

Conservation Framework: Mid-term Review Advisory Group – Meeting Notes

Date: August 24, 2017	Time: 9:00am-2:45pm
Location:	<ul style="list-style-type: none">St. Andrew's Club & Convention Centre, 150 King Street West, 16th Fl., Toronto - Room F1
Meeting Chair(s) and Facilitator:	Nik Schruder (IESO)
Scribe:	Dixon Grant (Navigant)

Meeting Objective(s):

- Review key takeaways and action items from prior Advisory Group meeting
- Input on draft current state summary: budgets, targets, and cost-effectiveness (Part I)
- Input on market research objectives
- Input on final report approach

Attendees:

Members: Raegan Bond (Alectra LDCs Inc.), Amha Abraha (CBRE Limited), Chris Barker (CustomerFirst Inc.), Guru Kalyanraman (CLEAResult Canada Inc.), Margaret Rodd (Entegrus Powerlines Inc.), Myfanwy Parry (Housing Services Corporation), George Katsuras (Hydro One), Mark Schembri (Loblaw), Michael Marchant (Toronto Hydro-Electric System Limited), Edward Rubinstein (University Health Network)

Observers: Bart Burman (Burman Energy Consultants), Wes Johnston (CanSIA), Jesse Kulendran (Electricity Distributors Association), Erika Lontoc (Enbridge Gas Distribution Inc.), Frances Murray (Just Energy Ontario LP), Giovanna Gesuale (Enwin LDCs Limited), Musab Qureshi (Delegate - Ministry of Energy), Katie Zwick (Ministry of Environment and Climate Change), Clarence Cheng (Ministry of Environment and Climate Change), Valerie Bennett (Ontario Energy Board), Roy Hrab (Ontario Energy Association), Tina Nicholson (Union Gas Limited), Steve Zebrowski (Veridian Connections Inc.)

IESO: Nik Schruder – Chair, Evelyn Lundhild, Susan Harrison, Erinn Meloche, Terry Young

Navigant: Benjamin Grunfeld, Jodi Amy, Dixon Grant

Regrets:

Members: Walter Nuvoloni (Lafarge), Iuliana Calin (Nest Labs)

Observers: Colin Anderson (AMPCO), Bala Gnanam (BOMA), Joanne Van Panhuis (Brantford Power Inc.), Michael Lio (buildABILITY), Brandon Weiss (Cornerstone Hydro Electric Concepts Association Inc.), Joe Barile (Essex Powerlines Corporation), Sarah Colvin (Ecobee), Edward Glasbergen (Energy+ Inc.), Afreen Khan (Environmental Commissioner of Ontario), Emma Schwab-Pflug (Ministry of Energy), Jack Gibbons (Ontario Clean Air Alliance), Janet Taylor (Oshawa PUC Networks), Dan Roberts (Roberts and Company), Ersilia Serafini (Summerhill), Tim Wilson (Thunder Bay Hydro)

IESO: Carrie Aloussis

Navigant: Emay Cowx (C2C Strategies)

Action Items Identified	Response
Adjust the wording of the key take-away from the previous advisory group meeting related to combined heat and power (slide 13)	Navigant/IESO to update documents and circulate
The language in the market research themes should be made more neutral. Market research groups should only discuss themes that are applicable to them	Navigant/IESO to update documents and circulate
Data on customer coverage (related to identified challenges) should be quantified and presented in the next meeting	Navigant/IESO to update documents and circulate
The legacy extension spending for 2015 should be added to the graph on slide 11, and all subsequent graphs that depict spending	Navigant/IESO to update documents and circulate
A note should be added to all slides that display the CFF budget to state if the presented number includes central services in the total	Navigant/IESO to update documents and circulate
Analysis of committed LDC spending, acquisition costs, LDC forecasts, and project pipeline (savings) should be included in the topic 8 phase 2 current state summary	Advisory Group LDCs to provide forecasts, Navigant/IESO to add analysis to topic 8 phase 2
On slide 16 the size of the circles in the graph should be reflective of the size of the LDC	Navigant/IESO to update documents and circulate
Slide 19 should be updated to include other challenges and their impacts, including the Fair Hydro Plan, the reduction of the ICI threshold, greenhouse gas targets and the affordability fund	Advisory Group LDC to provide analysis, Navigant/IESO to update documents and circulate

Key Themes Identified

- Not all polices and Ministerial directives are tracked and measured.
- Constraints surrounding LDC budgets and targets can conflict with polices and directives (for example providing province-wide coverage for all programs).
- Many LDCs identified that their primary concern is running out of budget, as opposed to not meeting targets.
- There is support among many LDCs to provide continued conservation offerings to customers. However, LDCs believe budgets must be updated to allow for this.
- Progress to targets and budgets do not fully represent the true progress, as LDCs commit funds well in advance of savings being realized. A forecast by program taking into consideration acquisition cost trends and the pipeline committed and future projects of LDCs would provide a more accurate assessment.
- 2015 was a transition year for the framework, and should be judged accordingly, 2021 will also likely be a transition year with some projects likely to complete in the following framework.
- The 2020 energy target and need for LDCs to manage program first year acquisition costs (\$/kWh) results in less focus placed on projects that have long term persisting savings but may have higher acquisition costs.
- In general, LDCs are outperforming versus the 2016 achievable potential study (APS). There is higher progress relative to the APS in the residential sector than in the business sector (this may change as additional pipeline data becomes available).
- There are select LDCs that have “trapped” budgets, i.e. budgets allocated to an LDC that may not be spent within the 2015 to 2020 period and is not eligible for cost efficiency incentive. This could be addressed through a target/budget exchange mechanism.
- Minimal budget/target exchange activity between LDCs to date is in part due to uncertainty of the outcomes of the mid-term review process.
- Budget/target exchange could allow for LDCs or other organizations to gain incremental profits, and should be closely monitored.
- LDCs agreed that there is little need for a major change in the method for budget/target re-allocation, however there is concern with insufficient budget in the short-term for some LDCs that could be addressed through the current mechanism for exchange.
- A potential solution for the issue of LDCs running out of budgets is a form of floating budget, where LDCs can step in and help other LDCs meet their conservation target (this will be an area of discussion during the next Advisory Group meeting).

Agenda Item 1: Welcome and Introduction

Speaker: Nik Schruder (IESO)

Nik introduced the agenda and provided an update on the key take-aways from the previous Advisory Group meeting on the Climate Change topic report.

Questions/comments:

A utility member provided alternate wording of a key take away related to combined heat and power from the previous Advisory Group meeting.

Nik provided an update on the August 4th ministerial directive, regarding the low-income sector and the Home Assistance Program (HAP), and asked the group for comments.

Questions/comments:

A utility member asked if there will be changes to existing LDC budgets. IESO responded that at this time, LDC budgets will not be changed to reflect the change in delivery, but savings from the IESO-delivered HAP will not count towards LDC targets. A utility asked what the minimum criteria of the HAP would be that would require IESO to deliver HAP rather than the LDC. IESO responded that the criteria have not yet been set and will vary by LDC. The IESO stated that discussions related to the HAP are ongoing between the IESO and LDCs who are interested in delivering HAP. LDCs expressed concern over the timeline for the HAP program roll out, considering minimum criteria have not yet been established.

A utility member asked about the interaction between HAP and the affordability fund. IESO responded that the Affordability Fund trust is being led by LDCs and the IESO will work with them to determine an approach to handle any potential the overlap between the two programs. Further comment that the Affordability Fund is generally for customers that are not considered low income, but have affordability concerns.

Due to technical difficulties with the conference line, a question was asked via email. An observer asked with regards to the directive and low income programs, in consideration of the IESO meeting with LDCs, when might IESO have discussions with the gas utilities for collaborated delivery. IESO responded that IESO and gas utilities will be discussing collaboration opportunities for the province-wide Home Assistance Program (HAP) as part of a pre-arranged collaboration meeting set up for September 11th.

Agenda Item 2: Update on Market Research Progress

Speaker: Jodi Amy (Navigant)

Jodi provided an update on the market research progress, and indicated that the market research process will be continuing throughout September and early October. Jodi mentioned that workshop dates have been finalized. Recruiting for these sessions will begin shortly, and Jodi emphasized that the rooms in which sessions will be held have limited capacity. Materials for each of the sessions will be circulated to participants in advance.

Questions/comments:

A utility member asked which session CFIC will be involved in. Response that CFIC members could be involved in the LDC section. It was noted that interviews will be held with c-suite and similar levels in other target organizations, including LDCs, to gain the full-perspective of stakeholders. A utility asked how the market research process will accommodate for customers that are located outside of Toronto, who will be less likely to

attend workshops. Response that workshops for customers will likely be focused on associations. In addition, interviews will supplement the workshops and have more geographic diversity.

Jodi presented the Market Research Themes document. The document includes key themes and questions from each of the topic reports that will be covered during market research. The document includes research objectives for each interviewee group. Jodi requested feedback on the objectives within document, and invited further feedback after the meeting.

Questions/comments:

A utility member asked for clarification on the purpose of the document, and mentioned that they would prefer that the questions asked during the market research phase are open-ended, qualitative and without bias. Another utility member mentioned that some of the research objectives imply certain groups will be asked questions on topics that they will be unaware of, or will be unable to answer. For example, many customers will not be aware of LDC working groups. Response that the interviews will include screening questions and questions may be skipped if the interviewee is unable to answer. Multiple utility members agreed that most of the complaints they have heard from customers are to do with IT systems for submitting applications. Response that this will be added to market research where appropriate. A utility member mentioned that incentive stacking should be carefully worded. Response that the discussion guides include more generic wording and the themes document will be reviewed and the terms will be adjusted. A utility mentioned that there may be confusion using the term "pay-for-performance," which is used to define multiple activities. Response that definitions will be provided to Ipsos to ensure interviewers understand the differences.

A customer member supported mapping out the objectives that are shared across each of the stakeholder groups interviewed. A customer also asked why certain topic reports are not a focus area for certain market research groups. Response that certain topics are not applicable or relevant to certain groups.

Agenda Item 3: Final Report Approach

Speaker: Jodi Amy (Navigant)

Jodi described the "opportunities" phase of the mid-term review. Jodi presented the approach to the final report and requested feedback.

Questions/comments:

A utility member emphasized that the success of this approach hinges on a clear definition of the desired future state, in terms of process. A utility member emphasized that it is important to strive towards a desired future state, and that the process must not be constrained by the current state. A utility member asked if the Advisory Group will get to discuss the future state. A customer supported this. Response that interviews and workshops will be focused on confirming the current state and identifying the possible future state and a discussion with the Advisory Group will be considered for September or October. The group agreed that the interviews should focus on the current state, but the workshops will have attendees from multiple groups that will have input into the future state.

Utility members mentioned that this approach to the final report is heavily focused on issues, and gaps, but under-emphasizes what has been done right. The report must also take into consideration policy changes during the framework which has changed expectations for LDCs and other groups. Response that the comments will be taken into consideration.

A customer mentioned that it is important to quantify the impact of conservation on a sectoral basis including answering: what the savings have been to date, what the cost has been to realize the savings, what the impact of other initiatives such as the Fair Hydro Plan and the reduction of the ICI threshold on the results of the 2016 achievable potential. This information should be used to determine how conservation programs should be catered to specific sectors. Specifically, Class B customers should be looked at more closely in terms of the impact of their conservation potential, and the amount of customer incentives available to them relative to other groups of customers. Response the final report process will discuss internal and external factors that are changing the way that customers engage with conservation going forward.

Agenda Item 4: Discussion Question 1

Speaker: Benjamin Grunfeld (Navigant)

Ben presented an overview of topic report 8, and re-iterated that this topic will be discussed at this and the next Advisory Group meeting. Ben mentioned that this meeting will focus on the CFF and potential for target and budget re-allocation and target metrics.

Questions/comments:

A utility member asked why phase 2 presents most of the results, yet phase 1 is designed to discuss the future state. Response that the two sessions are linked and discussing the future state in this session provides the IESO and Navigant the opportunity to do more research and analysis for the next meeting if data gaps are identified.

“Are the metrics that measure success aligned with goals and policy objectives?” Ben summarized the content slides related to this discussion question, and requested feedback from the Advisory Group.

Questions/comments:

A utility member mentioned that it is important to distinguish between policies and directives active at the start of the framework, and those that have been released since. Many of the gaps that may be identified through this process are a result of changing policies. A utility member asked what is the definition of the “customer choice” category. Response that these are typically policies and directives related to the choice and coverage of programs. A detailed breakdown for each of these categories is provided in Appendix A.

Utility member mentioned that the analysis presenting LDC progress to targets could be viewed as misleading and does not clearly describe that 2015 is a transition year from the previous framework. Furthermore, 2021 will also be a transition year with savings expected to be achieved in 2020 may be pushed into the next framework, just like legacy framework savings were pushed into the current framework. LDCs agreed that if

adjustments are to be made to budgets or targets, these should take into consideration the transition years. Furthermore, data reporting is lagged, and savings and expenditures do not always occur in the same year.

Further discussion surrounding the presentation of verified savings and spending. The group reached the consensus that if 2015 legacy savings are presented, so too should the corresponding spending. In addition, committed dollars are not included, nor is the lag between spending and savings. Response that the graphs in the slide deck are from LDC data reported to the IESO, and only represent savings that have been achieved and money that has been paid out for these associated projects. Utility mentioned that it would be useful to include analysis of committed spending and committed savings in the phase 2 current state summary.

LDCs mentioned that they are worried about having to turn down projects near the end of the framework due to being out of allocated CDM budget. A customer mentioned that this problem could be improved if the time for implementation (and associated reporting) was reduced.

A customer emphasized that the results on slide 11 are concerning if you remove the legacy extension framework data as we may not hit the targets. Response that if you forecast out to 2017, given current pipeline, the results will be over 50%. Discussion that it could be more costly to achieve the second 50 percent of savings from 2017 to 2020. LDCs agreed that the answer to this is to use acquisition costs (\$/kWh), which can be used to forecast how the costs to deliver CDM will change over time. LDCs emphasized that they are concerned that acquisition costs will increase in the second half due to the diminishment of “low hanging fruit” (i.e., easier to achieve savings). Further, the potential that combined heat and power (CHP) may become ineligible for conservation as part of the upcoming Long Term Energy Plan which will cause further pressure for LDCs to hit targets within budget. Agreement from LDCs that forecasts at program level is needed. Response that the IESO and Navigant will try to add pipeline data and collect acquisition costs for the next phase of the topic current state summary. LDCs on the Advisory Group offered to provide forecasts to assist in this analysis as they have the best visibility in upcoming and committed projects.

Discussion continued around the 2020 energy target. LDCs are highly focused on 2020 savings, which includes lower emphasis on projects that do not persist to 2020 or higher cost projects with savings that persist well-past 2020. IESO responded that they are aware that there are immediate concerns, including the possibility of LDCs rejecting customer projects and would like to address that through the mid-term review process. A utility member asked if there will be recommendations and options in this report put forth to address the issues of turning away customers and not supporting programs that are under-funded. IESO response was that this issue will be considered in the report.

A utility member mentioned that program acquisition costs to provide the Home Assistance Program is higher than most other programs, and there are concerns that LDCs would run out of budget prior to achieving their 2020 target if they supported HAP to the same degree as historical levels. As a result, HAP continues to receive less attention from LDCs.

A utility mentioned that you cannot talk about the target and budget re-allocation issue without talking about specific programs. A utility member mentioned that the way the framework has been set up and established causes LDCs to be concerned that they will not have enough funding to meet their allocated targets, which cause LDCs to “cherry-pick” certain programs with low program acquisition cost. A customer mentioned that they are also going through the same situation. Current projects meet companies’ internal rate of return requirements, but future projects that may have less funding available, and will not meet company financial requirements.

A customer emphasized the concern that low-income customers are being left behind in two ways. First, HAP is less emphasized than other programs by LDCs. Second is that many of the high-cost long-life measures, as mentioned above, would highly benefit low-income customers, but are not emphasized by LDCs. A utility member agreed and mentioned that this is a very good example of the disconnect between the CFF targets of the framework and the policy objectives. Agreement from the group that programs are prioritized mainly on program acquisition cost, however LDCs know that they must diversify their programs to meet allocated target and framework requirements.

A utility member mentioned that it is important to emphasize the fact that verified results and LDC CDM plans are often higher than APS results. This emphasizes that the APS is a complicated forecast and should be considered a guideline. These results should also emphasize that LDCs are outperforming in the residential sector versus the business sector, as per the sector-specific APS results. A customer asked how residential savings are calculated. Response that this is done using internationally recognized evaluation methodologies. Savings are verified based on the energy savings of installed measures and takes into consideration any free-ridership (i.e. savings that would have happened regardless of incentives).

A utility mentioned that it is important to note that LDCs that have already achieved over 50% of their allocated target make up a very small percent of the 7 TWh target. A utility asked if there is a concern from the IESO’s perspective with the distribution of target achievement (i.e., if the 7 TWh target is achieved but not all LDCs meet their specific target, does that still constitute success?). Response that the provincial 7 TWh target must be met, but it is a concern if LDCs do not meet their individual targets.

A utility member commented that it is important to quantify the challenges in terms of, for example, percent of target and timing, to fully understand the scope of the challenge. A utility mentioned that provincial coverage and program consistency challenge has already been addressed in part with, for example, the direction to IESO to deliver the Home Assistance Program and gap fill for those LDCs who chose not to deliver a given province-wide program. Response that the challenge is less the consistency of offering, but more what happens to available budgets if the IESO acting as a “backstop” to provide consistent coverage.

The group was asked what LDCs will do if they exceed 120 percent of their target and have budget is still available. LDCs confirmed that there is not a strong financial incentive to offer programs beyond 120 percent, however, LDCs want to continue to offer programs to customers in their territory. A utility member mentioned that beyond 120 percent of target, LDCs may focus on programs with higher acquisition costs to obtain harder to reach savings that would have otherwise been difficult to justify pursuing. Problems arise due to the fact that

LDCs are already anticipating they will run out of budget simply continuing to offer existing programs prior to 2020. One potential method to address this is the target-exchange mechanism. LDCs confirmed that there has been some, albeit minor, re-allocation of budgets and targets among LDCs within joint plans. LDCs agreed that the lack of exchange between LDCs is directly related to uncertainty about what will happen with target and budget re-allocation on a framework level due to changes stemming from new APS results and the potential for CHP to no longer be incentivized through the CFF. Response that the IESO is currently expecting surplus of budget will be available at the end of the framework, which could then be re-allocated. A customer responded that it should not be the expectation that a surplus budget will be available at the end of the framework. A utility mentioned that in some cases, it makes sense to exchange targets early on in the framework in order to more easily hit the 120 percent target achievement and recoup the corresponding performance incentives (i.e. if cost-effectiveness is very high early on in the framework).

A customer mentioned that from a customer perspective, consistency of program offering is important. The lack of consistency can cause confusion, which may negatively impact participation in future programs. Therefore, the exchange of targets must consider the importance of maintaining consistency of coverage.

A service provider mentioned that the exchange trading mechanism could be a robust method for improving the issue of some LDCs running out of budget before the end of the framework. A customer expressed concern that the trading mechanism would allow LDCs to “game the system” and profit. LDCs responded that this is similar to the cap and trade mechanism and should provide for efficient exchange on a system level. Response that there is indeed the potential for an incremental profit to be gained through the target exchange mechanism it should not necessarily be considered as “gaming”. The customer rebutted that there is the potential for independent organizations to misappropriate funds as a result of the target exchange mechanism. Agreement amongst members of the group that it is too early to solve this issue but it should be closely monitored.

A utility member mentioned that the assessment of budgets, targets, and cost effectiveness should also consider challenges as result of policies and decisions external to the framework such as the Fair Hydro Plan, the reduction of the ICI threshold, greenhouse gas targets and the new affordability fund. It would be beneficial if these impacts were quantified. A utility member mentioned that they will share their analysis of customer payback periods under the Fair Hydro Plan. Response that Navigant will capture these challenges and their impacts.

Comment from Ministry on the ICI program: if customers undertake energy efficiency projects that take them under the threshold, they will still be considered part of the ICI. LDCs and observers noted that they believed it was only the case for one year. LDCs mentioned that there may be less of an incentive for customers to do CDM if the ICI is available, especially considering the reduction of the threshold.

LDCs mentioned that they support the reallocation of targets under the CFF, but do not support the allocation of budgets – specifically due to CFF targets doubling in relation to the legacy framework but budgets staying relatively the same. A utility member re-iterated that one of the major challenges with the funding is that it results in a current state where certain programs are less expensive to deliver than others, and thus LDCs will favour certain programs over others.

Agenda Item 5: Discussion Questions 2 and 3

Speaker: Benjamin Grunfeld (Navigant)

“Should **targets** be adjusted given framework goals and policy objectives? If so, how? What about beyond 2020?” and “Should **budgets** be adjusted given framework goals and policy objectives? If so, how? What about beyond 2020?” Ben summarized the content slides related to this discussion question, and requested feedback from the Advisory Group.

Questions/comments:

Agreement from LDCs that there is no need for a major change in framework for budget/target re-allocation. Likely the issue that is more pressing in the short term is budgets, not targets. However, this issue should be actively monitored.

A utility asked whether there is the potential for adjustment of the 7 TWh target, considering the expected impacts from new developments (e.g. Fair Hydro Plan). Response that this topic report looks solely at reallocation and target adjustment within the 7 TWh constraint. A utility member mentioned that the current target and budget came from the 2013 LTEP and the release of the new LTEP may be the opportunity for this.

A utility member asked what the impact of the achievable potential study will be on target adjustment and re-allocation, and what the IESO's view on this is. Response that the APS' are meant to be more of a guideline and there would be significant impacts to LDC targets if they were reallocated based on the 2016 APS results.

A utility mentioned that it would be beneficial if the IESO allowed for a system where LDCs could elect if they want their target to go up or down. Response that that is similar to the IESO facilitated LDC target exchange method for discussion. Agreement from the group that this method may not completely balance (e.g. LDCs who want to increase their target vs. those LDCs who want to decrease targets). LDCs agreed that they do not support the IESO facilitated open target exchange method that would involve external non-LDCs. A utility also mentioned that they would not support the presented option of reallocation of target by sector unless it was carefully considered. A ministry observer mentioned that the status-quo method should not be permitted to result in a situation where customers are turned down for conservation projects.

A utility member mentioned that there should be a form of “floating budget”, where LDCs can step in and help other LDCs meet their conservation target. Right now, only the IESO can do this.

A customer mentioned that it is difficult to operate when there is uncertainty about the future of programs. LDCs agreed and emphasized that it is very difficult to plan without knowing where the framework is going on a provincial level. Agreement from LDCs that current LDC CDM plans are not the best source of information to forecast future direction. Response that the LDCs would be the best source of additional accurate forecast data and that this should be analyzed for the second phase of this topic report. Response from the Advisory Group

LDCs and the representative for other LDCs that they would be willing to provide this data in advance of the next meeting to support the discussion.

A utility mentioned that there was a disconnect surrounding the specifics of the conservation target (i.e., some believed it was expressed at the generator level, but it is actually expressed at the end-user level). The next framework targets should clearly defined at the start.

A customer asked if results by sector would be discussed in phase II. A Ministry observer asked if more information on the floating budget would be discussed in more depth in the next phase. Response that both will be covered in the next Advisory Group meeting.

Agenda Item 6: Closing Remarks

Nik closed off the meeting with a reminder about the public webinar on September 7th.