

Alectra Utilities Inc. (Alectra) is pleased to provide the following comments on the Independent Electricity System Operator's (the IESO's) Mid-Term Review. The comments reference the draft report of Navigant Consulting Ltd. (Navigant) dated January 3, 2018.

## Executive Summary

The CFF is working as planned, to achieve 7 TWh target and below budget, and Alectra has met the CFF requirement to deliver province-wide programs to all customers. Alectra has not seen direct evidence of customers seeking greater Target Exchange oversight, and believes this comment may be an expression of concern regarding customer program coverage as a result of a Target Exchange. The IESO does not need to act as a clearinghouse for Target Exchange; LDCs can connect directly and are already agreeing to Target Exchanges.

IESO advice on priorities from a provincial/political/ministry(s) perspective would be of great assistance to LDCs, and Alectra is prepared to help with the IESO's need for increased visibility into CFF performance by providing regular forecasts for multiple programs.

Alectra agrees that improvements are needed in the mandates, functions and governance of the Working Groups and welcomes the current related negotiations; the following are needed:

- stronger communication channels, greater transparency in expectations, known and understood criteria for approvals;
- clearly defined roles and responsibilities of each member in the process (IESO, CFIC, WGs);
- specific criteria and minimum requirements on which business cases will be evaluated; and
- program business case rigour and requirements to be proportional to the materiality of the change.

There are inherent tradeoffs between policy directions, such as the aim to reduce overall spending level (i.e., 7 TWh of savings for the least cost) versus having universal province-wide program coverage and more residential programs.

Energy policy changes require trusted LDCs to help customers wade through the confusion of multiple initiatives, while working closely with the IESO, gas distributors, and government to rationalize any overlap, and explain the offerings (without overwhelming the customer).

Alectra supports the transfer of some IAP budget to CFF budget to help address the IESO's financial constraints, and urges the IESO to commence development of the 2020+ framework now. Alectra recommends a six year renewal (with 3 year reviews) to confirm the industry's commitment for the benefit of customers.

Alectra would prefer a return to the spirit of "conservation first" which means "all cost effective conservation", i.e., anything that is cheaper than electricity supply should be sought.

## **Navigant's Key Findings Related to the Conservation First Framework**

### **1. Framework is Performing**

This is the most important finding and should be celebrated. The CFF is on track to achieve the 7 TWh target below budget. Navigant reports that the CFF is operating at lower acquisition costs and greater cost effectiveness than prior frameworks. While not expecting to rest on our laurels, Alectra encourages the IESO to defend the aspects of the CFF that are working, particularly emphasizing that the incentive mechanisms are a significant reason for the good performance of the LDCs who have built their businesses and budgets on the contractual links between performance and incentives.

With respect to the objectives of the CFF, Alectra is proud to report that province-wide programs are available to all of its customers in all parts of its service area. This is an important compliance achievement, and is further evidence that the CFF is working.

### **2. Minor Adjustments Necessary to enable Shifts in Allocated Budgets and Targets**

Alectra agrees that a revolutionary change to the CFF is not needed or desired, but tweaks and adjustments in certain areas are. We have learned, for example, that not all of the markets of all LDC service areas can support the demand for all province-wide programs. For that reason, targets may need to be adjusted, and this can be achieved via Target Exchange (TE), as had been contemplated in the CFF.

Navigant reports that the IESO and customers would both like to see more oversight on TE's. Alectra has not seen direct evidence of customers seeking this greater oversight, and believes this comment is anecdotal and/or may be misconstrued from the bona fide expressed concerns regarding customer program coverage in the aftermath of a TE between LDCs.

Alectra sees no need for the IESO to act as a clearinghouse for the TE function to work. LDCs are already seeking partners for this opportunity, and have come to the IESO for such approvals of recently negotiated TE's.

### **3. Barriers to Continuous Program/Framework Improvement**

This is an area that has been the largest source of disappointment with the CFF. Navigant reports that LDCs and the IESO are frustrated with the slow pace or lack of program improvements. Alectra concurs with that sentiment. The establishment of the CFIC and the working groups was expected to address continuous program and framework improvement, but it appears that few are fully satisfied with the outcomes of these committees.

To that end, in parallel with the Mid-Term Review, which identified structural issues with the workings of some aspects of the CFF, the LDC members (Alectra included) of CFIC are

negotiating directly with the IESO for changes to the mandates, functions and governance of these committees. This includes a proposal for establishing the Joint Program Operations Committee (JPOC), whose role would be to endorse major, minor and cyclical program changes.

Alectra is confident that improvements can be found in how these committees function, and how programs are created, re-designed and approved. It requires willingness to establish stronger communication channels, greater transparency in expectations and thus known and understood criteria for approvals.

By email dated December 6, 2017, the IESO advised that it is planning to undertake a thorough review of the current business case template with the intent of identifying and streamlining items that are redundant or administratively burdensome with low value. Alectra is pleased that the business case template is being considered for improvement and has provided comments on the proposal directly to the IESO under an earlier response, and repeats its salient points below.

Program changes evolve throughout the WG process and having a resource from the IESO who is able to provide timely direction to the design of a program is critical to the progress of the committees. Further:

- IESO should provide the specific criteria and minimum requirements on which business cases will be evaluated (TRC, PAC, Participation, etc.); the criteria and minimum requirements should be standardized for all program changes to help design teams best understand what will be expected;
- Program business case rigour and requirements should be proportional to the materiality of the change and should be standardized and defined for “types” of program changes;
- Requirements should be detailed and based on the “type” of change; examples are:
  - Required stakeholder consultation (WG LDCs only, or all market players, or public consultation);
  - Cost efficiency analysis at measure level, track level or program level (limit program level CE analysis to large impact changes, e.g., >10%);
  - Market research (WG LDCs’ data, or provincial data, or jurisdictional scans);
- There should be agreement between the IESO and WG on a Problem Statement, sources of data, and input assumptions at the start of the program re-design;
- Clearly defined roles and responsibilities of each member in the process is required (IESO, CFIC, WGs);
- IESO WG members should provide ongoing and timely direction as program design evolves; timely direction will ensure progress in the program redesign rather than relying on a one-time pre-consultation meeting:
  - provide insights on priorities from a provincial/political/ministry(s) perspective;

- provide input on direction from Ministry (e.g., increased participation, reduced costs, etc.);
- provide advance guidance on limits/boundary of scope; and
- provide input where IESO is delivering provincial programs.

We understand the resource challenges, and Alectra, in particular, has made resources available and committed in the past and continues to offer assistance in these endeavours. But funding resources are at the discretion of the IESO and this requires funding approvals at the beginning of this redesign process so that we are not delayed with procurements or the collaboration funding process.

With respect to resources, Navigant reports that there has been strong cost management within the cost envelope, but little consideration to manage overall costs. Alectra would like to understand further the evidence for this observation. Cost efficiencies can always be found but sometimes at the expense of other priorities or policy objectives. An inherent tradeoff/tension exists between the policy direction to reduce overall level of spending (a policy objective to get 7 TWh of savings for the least cost) and the policy objective of having universal province-wide program coverage and introducing more residential programs. Increasing residential and low income program coverage and budgets will only increase the overall costs of the portfolio.

Navigant also reports that there has been lack of detailed visibility into framework performance. Alectra finds this surprising, as the LDCs are required to report detailed information to the IESO on a monthly basis, and a tremendous amount of detail is shared with the IESO at the WG level. However, Alectra would be prepared to provide more details on a regular (say, quarterly) basis to assist the IESO with its information gaps, including the provision of forecasts for projects under programs such as PSUP and HPNC, with the caveat that LDCs would not be penalized for failing to meet such forecasts.

One of the challenges with the CFF is that applications approved have until December, 2020 to be completed. This results in committed funds possibly being stranded. The IESO and WGs should consider revising all programs so that the pre-approvals have a shorter time limit – perhaps no more than one year. LDCs and the IESO would then have better insight into what is truly committed and likely to be installed versus what is simply pre-approved but will never be built.

#### **4. IESO and LDCs' Relationship Adds Costs and Limits Effectiveness of Framework**

Alectra submits that the relationship between the IESO and LDCs is certainly functional, with not unexpected tension typically seen between a party and its governor. The IESO's role is not singular, as it acts as both a partner (in program design, program delivery, and the provision of

resources and knowledge) and as a regulator (in its approval of funding for programs and other related activities). This is not an equal relationship, despite the existence of the ECA whose purpose (among other things) may be to create a semblance of one. The relationship could be more effective, however, and Alectra is pleased that plans are afoot to revise the mandates, structures, and functions of CFIC, committees and working groups in order to improve many aspects of the operation of the CFF, including the functionality of the relationship between the IESO and LDCs.

On a very specific note with respect to finding cost efficiencies, Alectra provides the following examples:

1. LDCs are required to incur the cost of duplicative M&V testing for certain sized lighting installations, even though similar testing has been done by CSA and/or DLC; Alectra has asked why LDCs must repeat M&V testing especially at an additional cost but at a lower level of rigour, and the IESO has responded that it is protocol.
2. Currently the WG's have to go to the CFIC for annual budget approval (where the IESO representatives sit) and then after that they have to formally apply to the Collaboration Fund for funding. This appears redundant, cost ineffective and creates unnecessary delays. Navigant found that structures and processes that exist to continuously improve programs are slow and ineffective, and also reported that the IESO and LDCs' relationship adds costs. Alectra believes that this example provides further evidence of limiting the effectiveness of the CFF.

Alectra submits that this is but two of many opportunities to consider revising protocol where appropriate, especially to reduce overall industry costs.

### **5. Landscape has shifted from when the Framework was implemented**

This shifting landscape is not unique for the history of the Ontario energy industry. Because of that history, the players are adaptive and can accommodate the changes necessary to make room for climate change policy initiatives and a more integrated approach to energy management.

This is poised to be a true and significant win for customers, who may find themselves confused by the numerous programs available to manage their consumption of electricity, natural gas and water, and to mitigate climate change. Trusted LDCs are perfectly positioned to wade through those waters on behalf of their customers, working closely with the IESO, the gas distributors, and the government to rationalize any overlap, and explain the offerings (without overwhelming). The potential for confusion is high, and LDCs are directly aware of their customers' confusion, and are willing and capable of minimizing the uncertainty and explaining the options in laymen's terms as needed.

This strong relationship with customers makes the IESO's recent decision to centralize the Home Assistance Program targeted to low income customers somewhat of a waste of capital. Alectra eagerly anticipates the IESO's release of the program details, and intends to take an active role in the marketing and communication of this new program. We would have been prepared to take a leadership role in the delivery of such assistance to the low income market, and may have been able to mitigate the resource pinch being felt by the IESO.

In that context, the IESO is facing significant resource constraints including funding for the delivery of new programs and climate change policy responsibilities. Alectra supports the transfer of IAP budget to CFF budget to help address those financial constraints, and understands that the IESO has commenced the work needed to allow this transfer, which requires Ministerial Directive. Alectra is further prepared to assist the IESO with centralized functions that may be most effectively undertaken by an experienced and capable LDC or small group of LDCs.

### **Long-term (2020+)**

Navigant reports that stakeholders expressed an interest in providing increased input into the framework.

Alectra supports the commencement now of the development of the 2020+ framework. We have learned through both frameworks the need for customers to believe that the programs and funding support will continue past the short term. If customers were worried that 2020 would be the end of such support, many of them would not pursue the application of these conservation programs further.

To that end, Alectra recommends an ongoing six year renewal/extension/redesign of the current framework that confirms the industry's commitment for the benefit of customers. This would include an automatic three-year review of each framework. Thus, the CFF has undergone a three year review in 2017, and we should now be designing and planning for the next framework to run from 2021 to 2026. In 2020, we will review the plans for the pending framework in the context of the success of the expiring CFF, and make adjustments where necessary. In 2023, we will review the performance of that current framework, and so on.

Alectra provides responses below to the specific questions posed by the IESO.

*In your opinion, what does successful stakeholder engagement look like as the 2020+ framework is being developed?*

Alectra acknowledges that the IESO has a long and well-respected track record of stakeholder engagement and consultation, and there is confidence that the IESO will develop a process that is comprehensive, engaging and thoughtful.

*How can the needs of customers and channel partners be better addressed in the future framework?*

There are inherent tradeoffs in any framework, such as:

- all cost-effective conservation versus most cost effective (i.e., do we want to achieve everything that is TRC/PAC positive, or do we want to maximize TRC/PAC?);
- enabling local innovation/customization versus standardizing provincial program offers;
- addressing regional planning constraints (which may require different programs and avoided costs for CDM at a regional level) versus desire for provincial consistency; and
- reducing overall costs of the portfolio versus 'balancing' the investment across all sectors/customer classes.

Customers and channel partners' needs may be better addressed or may be traded off, depending on the choices made in these attempts to reach a balance of policies and priorities.

*Key principles were identified for the future framework. Are there other key principles that should be considered and why?*

Capitalize on the value of the trusted relationships between customers and their LDCs by continuing with a framework that is represented and implemented by the LDCs.

Alectra would like to see a return to the spirit of "conservation first" which was meant to really mean "all cost effective conservation", i.e., anything that is cheaper than supply should be sought.