

Ministry of Energy

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MAR 3 1 2014

Mr. Colin Andersen
Chief Executive Officer
Ontario Power Authority
1600-120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Andersen:

Re: 2015-2020 Conservation First Framework

I write in my capacity as the Minister of Energy in order to exercise the statutory power of ministerial direction I have in respect of the Ontario Power Authority (OPA) under the *Electricity Act, 1988*, as amended (the "Act").

Background

In *Achieving Balance: Ontario's Long-Term Energy Plan* (LTEP 2013), released on December 2, 2013 the Government established a provincial conservation and demand management (CDM) target of 30 terawatt hours (TWh) in 2032. To assist the Government in achieving this target, LTEP 2013 also committed to establishing a new six-year Conservation First Framework beginning in January 2015, replacing the one that is currently winding down. The new Conservation First Framework will enable the achievement of all cost-effective conservation and foster innovation through information sharing and the adoption of new technologies and approaches, including innovative performance management structures to drive greater energy savings.

To remain on track to achieve the LTEP 2013 CDM target, it is forecasted that 7 TWh needs to be achieved between 2015 and the end of 2020 through Distributor CDM programs enabled by the Conservation First Framework. In addition, transmission connected customers will continue to have access to OPA CDM programs.

To this end, I have issued a directive to the Ontario Energy Board (the "Board") (the "CDM Directive"), instructing it to amend the license of each licensed electricity distributor (Distributor) to add a condition that specifies the Distributor shall, between January 1, 2015 and December 31, 2020, make CDM programs available to customers in its licensed service area and shall, as far as is appropriate and reasonable having regard to the composition of the Distributor's customer base, do so in relation to each customer segment in its service area (CDM Requirement). Such Distributor CDM programs are required to achieve reductions in electricity consumption.

Each Distributor will be required to meet its CDM Requirement by:

- i. making a core set of province-wide CDM programs, funded by the OPA, available to customers in its licensed service area (Province-Wide Distributor CDM Programs);
- ii. making local and/or regional CDM programs, funded by the OPA, available to customers in its licensed service area (Local Distributor CDM Programs); or
- iii. a combination of (i) and (ii).

Direction

Therefore, pursuant to my authority under section 25.32 of the Act, I hereby direct the OPA to coordinate, support and fund the delivery of CDM programs through Distributors to achieve a total of 7 TWh of reductions in electricity consumption between January 1, 2015 and December 31, 2020 in accordance with the following guiding principles and requirements.

GUIDING PRINCIPLES

The OPA shall implement this direction according to the following principles:

1. Distributors are the face of electricity conservation to their customers in all sectors.
2. Distributors will be provided with long term, stable funding to provide the certainty they need to implement CDM programs.
3. Customers will be given more CDM program choice along with streamlined oversight and administration.
4. Distributors will have accountability for meeting their assigned CDM targets and will be provided the authority and means for meeting them cost-effectively.
5. Innovation and the adoption of new technologies will be encouraged.

6. While there will be CDM programs available for all residential, commercial and industrial sectors, the value of CDM investments may be higher in some sectors than others.
7. There will be renewed efforts to deepen consumer awareness of CDM and how it relates more broadly to the electricity system.
8. CDM programs for low-income residential customers will be improved.
9. The role of Distributors in the delivery of CDM programs to on-reserve First Nation customers will be enhanced.
10. Distributor CDM programs will result in the full achievement of 7 TWh of electricity savings.
11. Approvals and administrative requirements will be streamlined to provide Distributors flexibility to design, deliver and administer CDM programs to their customers.
12. OPA will provide support to Distributors in the design and delivery of CDM Programs.

REQUIREMENTS

1. GOVERNANCE

- 1.1 The OPA shall manage its relationship with Distributors through new streamlined contracts on a non-competitive basis. The OPA will work with Distributors to put such contracts in place by January 1, 2015.
- 1.2 The OPA shall provide support to Distributors to assist them in submitting their CDM Plans, as outlined in section 3, to the OPA no later than May 1, 2015 for approval. The OPA shall continue to make 2011-2014 OPA contracted Province-Wide CDM Programs available to customers through their Distributor until the Distributor's CDM Plan is approved by the OPA.
- 1.3 The OPA shall provide Distributors with flexibility to design, deliver and administer Province-Wide Distributor CDM Programs and Local Distributor CDM Programs.

- 1.4 The OPA shall establish a budget to achieve 7 TWh of electricity savings over the six-year period, based on current system planning projections. The budget and 7 TWh target will be reviewed as part of the mid-term review, as described in section 6, and revised as needed based on achievable cost-effective conservation and system planning projections at the time.
- 1.5 The OPA shall establish a budget allocation for each Distributor in consideration of the Distributor CDM Target and CDM Plan as outlined in sections 2.2 and 3.
- 1.6 The OPA shall, in consultation with Distributors, develop a cost recovery and performance incentive mechanism for Distributors for making Province-Wide Distributor CDM Programs and/or Local Distributor CDM Programs available to customers in their service areas. For each Province-Wide Distributor CDM Program and Local Distributor CDM Program within the Distributors' CDM Plan, Distributors shall be provided a choice of the following cost recovery mechanisms:
 - i. **Full Cost Recovery:** The Distributor shall be paid the full amount of prudently incurred costs for the administration and implementation of its Province-Wide Distributor CDM Program and/or Local Distributor CDM Program, subject to the Distributor achieving a specified minimum level of its Distributor CDM Target. The OPA shall report back by July 1, 2014 with recommendations on administrative or financial consequences of Distributor underperformance, should it occur. A tiered performance incentive mechanism shall be made available to Distributors with incentives beginning to accrue once a Distributor achieves 100% of the portion of its Distributor CDM Target allocated to the full cost recovery mechanism, in amounts determined by the OPA in consultation with Distributors.; or
 - ii. **Pay for Performance:** The Distributor shall be paid for the administration and implementation of its Province-Wide Distributor CDM Program and/or Local Distributor CDM Program, corresponding to the portion of the Distributor CDM Target allocated to the pay for performance mechanism, based on a pre-specified value for each verified kilowatt hour of electricity savings achieved, in amounts determined by the OPA in consultation with Distributors.
- 1.7 The OPA shall, subject to necessary regulatory amendments, recover payments made under the Province-Wide Distributor CDM Programs and Local Distributor CDM Programs from the Global Adjustment Mechanism up to the budget established under section 1.4.

- 1.8 The OPA shall ensure that its contracts with Distributors include clauses allowing for corrections and changes in each Distributor CDM Target, as outlined in section 2.2, and in Distributor budgets which may be required in accordance with a mid-term review as outlined in section 6.

2. DISTRIBUTOR CDM TARGETS

- 2.1 The OPA, in consultation with Distributors, shall develop an allocation methodology to allocate the full 7 TWh among Distributors. The allocation methodology may take into consideration Distributor CDM potential at a local and/or regional level as identified in the OPA's 2014 energy efficiency achievable potential study, and other factors, as appropriate.
- 2.2 The OPA shall allocate to each Distributor a numeric CDM target ("Distributor CDM Target") to achieve reductions in electricity consumption for all customer segments in the Distributor's licensed service area.
- 2.3 The OPA shall encourage Distributors to aggregate Distributor CDM Targets with neighbouring Distributors to develop 21 regional CDM targets for the period January 1, 2015 to December 31, 2020. The OPA shall encourage Distributors to work cooperatively to develop regional CDM Plans to meet the regional CDM targets.
- 2.4 The OPA shall evaluate Distributor achievement of electricity savings on an annual incremental basis based on the OPA's Evaluation, Measurement and Verification (EM&V) protocols.

3. CDM PLANS AND PROGRAMS

- 3.1 The OPA shall support Distributors in designing a core set of Province-Wide Distributor CDM Programs for the following segments of distribution system connected customers to make available for delivery in Distributors' licensed service areas:
 - i. Residential
 - ii. Low-income
 - iii. Small business
 - iv. Commercial (including multi-family buildings)
 - v. Agricultural
 - vi. Institutional
 - vii. Industrial

3.2 Province-Wide Distributor CDM Programs shall:

- i. Be designed by Distributors, with support from the OPA, through working groups. The membership of the working groups shall consist of OPA and Distributor representatives.
- ii. Balance the value of flexibility for some program customization to meet local and/or regional needs with the value of offering consistent CDM measures to customer segments across all Distributor service areas.

3.3 The OPA shall support Distributors, as required, in designing Local Distributor CDM Programs, including programs for specific industry concentrations or customer segments in a particular licensed service area and/or region that require unique approaches to achieve electricity savings, such as on-reserve First Nation customers.

3.4 The OPA shall require each Distributor to submit a CDM Plan to the OPA for approval.

3.5 The OPA shall establish a streamlined review and approval process for Distributor CDM Plans and proposals for Province-Wide Distributor CDM Programs and Local Distributor CDM Programs. To facilitate this process, the OPA, in consultation with Distributors, shall establish guidelines that include rules relating to the streamlined review and approval of CDM Plans and proposals for Province-Wide Distributor CDM Programs and Local Distributor CDM Programs. In establishing such guidelines, the OPA shall have regard to the following objectives in addition to such other factors as the OPA considers appropriate:

- i. Distributor CDM Plans must provide a description of how the Distributor will achieve its Distributor CDM Target, including but not limited to, a description of the Distributor's year-by-year plan, including milestones for achieving its Distributor CDM Target, a description of Province-Wide Distributor CDM Programs and any Local Distributor CDM Programs, and projected budgets and electricity savings by sector.
- ii. The OPA shall establish a service standard of no more than 60 days for review and approval of Distributor CDM Plans and program. Any request by the OPA for additional information during its review will cause the remaining period for approval to be paused and shall resume at such time as the request is satisfied.

- iii. The OPA shall seek to approve unique Local Distributor CDM Programs that avoid marketplace confusion and ensure the prudent use of funds by avoiding duplication of Province-Wide Distributor CDM Programs. The OPA, in consultation with Distributors, shall establish rules on what constitutes duplication.
- iv. The OPA shall encourage Distributors to incent CDM measures with relatively longer lifespans and energy savings persistence and shall consider the system value of the measures, including reductions at peak times.
- v. The OPA shall ensure there is a positive benefit-cost analysis of each CDM Plan and each Province-Wide CDM Program and Local Distributor CDM Program utilizing the OPA's Total Resource Cost Test and the Program Administrator Cost Test found in the OPA's Cost-Effectiveness Guide, dated October 15, 2010 (OPA Cost-Effectiveness Tests), which may be updated by the OPA from time to time. The OPA will establish hurdle rates to consider the cost of delivering Province-Wide Distributor CDM Programs and Local Distributor CDM Programs against the avoided cost of procuring supply.
- vi. The OPA shall, despite section 3.5 (v), allow Distributors to apply to the OPA for approval of Province-Wide Distributor CDM Programs and Local Distributor CDM Programs where cost effectiveness is not demonstrated if the program is:
 - a) targeted to on-reserve First Nation customers
 - b) designed for educational purposes
 - c) a low-income CDM program
- vii. A Distributor may, despite section 3.5(v), submit a CDM Plan where cost effectiveness is not demonstrated if the Distributor can reasonably demonstrate that it is unable to develop a plan that is cost effective due its size, location, the nature of its customer base or other unusual circumstances. In order to obtain the approval of such a CDM Plan, the Distributor must also demonstrate that:
 - (a) it has made reasonable efforts to determine if a CDM Plan could be delivered cost effectively in its service area by another Distributor; and
 - (b) The CDM Plan will be delivered in as cost effective a manner as is reasonably possible.

- viii. The OPA shall take into consideration the cost and the number of First Nation, educational and low-income CDM programs that a Distributor already has undertaken or plans to undertake when approving these CDM programs. Although there is no requirement that First Nation, educational, or low-income programs be cost effective, Distributors shall be required to provide adequate evidence that the CDM programs will likely result in electricity savings and will be delivered in as cost effective a manner as is reasonably possible.
- ix. The OPA shall allow Distributors to propose changes and modifications to its CDM Plan on an annual basis, or more frequently.
- x. The OPA shall encourage Distributors to maximize administrative and delivery efficiencies by utilizing appropriate program delivery models. Specifically, the OPA and/or Distributors shall provide enhanced co-ordination efforts with regard to:
 - a) Opportunities to target consumers with multiple locations across several licensed service areas (e.g., national accounts) and CDM measures delivered or promoted through provincial or national channels (e.g., retailer in-store rebates or coupons); and
 - b) CDM activities, including, but not limited to, the marketing, procurement and delivery of CDM measures and/or services where these will afford significant administrative cost and/or delivery efficiencies (e.g., call centre, rebate fulfillment and appliance de-commissioning).
- xi. The OPA shall require Distributors, where appropriate, to coordinate and integrate Province-Wide Distributor CDM Programs and Local Distributor CDM Programs with natural gas distributor ("Gas Distributors") conservation programs to achieve efficiencies and convenient integrated programs for electricity and natural gas customers.
- xii. The OPA shall require Distributors, where appropriate, to coordinate and integrate low-income Province-Wide Distributor CDM Programs and Local Distributor CDM Programs with Gas Distributor low-income conservation programs.

4. MARKETING

- 4.1 The OPA shall be responsible for province-wide marketing and mass media buying for Province-Wide Distributor CDM Programs under the saveONenergy brand.
- 4.2 The OPA shall work with Distributors to ensure Province-Wide Distributor CDM Programs and Local Distributor CDM Programs are consistently marketed under the saveONenergy brand, and for local marketing and advertising efforts, co-branded with Distributor logos. The OPA may also work with Distributors to provide them with the advantages of scale (for example, in the purchase of media and the development, production and distribution of marketing material).
- 4.3 The OPA shall make the saveONenergy brand available to the Gas Distributors for marketing of natural gas conservation programs on terms that the OPA may negotiate with the Gas Distributors.

5. REPORTING

- 5.1 The OPA shall continue to produce and publish an annual report on overall progress toward achieving the provincial CDM target of 30 TWh, including contributions to the target achieved through Province-Wide Distributor CDM Programs, Local Distributor CDM Programs, demand response programs, programs for transmission connected customers and product codes and standards. The annual report shall cover the period from January 1 to December 31 of the previous year.

6. MID-TERM REVIEW

- 6.1 The OPA, in consultation with the Ministry of Energy and Distributors, shall no later than June 1, 2018 have completed a formal mid-term review of:
 - i. the 7 TWh target and the overall budget for achieving that target
 - ii. allocation of budgets and Distributor CDM Targets
 - iii. lessons learned on cost recovery and performance incentive mechanisms, and;
 - iv. CDM contribution to regional planning

- 6.2 The OPA shall conduct an achievable potential study for electricity efficiency in Ontario every three-years, with the first study completed by June 1 2016, to inform electricity efficiency planning and programs. The achievable potential study should, as far as is appropriate and reasonable having regard to the respective characteristics of the electricity and natural gas sectors, be coordinated with the natural gas efficiency achievable potential study referred to in the CDM Directive to the Board.

7. DEFINITION OF CDM

- 7.1 The OPA shall consider CDM to be inclusive of activities aimed at reducing electricity consumption and reducing the draw from the electricity grid, such as geothermal heating and cooling, solar heating and small scale (i.e., <10MW) behind the meter customer generation. However, CDM should be considered to exclude those activities and programs related to a Distributor's investment in new infrastructure or replacement of existing infrastructure, any measures a Distributor uses to maximize the efficiency of its new or existing infrastructure, activities promoted through a different program or initiative undertaken by the Government of Ontario or the OPA, such as the OPA Feed-in Tariff (FIT) Program and micro-FIT Program and activities related to the price of electricity or general economic activity.

8. SUPPORT AND FUNDING FOR RESEARCH AND INNOVATION

- 8.1 The OPA Conservation Fund provides financial support to new and innovative electricity conservation initiatives designed to enable Ontario's residents, businesses and institutions to cost-effectively reduce their demand for electricity
- 8.2 The OPA shall continue to provide, through its Conservation Fund, support and funding for new and innovative electricity conservation initiatives, including small scale distribution storage technologies, as a means to assist Distributors and others in their conservation efforts.

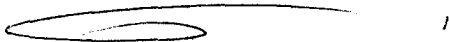
9. PEAKSAVERPLUS PROGRAM

- 9.1 LTEP 2013 committed that Ontario will aim to use demand response to meet 10% of peak demand by 2025, equivalent to approximately 2,400 megawatts under current forecast conditions. To encourage further development of demand response in Ontario, the Independent Electricity System Operator ("IESO") will evolve existing demand response programs in Ontario and introduce new initiatives.

9.2 A transition plan is currently being developed to evolve existing programs, potentially including the peaksaverPLUS program, to an IESO administered market. Until such time as the transition plan has been finalized, including plans for the peaksaverPLUS program, the OPA shall continue to make the program available to Distributors to deliver to customers in their licensed service areas.

This direction takes effect on the date it is issued.

Sincerely,



Bob Chiarelli
Minister

cc. James D. Hinds, Chair, Ontario Power Authority
Rosemarie T. Leclair, Chair and Chief Executive Officer, Ontario Energy Board
Bruce Campbell, President and Chief Executive Officer, Independent Electricity System Operator
Tim O'Neill, Chair, Independent Electricity System Operator
Serge Imbrogno, Deputy Minister, Ministry of Energy
Halyna Perun, Director, Legal Services Branch, Ministries of Energy and Infrastructure