

MEETING NOTE:
ENERGY and MOECC Minister's Meeting

NAME OF ORGANIZATION: Ministry of the Environment and Climate Change
DATE/TIME OF MEETING: 3:30 to 4:30PM on November 2, 2016
LOCATION OF MEETING: Ferguson Block, Floor 11, Minister Murray's Office

PURPOSE: Discuss Green Bank Cabinet Minute and other shared priorities

ATTENDEES: **Ministry of Energy**
Hon. Glenn Thibeault, Minister
Andrew Teliszewsky, Chief of Staff
Serge Imbrogno, Deputy Minister
Keley Katona, Director of Operations

Minister of Environment and Climate Change
Hon. Glen Murray, Minister
Paul Evans, Deputy Minister

AGENDA ITEMS:

1. Green Bank
2. Electricity Price Mitigation / Cap And Trade Proceeds (ENERGY lead)
3. Cap and Trade Price Impacts (MOECC lead)
4. LTEP (ENERGY lead)
5. Climate Change Value for Money Audit

NOTES ON AGENDA ITEMS:

1. GREEN BANK

Suggested Response

- I am overall supportive of the proposed green bank agency mandate and a one-window program delivery model.
- I am also supportive of continued collaboration among MOECC, ENERGY and other relevant ministries to ensure the proposed green bank agency is a success. Given the significant conservation and energy efficiency efforts already underway in Ontario, we can work together to avoid duplication and leverage existing conservation and energy efficiency investments in order to reduce the possibility for customer confusion.
- We would like to see the cabinet minute show that we will avoid duplicating existing conservation and energy efficiency programs and that MOECC will need to collaborate with partner ministries.
- I understand that staff have shared some wording to that effect.

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Background

- The CCAP committed that MOECC will work with MEDG, MRIS, MOF, ENERGY, MOH, TBS and other ministries as appropriate to establish a “Green Bank” with a focus on deploying and financing low-carbon technologies for homes and businesses.
- ENERGY is working with MOECC as part of an Inter-Ministerial Green Bank Working Group to help inform the governance and program delivery approach of the Green Bank.

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Conservation and Energy Efficiency in Ontario

- Ontario has built up significant program delivery capacity and contributed to the creation of a culture of conservation in the province.
- Enbridge and Union Gas have been delivering natural gas energy efficiency programs across the province for over 20 years, with oversight of the Ontario Energy Board (OEB) since its formation.

- The Independent Electricity System Operator (previously the Ontario Power Authority) has been delivering electricity conservation programs since 2005, with electricity utilities taking on increasing responsibility for program delivery.
- Between 2005 and 2014, Ontario saved:
 - 9.9 TWh of electricity - enough to power the cities of Ottawa and Windsor in 2014.
 - 3,628 MW of peak demand – equivalent to the peak demand of Mississauga, Brampton and Ottawa combined in 2014.
 - 2,578 million cubic meters of natural gas from natural gas efficiency programs alone – equivalent to the natural gas used by 1.1 million homes in a year.
- Ontario's natural gas conservation and energy efficiency programs, delivered by Enbridge Gas Distribution and Union Gas, are Ontario's second largest GHG reduction initiative to date, the first being Ontario's coal phase-out.
- In January 2015, Ontario launched new energy efficiency frameworks - the Conservation First Framework, the Industrial Accelerator Program and the Demand Side Management Framework - that will invest about \$4 billion between 2015 and 2020 on incentive programs for energy efficiency retrofits and low carbon technologies in all sectors.
 - Of this, about \$3 billion will be spent on electricity conservation and energy efficiency programs between 2015 and 2020. This is expected to achieve 1.8 mega-tonnes of GHG reductions in 2020, equivalent to taking 400,000 cars off the road in that year.
 - And approximately \$825 million will be spent on natural gas conservation and energy efficiency programs. These programs are expected to achieve 42 mega-tonnes of lifetime cumulative GHG reductions, equivalent to removing over 650,000 cars from Ontario's roads for 15 years.
- Through these frameworks, customers in all sectors are already accessing energy efficiency and low-carbon technology rebate programs through IESO, and electricity and natural gas utilities.

Green Bank Alignment with Existing Energy Efficiency Frameworks

- A Green Bank that is uncoordinated with the frameworks may duplicate existing initiatives if it offered energy efficiency and renewable energy incentive programs, which could cause confusion and inconvenience for customers.
- In order to maximize uptake of energy efficiency and low-carbon technologies in Ontario's homes and businesses and achieve Ontario's greenhouse gas reduction targets:
 - Program participation needs to be easy/streamlined for customers;
 - Continue to drive participation in existing low-carbon technology programs; and
 - Avoid creating a participation "chill" while customers wait to see if higher incentives will be offered through the Green Bank.
- Enhanced/new low-carbon technology programs need to be in market as soon as possible to meet CCAP commitment to begin rolling out programs in 2017/2018.
- Ontario can build on the success of existing utility and IESO EE and low-carbon technology programs by leveraging existing IESO expertise and delivery infrastructure to quickly launch Green Bank programs.
- This approach can ensure programs begin to enter the market in 2017/2018, and can provide a streamlined customer experience to maximize participation.
- In order to drive Ontario's immense effort in delivering conservation and energy efficiency programs, the IESO, electricity utilities and natural gas utilities have built up significant expertise, resources and program delivery capacity, as well as stakeholder relationships; standards and processes for governance, accountability, measurement and reporting; and IT and settlement systems. This represents 500 to 760 highly skilled staff across these organizations.
- Of these, 60 highly skilled staff are currently responsible for conservation and energy efficiency programs within IESO.
- IESO Conservation Division's expertise can be utilized in setting up the green bank and its programs.

Proposed Implementation Approach

Green Bank to evolve from IESO Conservation Division

- **One-window customer support:** Refer Ontario households, business, and industry to all programs and services, and offer technical support, advice, case studies.
- **Top-up funding for existing incentive programs:** Provide top-up funding for electricity and natural gas utility EE programs using cap and trade proceeds to target more customers/offer high rebates.
- **New Incentive programs:** New entity to competitively contract the delivery of new fuel-switching and EE incentive/rebate programs for other fuels (e.g. oil, propane).
- **Low-interest financing and project aggregation:** Leverage public funds to stimulate private capital, developing innovative financing vehicles.
- **Data and reporting:** Track programs, perform third-party Evaluation, Measurement & Verification (EM&V), report GHG reductions and other metrics (e.g., cost per tonne).
- **Other supporting functions:** Stakeholder engagement, market research, achievable potential studies, innovation fund, marketing, etc.

Existing Frameworks

- **Continue program delivery to end of 2020:** Electricity and natural gas utilities to continue delivering programs until the EE frameworks wind down at the end of 2020; program costs to be recovered from ratepayers with top up funding from cap and trade proceeds.
- **Conduct mid-term review:** Modify the frameworks at the mid-term review, as needed (both to be completed by June 1, 2018), to better align with CCAP objectives.
- There is opportunity to leverage existing electricity and natural gas energy efficiency program offerings, including by offering new measures and higher incentive levels, to increase the uptake of low-carbon technologies for homes and businesses in Ontario.
- The table below outlines proposed programs and funding in the CCAP and how existing energy efficiency programs and funding already in place under the Conservation First Framework and Demand Side Management Framework can be enhanced/leveraged.

CCAP Commitment	Proposed New/ Enhanced Programs	CCAP Funding (2017-2020)	Existing Funding (2015 to 2020)
BUILDINGS & HOMES 1.3 Provide incentives for apartment building retrofits	Enhanced multi-fuel audit and retrofit program stream for apartments To build on package of existing commercial EE programs	\$300M - \$400M	Portion of ~\$710M allocated to commercial/ industrial audit, retrofit and energy manager programs
BUILDINGS & HOMES 4.1 Boost low- carbon technology in homes	Enhanced multi-fuel Whole Home audit and retrofit program Covering more low- carbon technologies and offering higher incentives	\$500M - \$600M	>\$345M for Whole Home and smart thermostat programs Plus \$100M from Green Investment Fund (GIF) home retrofit programs
BUILDINGS & HOMES 4.1 Boost low- carbon technology in homes – to include an increased benefit for low-income households and vulnerable communities	Enhanced multi-fuel audit and retrofit program stream for low-income multi- unit residential customers To build on package of existing low-income multi-family EE programs	Portion of \$300M - \$400M allocated to apartments (Initiative 1.3)	~\$35M from: • Enbridge Low-Income Multi-Residential • Union Gas Low-Income Multi-Family Plus part of ~\$710M for saveOnenergy Retrofit, for social and assisted housing
	• Enhanced multi-fuel audit and retrofit program stream for low-income single-family or row house customers • To build on package of existing low-income residential EE programs	Portion of \$500M - \$600M allocated to single-family homes (Initiative 4.1)	~\$110M from: • saveONenergy Home Assistance Program • Enbridge Home Winterproofing • Union Gas Home Weatherization

CCAP Commitment	Proposed New/ Enhanced Programs	CCAP Funding (2017-2020)	Existing Funding (2015 to 2020)
BUILDINGS & HOMES 4.2 Help Retire Older Wood Stoves	Stream of enhanced multi-fuel Whole Home audit and retrofit program	\$1M - \$4M	\$100 M GIF home retrofit programs include EE for wood-heated homes
BUILDINGS & HOMES 4.3 Near Net Zero Carbon Home Incentive	New/enhanced multi-fuel Near/Net Zero Home rebate program for homes built significantly above Building Code	\$180M - \$220M	~\$70M from existing new home construction programs for commercial builders
INDUSTRY & BUSINESS 1.1 Help Companies Transition to Low- Carbon	Enhanced industrial audit and retrofit programs Building on package of existing commercial EE programs	\$875M - \$1.1B	>\$1.16B in combined incentives for Industrial Accelerator Program for transmission and distribution-connected electricity customers and for natural gas industrial EE programs
INDUSTRY & BUSINESS 2.1 Reduce Emissions in food and beverage 2.2 Retrofit Agricultural Facilities	Enhanced audit and retrofit program streams targeted to food and beverage and agricultural sectors To build on package of existing commercial/ industrial EE programs	\$50M - \$115M	Portion of ~\$1.16B allocated to commercial/ industrial audit, retrofit and energy manager programs for transmission and distribution-connected electricity customers and for natural gas industrial EE programs

2. ELECTRICITY PRICE MITIGATION / CAP AND TRADE PROCEEDS (ENERGY LEAD)

Suggested Response

- On October 21, 2016, ENERGY provided MOECC, MNR, MNDR, MEDG, TBS, MOF, CO and PO an update on proceeds recycling options. Three recycling proposals were discussed:
 - Recycling through Global Adjustment (GA);

- Volumetric Recycling in “All” Hours; and
- Volumetric Recycling in “Off-Peak” Hours.
- ENERGY committed to analyzing further hybrid recycling proposals (e.g., GA+volumetric, etc) and sharing the results with MOECC and the other ministries at future meeting.
- ENERGY will continue to work with MOECC and other ministries to develop and implement a proceeds recycling approach for Cabinet consideration to address the government’s commitments in the 2016 Budget and Climate Change Action Plan (CCAP).
- ENERGY is also working with MOECC regarding the Greenhouse Gas Reduction Account (GGRA) funding process. The request forms and scorecards have been submitted to MOECC for review.

Background

- On September 12, 2016, the government approved a suite of rate mitigation initiatives, including:
 - Providing a rebate equal to the provincial portion of HST to consumers eligible for the Regulated Price Plan (RPP);
 - Updating the Rural or Remote Rate Protection (RRRP) program;
 - Expanding the Industrial Conservation Initiative (ICI); and
 - Redirecting cap and trade auction proceeds to commercial and industrial electricity consumer to provide a reduction in rates.
- As per the September 2016 Cabinet submission, ENERGY sought approval, working with MOECC, to recycle an estimated annual average of \$270 million of cap and trade auction proceeds from the Greenhouse Gas Reduction Account (GGRA) for non-RPP commercial and industrial electricity consumers over the first compliance period (2017-2020) through a “volumetric” rebate mechanism.
 - As outlined in the 2016 Budget and the Climate Change Action Plan (CCAP), the government intends to use a portion of the auction proceeds to reduce greenhouse gases (GHGs) by helping industrial and commercial electricity consumers use less electricity, which will also help to keep rates affordable.

- No final decision has been made on the form of the mechanism.
- ENERGY is preparing a Cabinet submission on proceeds recycling for November 2016 (TBC).
- On October 21, 2016, ENERGY staff met with MOECC, MNR, MNM, MEDG, TBS, MOF, CO and PO on proceeds recycling. Three recycling proposals were discussed:
 - **Recycling through Global Adjustment (GA)** – This was the original recycling proposal and is supported by ENERGY and MOECC, but not by MNM or MNR given the limited amount of Global Adjustment paid by some industries (e.g., pulp and paper).
 - **Volumetric Recycling in “All” Hours** – This method of recycling can provide benefit to all industrial sectors, but is more administratively complex and more difficult to link to GHG reductions.
 - **Volumetric Recycling in “Off-Peak” Hours** – This option is similar to Option 2, but recycling is limited to off-peak hours. This is the most administratively complex option but it is favoured by MOECC due to its greater linkage to GHG reductions.
- At the October 21, 2016 meeting, ENERGY committed to analyzing further hybrid recycling proposals (e.g., GA+volumetric, etc) and sharing the results with ministries at future meeting.
- In addition, ENERGY continues to work with IESO, LDCs and the Ontario Energy Board (OEB) on potential implementation issues (e.g., changes to billing systems and processes, etc).
- In fall 2016, ENERGY submitted a GGRA request form and scorecard for Tranche 1 CCAP items as per MOECC’s process.
 - An MOECC-led assessment and Minister review/evaluation is expected in September/October, followed by Treasury Board submissions in October.

3. CAP AND TRADE PRICE IMPACTS (MOECC LEAD)

Suggested Response

- Although MOECC has overall responsibility for cap and trade there exists an opportunity to coordinate messaging with ENERGY on the impact cap and trade will have on fuel pricing.
- Cap and trade is expected to raise fuel prices between 3.3 cents per cubic metre for natural gas to 4.7 cents per litre of diesel.

Background

- Cap and trade will have a financial impact on the cost of carbon fuels in Ontario effective January 1, 2017. The anticipated cost impact for the various fuels is listed below.

Cap and Trade Fuel Sector Price Increases	
Fuel Source	Price Increase effective Jan 1/17
Natural Gas	3.3 cents per cubic metre
Gasoline	4.3 cents per litre
Diesel	4.7 cents per litre
Propane	4 cents per cubic metre

- Although all fuels are facing a price increase as a result of cap and trade, additional consideration will need to be given to how the messaging is developed for natural gas.
- The cap and trade cost for natural gas is expected to increase costs by approximately \$60 per year (Budget estimate). **Note:** Enbridge and Union estimate and report this cost at \$70 to \$80 per year for a typical residential customer.
- Effective January 1, 2017 there are likely to be two additional factors contributing to increase the price of the commodity and the delivery component of natural gas. They are the quarterly rate adjustment mechanism (QRAM) and a cost of service application filed by the utilities.

- The utilities will make their QRAM filings for OEB review and approval shortly before the end of the year. The effective date for the commodity price change will be January 1, 2017, the same day the cap and trade price impacts will occur. The amount of the change, which could be an increase or a decrease, is not known at this time.
- The natural gas utilities have also filed cost of service applications that seek to increase the cost of delivering natural gas to consumers effective January 1, 2017. For a typical residential customer, Enbridge Gas Distribution is seeking an increase of \$7.00 per year. Union Gas is seeking an increase of approximately \$13.00 per year (for southern customers) and \$18 (for northern customers). The actual amount of the rate increase has yet to be determined by the OEB.

4. LONG-TERM ENERGY PLAN (ENERGY LEAD)

Suggested Response

- The Long-Term Energy Plan (LTEP) presents an opportunity for the government to further elaborate and consult on Ontario's new climate change policies and initiatives as they relate to the energy sector.
- The first step in the LTEP process was the release of the Ontario Planning Outlook (OPO) by the IESO on September 1, 2016.
 - This report includes a ten-year review and a twenty-year outlook (to 2035) for electricity demand, supply, system costs, conservation and emissions.
- The Ministry of Energy also released a Fuels Technical report, prepared by Navigant Consulting, on September 30, 2016.
 - This report examines fuels demand and supply data, multiple demand outlooks up to 2035, and a description of Ontario's infrastructure and fuels sectors.
- The LTEP consultation and engagement process is now underway. In-person consultation sessions are taking place in 16 communities across Ontario, with parallel sessions in indigenous communities. Staff from MOECC and other ministries are invited to these sessions.
- ENERGY will continue to work with MOECC throughout LTEP development to help ensure appropriate alignment with CCAP.

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Background

- The IESO worked with MOECC and the Ministry of Energy to ensure outlooks in the OPO were consistent with CCAP objectives CCAP to 2020. These assumptions also informed the Fuels Technical Report.
- The IESO's 20-year outlooks are affected by CCAP initiatives and assumptions (e.g., electric vehicles, heat pumps).
- The LTEP engagement process officially began on October 13 with the release of the LTEP discussion guide, in-person engagement schedule, and the Environmental Registry Notice.
- The first Indigenous engagement session was held in Fort William on Oct 20, and the first general session was held in Toronto on Oct 25. In-person engagements will continue until early-December.
- In-person consultations will take place in:

Oct. 24/25	Toronto
Oct. 27	Sudbury
Nov. 1	Barrie
Nov. 1	Kenora
Nov. 2	Thunder Bay
Nov. 3	Peterborough
Nov. 15	Sault Ste. Marie
Nov. 16	Timmins
Nov. 17	St. Catharines
Nov. 21	Guelph
Nov. 22	Pembroke
Nov. 23	Ottawa
Nov. 24	Kingston
Nov. 28	Windsor
Nov. 28	Kitchener
Nov. 29	London
Nov. 30	Mississauga

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5. AUDITOR GENERAL'S VALUE FOR MONEY AUDIT

Suggested Response

- The Auditor General's (AG) office shared excerpts from the value for money audit on climate change initiatives, including on issues led by the Ministry of Energy, such as electricity and natural gas conservation programs and the use of proceeds for recycling into the electricity sector.
- I understand that MOECC has received a draft report from the AG.
- The Ministry of Energy has concern with how the AG's office has characterized the impact of cap and trade on electricity prices in its draft report. The draft report fails to acknowledge the government's commitment in Budget 2016 and the Climate Change Action Plan to mitigate the impact of cap and trade on electricity prices through auction proceeds recycling.
- The draft report also fails to acknowledge that a final decision has not been made on the proceeds recycling approach, which the Ministry of Energy continues to work with MOECC on a number of options.
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Background

- As part of the AG's ongoing value-for-money (VFM) audit on the government's climate change initiatives undertaken since 2007, the AG's office has been in contact with ENERGY.
- On October 18, 2016, the AG's office shared excerpts from the draft report, which included:
 - Commitments and projects listed in the Climate Change Action Plan (CCAP), specifically the use of up to \$1.32 billion of cap and trade proceeds to offset the cost of greenhouse gas (GHG) emissions reduction initiatives in the electricity sector between 2017 and 2020.
 - Concerns that electricity rates would increase even after applying the \$1.32 billion committed under the CCAP to reduce the price of electricity. The AG's draft report stated that "residential bills are projected to rise by 25% and industrial bills by 14% by 2020; with the \$1.32 billion applied, residential rates will still increase by 23% and industrial rates by 13%." **Note: The Ministry is not aware of the origin of these percentage increases. These values are inconsistent with documents released by the Ministry of Energy and IESO. The government intends to mitigate this impact through the use of cap and trade proceeds.**

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The responsive document that was shared with the AG earlier in 2016 stated that:

"With the introduction of cap and trade, preliminary modeling shows that an average carbon price of \$18/tonne CO₂e between 2017 and 2020 will result in the following impacts to ratepayers:

- Large Industrial: Increase of about \$1.60/MWh on average
- Residential: Increase of about \$0.07/month on average."

Note: The EnviroEconomics (Dave Sawyer) modelling that was made public by MOECC did not estimate a monthly bill impact for electricity. It simply noted that there was an impact that would be addressed through proceeds recycling.

- Questions on whether alternative approaches could yield better outcomes. **Note:** The \$1.32 billion was an initial estimate at the time of the publication of the CCAP. A final decision has not been made on the approach. The Ministry of Energy continues to work with MOECC on a number of options.
 - How the cost of cap and trade will be communicated on natural gas consumers' bills. The AG commissioned a survey and found that respondents thought it is important to disclose the impact clearly on bills.
- The AG's office requested comments by October 26, 2016. ENERGY staff have prepared a response.