to further elaborate on Ontario's new climate change mitigation and adaptation policies as they relate to the energy sector.**

- **The LTEP, like the CCAP, is an iterative process. Each plan will inform the other to help ensure alignment of government priorities.**

- **The 2017 LTEP and future energy plans will need to apply the lens of climate change targets and carbon pricing to energy policy development.**

B. Optimizing Existing Infrastructure

- OEA Vice-Chair and President of Gas Distribution and Power at Enbridge Inc. will discuss optimizing existing infrastructure.

- In its LTEP submission in November 2016, the OEB recommended LTEP 2017 optimize existing infrastructure to meet Cap and Trade, security and reliability, economic and affordability objectives, including:
    - Options for decarbonizing and the more efficient use of natural gas
    - Options for re-contracting electric generation resources and deploying other resource options
    - Options for Demand Response and conservation, including taking advantage of Ontario utilities' DSM and CDM infrastructure and avoiding duplication that undermines existing infrastructure and leads to consumer confusion with respect to program delivery.
- The submission also recommends that electrification be paced having regard to the capacity of consumers to afford and infrastructure to adapt, and notes that energy needs are often regional rather than provincial and those that are should be identified, evaluated and resolved on a regional basis, particularly with respect to large urban centers.

Suggested Response:

- **Coordinated planning at all levels is critical to ensuring infrastructure is sized appropriately to meet the province's needs.**
- **It is important to take a realistic view of the growth uncertainties, new technologies and government policies when examining the need for infrastructure expansion.**

Right-sizing infrastructure

- As electricity transmitters and distributors replace aging equipment, there is an opportunity to continually increase efficiency by "right-sizing" the replacements, ensuring the new investments match current demand and requirements.
- This could involve upgrading pieces of equipment in growing communities or those with higher demand outlooks, or downgrading them to reduce the risk of underutilization. Equipment that is no longer required could even be removed.

C. Regulatory modernization and efficiency

Suggested Response:

- **Ensuring a modern, streamlined and cost-effective regulatory process is a top priority for the government.**

- **Ontario's commitment to lowering energy costs for ratepayers includes working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to identify opportunities to drive sector efficiency and productivity improvements.**

- **Under Ontario's Fair Hydro Plan (OFHP), we have asked the OEB to:**

    - **Review business cases behind its regulatory requirements in order to reduce red tape and eliminate costs for regulated entities;**

    - **Encourage shared partnerships between Local Distribution Companies (LDCs) which would help reduce costs and encourage further innovation for small to medium-sized utilities; and**

    - **Further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.**

- **The IESO will continue its Market Renewal Project that is intended to enhance the efficiency and performance of the wholesale electricity market design in three work streams: Energy Market, Capacity Auction and Operability. This is estimated to save $200 million per year starting in 2021.**

Background:

- LDCs are concerned that regulatory processes have become increasingly costly, time-consuming and overly-prescriptive with limited cost-benefit analysis to justify the requirements.

- LDCs are hesitant to prepare comprehensive rate filings due to unclear guidelines. They also believe certain regulatory and reporting requirements can be streamlined and instead focus on achieving outcomes.

- Under the OFHP, the government is tasking the OEB and the IESO with identifying opportunities to drive efficiency and productivity improvements in order to reduce costs passed on to customers.

- Under the next Long-Term Energy Plan (LTEP), the Ministry plans to instruct the OEB to implement changes on a staggered basis over the next four years to smooth out the regulatory burden. The Ministry intends to have new rate-making processes available for 2019 application filings for the rate year 2020.

- In order to accomplish this, the OEB would be required to launch consultations with all stakeholders to re-evaluate the regulatory framework and address the new requirements needed in the LTEP, as well as updating the regulatory approach, as outlined in the OFHP.

D. Innovation and New Technology

- Annette Verschuren – President of NRStor – will be leading a discussion on encouraging innovation and new technology in the energy sector.

Suggested Response:

- **As you know, innovation and grid modernization were key themes during our LTEP consultations.**

- **The OEA and the Ministry share a common vision in enabling innovation, customer choice, and cost-effective technology adoption throughout the sector.**

- **I would like to know what the OEA sees as the most pressing barriers to encouraging innovation and the facilitating the use of cost-effective new technology within our energy system.**

Background:

- The OEA believes that planning and regulatory regimes in Ontario need to be flexible to respond to innovation in the sector, while remaining technology neutral.

    - Specifically, The OEA believes that Ontario's regulatory framework does not reward innovation;

- The OEA has a neutral position on the role of the market in innovation: while they acknowledge that utilities are well positioned to provide innovative solutions to their customers, they acknowledge that third-parties should be able to provide new services that enable customer choice.

- Through the LTEP process, the Ministry is exploring ways to address barriers to innovation and grid modernization, including supporting utility research and development.

- The Ministry is also active in promoting a "level playing field" for new technologies. For example, the Ministry is continuing to work with the IESO, the OEB, and Energy Storage Canada – of which NRStor is a member – to ensure the fair treatment of energy storage in Ontario.

2. Ontario's Fair Hydro Plan (OFHP) Implementation:

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower electricity rates for households and small businesses by

an average of 25 percent starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- The plan includes the eight percent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Any rate increases for residential consumers over the next four years would be held to the rate of inflation.

- OEA's members (LDCs) will include OFHP adjustments in their customer bills.

Suggested Response:

- **The Ministry of Energy is working to implement Ontario's Fair Hydro Plan (OFHP). This includes refinancing the Global Adjustment (GA), with support from energy agencies.**

- ***Ontario's Fair Hydro Act* was introduced in the House on May 11, 2017.**

- **The legislation for GA refinancing requires the OEB to make further price adjustments no later than fifteen business days after the legislation receives Royal Assent for Regulated Price Plan (RPP) consumers to achieve the full 25% for a typical residential consumer, and for other eligible consumers to also receive a comparable bill reduction.**

    - **The full reduction from the OFHP is expected to be addressed through a July 1st RPP price adjustment.**

- **Other eligible consumers will receive a comparable bill reduction via a "GA modifier" that will be calculated by the OEB.**

Background:

Ontario's Fair Hydro Plan

- On March, 2, 2017, the government announced Ontario's Fair Hydro Plan, which includes:

    - A benefit from the funding of support programs through provincial revenues for all electricity consumers.

    - Increase OESP credit amounts by 50% and expand eligibility of household size and income

    - Electricity consumers eligible for the Regulated Price Plan (RPP) would be eligible for GA refinancing.

- Small manufacturers and greenhouses would become eligible to participate in the Industrial Conservation Initiative. See below for more information.

- Sector efficiency would be improved and Ontario's electricity market would be modernized, working in collaboration with the Independent Electricity System Operator (IESO) and the OEB.

GA Refinancing

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that include a portion of the bill reduction proposed under the OFHP.

- These new RPP rates include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, means that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

- The legislation for GA refinancing requires the OEB to make further rate adjustments no later than fifteen business days after the legislation receives Royal Assent for RPP consumers to achieve the full 25% for a typical consumer and for other eligible consumers to receive a comparable bill reduction.

- The full reduction from the OFHP is expected to be addressed through a July 1st RPP rate adjustment.

- Regulations will be required to supplement the framework of the legislation to ensure that the OEB can make the required rate adjustments and to enable the financing contemplated by OPG SPV/Trust.

- The regulations are anticipated to be brought forward in mid and late June.

Industrial Conservation Initiative (ICI) Expansion to Manufacturers and Greenhouses Between 500 kW to 1 MW

- ICI encourages Ontario's largest consumers to reduce consumption during peak periods to reduce their electricity costs by an average of up to one-third. This provides savings to participating consumers and reduces peak demand, deferring the need to build new generation.

- We have now completed the regulatory amendment to expand the Industrial Conservation Initiative (ICI) to include smaller manufacturers and greenhouses with average peak demand greater than 500 kW.

- The regulation was filed with the registrar on April 13, 2017 (TBC) and newly eligible consumers can opt in to ICI in June 2017.

B. Bill presentment

Suggested Response:

- **As a result of feedback received from the LDCs in April and May 2017, the Ministry is requesting LDCs provide minimal near-term OFHP bill messaging to ensure they can focus on implementing OFHP programs on-time for consumers.**

- **These near-term messaging requirements include:**

  - **Requesting LDCs issue a voluntary bill insert in June ahead of finalized regulations;**
  - **Requiring LDCs to include standardized on-bill OFHP messaging as of July 1, 2017; and**
  - **Requiring LDCs to issue an OFHP bill insert once every quarter for a period of 12 months, beginning with the first invoice issued on or after July 1, 2017.**

- **The Ministry will provide LDCs with printed and translated copies of the voluntary bill insert to be included with June invoices in the upcoming weeks.**

- **We acknowledge that before *new* OFHP on-bill messaging can be introduced on electricity bills, outdated messaging must be removed to free-up space and reduce potential confusion amongst consumers. The Ministry is proceeding with repeal of certain requirements such as the Debt Retirement Charge message.**

- **In the longer-term, we believe there is opportunity to improve the value of the electricity bill to consumers across all LDCs. Once OFHP initiatives have been implemented, we plan to examine ways to improve bill presentment for consumers, and will look forward to receiving the OEA's feedback.**

Background:

- LDCs must implement backend system changes to ensure that eligible residential customers receive the applicable OFHP rebates/lower charges by the mandated deadlines (May 1, 2017 or July 1, 2017).

- LDCs also need to make billing system changes such that invoices are updated to reflect OFHP initiatives and customers are informed about the resultant bill impacts.

- Based on feedback received from LDCs in April-May 2017, the Ministry has proposed to introduce OFHP bill messaging requirements in stages (e.g., voluntary bill inserts followed by mandatory bill inserts and on-bill messaging), so that LDCs can focus on providing OFHP-related savings to their customers on-time.

- As of July 1, 2017, the government has proposed to exempt Hydro One from current billing regulations under O. Reg. 275/04. This exemption will allow them to move forward with plans to introduce a redesigned electricity bill in Fall 2017, while the Ministry continues to consult on the topic.

- Beyond OFHP-related messaging, the Ministry believes there is an opportunity to revise the regulatory framework on bill presentment to improve the value of bills to all consumers.

- As part of a proposed Redesign Action Plan (RAP), the Ministry will seek feedback from LDCs and other interested parties in Summer 2017 – once OFHP initiatives have been implemented. Based on this feedback, the Ministry would aim to introduce regulatory amendments to simplify bill presentment and introduce dynamic OFHP messaging (e.g., monetary savings on a per customer basis) in the Fall 2017.

3. Market Renewal

- In its agenda, OEA has indicated that they would like to discuss the following aspects of Market Renewal:

    1. What can we learn from other jurisdictions?
    2. Impact on existing generators
    3. Incremental capacity auction plan
    4. Supply planning governance reform

<u>Suggested Response:</u>

- **As you are aware, the IESO is leading the engagement on Market Renewal which aims to improve the efficiency of the electricity market.**

- **The reforms being considered as part of Market Renewal, such as a single schedule market, are used in all other North American jurisdictions and are considered best practice.**

- **IESO expects that existing generators will benefit from Market Renewal as a result of capacity exports, new revenue opportunities and an improved ability to manage fuel costs.**

- **Market Renewal envisions an incremental capacity auction to competitively procure resources when they are needed.**

- **With regard to supply planning governance, it is the Ministry's intention that future supply needs are met through "technology neutral" capacity auctions.**

Background:

- The IESO and others have identified the need to evolve Ontario's electricity market to address inefficiencies and to develop a more dynamic marketplace.

- Through the Market Renewal Engagement, the IESO is working with stakeholders on the development of a plan for renewing Ontario's electricity market design.

- Market renewal is primarily about improving the efficiency of the electricity market, with a focus on increasing flexibility and securing incremental capacity as a means to maintain system reliability.

- There was a preference among LTEP stakeholders to secure electricity supply through a "technology neutral" approach. That is, government should set supply mix objectives (for example, reliability, reduced greenhouse gas emissions) and use market-based mechanisms (e.g., capacity auctions) instead of technology-specific targets.

- Capacity market design decisions in the Market Renewal have yet to be determined.

    - These decisions include auction parameters, resource eligibility and performance considerations, and the shape of the demand curve.

    - Beginning in Q2 2017, the IESO will work with stakeholders to develop high-level designs for the Market Renewal project, including the capacity auction.

    - While supply mix decisions are not anticipated to be required in the near term, market renewal could effectively work alongside other market mechanisms (e.g. Cap and Trade) to achieve alternative electricity system goals.

    - Supply mix decisions could be an ongoing discussion with industry initiated by the Ministry in concert with IESO, with consideration given to achieving a specific supply portfolio through competitive procurement, long term

contracts, a Renewable Portfolio Standard, or a clean energy auction.

Appendix 1D – Innovation and New Technology

- In their 2017 LTEP submission, the OEA made the following recommendations:
    - Barriers to investing in innovative technologies and market penetration should be addressed;
    - Rapid innovation will require efficient coordination between utilities (e.g., LDCs, etc.), generators, regulators, and Government policy to ensure costs are reasonable and benefits are realized.
    - LTEP 2017 should determine an appropriate forum to recognize and support the benefits of emerging innovative technologies;
    - LTEP 2017 should facilitate customer choice of providers of innovative technology services/resources while enabling utilities and other providers of innovative technologies (e.g., producers, etc.) to compete for such supply to customers on a level playing field;
    - LTEP 2017 should reaffirm the Government's commitment to the existing conservation frameworks for electricity and natural gas and demand response should be enhanced in order to help the province achieve its current climate change objectives, and to meet applicable CDM/DSM targets;
- These demand-side resources can be cost effective alternates to more expensive infrastructure investments for peak demand management as the province trends towards greater electrification.