ONTARIO ENERGY ASSOCIATION

ONTARIO CLIMATE CHANGE SOLUTIONS DEPLOYMENT CORPORATION DRAFT REGULATION

EBR: 012-9270 Submission

JANUARY 30, 2017

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.

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SUMMARY AND KEY RECOMMENDATIONS

The Ontario Energy Association (OEA) is pleased to provide this submission on the Ministry of the Environment and Climate Change's (MOECC) Draft Regulation establishing the Ontario Climate Change Solutions Deployment Corporation (the Deployment Corporation) under the *Development Corporations Act* (EBR Registry Number: 012-9270).

MOECC is seeking advice on the establishment of a Deployment Corporation that will have a mandate to support the reduction of greenhouse gas emissions in households and businesses. This document contains the OEA's submission on the Draft Regulation, as well as responses to the six questions from the MOECC's consultations on Supporting GHG Reductions in Households and Business held in October of 2016. It also contains broader submissions on how the MOECC can best collaborate with the OEA, energy utilities, and other government agencies during this process.

In addition, the OEA is making the following key recommendations:

Recommendation 1: Targeted Utility Consultation

The OEA recommends that MOECC immediately set up a targeted consultation with natural gas and electrical utilities to discuss how Demand Side Management (DSM) and Conservation and Demand Management (CDM) programs will relate to the new Deployment Corporation, including measures related to fuel-switching (e.g., space heating and water heating). Ontario's DSM and CDM programs have been a very successful and cost-effective mechanism to deliver conservation savings and greenhouse gas reductions (GHG) in Ontario. The OEA's utility members would like to engage in a meaningful dialogue with MOECC as soon as possible, so that the MOEEC makes informed decisions possible on the design of the new Deployment Corporation.

Recommendation 2: Extend Timeframe for Implementation

The OEA is concerned about the planned pace of implementation for the new low-carbon technology Deployment Corporation. The OEA does not believe there has been adequate time allocated to consultation with key stakeholders prior to making such major system design and financing decisions for a new low-carbon technology Deployment Corporation.

BACKGROUND AND CONTEXT: A HISTORY OF DSM/CDM SUCCESS

Ontario's electricity and gas utilities possess a great deal of experience and success in the delivery of energy efficiency and conservation programs. These programs are regulated, funded, approved and/or reviewed by three provincial agencies, specifically, the Ontario Energy Board (OEB), Independent Electricity System Operator (IESO), and the Environmental Commissioner of Ontario (ECO).

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 ECO in its most recent Annual Energy Conservation Progress Report:

> In 2014, natural gas ratepayers paid $66 million for gas utility conservation programs that produced predicted lifetime energy savings of 2.6 billion cubic metres of natural gas. The net cost to ratepayers was 2.5 cents per cubic metre of gas saved versus an average residential natural gas price of 18.3 cents per cubic metre. (p. ii)

With respect to electric utilities, the ECO's report stated:

> In 2014, electricity ratepayers paid $421 million for utility conservation programs that produced predicted lifetime energy savings of 14.6 billion kWh, for a net cost to ratepayers of 2.9 cents per kWh saved. This is cheaper than any form of electricity generation…(p. iii)

Further, the ECO notes that:

> Ontario has focused on conserving electricity and natural gas, via conservation programs delivered by electric and natural gas utilities and funded by their customers. Both gas and electricity conservation programs have consistently proven to be cost-effective." (p. vi)

This significant effort by electric utilities has continued into 2016, with the IESO reporting that:

> Based on preliminary unverified results, as of June 30, 2016 Local Distribution Companies (LDCs) have collectively achieved 1.27 TWh of net persisting energy savings. This represents 18% towards the 7 TWh provincial Conservation First Framework (CFF) target by 2020. There are 42 approved CDM plans and to date, eight local programs and 30 local pilots have been approved. Pilots range from residential air-source heat pumps to home energy assessments. There are also province-wide programs in market being delivered by LDCs across the

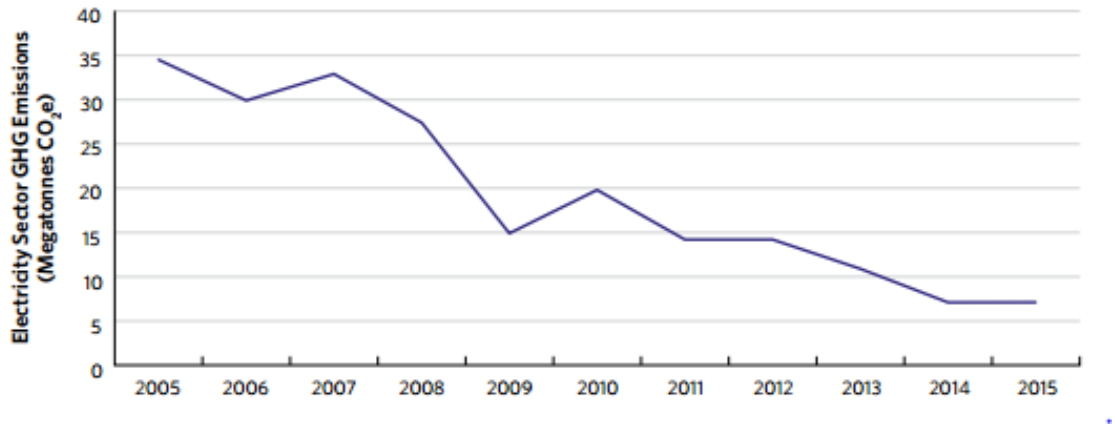
province, including the new Small Business Lighting program, Retrofit, Coupons, and Home Assistance Program among others.

Further, measuring the effectiveness of CDM/DSM programs now takes into account carbon emissions. Under the government's Conservation First Framework for 2015-2020, the IESO includes benefits not directly related to energy savings when considering the costs and benefits of proposed electricity conservation programs, including reductions in carbon emissions.

Similarly, the OEB's Demand Side Management (DSM) Framework for Natural Gas Distributors for 2015-2020, includes provisions to account for non-energy benefits associated with natural gas DSM, such as reductions in GHG emissions.

With specific regard to GHG emissions in the electricity sector, significant reductions have already occurred. The IESO's Ontario Planning Outlook states:

> Due to the retirement of coal-fired generation and the reduced demand for electricity, the greenhouse gas (GHG) emissions from Ontario's electricity sector has fallen by 80 percent since 2005. Carbon emissions from the electricity sector now make up approximately four percent of the province's total emissions or approximately seven megatonnes of GHG emissions in 2015. (p. 4)



Source: IESO, Ontario Planning Outlook, 2016.

Given this context, the OEA stresses that there is strong institutional infrastructure, human capital and ability to innovate already in place for the delivery of CDM/DSM programs by Ontario's electric and gas utilities with oversight by the OEB, IESO, and ECO. The electricity sector has made significant progress in GHG emission reductions. Energy consumers know and trust their electric and gas utilities as providers of energy efficiency and conservation programs.

This existing, strong base should be further strengthened and leveraged by, and co-ordinated with, the MOECC as it develops its Deployment Corporation. By taking full

advantage of this foundation and avoiding duplication, Ontario will better enable reduction of GHG emissions and achieve its GHG reduction targets in a cost-effective manner and meet the government's timelines.

The OEA recommends strongly that the MOECC work closely with electric and gas utilities, the OEB and IESO to better align and integrate the existing CDM/DSM evaluation and incentive frameworks with Ontario's climate change goals. For example, the mandates of the existing CDM/DSM frameworks could be expanded and strengthened to specifically allow utilities to develop and deliver GHG-reduction focussed programs.

It is worth noting that, in contrast to results already achieved by Ontario's electric and gas utilities, the ECO states in its report that "Ontario has set no target for conservation of other forms of energy, including transportation fuels, oil or propane."(p. 3) Recognizing and integrating the existing capacities and capabilities of the electric and gas utilities would allow the MOECC to focus greater resources on capacity building in those other energy sectors.

SUBMISSIONS ON THE DRAFT REGULATION

1. MOECC Approval of Deployment Corporation's Business Plan

The Information Notice states that the various reporting obligations of the Deployment Corporation would include preparation of an annual 3-year business plan. However, there is no explicit requirement in the proposed regulation for the Deployment Corporation to submit this business plan to the MOECC for approval.

The OEA recommends that the regulation require submittal of an annual business plan to the Minister for approval. This would be consistent with requirements for applicable Ministry approval of other corporations established under the *Development Corporations Act* (e.g., Section 11 of Ontario Regulation 249/07 for HealthForceOntario Marketing and Recruitment Agency). It would also be consistent with the frameworks governing entities such as the New York Green Bank.

2. Stakeholder Input/Advisory Committee

Input from natural gas and electric utilities to the Deployment Corporation would be extremely beneficial to the organization as it develops policies and programs to deliver its mandate. However, the draft regulation does not include any provision requiring the Deployment Corporation to receive advice and recommendations from stakeholders for its consideration. Given the mandate of the Deployment Corporation, such a provision seems appropriate. Such an approach would mirror processes in place at entities such as Ontario's IESO (see Section 18(1) of the *Electricity Act, 1998*) and the New York Green Bank, which receives input from an official Advisory Committee.

The OEA recommends that the Deployment Corporation be required to establish one or more processes by which stakeholders, including natural gas and electric utilities, may provide advice and recommendations for consideration.

3. Conflict of Interest Rules

The Information Notice states that "conflict of interest rules of Part IV of the *Public* Service of Ontario Act, 2006" will apply to governance of the Deployment Corporation.

The OEA recommends that the regulation explicitly state that any entity with direct representation on the Board of Directors of the Deployment Corporation would be precluded from receiving support from the Deployment Corporation.

4. Small and Medium-Sized Businesses

In Ontario's Climate Change Action Plan (CCAP), businesses are clearly identified as intended recipients of assistance from the Deployment Corporation. The Information Notice for the regulatory proposal echoes this intent by referencing "small and medium enterprises."

However, based on the text of the draft regulation itself, it is unclear how small and medium-sized businesses fit into the intended scope of the Deployment Corporation's program development. Section 6 (1) of the draft regulation directs the Deployment Corporation to develop programs for existing and new residential buildings, and the production of goods.

The OEA recommends that the small and medium-sized businesses that are not involved in the production of goods (i.e. the provision of services) be added to the list of building sub-sectors for which the Deployment Corporation must address.

5. Best Practices in Other Jurisdictions

Both the CCAP and the Information Notice state that the establishment of the Deployment Corporation entity would draw upon best practices in other jurisdictions (e.g. Vermont and New York). However, based upon the information provided in the Information Notice and the draft regulation, it is unclear what governance-related aspects of models in other jurisdictions are being emulated.

The OEA recommends that the MOECC clarify how governance-related best practices from other jurisdictions are being drawn upon, for purposes of the proposed establishment of a Deployment Corporation in Ontario.

6. Certification of Technologies

In its October 2016 consultation presentation, MOECC stated that one possible function of the Deployment Corporation would be certification of technologies. This function is not reflected in the proposed regulation.

The OEA supports the omission of technology certification as an intended function of the Deployment Corporation because it would expand the scope of the Deployment Corporation's activity and resource requirement considerably.

Rather than focusing on certifying technologies, the OEA would like to see some dedication from the Deployment Corporation towards industry partnerships that will help make new technologies that advance a low carbon economy commercially viable.

7. Program Priorities

Section 6(3) of the draft regulation sets out a series of priorities that the Deployment Corporation is to balance in developing programs. However, these priorities do not include any provision requiring the Deployment Corporation to develop programs that are cost-effective, economically efficient or provide value-for-money. Given the significant investments the Deployment Corporation is expected to make, ensuring that these investments are financially prudent should be among the priorities.

The OEA recommends the regulation require that the Deployment Corporation's priorities in developing its programs include balancing economic prudence and cost-effectiveness. Further, the metrics for assessing cost effectiveness should be clearly defined. There are many established metrics that can be used in concert to evaluate cost effectiveness, for example, a Total Resource Cost test, Societal Cost test, Program Administrator Cost test, and/or a Participant Cost test.

8. Memoranda of Understanding

The Information Notice states that a "Memorandum of Understanding (MOU) with the Ministry of the Environment and Climate Change setting out, among other things, accountability relationships between the Ministry and the corporation," will be required. However, there is no explicit requirement in the draft regulation for the Deployment Corporation to enter into an MOU with the MOECC. Given the mandate of the Deployment Corporation, an explicit provision seems appropriate and would be consistent with other agencies, such as the OEB (see Section 4.6(1) of the *Ontario Energy Board Act, 1998*).

Further, the mandate of the Deployment Corporation will require that it work closely with the OEB, IESO and Ministry of Energy to align, integrate and expand the existing CDM/DSM evaluation and incentive frameworks with Ontario's climate change goals and avoid costly and inefficient overlap and duplication in program design, funding, and implementation. This appears to indicate a need for the Deployment Corporation to enter into MOUs with these other organizations.

The OEA recommends the regulation require the Deployment Corporation to enter into MOUs with MOECC, Ministry of Energy, IESO, and OEB. These MOUs should be made publicly available.

9. Definition of Terms

The draft regulation uses many terms that lack a precise definition. For example, Section 6(3) of the draft regulation refers to technologies such as "energy storage" and "deep energy retrofits," but provides no formal definition of these terms. "Energy storage" could refer to the storage of electricity, natural gas, or another form of energy.

Similarly, Section 6(3) of the draft regulation refers to "Stimulating the construction of new buildings that significantly exceed the energy efficiency requirements of Ontario Regulation 332/12," without providing an indication of what it means to "significantly exceed."

The OEA recommends that the regulation include a section of definitions to ensure clarity and avoid ambiguity.

RESPONSES TO CONSULTATION QUESTIONS

1. What are the needs of the new entity's 'customers' and how can the new entity support increased uptake of retrofit programs?

The OEA is of the view that a "One Window" customer support would be beneficial in helping customers find programs and connect with service providers. However, the OEA stresses that "One Window" does not mean one *provider* of all programs. Rather, it means provision of a portal/window service that customers can use to inform themselves of programs and service providers. The new Development Corporation should support customers by providing information in a fact-based, unbiased and simplified way that allows consumers easily make informed decisions.

Customers need programs to be simplified to increase uptake. Currently, programs are often too administratively burdensome, causing some potential customers to choose not to utilize the program. Another way to increase program uptake is to increase the incentive to participate, as the incentive is sometimes too small to make the program process a worthwhile option for a potential customer.

Another way to increase uptake is to ensure that programs efficiently allocate risks between parties. For example, if all the energy savings and financial risk falls on the customer, there will be less uptake, especially for programs with high upfront costs.

Last, customers should be able to "stack" programs and not be denied access to some programs because they are participating in others. Customers should be free to avail themselves of all opportunities. However, current policies prevent "stacking," reducing program uptake.

2. How could the new entity best deliver programs? What are the relative strengths/weaknesses associated with that approach to program delivery? Programs and technology?

The OEA believes that the new Development Corporation should take advantage of existing program delivery structure to ensure efficiency and maximize program uptake. Existing delivery agents have established and trusted customer relationships that should be leveraged.

Setting up new systems of reaching individual residential customers could be a tremendous challenge. Accordingly, the new Development Corporation should take advantage of existing relationships wherever possible.

Ontario's energy utilities, for example, have demonstrated efficacy and value in their delivery role. Their delivery infrastructure should be leveraged and expanded to deliver GHG-reduction focussed programs.

3. For existing incentive (rebate, grant) programs delivered in the Province :
   a. What's working/where are there opportunities for improvement and enhancement?
   b. Where are there gaps? For example, market segment not addressed.

As noted in detail in the Background and Context section of our submission, Ontario's current DSM/CDM programs are working well for most utilities and have been consistently successful. This success should be leveraged by the new Development Corporation.

As part of this existing program delivery framework, there will be opportunities to take greater advantage of Demand Response going forward as a low cost/low carbon option because of differential GHG rates depending on the generation mix. Also, broad adoption and use of customer data tools (e.g., Green Button) will allow for improved analytics and become a useful productivity tool for utilities.

OEA members have indicated that there are some gaps where smaller utilities do not have the resources to implement some of these programs in terms of delivering, helping and assisting customers to participate in programs. A common platform for access to help direct customers to programs should be encouraged. The new Development Corporation could provide a valuable service by creating a forum for better sharing of information to assist customers with program inquiries.

4. Are there barriers to the uptake of low-carbon technologies? For example, laws and regulations.

Current DSM/CDM program design rules are a barrier to low-carbon technology program uptake. For example, the existing DSM/CDM frameworks lack a mandate for electric and natural gas utilities to deliver GHG-reduction focussed programs. Another is example is that when a utility is dealing with 3rd-party service providers, many

approvals are required before the utility can get to the stage of program delivery. In some cases, large expenditures are required before a project can be proposed.

In addition, the administrative burden (including approvals) of highly tailored, customer-specific programs for larger users should be reduced.

The Ontario Building Code continues to be very prescriptive and a barrier, based on the experience of some OEA members. (OEA looks forward to participating in updating the Building Code in the areas of energy efficiency and energy management as the government of Ontario considers implementation of the CCAP).

There are some regulatory barriers (e.g., privacy rules) that prevent service providers from collaborating and delivering programs more efficiently.

Also, there are geographic restrictions on programs that prevent natural gas utilities from servicing customers outside of their territory.

The OEA looks forward to participating on future consultations to explore options for reducing regulatory burden with the MOECC and its government partners.

5. Where does demand currently exist and how do we ensure the greatest uptake and adoption of low carbon building technologies?

OEA members believe that standardization of building data could assist with uptake and adoption of low-carbon building technologies. The enablement of data provisioning will help ensure program providers will want to have a customer database connector. Also, there are regulatory restrictions on the sharing data between electric and natural gas utilities.

6. What are the opportunities and challenges associated with new programs focused on fuel-switching?

The OEA believes that there will be challenges if there is too much focus on electrification, as opposed to an approach that pursues a diverse portfolio of low-carbon solutions.

This view is held because the available options for fast-paced electrification of building space and water heating will create massive incremental demand for electricity. This surge in demand will require large capital investments (distribution, transmission and generation) for the grid to accommodate increased demand, resulting in higher rates

for customers. This fundamental shift in heating load will also change Ontario's electricity system from a summer peaking to a winter peaking system.

The greatest fuel-switching opportunities are in the transportation sector, with this sector representing the largest source of GHG emissions in Ontario. Electric vehicles, if charging is planned for properly with structure in place to prevent electrification from causing localized capacity issues, can fit relatively cost-effectively into the current grid. This will cost less than fuel-switching for space heating and water heating, but will still put upwards pressure on electricity rates.

The potential cost impact of widespread electrification of space heating, water heating, and transportation were assessed by the IESO as part of its Ontario Planning Outlook. However, OEA members believe that the IESO's cost estimates for widespread fuel-switching likely underestimate the actual costs significantly by not accounting for local distribution system upgrade costs. More work is required to assess the costs and the impact of these costs on ratepayers (e.g. affordability).

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Let's unravel complex energy challenges, together.