

ESTIMATES 2016
DEPUTY MINISTER'S KEY BACKGROUND
AUDITOR GENERAL REPORT ON ELECTRICITY SYSTEM PLANNING

Auditor General's Report on Electricity Power System Planning

- The Auditor General Audit of Electricity Power System Planning was tabled as a chapter of the AG's 2015 annual report on December 2, 2015.
- We agree with the Auditor General that a clear planning process is critical for Ontario's electricity system. That is why we have completed Long-Term Energy Plans in 2010 and 2013.
- Narrowly focused value-for-money audits always show it would have been cheaper to burn dirty coal, we chose cleaner air, a healthier future, and the single largest climate change action in North America was a choice the people of Ontario support.
- The Auditor General's report outlined the following general criticisms regarding the Province's electricity system planning process:
 - The planning process has broken down without an Integrated Power System Plan in place and with limited oversight by the Ontario Energy Board.
 - The Minister of Energy has relied too heavily on the use of Ministerial Directives and Directions, resulting in a lack of transparency, a lack of oversight and in increased costs to consumers.
 - There are problems with generation procurement decisions whereby electricity surpluses have increased costs for consumers, excessive prices were paid for renewables and other generation projects have not been cost effective.
 - Conservation and demand management initiatives have been ineffective during times of electricity surplus and many CDM programs are not cost-effective and were not evaluated for cost-effectiveness.
 - There are problems with transmission system planning, including problems in regions that have been outstanding for years, not enough capacity to connect renewable generators and lack of analysis regarding increasing Ontario's transmission capacity to accommodate contracted imports.
 - Ontarians paid \$37 billion over the market price for their electricity between 2006 and 2014 via the Global Adjustment (GA) mechanism and were expected to pay another \$133 billion via GA from 2015 to 2032. **Note:** The Ministry position is that:

Global Adjustment (GA) simply reflects costs associated with contracted and regulated generation, such as nuclear, natural gas and renewables, and the cost of conservation programs.

The vast majority of electricity generators in Ontario are contracted by the Independent Electricity System Operator (IESO) or regulated by the Ontario

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Energy Board (OEB). These generators are generally paid fixed prices for their output or have contractual minimum revenue requirements to cover their fixed costs.

Wholesale market prices are frequently insufficient to pay for these fixed prices and costs so the excess is collected through the GA. The cost of Ontario's conservation programs are also recovered via the GA. GA does fluctuate from month to month; however, the all-in commodity price is reasonably stable over time.

Note: The AG calculated the \$133 billion figure by adding the total GA generation and conservation costs from the 2013 LTEP (i.e. from 2015 to 2032). The figure has been rounded from \$132.56 billion.

- In her report, the AG provided five detailed recommendations for the Ministry. At a high level, the recommendations were as follows:
 1. The Ministry should comply with legislation requiring the Independent Electricity System Operator (IESO) to prepare an Integrated Power System Plan (IPSP) and submit it to the Ontario Energy Board (OEB) for approval. Additionally, the Ministry should provide more information to the public about why electricity rates are increasing.
 2. To ensure that Ministerial directives consider both technical system impacts and economic impacts affecting consumers, the Ministry should engage with the IESO and other experts during the decision making process and provide the public with information and rationale for decisions made.
 3. The Ministry should work with the IESO, OPG, Hydro One and LDCs to determine the optimal supply mix for Ontario, consider different scenarios, evaluate cost-effectiveness when deciding on new projects, and conduct cost/benefit analyses to assess the impact of a decision on consumers.
 4. To ensure that conservation and demand management programs are implemented cost effectively, the Ministry should work with the IESO to assess the effects of conservation and its impacts on electricity costs during periods of surplus, evaluate programs for their support of Ministry objectives and set appropriate targets that can be monitored and reported on publicly.
 5. To ensure that Ontario's transmission system has sufficient capacity to transmit electricity throughout the province, the Ministry should work with the IESO, Hydro One and LDCs to address capacity and reliability issues, investigate causes of generator constraints and perform adequate system planning and analysis before undertaking major initiatives that affect transmission.
- The Ministry agreed with the Auditor General's (AG) recommendations and committed to implement the AG's recommendation through two pieces of legislation: *The Energy Statute Law Amendment Act, 2015* and the *Strengthening Consumer Protection and*

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Electricity System Oversight Act, 2015.

- *The Energy Statute Law Amendment Act, 2015* received Royal Assent on June 9, 2016 and was fully proclaimed into force on July 1, 2016.
- *The Strengthening Consumer Protection and Electricity System Oversight Act, 2015* received Royal Assent on December 3, 2015 and sections amending the Ontario Energy Board Act (OEBA) were proclaimed into force on March 4, 2016.

Enshrining an Enhanced LTEP Process: The Energy Statute Law Amendment Act, 2015 (Bill 135)

- On October 28, 2015, the Minister of Energy introduced the *Energy Statute Law Amendment Act, 2015* (Bill 135) to replace the lengthy and ineffective Integrated Power System Planning (IPSP) process with an enhanced LTEP process that is transparent, efficient and able to respond to changing policy and system needs.
- This legislation built upon previously introduced government legislation in 2012 to remove the IPSP and replace it with a more customer-focused, consultative process.
- These plans set out comprehensive direction for the energy sector and were designed to balance the principles of cost-effectiveness, reliability, clean energy, community engagement and an emphasis on conservation and demand management.
- The enhanced LTEP process replaces the previous Integrated Power System Plan (IPSP) process, which was unresponsive to the changing environment of the energy sector and was time consuming and costly.
- The amended legislation enshrines this LTEP process to ensure that energy planning is done transparently and pragmatically and that future LTEPs are developed consistent with the principles of cost-effectiveness, reliability, clean energy, community and Indigenous engagement, and emphasis on conservation and demand management.
- As new transmission projects are identified in future LTEPs, the IESO is authorized to plan and undertake competitive approaches for transmitter selection and procurement of transmission projects, when appropriate, to ensure that ratepayers get the greatest value from new infrastructure investments.
 - Previously, the IESO could only procure generation assets and electricity capacity but it lacked the authority to undertake procurement for transmission.

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- In the past, Hydro One was directed to undertake certain transmission projects. More recently, competitive approaches (OEB Designation, involvement of Infrastructure Ontario, see S. 1 – Proposal Context) have been used to allow new entrants to participate in new projects and ensure ratepayers receive the best value.
- Bill 135 has enshrined amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEBA) that expands the IESO's mandate to include procurement of transmission projects, and requires the IESO to develop and implement selection or procurement processes for transmission projects as part of its LTEP implementation plan, as approved by the Minister.
- Subject to approval by the LGIC the IESO can undertake selection or procurement for transmission projects that are identified in between LTEPs. Amendments to the OEBA ensures that the IESO's transmitter selection or procurement process is not bypassed and that only winners of the IESO's process can obtain leave to construct.
- The amended LTEP process also clarifies the roles of the Ministry of Energy and the IESO in developing future Long Term Energy Plans, with a requirement that the IESO develop a technical plan that would be used by the Province in consultations on and development of the LTEP.
- The enhanced process also provides for the development of implementation plans by the IESO and the OEB.

Strengthening Consumer Protection and Electricity System Oversight Act, 2015 (Bill 112)

- Bill 112 amended the *Ontario Energy Board Act, 1998* to enhance the Ontario Energy Board's (OEB) tools to regulate the sector including improved tools to ensure continuity of service, requiring appropriate processes for consumer representation at OEB proceedings and increased discretion when levying penalties for non-compliance.
- *Bill 112 Amendments included:*
 - Improving consumer advocacy through processes that give consumers a direct voice in OEB proceedings, including enabling Cabinet to set requirements.
 - Reinforcing the OEB's ability to ensure reliability and continuity of service to all customers in Ontario in the event of a failing transmitter or distributor.
 - Enhancing the OEB's ability to levy penalties for non-compliant activities.

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- Strengthening the OEB's oversight of utility transactions and structures.
- Clarifying relationships among local distribution companies and their affiliates.
- Providing tools to Cabinet to ensure that critical transmission infrastructure is built.

Division/Branch: Strategic, Network and Agency Policy Division
Approved by: Michael Reid, ADM, SNAP
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