

CONSERVATION FRAMEWORK MID-TERM REVIEW

SHORT-TERM OPPORTUNITIES

NOVEMBER 23, 2017

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THE PURPOSE OF THIS AGENDA ITEM IS TO OBTAIN ADVISORY GROUP FEEDBACK ON POTENTIAL OPTIONS TO ADDRESS TWO ISSUES IDENTIFIED THAT NEED TO BE ADDRESSED IN THE SHORT TERM

BACKGROUND
AND CONTEXT

BACKGROUND AND CONTEXT

- Many issues have surfaced during the mid-term review process for which stakeholder feedback has been collected
- There are some issues that are seen by IESO as important to address in the short term rather than waiting till after the mid-term review process is complete due to:

Stakeholder consensus	Customers, channel, LDCs, and IESO all agree that the issue is important and changes are required (note: what needs to be changed typically does not have agreement)
Impact/urgency	The issue is key to the framework and if not addressed, may constrain stakeholders and limit framework performance in the short term (e.g., within the next year)
Time to implement	Resolution of the issue involves multiple stakeholders and requires coordination that could be time consuming (i.e., important to begin immediately)
Impact on Direction	Amendment(s) in government Direction may be required to implement one or more opportunities to resolve this issue, with early socialization with government required

BACKGROUND AND CONTEXT

The Framework itself has guiding principles within policy and the Energy Conservation Agreement, the principles below are intended to guide Framework changes as part of the Mid-term Review

PRIMARY GUIDING POLICY

Customer coverage: CDM continues to be delivered to all customer segments

Cap on budget of \$2.2 Billion for CFF to deliver 7 TWh

GUIDING PRINCIPLES

DISCUSSED DURING PREVIOUS ADVISORY GROUP MEETING

Principle	Description	Changes to the Framework...
COST EFFICIENCY	CDM continues to be a cost efficient and cost competitive resource	<i>Continuously drive towards improvements in acquisition costs and cost effectiveness</i>
CUSTOMER EXPERIENCE	Customer interactions with the framework will continue to be improved	<i>Focus on improving the customer experience</i>

IDENTIFIED DURING WORKSHOPS

Principle	Description	Changes to the Framework...
ALIGNMENT	CDM begins to align with broader climate policy	<i>Increase understanding, integration, and ability to quantify GHG impacts</i>
FLEXIBILITY	CDM processes allow for adjustments as technologies and markets evolve	<i>Increase the ability to make changes to programs and technologies within programs</i>

ENABLING A
RESPONSIVE
FRAMEWORK

MARKET RESEARCH AND STAKEHOLDER ENGAGEMENT FEEDBACK

Enabling a responsive framework

- Stakeholders view the ability to obtain and review stakeholder feedback or EM&V recommendations to inform program changes as being critically important
- Program changes currently undertaken by LDC-led, IESO supported working groups as per government direction
- Customers expressed concerns that the Working Groups were insular and not customer focused
- LDCs expressed concerns that: criteria for business case review is applied inconsistently and is subject to change, lack of clarity in accountability and ownership, opaque approval/rejection process, same process for large and small changes (administratively expensive)
- IESO expressed concerns that: stakeholder views are not adequately represented, program re-design takes too long, EM&V recommendations are not always implemented, working groups are resource intensive, lack in clarity on roles & responsibilities
- LDCs expressed that working groups are a source of information about programs and provide an opportunity to comment on updates to programs expected in the future

FUTURE STATE

- **RESPONSIVE PROGRAMS**

Programs are responsive to changes in market conditions

- **CLARITY**

Clear accountability and clear roles & responsibilities

Prioritization and vision of continuous program improvement vs. program re-design

Clear criteria for new programs / continuous program improvement

- **FEEDBACK INTEGRATED**

Perspectives from Customers, IESO, LDCs and Channels are integrated into program design

Tools and templates that support the framework are developed with user input and regularly reviewed for relevance

OPPORTUNITY: STRUCTURAL REDESIGN (1 OF 4)

To improve the ability of the framework to adapt to changing market conditions, there are two groups of changes that will help (1) build alignment between IESO and LDCs and (2) streamline the current program working group processes.

Align

- Collaboratively develop criteria for continuous program improvement / re-design with supporting templates, tools, and processes
- Collaboratively determine regular “program refresh” process including timing, criteria, templates, tools, and processes
- Collaboratively develop a longer-term province-wide program vision, revisited annually

Streamline

- Current program Working Group functions are replaced with two types of program groups (described on following slide):
 1. Focused continuous improvement of province-wide programs
 2. Province-wide program re-design SWAT team
- In addition, IESO to facilitate regular forums to share program status and receive stakeholder feedback
- Annual schedules define a required budget and workload, including resource requirements
- Collaboratively develop separate processes to handle small vs. large changes (clearly defined)

OPPORTUNITY: STRUCTURAL REDESIGN (2 OF 4)

2017/18:

- Set the long-term vision for the portfolio and programs

Annually:

- Re-affirm the long-term vision
- Set the annual priorities for the program teams
- Ensure tools, processes, criteria, governance, etc. still working efficiently

Focused continuous improvement of province-wide programs

By program, standing committee

Province-wide program re-design SWAT team

Specific programs determined annually

Regular, multi-stakeholder feedback forums

Residential

Small Business

Business

Stakeholder feedback supports the program working groups

OPPORTUNITY: STRUCTURAL REDESIGN (3 OF 4)

To support alignment and streamlining, **longer-term portfolio and program vision would be established** and **annual priorities set** to align with the long-term vision (new programs, re-designs, and tweaks). Changes to programs are aligned with the longer-term program vision.

1. Continuous program improvement team (*program-based*)

Purpose - maintenance:

- Standing committee at the program level intended to address annual changes informed by stakeholder feedback, EM&V process, and general program performance

Composition:

- 3 – 5 LDC/IESO members, commitment for a defined term
- IESO member to bring back items to IESO for timely decisions
- LDC members nominated and committed to gather timely LDC community feedback on items on key items
- Option for external support, if required

Activities:

- Set annual schedule (driven by release of EM&V results)
- Integrates customer, LDC, IESO, and channel feedback
- Completes business case for continuous program improvement (as per collaboratively developed criteria and processes) for Q1 implementation
- Open engagement on rule changes

2. Program re-design SWAT team (*program-based*)

Purpose – major change (ad-hoc):

- Focused team with defined purpose and term, established when major province-wide program re-design is required (defined annually as per established vision and priorities)

Composition:

- 3 – 5 IESO/LDC members, commitment limited to the specific design process
- IESO member to bring back items to IESO for timely decisions
- LDC members nominated and committed to gather timely LDC community feedback on items
- Option for external support, if required

Activities:

- Includes facilitation of a focused formal, transparent engagement process to collect and integrate customer, LDC, IESO, and channel feedback
- Submits a business case for program re-design as per collaboratively developed criteria and processes

OPPORTUNITY: STRUCTURAL REDESIGN (4 OF 4)

In addition to the alternate working group structures, **the IESO would provide increased communication channels and enhanced engagement** to stakeholders. These efforts would support the two restructured working groups.

Regular, multi-stakeholder feedback forums (Sector-based)

Purpose – regular feedback:

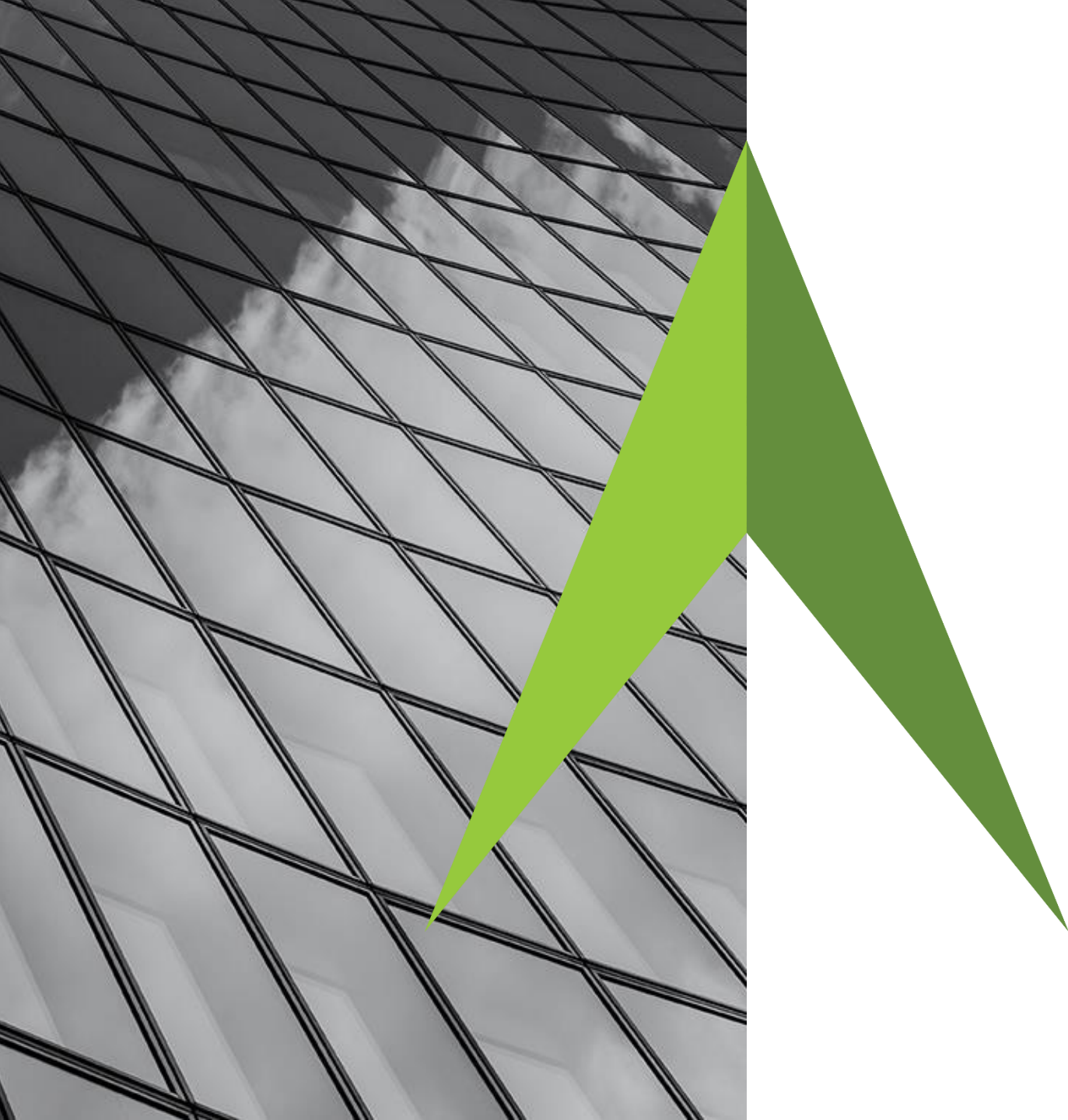
- Communication forum to share regular program status by customer segment and hear stakeholder feedback (LDC forums/webinars plus delivery agent, channel, customer forums/webinars)
- IESO to lead process with a focus on broad communications

Activities:

- Organize and facilitate a regular, structured forum to provide regular updates and collect feedback on segment-based programs
- Consolidate and communicate feedback to LDCs, IESO, and to applicable continuous program improvement and program re-design SWAT teams
- Coordinate responses to stakeholders, where needed

Considerations

- Are all current program working group functions adequately covered?
- Overall governance and accountability of the program teams
- Process for setting longer-term portfolio and program visions, including developing and approving annual priorities (e.g. role of Conservation First Implementation Committee (CFIC), IESO, LDCs, existing Working Groups, etc.)
- Transition between existing Working Group (and sub-groups) structure into a new structure (timing, coordination, potential disruption and delays, etc.)



TACKLING
SPECIFIC
BUDGETARY
STRAIN

MARKET RESEARCH AND STAKEHOLDER ENGAGEMENT FEEDBACK

Tackling budgetary strain

- LDCs are concerned that there will be insufficient budget to continue to offer CDM to all segments for the full framework (particularly for small LDCs with large projects)
- Some smaller LDCs having to choose between exhausting allocated budget/target to serve one large customer vs. continuing to deliver conservation across all customer segments until the end of framework.
- Mid-term review analysis shows that overall, the framework will likely exceed CFF target below budget, however, there is uncertainty in the future
- Central services budget will be constrained in the near future primarily due to increased IESO program delivery requirements (whole home pilot, home assistance program, energy performance program) and higher forecast of LDC performance incentive.
- IAP budget and target is trending below forecast

FUTURE STATE

- **SUPPORTS CONSISTENT PROVINCIAL COVERAGE**

Sufficient funding available to continue to offer conservation to all customers across province until end of current framework

- **FLEXIBILITY**

LDCs have the ability to modify their allocation of budget and target

- **ALIGNED WITH POLICY AND PRINCIPLES**

IESO concerns (e.g. customer coverage, cost efficiency) are structurally managed

Government Direction for specific programs can be implemented

OPPORTUNITY: SOURCES OF FUNDING

Currently, primary mechanism for LDCs to obtain additional funding or release funding is through target exchange, for which options can be considered

Target Exchange Options

- Target exchange mechanism remains largely in its current form
- Clear criteria are added to uphold policy objectives

OR

- Target exchange mechanism remains with adjustments to LDC performance incentive mechanisms to remove unintended incentives for sellers (e.g. currently incentive threshold is lowered for sellers, enabling underperforming LDCs to achieve performance incentives)
- Clear criteria are added to uphold policy objectives

AND/OR

- Target exchange can also be leveraged by IESO to fund programs centralized by government direction

ADDITIONAL MECHANISMS

Additional mechanisms to address current budget constraints include the following:

Additional Mechanisms

- IESO re-alignment of targets/budgets to achieve the broader 2020 target 8.7 TWh within the \$2.7B
 - Transfer portion of IAP budget/target to CFF
 - Re-allocate LDCs' unspent budgets (annually, re-forecasting, early pay out, etc.)

AND/OR

- Creation of “central pool” to fund budget constraints (LDC budgets and Central Services budget)
 - Transfer portion of IAP budget/target to CFF
 - Re-allocate LDCs' unspent budgets according to specific criteria

AND/OR

- Early transition to the next framework once budget/target exhausted

Considerations

- Opportunity for large projects to be administered by IESO, rather than exhausting LDC budget
- Amendments to existing Ministry directives (e.g., LDCs must continue to offer core set of province-wide programs in their service territory rather than IESO backfilling all programs; allocation of costs for IESO-delivered programs)
- Conditions for use of “central pool” funding: pay for performance only (or reduced resource acquisition costs); adjustment to LDC performance and cost efficiency incentives