MEETING NOTE

NAME OF ORGANIZATION: Independent Electricity System Operator (IESO)

DATE/TIME OF MEETING: January 26, 2018

LOCATION OF MEETING: TBD

PURPOSE: Monthly meeting

ATTENDEES: **Deputy Minister of Energy**
Serge Imbrogno

IESO
Peter Gregg, President and CEO

LAST MEETING: Include date of last meeting, if known. (Otherwise, delete.)

AGENDA ITEMS:

1. Standing Committee on Public Accounts and Auditor General Report
2. Update on GreenON programs
3. Update on Conservation Mid-Term Review
4. Governance Model for Achievable Potential Study (APS)
5. Status of Centrally-Delivered Home Assistance Program (HAP)
6. Bruce Refurbishment Update
7. IESO Business Plan

NOTES ON AGENDA ITEMS:

1. Standing Committee on Public Accounts

- On December 20, 2017, the Standing Committee on Public Accounts called the IESO and the Deputy Minister to provide responses to recommendations made in the 2017 Annual Report of the Auditor General (AG).

- The report recommended that IESO's Market Assessment and Compliance Division (MACD) be granted additional powers to compel information and evidence.

Suggested Response:

- **What is IESO's view regarding the AG's recommendations related to reviewing the Ontario Energy Board's (OEB) authority regarding the enforcement of market rules?**

- **Do you agree with the AG's recommendation that the Oversight Division be given legislative authority to compel information and evidence?**

Background:

- On December 6, 2017, the Office of the Auditor General (OAG) tabled its 2017 Annual Report.

- On December 20, 2017, the Standing Committee on Public Accounts (SCOPA) called upon IESO and the Deputy Minister of Energy to appear before the committee to provide responses to the AG report regarding:

  - Chapter 2 – Public Accounts of the Province (Volume 1); and

  - Chapter 3, Section 3.06 – Independent Electricity System operator – Market Oversight and Cybersecurity (Volume 1).

- The hearings are scheduled for February 28 and March 7, 2018, respectively.

Chapter 2 – Public Accounts of the Province (Volume 1)

- Recommendations made by the AG in Chapter 2 regarding IESO accounting include:

  - Recommendation #2: suggests that the government remove IESO's Market Accounts from the Province's consolidated financial statements.

  - Recommendation #5: suggests that IESO use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements, specifically by removing market accounts recorded on its financial statements and discontinuing the use of rate-regulated accounting.

- The Province consolidates the entities it controls, in accordance with PSAS and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.

- The IESO has maintained that it prepares its financial statements in accordance with PSAS. In 2016, IESO changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

- IESO has stated that rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (i.e., like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation.

- The Ministry of Energy has taken the position that it supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts, and is open to continue to discuss the issue in the hopes of resolving this matter.

Chapter 3 – IESO Market Oversight

- The AG report includes a number of recommendations regarding the Market Surveillance Panel and broader authority of the Ontario Energy Board (OEB) in relation to market rules and enforcement, including regarding the authority of IESO's MACD.

- The OEB's Market Surveillance Panel (MSP) monitors, investigates and reports on activities and behaviour in IESO-administered markets in Ontario's electricity sector. The Panel's specific responsibilities include:

  - Monitoring activities and behaviour and recommending remedial action;

  - Investigating market activities and the behaviour of specific energy companies or energy-related agencies (e.g., if they are suspected of gaming or abusing their market power) and making recommendations related to the results of its investigations; and

  - Reporting on the results of its monitoring and investigations.

- The MSP has commented on specific mechanisms used by IESO to maintain reliability (e.g., Congestion Management Settlement Credits (CMSC) and Real-Time Generator Cost Guarantee (RT-GCG) program).

- According to the AG, IESO has not addressed recommendations made by the MSP in a timely manner.

  - In addressing these concerns, the AG recommends that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rules and to consider expanding their authority under the Electricity Act, 1998.

- The AG recommended that the Ministry of Energy give MACD "explicit legislative authority" under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

- In the Ministry's response to the AG, the Ministry indicated that it will review the *Electricity Act, 1998* regarding the market rule approval process in consultation with both the OEB and IESO. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.

- IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market.

    - IESO's Market Renewal is estimated to result in up to $5.2 billion in savings over a ten-year period beginning in 2021.

    - The initiatives within Market Renewal directly link back to many of the MSP's recommendations.

2. Update on GreenON programs

- *IESO to provide an update on the status of Green Ontario Fund programs possibly launching in 2018.*

Suggested Response:

- **I would like to commend the IESO on the launch of two more programs this past December, the GreenON Rebates (low-carbon technology) and Smart Thermostat $100 Rebate programs.**

- **I would also like you to remind you of the Minister's direction to the IESO dated August 4, 2018, which requires the inclusion of cost-effectiveness provisions in the IESO's collaboration agreement with MOECC/GreenON. Their inclusion is critical to demonstrate appropriate cost oversight of the programs that IESO is delivering on behalf of the Green Ontario Fund.**

- **I understand that other programs for homes and businesses, including for low-income and Indigenous people are under development. Can you please tell me more about what is planned for 2018? How is the IESO engaging with stakeholders, in particular the electricity and gas distributors to ensure a coordinated and customer-centric approach?**

Background:

- On April 28, 2017, MOECC and IESO executed a Service Level Agreement (SLA) for the IESO to design, establish and maintain the new GreenON web site and provide advice to inform the development of new programs. The IESO has been leveraging existing internal resources, as well as hiring incremental temporary resources to undertake the MOECC work under the SLA.

- On May 30 and May 31, 2017, MOECC reported back to TB and Cabinet, respectively, to seek approval for several items, including, proposed program offerings and the ability to enter into multi-year transfer payment agreements with the IESO, and other third parties.

- On August 4, 2017, ENERGY issued an amending direction to the March 31, 2014 Minister's direction establishing the 2015-2020 Conservation First Framework (CFF) to enable IESO to enter into an agreement with MOECC to support the design and delivery of GreenON programs.

- In October 2017, IESO and MOECC executed their collaboration agreement, which focuses on the delivery of the GreenON Installations Program and GreenON Support Program. Other program schedules will be developed and appended in the future.
    - While ENERGY is not party to the agreement, ENERGY staff have continued to ask to see the new schedules for information to ensure alignment with August 4, 2017 amending direction. ENERGY would expect to see language in the program schedules regarding cost-effectiveness thresholds and Evaluation, Measurement and Verification.

- On November 8, 2017, Peter Gregg, IESO CEO, provided by letter an update to the Minister of Energy on IESO's work in supporting the MOECC and the Green Ontario Fund. The letter pointed out:

    - The significant amount of work that the IESO has undertaken since entering into the SLA with the MOECC in late April.
    - That IESO has had to dedicate a project team for the Green Ontario Fund due to continued and expanded scope of work with MOECC
    - A lack of effective decision making and clear direction from the MOECC and the Green Ontario Fund Board and changing priorities and deadlines have challenged the IESO in the execution of its deliverables, for example:
        - Fluctuating timelines and changing requirements challenged the implementation of the GreenON website, although successfully delivered by IESO
        - Inconsistent direction around technologies, incentives and eligibility requirements has delayed finalization of rebate program design

- On January 12, 2018, ENERGY received the Exhibit to the IESO-MOECC collaboration agreement for the GreenON Rebates and Smart Thermostats $100 Rebate programs.

- ENERGY provided feedback to the IESO on January 25, 2018, including to request that cost-effectiveness provisions be included for the GreenON Smart Thermostat $100 Rebate program (were missing).

GreenON Programs

- On August 30, 2017, the Green Ontario Fund (GreenON.ca) website and GreenON Installations Program were launched.
  - The Green Ontario Fund website is a one-stop shop for homes and businesses to programs and rebates to reduce energy costs and greenhouse gas emissions, including providing information on the suite of existing conservation and energy efficiency programs.
  - Upon launch, the website began accepting applications for the new GreenON Installations program, to provide eligible homeowners a free visit from a trained technician to install a complimentary smart thermostat, and conduct a home energy review.
- On December 13, 2017 the GreenON (free smart thermostat) Installations program was closed. All who registered for the program will be accommodated. At the same time the Green Ontario Fund launched three new programs:
  - Smart Thermostat $100 Rebate
  - Low-carbon Technology Rebates (rebates for windows, insulation, and air source and geothermal heat pumps)
  - Home Energy Expert (impartial home energy advice by phone
- Other programs for homes and businesses are under development (see Appendix).

3. Update on Conservation Mid-Term Review

- *IESO to provide an update on the status of the Mid-Term review and early indication of opportunities.*

Suggested Response:

- **The ministry is looking forward to the conclusion and outcomes of the IESO's Mid-Term Review of the Conservation First Framework and the Industrial Accelerator Program. Could you provide an early indication of what areas the IESO expect to recommend policy direction from the ministry, and any time sensitivity?**

Background:

- The IESO, in consultation with the Ministry of Energy and LDCs, is required to complete a mid-term review of the CFF and IAP by no later than June 1, 2018. The review encompasses:
    - The 7 TWh target and the overall budget for achieving that target
    - Allocation of budgets and Distributor CDM targets
    - Lessons learned on cost recovery and performance incentive mechanisms, and
    - CDM contribution to regional planning.

- In November 2016, the IESO commenced the MTR, which is focusing on: conservation targets/budgets, lessons learned on LDC funding models, customer needs, conservation integration with regional planning, CFF alignment with Climate Change Action Plan (CCAP) initiatives and post-2020 approaches to energy efficiency.

- The Review includes a comprehensive engagement strategy to ensure all LDCs, customers, channel partners, consumer groups, associations, other interested parties have meaningful opportunities to provide feedback on framework success and challenges.

- As one input to the MTR, a conservation achievable potential study must be completed every three years.

- The IESO's achievable potential study for electricity conservation was released on June 30, 2016 and consists of two parallel studies: an energy-efficiency study and a behind-the-meter generation study.
    - A potential of 7.4 TWh (6.4 TWh from energy efficiency and 1 TWh from behind-the-meter generation) of savings by 2020 was identified as achievable within the existing budget of the Conservation First Framework, compared to the electricity savings target of 7 TWh

- The IESO will be hosting a public webinar on the draft opportunities identified through the Mid-Term Review.
    - The webinar presentation and Draft Conservation Framework Mid-Term Report have been posted to the IESO website.
    - Public written comments will be due February 13. The IESO will post responses to comments in March 2018.

- The IESO has communicated that the Mid-Term Review will formally conclude March 31, 2018.

4. Governance Model for Achievable Potential Study (APS)

- *ENERGY to express concern to the IESO regarding its proposal to include MOECC on the Project Team for the Achievable Potential Study (APS), instead* *of as an observer, given the function of the study in providing independent advice to government.*

Suggested Response:

- **We understand the IESO has held discussions with the OEB and MOECC on undertaking an integrated achievable potential study.**

- **As you may be aware, we have concerns regarding the proposal to include MOECC on the Project Team, given the purpose of the study to provide independent advice to the government.**

- **I understand IESO and ENERGY staff are meeting today to discuss governance of the achievable potential study. Our recommendation is that MOECC be involved in the capacity of an observer, similar to the role that ENERGY will be playing.**

Background:

- The IESO and OEB are required to conduct achievable potential studies for electricity and natural gas conservation, respectively, every three years, to inform energy-efficiency planning and programs.

- In June 2016, the IESO and OEB completed separate achievable potential studies for electricity and natural gas conservation respectively. The next achievable potential studies are expected to be completed by June 2019.

- IESO has held discussions with the OEB and GreenON on undertaking an integrated achievable potential study that would assess conservation potential for electricity, natural gas and other heating fuels.

    - MOECC indicated to the IESO that it would be more appropriate for the MOECC to be involved in the APS project team instead of GreenON.

- As part of the APS, IESO intends to form an Advisory Group which is expected to include LDCs, Electricity Distributors Association (EDA) and commercial/industrial consumers. Government organizations, including the Environmental Commissioner's Office and ENERGY, are expected to participate as observers.

- In a January 19, 2018 email to IESO Vice President (Terry Young), ENERGY ADM (Kaili Sermat-Harding) asked IESO to hold off on next steps on the APS, to allow discussion of both MOECC and the OEB's involvement. A meeting has been scheduled for January 26, 2018, to further discuss OEB and MOECC's involvement in the APS.

5. Status of Centrally-Delivered Home Assistance Program (HAP)

- *IESO to provide status update on transition to centrally-delivered HAP.*

Suggested Response:

- **When will the IESO be providing more details to the LDCs about the new program?**
- **Could you provide an update on plans to coordinate the new multi-fuel HAP program with the natural gas utilities, and with GreenON?**

Background:

- The Save on Energy Home Assistance Program helps qualified homeowners, tenants and social and/or assisted housing providers improve the energy efficiency of their homes. The program is free to eligible low-income customers and/or social housing building owners or managers.
    - All energy-efficiency measures are free and directly installed for the customer following a home energy audit. Measures include lighting, power bars, timers, household appliances, and for electrically-heated homes deeper measures like insulation.

- To further improve the availability of conservation programs that help low-income customers, the Ministry directed the IESO on August 4, 2017 to centrally design, fund and deliver a Province-Wide CDM Program targeted to the low-income sector (the Save on Energy Home Assistance Program, or HAP) across all LDC service territories, beginning January 2018.
    - Reductions in electricity consumption achieved through the IESO-delivered HAP shall not count towards an LDC's CDM target.
    - The IESO has discretion to allow an LDC to deliver the program through their allocated CDM budget and count savings towards their CDM target.
    - To date, the IESO has issued termination agreements to LDCs (LDCs should cease new program activities through vendor contracts effective December 31, 2017).
    - The IESO is expected to release an RFP for vendor to deliver HAP province wide on the week of November 6, and has planned a webinar for the week of November 27 to provide LDCs with operational details associated with the Direction's implementation

- On January 1, 2018 IESO central delivery of HAP commenced.
    - The public web site has been updated with new HAP eligibility criteria.

  - IESO expects to award a vendor at the end of January and a webinar for LDCs is planned in late January/early February to present additional information about the program and how LDCs can join in program delivery.

- Under the natural gas 2015-2020 Demand Side Management Framework, the Enbridge Gas Home Winterproofing Program and Union Gas Home Weatherization Program offer eligible natural gas low-income customers a home energy assessment and insulation and draft proofing measures at no cost.

- The IESO has communicated to MOECC that it will be important that the planned GreenON Low-Income program build on HAP.

- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan. The Affordability Fund is intended for electricity customers who do not qualify for the Save on Energy Home Assistance Program, and who are unable to undertake energy efficiency improvements without support.

6. Bruce Refurbishment Update (CONFIDENTIAL & COMMERCIALLY SENSITIVE)

- On December 21, 2017, Bruce Power provided the Independent Electricity System Operator (IESO) with an updated "Basis of Estimate" report for Bruce Unit 6 refurbishment.

Suggested Response:

- **I understand that IESO has now received an updated preliminary cost estimate ("Basis of Estimate" report) for the first Bruce unit refurbishment. Can you share your thoughts on the significant elements of this report?**

- **Can you speak to IESO's oversight of the refurbishment budget development process? How are you engaging with Bruce Power to maximize the opportunities for cost savings and efficiencies identified in the report?**

- **Could you provide an update on the overall implementation of the Bruce Power refurbishment contract? What steps is IESO taking to maximize other efficiencies and ratepayer savings from the operation of the Bruce site?**

Background:

- The updated December 2017 Basis of Estimate (2017 BoE) is preliminary. It represents the outcome of the second step of Bruce Power's three-step estimation process for developing and refining the final cost and schedule for Unit 6.

- According to the 2017 BoE update, refurbishment of Unit 6 is expected to cost about $2.5 billion (including a 30% contingency) and take 48 months to complete.

    - The IESO has indicated to the Ministry that the 2017 BoE cost estimate represents a significant increase from earlier preliminary estimates and is close to the threshold of $2.568 billion built into the contract (i.e., above which IESO may trigger an off-ramp and opt out of refurbishing Unit 6).

- As part of next steps in the estimation process, Bruce Power is advancing a number of opportunities to realize additional cost reductions through the optimization and further integration of Bruce Power’s labour, resourcing and contracting strategies and achieving other project and business improvements.

    - Bruce Power has indicated to the Ministry that these opportunities could yield cost savings in the range of $65-$178 million dollars.

    - The IESO is closely monitoring the development of the Unit 6 refurbishment estimates and actively engaging Bruce Power to maximize these opportunities.

- Overall, the Bruce refurbishment contract continues to deliver value for ratepayers. Bruce Power has indicated that it expects to share significant savings with ratepayers starting on January 1, 2019, due to:

    - Strong operational performance leading to record output from site;

    - Process improvements to reduce staff costs;

    - Better-than-plan performance on delivering on work scope during outages;

    - Radioactive waste volume reduction; and

    - Reduction of insurance premiums.

- According to Bruce Power, asset management (i.e., activities to support life-extension of the Bruce units) is also being successfully implemented and is tracking to plan.

- On or before October 1, 2018, Bruce Power will formally provide the finalized cost and schedule for Unit 6 to IESO to review and make a decision on whether to proceed with Unit 6 refurbishment.

- By 2018-end, IESO is expected to finalize its decision (i.e., a year in advance of refurbishment outage which is scheduled for January 1, 2020); and

- If IESO proceeds with refurbishment, any cost overrun will be solely borne by Bruce Power.

7. **IESO Business Plan**

- The Ministry is currently reviewing the IESO's proposed 2018-2020 Business Plan. Ministerial Approval is required for the IESO to submit its 2018 rate application to the OEB.

Suggested Response:

- **The Ministry will be reaching out to IESO staff to discuss some clarifying questions. Additionally, we will wish to ensure alignment with the IESO's LTEP Implementation Plan, and will review these documents in parallel.**

Background:

- The IESO submitted tis 2018-2020 Business Plan on December 18, 2017. This followed the Ministry granting an extension to the required submission date of October 1, 2017 so that the IESO could complete its work on the LTEP Implementation Plan.
    - The IESO had submitted an "interim plan" that outlined at a high level it's intended priorities and Budget. The Minister referred the plan back for further consideration.
- The Business Plan includes core information as required by the Agencies and Appointments Directive, including forecasted budget and FTE trends. The Plan also highlights major capital investment projects as well as details the IESO's main programs and activities for the planning period.
- In the letter granting the extension, the Minister requested specific information on the Market Renewal project as well as to ensure clear accounting for programs related to the work of MOECC or the Green Ontario Fund.

APPENDIX

Item 2: Update on GreenON Program Implementation

GreenON Programs

Other programs for homes and businesses under development

Program	Target Sector	Key Dates
GreenON Installation	Residential	Early enrollment commenced Aug 30, 2017; installations began in early Nov.; targeting 150,000 installations by March 31, 2018
GreenON Support	Residential	Launched December 13, 2017
GreenON/CFF Smart Thermostat $100 Rebate	Residential	Launched December 13, 2017
GreenON Rebates for Homes (insulation, windows, ground source and air source heat pumps)	Residential	Launched December 13, 2017
GreenON Rebates (solar technologies)[1]	Residential and Commercial	Announce in February 2018
GreenON/CFF joint Low-Income program (audit and direct install, all fuels)	Residential	In market Q1 2018
GreenON/CFF Indigenous Communities Program (holistic program, all fuels)[1]	Residential	Proposed Q2 2018

[1] Pending further discussion and approval by MOECC