

Feedback Received on Proposed IAP Changes and Draft IESO Responses

Item 1: LeapFrog Energy

Dear IESO IAP Team,

Thank you for the opportunity to submit feedback and suggestions related to the proposed changes to the Industrial Accelerator Program (IAP). The majority of the comments in this submission should be used in context with the IESO's webinar and slide deck "INDUSTRIAL ACCELERATOR PROGRAM, Overview of Proposed IAP Changes, November 19, 2018"

IAP Measurable Goals

The IESO stated that proposed changes to the IAP "are expected to achieve similar benefits" as those experienced by the Process & System Upgrades (PSU) implemented in April 2018. More specifically:

"The changes were implemented to achieve the following benefits:

- *Strengthen program participation through reduced customer administrative burden;*
- *Shorten project cycles including administrative review periods and agreement execution;*
- *Increase program cost effectiveness via efficiencies and scale; and*
- *Improve customer satisfaction through streamlined processes and requirements"*

The IESO's words seem to have intention, but aspirations are not the same as measurable goals or time-bounded targets. The IESO has not articulated the case for change. Are the proposed changes are a solution in search of a problem, or vice versa?

Question 1: Can the IESO provide additional background detail on the four (4) bullet points above? Please be specific about:

1. the starting points (or why the metric was deficient or needed to be strengthened in the first place)
2. the actual goals to be achieved for each of the four (4) points (including targets and timelines)

IESO Response: There has been consistent feedback from both IAP and PSUP Participants that reductions in the administrative burden would likely reduce the barriers to participation. The PSU redesign was an effort driven by direct feedback from LDCs, program Participants, as well as findings resulting from annual program evaluations. For IAP, the key drivers for adoption of select PSUP changes were to address known challenges for Participants and to align with PSUP to foster consistency.

For Item 2 – Project Incentive Restructuring

As stated by the IESO, “Currently the program pays 100% of the approved customer incentive, whether a project achieves a minimum of 90% savings or exceeds the energy savings target. It is proposed that the customer incentive will be paid based on actual savings achieved, capped at 120% of predicted savings”

Feedback 1: The IAP incentive is based on the lesser of 3 factors (70% eligible capital, \$200/MWh of first year’s savings, or amount to reduce simple payback to 1 year). It may be expeditious to explain payback for most small and many large projects. For larger capital projects in the hundreds of thousands or millions of dollars, customers are already using metrics other than simple payback. The IESO should adopt more sophisticated financial metrics like IRR, NPV, Benefit to Cost and risk calculations. It can be reckless to rely on payback for large IAP projects where incentives can be into the millions of dollars.

IESO Response: The purpose of the 1 year simple payback cap is not to evaluate a project, but to ensure ratepayers are not incenting projects that would typically be completed within existing operating or maintenance budgets.

Feedback 2: CHP and Energy Efficiency projects are motivated for different reasons and circumstances of the host facility. The IAP should not view CHP and Energy Efficiency through the same lens.

IESO Response: Within the Program Rules and the technical review process, including M&V Plan development, Conservation Combined Heat and Power (CCHP) and Energy Efficiency (EE) projects have different. Further, CCHP Projects are subject to the “Behind-the-Meter Generation Project Rules” as well as the “Eligible BMG Projects Review Process Guideline”. There was an

application submission deadline of July 1, 2018 for CCHP projects through both PSUP and IAP.

Feedback 3: While the overwhelming majority of applicants and engineers are honest and honourable, the IESO will be setting itself up for trouble if one bad actor games the system to maximize the incentive. Related to Feedback 1, it is currently possible for the underlying engineering study to err on the side of conservative estimates and factors and end up maximizing the incentive. The potential for an additional 20% will become the fourth factor with which to optimize the incentive.

IESO Response: The proposed incentive model is designed to encourage realistic savings estimates and savings optimization. The projects are reviewed by a third party technical reviewer, prior to contracting, to identify any major inconsistencies with savings assumptions.

Feedback 4: The current program is not a pay for performance model. Once an incentive dollar amount is committed, it should not be increased. Otherwise, it would be an extension of free ridership. The IESO is entrusted with millions of dollars of ratepayer money and it is incumbent on all stakeholders to ensure that the CDM funds are used effectively for the benefit of the ratepayers and the management of Ontario's electricity resources. If a potential customer implements a CDM measure based on an expected financial incentive, then the incentive has served its purpose. It would be great for the customer to save more energy than the plan and the customer would benefit from saving money, the IESO and LDC's could claim the additional savings target. Paying up to an additional 20% incentive after the fact is not a prudent use of ratepayer money.

IESO Response: The current model can result in full incentive payments for Projects that don't meet their contracted savings targets. The proposed incentive model is expected to drive behaviour which leads to savings optimization. Annual third party evaluations of Conservation and Demand Management (CDM) Programs are completed and published an assessment of program performance, including savings realization and free ridership analysis.

Feedback 5: Item 5: Revised Engineering Study Requirements. The IESO maintains that "*Study cost deducted from project incentive.*" I think that the customer should pay a modest portion of the engineering study cost to demonstrate their commitment to energy management; however, it is a disservice to the customer to deduct the study cost from the future capital incentives. So long as the customer

implements the project there should be no claw-back of the engineering study cost. If the IESO wishes to maintain the claw-back philosophy, then for transparency, perhaps the IESO should also deduct the Technical Reviewer's cost and the IAP administration cost as well.

IESO Response: The treatment of study costs through IAP has not changed since the program inception in 2011, and to date, has not been the subject of any concern from IAP Participants. An annual third party evaluation of the IAP is completed and published with assessments of program performance, program administration cost.

Contract Term and Measure Persistence

Item 4: Shortened Contract Term states *"Most project contract terms reduced to 4 years"* and Additional Proposed Changes states *"All measures must have at least 5 years' persistence."*

Question 2: How would the IESO know, or care to know if the measure is actually persistent in the fifth year when the contract term is only 4 years?

IESO Response: It is common practice in most jurisdictions to assign a "deemed" persistence value based on the "End of Useful Life" (EUL) of the measure. The intent of this change is to ensure that the measures in the project have at least a 5 year EUL which help to achieve the province's long term energy savings objectives while improving program cost effectiveness.

Measurement and Verification Plan

The IESO is proposing that the Measurement and Verification Plan is:

1. By the IESO's Technical Reviewer and the Customer (without involving of the Engineer who did the EFS)
2. Done after the Engineering Feasibility Study (EFS) is complete

Feedback 6: The IESO is empowering the Technical Reviewer to develop the M&V plan. In most cases, the customer is not familiar with the nuances of IPMVP and IESO's M&V protocols and needs someone in their corner. Without independent advice, the customer may inadvertently agree to the M&V plan without full understanding of the consequences. The theory behind M&V principles are clear. Not all facilities manufacture uniformly sized widgets. Many have fixed and variable components to underlying process equipment. Adjustments for production volumes,

changes to product composition or other external factors requires sober thought and a thorough understanding about impact to the financial return. The Engineer who completes the study is an independent resource to help the customer and should be part of the M&V plan in service to the customer.

IESO Response: As the incentive agreement is between the IESO and the Participant, the contract language does not include the engineering consultant. There is no prohibition of involving the engineering consultant in the development of the M&V Plan. In addition, through the development of a baseline model, which is a key item within the M&V Plan, there is a natural opportunity for the engineering consultant to provide independent advice.

Feedback 7: If the Technical Reviewer is given authority to plan, implement and carry out the actual M&V that would be a conflict of interest and lack transparency. There should be some additional IESO or independent Third Party checks and balances regarding the M&V plan prepared by the Technical Reviewer.

IESO Response: There is no requirement within the IPMVP that the individual or organisation that created the M&V Plan not be involved in the implementation of the Plan and/or production of the Savings Report. In practice, the Participant plays the most significant role in implementing the Plan, with installation and calibration of meters, logging of data and providing of data to the CMVP for production of the savings report. The IESO reviews M&V Plans that have unusual or specific requirements.

I look forward to IESO's responses to the questions and feedback regarding proposed changes to IAP.

Sincerely,

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The intention to drop the requirement for energy management plans (EMSs) is disappointing, given the proven benefit of such plans in providing structure and priorities to energy project selection. The IESO is

an influential organization and elimination of this requirement may be construed as the organization not believing in the benefit of energy planning.

Part of the problem may have been the excessively prescriptive structure for EMPs previously required by the IESO, resulting in complaints that the template-based format was difficult to work with and required unproductive re-work of plans already in place.

I suggest that the EMPs be retained as a one-time entry requirement to the program to encourage a commitment to energy efficiency, but that clients be allowed to submit plans in whatever format they already have. However, quarterly updates are unnecessary and redundant, given that individual projects are being monitored.

IESO Response: The requirement for an Energy Management Plan is only being removed from the project application process, and is still in place for the Energy Manager Program. The benefits of a well-developed, and well-implemented, Energy Management Plan are proven. However, the requirement to submit an Energy Management Plan has been identified as a barrier to participation and it has been observed that many Plans were created only to check off the box. The IESO continues to encourage Participants to develop meaningful Energy Management Plans.

Regards,

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I would suggest detailed participation of the client's technical personnel or his M&V consultant in the formulation of project M&V Plans to avoid disputes after the fact.

IESO Response: The technical review process, and the need for baseline model development within the EFS support this practice.

Regards,

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