Ontario Energy Association

ENERGY PLATFORM

KEY **OBJECTIVES**

The purpose of this document is to provide elected officials and key decision makers from the three main political parties with clear and precise recommendations on how to optimize energy policy to the benefit of Ontario energy consumers. Our recommendations have been guided by the key objectives of making Ontario's energy:

LOWEST COST

Policies should deliver the lowest cost possible to energy consumers, including taking full advantage of existing infrastructure, to promote affordability for Ontario consumers and economic growth objectives, while still delivering on the objectives below

CLEAN

Policies should continue to deliver meaningful progress towards Ontario's climate change and environmental objectives

RELIABLE

Policies should allow for continuous investment in Ontario's energy infrastructure to ensure that Ontario's energy consumers have reliable access to affordable clean energy

RECOMMENDATIONS

1 REFORM THE GOVERNANCE OF ENERGY PLANNING

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 independent agencies like the IESO (electricity only) and OEB (electricity and natural gas)

d. Require full transparency in decision making, including cost-benefit analysis and comparison of alternatives for major systems and regulatory planning decisions

e. Competitive processes should be used for the procurement of system resources, whenever feasible, in the future

LOW COST CLEAN RELIABLE

RECOMMENDATIONS

2 OPTIMIZE USE OF EXISTING INFRASTRUCTURE

a. Optimize and co-ordinate the use of Ontario's tremendous existing electricity and natural gas assets (transmission, generation, distribution, and storage facilities) to help keep energy costs low and provide reliable energy choices for Ontario's homes and businesses

b. Support the integration of distributed energy resources (DERs) into the electricity grid to offer customers choices that go beyond distributed generation

c. Reaffirm the leadership role of utilities in conservation by leveraging the current conservation infrastructure

d. Involve stakeholders in a strategy to move to electrification of vehicles for cars and rail and compressed natural gas (CNG) for heavy transportation

LOW COST CLEAN RELIABLE

RECOMMENDATIONS

3 LEAD REGULATORY EVOLUTION

a. Conduct a formal review of Ontario's regulatory framework, with stakeholders, to ensure the OEB has been given the appropriate mandate, structure, and resources to deliver an efficient regulatory system that continually adapts with a sector going through technological change and innovation

b. Mandate stakeholder and customer consultations prior to the introduction of any new rules or regulations with a minimum of six months' notice provided for any new rule or regulation

c. Commit to an outcomes-based approach to regulation with clear metrics to minimize regulatory burden on utilities while providing incentives to lower system costs

d. Require annual reporting from all energy sector agencies on their efficiency in managing their responsibilities, on the costs they have imposed on the sector during the prior year, on the benefits they have realized for the sector, and on the ratepayer costs for which they are responsible

LOW COST CLEAN RELIABLE

DETAILED DISCUSSION OF **RECOMMENDATIONS**

1 REFORM THE GOVERNANCE OF ENERGY PLANNING

Change is always occuring. 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.

For example, the IESO is conducting a review of the electricity market design through its Market Renewal initiative, which is attempting to strengthen the use of market signals and competition in the procurement of resources. However, the ability of Market Renewal to succeed is uncertain because of the risks associated with future government interventions in the energy marketplace.

A predictable energy planning framework is needed that retains the government's capacity to set policies that are of critical importance to Ontarians, such as those for climate change. 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.

1A. Set in legislation the government's role in setting broad social and economic goals for the electricity sector

1B. Require any government guidance and changes to the framework for the electricity sector to go before the legislature for approval

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. These periodic reviews should occur on a relatively fixed schedule and stable policies must be in place between the reviews.

Over the past few decades, government interventions in the energy sector have sometimes been short-term in nature and in many cases have involved specific investments or policies that create uncertainty, discourage investment, threaten system reliability, raise costs, reduce choices for customers, and place a financial burden on taxpayers. These interventions can result in subsequent interventions to address the unintended consequences of the initial policy. Constant policy changes create uncertainty that diverts investment from Ontario and ultimately increases costs for energy consumers.

Setting out the government's role in legislation and requiring that any guidance and significant change to the province's long-term energy strategy go before the legislature for debate and approval will foster a more considered approach by government. It will mitigate the use of more short-term, prescriptive policies, such as making specific decisions to purchase certain energy products, picking the procurement method, the price offered, the length of contracts, and other planning details. Provisions should be made for stakeholder participation and written submissions when the government is undertaking a framework review.

1C. Leave implementation and oversight of collaborative electricity and natural gas energy system planning to their respective independent agencies like the IESO (electricity only) and OEB (electricity and natural gas)

Energy planning decisions should be coordinated (taking into account electricity and gas) transparent, and reference publicly available facts and information that justify the decision as much as possible.

The planning process should be independent and take full advantage of government agencies and utilities that possess deep expertise and knowledge about energy issues, and the regulation or management of various aspects of the sector. The planning process should include comprehensive public consultations, especially in the case of longer-term decisions, such as the setting of objectives or designing of plans.

For example, the existing regional planning process, overseen by the OEB, recognizes that each region in Ontario has unique needs and that there are various ways for these needs to be met (e.g., conservation, generation, transmission, distribution, and innovative solutions, such as Distributed Energy Resources).

There are 21 electricity regions across the province and the first cycle of planning reports has been completed and are expected to be done at least every 5 years. It is an inclusive process with the IESO, local utilities, local transmitter, gas utilities and the public (i.e., Indigenous communities and municipalities, individuals and business groups) working together to determine the best way for electricity needs to be met.

1D. Require full transparency in decision making, including cost-benefit analysis and comparison of alternatives for major system and regulatory planning decisions

Major planning in Ontario has often been made without any stakeholder input or without the transparency of cost-benefit analysis to demonstrate that the decisions were optimal for Ontario energy consumers and fair to energy market participants.

In order to ensure that energy consumers are benefitting from the best option available to them, it should be a requirement that any major energy planning decision have a cost-benefit analysis undertaken that compares the benefits and cost of potential alternatives.

This transparency will instill confidence for investors in making investments in Ontario, leading to more investment, lower costs for energy consumers, and fair treatment of stakeholders and participants.

1E. Competitive processes should be used for the procurement of system resources, whenever feasible, in the future

For various reasons, most of the generation capacity added in Ontario over the last decade has not been procured competitively. Instead, resources were procured on a non-competitive basis with a guaranteed-price.

Ontario's Auditor General has noted that if a competitive process for procurement had been used more frequently, Ontario's electricity consumers could have saved billions of dollars.

In the future, when Ontario's electricity system requires resources, the use of a competitive process should be required by default to ensure that the system can meet environmental and reliability objectives at the lowest possible cost for consumers. If a non-competitive procurement is necessary, it should be reviewed and approved by the OEB before proceeding.

2 OPTIMIZE USE OF EXISTING INFRASTRUCTURE

Pipelines, transmission lines, distribution infrastructure, power plants, refineries and storage facilities are all major investments that shape the energy landscape of the province.

Energy policy should be structured around making the best use of these existing investments, both for their useful lives, and as potential locations for reinvestment. This will ensure a reliable and low cost system to energy consumers.

LOW COST CLEAN RELIABLE

2A. Optimize the use of Ontario's tremendous existing electricity and natural gas assets (transmission, generation, distribution, and storage facilities) to help keep energy costs low and provide reliable energy choices for Ontario's homes and businesses

Ontario has existing electricity distribution system assets of $49 billion, electricity transmission assets of over $12 billion, and natural gas distribution system assets of $17 billion. In addition, Ontario has billions of dollars of existing electricity generation and other energy infrastructure assets.

Prudent public policy should adopt a cost effective approach that seeks to optimize the use of existing assets (and minimizing stranded assets). This is the best way to ensure cost effective energy services and reliable supply for Ontario's residential and business consumers and meet public policy objectives.

As new system needs emerge in the future, Ontario should ensure that existing assets and their locations are assessed fairly for reinvestment potential. The recent past, in Ontario and other provinces, reveals that siting new energy infrastructure such as generation facilities and transmission lines can be very controversial and costly; this makes communities with existing facilities attractive locations for additional investment.

2B. Support the integration of distributed energy resources (DERs) into the electricity grid to offer customers choices that go beyond distributed generation

New technologies and innovations that offer customers greater autonomy over their energy use will create additional issues for energy system planning and infrastructure. They will drive a shift towards decentralized, smaller scale, DERs, which can include renewable generation, energy storage, combined heat and power, and micro-grids.

As these technologies continue to mature and become more widespread, Ontario needs to ensure that the regulatory framework adopts a technologically neutral approach to supporting DER investments by utilities, consumers, and new market entrants. This would allow a variety of potential participants to come up with solutions based on many different technologies.

Over time, depending on developments in underlying technologies and energy prices, there might be many different solutions adopted, based on local, regional, or temporary circumstances.

2C. Reaffirm the leadership role of utilities in conservation by leveraging the current conservation infrastructure

Ontario's utilities have invested significantly in conservation programs that deliver cost effective capacity to Ontario's energy system. The programs delivered by Ontario's electricity and gas utilities have an excellent track record of delivering value to their customers.

As noted by the Environmental Commissioner of Ontario in its *Annual Energy Conservation Progress Report 2015/2016* natural gas ratepayers paid $66 million for conservation programs with a net cost to ratepayers of 2.5 cents per cubic metre of gas saved versus an average residential natural gas price of 18.3 cents per cubic metre; and electricity ratepayers paid $421 million for conservation programs at net cost to ratepayers of 2.9 cents per kWh saved, which is less expensive than any form of electricity generation.

These investments are an important part of Ontario's energy future and should be leveraged by the government as it pursues the dual objectives of meeting climate change objectives and reducing future capacity needs.

For example, the government should leverage existing energy utility conservation leadership and expertise for an expanded role in meeting GHG reduction goals. Utilities are in the best position to further expand conservation program offerings to the multi-residential and commercial building sector and large industrial energy users.

2D. Involve stakeholders in a strategy to move to electrification of vehicles for cars and rail and compressed natural gas (CNG) for heavy transportation

The transportation sector is currently Ontario's largest source of greenhouse gas emissions, representing Ontario's best opportunity to lower its carbon footprint in a cost effective way by taking advantage of existing infrastructure (e.g. incorporating EV's into the electrical grid and CNG for heavy transportation).

The transport sector will play a key in the government's efforts to meet climate change objectives. Stakeholder involvement will be required for an efficient and smooth transition to low carbon transportation to be achieved because it will have significant implications for system planning and cost for the electricity and natural gas systems in Ontario. Failure to have a coordinated strategy may result in inefficient adoption of new approaches that are higher cost than they might otherwise be, and do not optimize GHG reductions.

3 LEAD REGULATORY EVOLUTION

For the past two decades, regulatory evolution in many jurisdictions has been mostly focused on adding responsibilities to utility regulators in order to implement government policies of the day, rather than with a view to enhancing regulators' ability to execute its public oversight role.

However, as noted earlier, the energy sector is currently undergoing a significant transformation because the pace of technological change and innovation is accelerating. The regulatory framework needs to evolve, in a stable manner, to accommodate the changing needs of, and options available to, consumers, utilities, energy service providers, and new market entrants. Many jurisdictions are actively working to address these transformative issues, such as regulators in California and New York.

It is important for Ontario to adopt and lead best practices during these times. This will help achieve the objectives of providing Ontario consumers with low cost, reliable access to affordable clean energy.

3A. Conduct a formal review of Ontario's regulatory framework, with stakeholders, to ensure the OEB has been given the appropriate mandate, structure, and resources to deliver an efficient regulatory system that continually adapts with a sector going through technological change and innovation

Technological changes that offer consumers greater autonomy over their energy use are creating new issues for energy system planning and infrastructure. To meet these challenges the OEB, utilities, energy service providers, government and other energy sector institutions need to engage in forums with meaningful detailed discussion on developing policy issues to shape the evolving regulatory framework.

The new framework should ensure that regulatory policies are aligned with, and achieve, the government's climate change objectives.

In developing new regulatory policies, stakeholders, the OEB, and government should identify regulatory barriers preventing consumers and utilities from adopting of cost-effective, innovative, low-carbon technologies and distributed energy resources to enhance system reliability and resilience while lowering total costs.

3B. Mandate stakeholders and customer consultations prior to the introduction of any new rules or regulations with a minimum of six months' notice provided for any new rule or regulation

Similar to that of government policy, there needs be stability in regulatory policy while still allowing the government institutions to exercise their mandates. To the greatest extent possible, policy change should be on a relatively fixed schedule, involve stakeholders and customers, and be made at a measured pace with appropriate transition provisions when policies change significantly. Policy making and consultation processes are costly for all stakeholders, requiring considerable resources and attention, which could otherwise be spent on the energy system itself.

Currently, there appears to be a lack of coordination and scheduling between energy sector institutions regarding their policy consultation process as well as a high volume of initiatives requiring input. As a result, utilities and stakeholders are often put into the position of dealing with multiple processes simultaneously, making it difficult to participate effectively because of time and human resource constraints.

For example, at the time of writing, the following policy and regulatory consultations are taking place: the IESO's Market Renewal Process and its Conservation Framework Mid-Term Review; the OEB's consultations on a cyber security framework and its review of customer service rules; and, electric utilities are working with government to implement the Fair Hydro Plan.

As illustrated above, the volume of consultations is becoming overwhelming with policies and regulations in a constant state of flux. Utilities and stakeholders would be better able to contribute to consultations if they had more advance notice of consultations coupled with better coordination across and among sector agencies.

3C. Commit to an outcomes-based approach to regulation with clear metrics to minimize regulatory burden on utilities while providing incentives to lower system costs

Performance-based regulation specifies required outcomes or objectives, rather than the means by which they must be achieved. Regulated entities are able to choose the course of action they will use to meet the regulatory objective. This allows them to identify the most efficient and cost-effective strategies, and it also promotes innovation and the adoption of new technology on a broader scale.

A recast regulatory framework that focuses on outcomes and performance should empower all participants to invest more confidently in both the experimentation and adoption of new and innovative products and services that will drive down future system costs and enhance system resilience and reliability.

3D. Require annual reporting from all energy sector agencies on their efficiency in managing their responsibilities, on the costs they have imposed on the sector during the prior year, on the benefits they have realized for the sector, and on the ratepayer costs for which they are responsible

Energy sector oversight bodies need to run as efficiently and effectively as possible. The additions or reductions in costs and burdens that result from regulatory policies should be quantified. To that end, energy sector agencies need to go beyond simply reporting on their operating costs.

Stakeholders and the public should be provided with a clear picture of the cost burden imposed by government agencies on the energy sector as well as the benefits achieved by the agencies as they discharge their responsibilities. This will facilitate the ability to better measure the performance of these agencies and help identify opportunities to reduce regulatory costs.

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ABOUT THE OEA

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.

The 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.

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To shape our energy future for a stronger Ontario.

Ontario Energy Association