

August 18, 2017

Peter Gregg
President and Chief Executive Officer
Independent Electricity System Operator
1600 – 120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Gregg:

Re: Conservation First Framework

For over a decade, local distribution companies (LDCs) have been successfully delivering conservation and demand management programs to over 5 million residential, commercial, industrial, and institutional customers across Ontario. LDCs are proud of their success and role as the trusted face of the electricity system, including conservation, for Ontario consumers. As recently published by the Independent Electricity System Operator (IESO), LDCs, in the first two years of its 2015-2020 Conservation First Framework (CFF), achieved almost 40 per cent of the 7 terawatt hours (TWh) 6-year target. For every dollar spent on conservation, over two dollars of system benefit is generated.

LDCs are committed to working collaboratively with the Ministry of Energy and the IESO to ensure the 2015-2020 Conservation First Framework, including new conservation policy initiatives, are a success.

From the introduction of the Climate Change Action Plan, to the release of the Ontario Planning Outlook and the launch of the Fair Hydro Plan, the energy policy landscape continues to evolve. LDCs strongly believe that conservation is a key component of long-term planning, customer cost management, as well as a low-carbon economy. LDCs are eager to see the current conservation framework successfully adapt to new policy priorities and set a pattern for future customer-focused conservation frameworks.

The Minister's directive dated March 31, 2014, required that: *The OPA (now the IESO), in consultation with the Ministry of Energy and Distributors, shall no later than June 1, 2018 have completed a formal mid-term review of: (i) the 7 TWh target and the overall budget for achieving that target; (ii) allocation of budgets and Distributor CDM Targets; (iii) lessons learned on cost*

recovery and performance incentive mechanisms, and; (iv) CDM contribution to regional planning.

Despite several challenges with program design and delivery governance, LDCs are pleased with the initial results of the framework. The framework has allowed LDCs to build even stronger relationships with customers – directly and through the channel allies created by the LDCs. LDCs are making unprecedented progress and are well positioned to meet the 2020 conservation target.

The Mid-Term Review is an opportunity to ensure the current and future conservation frameworks not only capture the government's climate change goals and reflect current electricity system needs, but also respond to evolving customer needs, such as concerns about electricity costs.

While the EDA commends the research and analysis currently being undertaken by IESO and Navigant through the Mid-Term Review initiative, there are concerns about the parameters and process of the Mid-Term Review. LDCs are eager to work directly with IESO and government, as per the Minister's Direction, to recalibrate key areas of the framework and the Energy Conservation Agreement (ECA) to respond to customer needs and ensure the successful integration of new policy initiatives. Therefore, the Electricity Distributors Association (EDA), on behalf of its members, requests your immediate attention to several matters regarding the Conservation First Framework.

Governance: While the framework is working well, we believe the transparency and governance could be enhanced. LDCs are disappointed in the lack of dialogue and consultation on changes that impact the framework. For example, LDCs are concerned that the IESO moved to implement the Minister's December 16, 2016 direction on province-wide program delivery and subsequent changes to the ECA without meaningful discussion or consultation with LDCs on how to best address the needs of customers. We are hopeful that the IESO will engage LDCs in a discussion on the implementation of the Minister's August 4, 2017 direction on the Green Ontario Fund and low-income programs. To address such communication as well as program design and delivery challenges, the EDA recommends reviewing the Conservation First Implementation Committee (CFIC) charter to expand its ability to resolve governance and program issues. The EDA looks forward to continuing to participate in the CFIC.

Scorecard: The scorecard, developed by the IESO and Navigant, includes metrics that are not included in the objectives outlined in the March 31, 2014 Ministerial Direction nor the ECA. For example, one scorecard metric evaluates the number of programs targeting transformer stations in congested areas. This scorecard should not be used to measure LDC progress or performance. Therefore, we recommend that IESO develop a separate scorecard which focuses on the established objectives of the framework.

Targets: The updated Achievable Potential Study (APS) demonstrates a variance between allocated targets and that which is 'achievable' in each service area. Additionally, the Fair Hydro Plan, changes to the Industrial Conservation Initiative (ICI) and new programs through the Green Ontario Fund could further reduce the 'potential' attributed to the LDCs savings targets. The EDA recommends a discussion on LDC targets based on the 2015-2016 CFF results, the updated APS as well as new programs introduced, or soon-to-be introduced, to the market.

Program Design: Based on customer feedback and experience, LDCs have submitted several program design ideas and enhancements to the IESO. While many innovative program concepts and designs have been accepted by the IESO, others have been rejected without consistency or predictability. Although EDA acknowledges IESO's efforts to improve the process, we recommend a further review of the IESO program design governance to create a more collaborative, predictable and streamlined approach. This review should also address how to balance IESO's increased responsibility as a program delivery agent for the Green Ontario Fund, as outlined in the Minister's August 4, 2017 direction, with its role in reviewing and approving program changes proposed by LDCs under the CFF.

Cost-Effectiveness: All new programs have been cost-effective as per the requirements of the ECA. However, the development and delivery of many new innovative residential programs are stifled by the cost-effectiveness threshold. EDA recommends further discussion on IESO expectations and solutions to deliver innovative solutions to customers that are outside current cost-effectiveness thresholds.

Budget: While balancing the needs of customers, LDCs have been delivering conservation with prudent business-like efficiency. LDCs have focused on the IESO-driven objective of achieving targets with as little budget as possible. The \$1.84 billion budget provided to the LDCs to design, promote and deliver programs to all sectors has a system benefit of double that value. EDA recommends that the budget be realigned to meet the additional goals of climate change, and sector-specific efforts. With the appropriate signalling and budget alignment, LDC can design, individually or collaboratively, and deliver additional customer-focused programs.

Collaboration: LDCs continue to actively collaborate on conservation – creating joint CDM plans; dedicating resources to working groups; sharing successes and overcoming barriers; and formally and informally collaborating with natural gas entities. The ECA was developed to encourage a flexible collaborative approach. The EDA recommends that the IESO further reduce the administrative requirements for Joint CDM plans and that the government facilitate regulatory enhancements to strengthen collaboration between Gas and Electric Distributors. LDCs would also like to see the IESO's Collaboration Fund re-activated with a higher degree of transparency to assist with overall collaboration.

Continuity: LDCs have created a conservation business which has employed hundreds of low-carbon jobs and created over a billion dollars of annual economic development spread across all Ontario regions. To provide certainty for customers, the EDA recommends that government

should make a commitment to the continued delivery of conservation through LDCs and ensure the successful integration of Green Ontario Fund initiatives with the CFF.

The EDA appreciates the mid-term research underway, by Navigant, to evaluate how market conditions have changed since the original ECA. However, LDCs are concerned that the Mid-Term Review fails to directly address key challenges with the framework as well as acknowledge the role of LDCs.

LDCs believe that conservation is a pivotal tool to help customers face increasing electricity costs as well as a key component of a low-carbon economy. LDCs continue to successfully deliver conservation programs and are keen to expand programs to achieve additional objectives such as reducing greenhouse gas emissions. As the face-of-conservation, LDCs have expert knowledge of their customer needs as well as the built-in capacity and network of trade allies to expediently design and bring new program concepts to market. To maximize customer engagement and limit confusion, LDCs are eager to carefully integrate the current framework and programs with the climate change initiatives delivered through the Green Ontario Fund.

To directly address the concerns and ideas highlighted above as well as explore the future of conservation in Ontario, we request a strategic discussion with yourself, your executive team, and a group of LDC CEOs from the EDA Board. Justin Rangooni, Vice-President, Policy & Government Affairs will be in touch to coordinate this CEO roundtable.

We are grateful for your attention on this file and welcome your assistance in addressing these challenges. The EDA is committed to continuing to work collaboratively with the IESO to design and deliver innovative conservation programs to Ontario consumers.

Sincerely,



Teresa Sarkesian
President and Chief Executive Officer

cc Terry Young, Vice-President, Conservation & Corporate Relations
Justin Rangooni, Vice-President, Policy & Government Affairs