

ONTARIO ENERGY ASSOCIATION

2019 PRE-BUDGET SUBMISSION

February 6, 2019

To shape our energy future for a stronger Ontario.



Ontario Energy Association

ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

The recommendations contained in OEA papers represent the advice of the OEA as an organization to the provincial government. They are not meant to represent the positions or opinions of individual OEA members, OEA Board members, or their organizations. The OEA has a broad range of members, and there may not always be a 100 percent consensus on all positions and recommendations. Accordingly, the positions and opinions of members and their organizations may not be reflected in this report.

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INTRODUCTION

The Ontario Energy Association (OEA) welcomes the commitment of the Government of Ontario to strengthen its fiscal management and is pleased to provide this submission to the Minister of Finance.

The government has requested innovative and cost-effective ideas that can:

- cut red tape for businesses and people who access government services
- improve the delivery government programs or services
- save taxpayers' money

Further, the government is seeking ways to fulfill its five core commitments to:

1. put more money in people's pockets
2. clean up the hydro mess by lowering hydro bills
3. make Ontario open for business by creating and protecting jobs
4. restore accountability and trust to end the culture of waste and mismanagement in government
5. cut hospital wait times and end hallway healthcare

The OEA's key contribution to Ontario's pre-budget process is to demonstrate how the energy sector can assist the government in meeting its overall policy objectives by ensuring affordable, reliable, and sustainable energy for Ontario consumers at the residential, commercial, and industrial levels. The OEA's 2019 pre-budget submission will focus primarily on means to reduce regulatory burden to both keep energy bills low and create and protect jobs.

Our recommendations create new investment opportunities for energy companies, generate savings for Ontario families and businesses, and continue positioning the energy sector to support economic growth.

Reducing Regulatory Burden

In 2018, the OEA made a submission to the province with a variety of proposals to reduce red tape to help reduce costs for all energy bills, not just electricity bills.¹ The OEA would like to take the opportunity of this submission to re-iterate some important opportunities to streamline regulations to allow energy sector participants to provide the same or better levels of service at a lower cost.

A. Electricity Distribution Sector Consolidation

The OEA is pleased that the government's 2018 [Fall Economic Statement](#) supported electricity distribution sector consolidation by extending the time-limited transfer tax incentives and an exemption for capital gains from December 31, 2018 until December 31, 2022.

The Fall Economic Statement also stated that "Ontario will consider additional ways to promote efficiency and modernization of the electricity distribution sector in consultation with consumers and other stakeholders." The OEA looks forward to consulting with the government on exploring additional ways to incent and remove barriers to voluntary and efficient consolidation of the sector.

B. Materiality for Asset Divestitures

Section 86 of the Ontario Energy Board (OEB) Act requires that a distributor make an application to the Board for the disposition of any asset used to serve the public. This type of application can take several hours to prepare and review and requires more resources to obtain regulatory approval at times than the asset is worth. It would be helpful to amend the statute by specifying a dollar amount materiality threshold for asset sales, as there is in section 2.0.8 of the OEB's Chapter 2 Filing Requirements for Electricity Distribution Rate Applications.

C. Update Leave-to-Construct Thresholds

Currently, the legislative (Sections 90 (gas) and 92 (electricity) of the OEB Act) and regulatory (Section 6.2 of Ontario Regulation 161/99 (electricity) and Section 3 of Ontario Regulation 328/03 (gas)) thresholds for having a leave-to-

¹ See: <https://energyontario.ca/wp-content/uploads/2018/11/OEA-Red-Tape-Reduction-Submission.pdf>

construct (LTC) proceeding are based on factors such as projected cost (\$2 million), length of transmission line (20 km for gas; 2 km for electricity), pipe size (12") and pressure (operating at over 2,000 kPa).

The OEA recommends an increase the thresholds to, for example for a gas pipeline, \$10 million in cost, line length to 50km, and the pipe size requirement to 16" to reduce the number of regulatory applications required, reducing the regulatory burden on the utilities, ratepayers and the OEB. This could be bolstered by delineating higher thresholds only for "proven operators" with an established track record of safe delivery (e.g. \$5 million threshold for operators with \$100-\$500 million in annual distribution revenues and \$10 million threshold for operators with annual distribution revenues above \$500 million). These could also be automatically subject to periodic reviews of threshold levels (e.g. every 3-5 years), which could help counteract inflationary pressures over time. The OEB would maintain oversight on all capital projects but smaller projects would be managed on a post construction basis rather than having a public proceeding.

D. Remove Barriers to Early Access to Land

Section 98 of the OEB Act, (Right to Access Land) allows access to land only to someone who has either obtained s. 92 (leave to construct) approval or has applied for s. 92 approval for a project on a specific route that has been established through approval of the Ministry of the Environment, Conservation and Parks. Those requirements prevent early access for the purpose of conducting environmental studies (e.g., geo-technical studies, species studies, land-surveys, etc.) that would be helpful to determine the best route. The OEA therefore recommends that s. 98 authorization be granted to transmitters who have not yet applied for leave to construct, provided that they undertake to apply within two years after accessing the land.

E. Streamline Environmental Assessments

Individual and class environmental assessment processes should be streamlined in order to reduce timelines and improve clarity on what is required from proponents at the outset. An efficient process is necessary for proponents to plan – both for new builds and upgrades to existing facilities – and to ensure that critical energy infrastructure is placed into service in a timely manner, in order to serve businesses and customers across the province.

Energy Sector Governance

Change is always occurring. All sectors of the economy must contend with constant changes in technology, markets, investments and consumer demands. Energy companies meet these pressures and still ensure that Ontario has one of the best, most reliable and lowest cost energy systems in the world. However, government policy can have a profound impact on the energy landscape by overturning key assumptions with a single decision and layering additional complexity and costs to the multiple factors energy companies need to address. This ability of government can create considerable uncertainty and cost where none need exist.

The government can and must set a long-term, broad energy strategy (e.g., cost, economic development, climate change, community engagement) and be able to review and change these policies when required. However, a predictable energy planning framework is needed. This framework should take advantage of the competitive pressures of the marketplace to ensure that all sector participants have the confidence to invest and deliver customers the choices they desire at the lowest cost.

The single most important thing the government can do to restore business confidence in the electricity sector and lower electricity bills is to significantly reform how the sector is governed. Ontario needs to make better electricity decisions that achieve the best outcomes for Ontario's residential and business electricity consumers through the principles of transparency, competition, objectivity and independence.

As articulated by the Ontario Electricity Stakeholders Alliance: "Ontario's electricity sector governance and planning framework should be revised to reflect these fundamental principles. This will help ensure the sector's cost effectiveness, reliability and ability to adapt. Decisions about Ontario's electricity system have far-reaching implications, impacting the province's economic strength and prosperity for years to come, and are fundamental to the realization of the province's ambitions."²

² See: <https://smartelectricitydecisions.ca/research/>

A. Reform the Electricity Planning Process³

Ontario has gradually evolved to system whereby key planning decisions now rest with the Minister responsible for energy. The result of this approach has been that the expert advice of system planners at the IESO and OEB is regularly over-ridden, and decisions have been made by a small group of people, behind closed doors, without the openness and transparency we see in other jurisdictions. This approach has resulted in system costs that are higher than they need to be to meet public policy objectives.

The uncertain environment created by this approach also undermines investor confidence in Ontario, which leads to higher costs for energy projects. It is important to recognize that Ontario competes globally for access to capital and needs to ensure a stable climate for investment capital. Given Ontario's expected reliance market mechanisms to meet future energy system needs (e.g. through Market Renewal), we need to create a climate of confidence in our electricity planning system.

The OEA recommends reforms which reframe the government's role as the policy maker through the legislature, with decisions made with openness, transparency, and cost benefit analysis by independent planners at the IESO and OEB who are held accountable for their performance by the legislature.

To achieve a stable and certain electricity planning framework, the OEA believes the following reforms are required:

- a) Set in legislation the government's role in setting broad social and economic goals for the electricity sector
- b) Require any government guidance and changes to the framework for the electricity sector to go before the legislature for approval
- c) Leave implementation and oversight of collaborative electricity and natural gas energy system planning to their respective agencies like the IESO (electricity only) and OEB (electricity and natural gas) and reinvigorate the independence of these agencies
- d) Require full transparency in decision making with appropriate stakeholder input, including life cycle cost-benefit analysis and

³ For more details see: https://energyontario.ca/wp-content/uploads/2018/04/OEA_Energy_Platform-1-1.pdf; and, <https://energyontario.ca/wp-content/uploads/2018/11/OEA-Minimizing-Electricity-Costs-Submission-4.pdf>

comparison of alternatives for major systems and regulatory planning decisions

- e) Competitive processes should be used for the procurement of system resources (i.e., capacity, energy, and ancillary services), whenever feasible, in the future

B. Review the Electricity Trade Agreement with Hydro Quebec

In 2016, Ontario and Quebec entered into an electricity trade agreement. Ontario's FAO estimated the agreement provided a net benefit for Ontario ratepayers. However, another independent assessment of this arrangement by an expert found that the net effect of the agreement is that Ontario electricity consumers are paying more than they otherwise would be. The OEA believes that it is in the interests of ratepayers for the government to re-examine this agreement to see if in fact Ontario consumers are benefitting.

C. Convene an Energy Sector Efficiency Panel

Finding cost reductions and efficiencies in Ontario's energy (gas and electricity) sector should be an ongoing long-term effort. To that end, the OEA recommends that the government convene a small panel of key industry participants, including representatives from the IESO and OEB, and challenge them to meet regularly and deliver cost savings and efficiency ideas to the government. The province should invite a small group (to ensure effectiveness) of key sector CEOs that includes key power producers and utilities, to join with system planners, to develop and bring forward ideas for consideration.

Reforming Conservation

Energy Conservation and Demand Management (CDM, or conservation) is Ontario's lowest cost electricity resource. Even so, the OEA believes that CDM policies and programs in Ontario need to be reformed to align their objectives with Ontario's changing system needs and government priorities, especially given the government's current fiscal constraints coupled with its commitment to reduce electricity bills for Ontarians by pledging to move the costs of CDM to the tax base.

For example, Ontario's recent history of having excess capacity is now changing: the IESO currently projects that the province will have a capacity shortfall of 1,400 MW by 2023 and 3,700 MW by 2025. We need to plan now for this new need. The OEA believes CDM can continue to deliver the lowest cost solution

for Ontario families and businesses compared to the alternatives in meeting these future capacity needs.

However, the needs of Ontario's electricity system are changing and CDM programs need to adapt to these changing needs. Based on Ontario's evolving needs, the OEA has a number of recommendations for the future of CDM.⁴

A. Continue the Current CDM framework to the End of 2020

CDM programs cannot be turned on and off on short notice, and involve long-term commitments to Ontario businesses. Ontario has built up a large conservation infrastructure, and with it, a culture of conservation in the province.

As Ontario transitions from a position of excess capacity to potential capacity shortfalls with the closing of Pickering generating station and ongoing nuclear refurbishments, conservation can play a critical role in avoiding higher cost solutions. The province should continue with CDM programs under the current framework to maintain delivery capacity and meet customer expectations. This framework's tremendous track record of success in delivering low cost solutions to customers should not be taken lightly.

Furthermore, it should be noted that simply ending the current CDM framework prior to the end of 2020 would incur significant costs to wind down programs. This is because electric utilities have entered into agreements with thousands of customers and committed millions of dollars of incentives to customers. These customers have, in turn, made commitments to complete energy efficiency projects within the current framework.

In addition, these utilities have committed and ongoing costs required to efficiently deliver the programs and support customers, many having entered into agreements with third-party vendors to deliver the conservation programs within the existing framework.

B. Reducing CDM Costs in the Short-term

In the short-term, the OEA believes that there are many things the province can do to reduce program costs. OEA members have identified opportunities to provide savings by streamlining program delivery and elimination of programs

⁴ See: <https://energyontario.ca/wp-content/uploads/2018/12/Reforming-Conservation.pdf>

with a lack of control over uptake and/or budget, are cost ineffective, and/or have low uptake.

The OEA identified opportunities with the potential to provide savings of approximately \$127M/year in a CDM policy paper issued in December 2018. Some of these recommendations have already been acted upon based upon recommendations from the LDC community to the IESO, including a re-assessment of the Coupon Program and Residential HVAC plus the discontinuation of the residential new construction program.

There may be additional savings through a reassessment of the IESO's central services budget and its role in CDM program delivery.

The OEA believes, however, that given the value of conservation to so many customers, especially low-income, First Nations, industrial and commercial consumers, reducing CDM costs in the short-term should be approached in a cautious manner.

C. Develop a New Conservation Framework

While continuing with the current proven framework, the province should ensure that a new framework is ready to begin on January 1, 2021 to maintain Ontario's strong culture of conservation and provide certainty for businesses of Ontario on the availability of programs to help them control their energy costs. In order for a framework to be in place for January 2021 formal consultations on the development of the new CDM framework needs to begin now.

These consultations should explore an integrated energy strategy and more flexible framework that is customer-centric, allows for tailored program offerings (especially for industrial and commercial customers), co-ordinates energy and environmental policy, drives economic growth, reduces system demand and system costs, and includes competition.

These OEA believes these consultations should be facilitated through the formation of a Steering Committee comprised of key stakeholders from utilities, customer representatives, 3rd-party service providers, the relevant Ministries (e.g., Energy and Environment), and the IESO and OEB.

Given the value of conservation to so many customers, and the supporting network of skilled contractors, developing a new framework should not be rushed.

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