

Ministry of Energy

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Ontario

OCT 23 2014

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

Dear Mr. Andersen:

RE: Amending March 31, 2014 Direction Regarding 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, 1998*, as amended (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.

On March 31, 2014, I directed the OPA to coordinate, support and fund the delivery of CDM programs through licensed electricity distributors ("Distributors") to achieve a total of 7 TWh of reductions in electricity consumption between January 1, 2015 and December 31, 2020, in accordance with specified guiding principles and requirements ("March 2014 Direction").

In the March 2014 Direction, I directed the OPA, in consultation with Distributors, to 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. I also directed the OPA to ensure that 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, which may be updated by the OPA from time to time ("OPA Cost-Effectiveness Tests").

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On April 24, 2014, the government released its Five-Point Small Business Energy Savings Plan to help mitigate electricity rate increases for small businesses by offering enhanced conservation programs. In partnership with Distributors and key agencies, the plan will help small businesses conserve energy, manage costs and save money. A key element of the plan is promoting the use of energy managers. Energy managers play an important role in encouraging customers to make use of conservation programs and implement conservation measures.

I now wish to give further direction to the OPA with respect to performance incentives under the full cost recovery mechanism, OPA Cost-Effectiveness Tests and the procurement of energy managers.

Direction

Therefore, pursuant to my authority under section 25.32 of the Act, I hereby direct the OPA as follows:

1. Notwithstanding section 1.6(i) of the March 2014 Direction, which provides that incentives shall begin to accrue once a Distributor achieves 100 per cent of the portion of its Distributor CDM Target allocated to the full cost recovery mechanism, the OPA shall make an additional incentive mechanism available to Distributors at the formal mid-term review contemplated in section 6.1 of the March 2014 Direction (by June 1, 2018), subject to the following terms:
 - (i) A Distributor shall be eligible for a mid-term incentive if, by December 31, 2017, that Distributor has achieved a minimum of 50 per cent of the lesser of either:
 - a. its Distributor CDM Target allocated to the full cost recovery mechanism; or
 - b. any amended Distributor CDM Target that is proposed by the OPA pursuant to sections 6.1 and 6.2 of the March 2014 Direction that is not allocated to the pay for performance mechanism set out in section 1.6(ii) of the March 2014 Direction;
 - (ii) Notwithstanding section 1(i) of this Direction, where a Distributor participates in a joint CDM Plan, the Distributor shall only be eligible for a mid-term incentive if, by December 31, 2017, the Distributors participating in such joint CDM Plan have collectively achieved a minimum of 50 per cent of the lesser of either:
 - a. their aggregated Distributor CDM Targets allocated to the full cost recovery mechanism; or
 - b. the aggregate of any amended Distributor CDM Targets that are proposed by the OPA pursuant to sections 6.1 and 6.2 of the March 2014 Direction, that are not allocated to the pay for performance mechanism set out in section 1.6(ii) of the March 2014 Direction;

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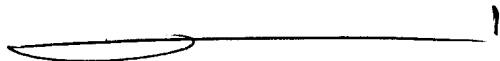
- (iii) For the purpose of calculating whether a Distributor has achieved a minimum of 50 percent of its Distributor CDM Target or proposed amended CDM target, the OPA shall consider only those electricity savings achieved by December 31, 2017 that are expected to persist to at least December 31, 2020;
 - (iv) Any performance incentives which accrue once the Distributor achieves 100 per cent of its Distributor CDM Target allocated to the full cost recovery mechanism will be reduced by the amount of any performance incentive a Distributor receives at the mid-term review; and
 - (v) For greater certainty, nothing in this section amends the requirement set out on the March 2014 Direction that Distributor CDM programs will result in the full achievement of 7 TWh of electricity savings.
2. In ensuring that there is a positive benefit-cost analysis of each Distributor 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, as contemplated in section 3.5(v) of the March 2014 Direction, the OPA shall require that the benefits calculated for the Total Resource Cost Test include a 15 per cent adder to account for the non-energy benefits associated with Province-Wide CDM Programs and Local Distributor CDM Programs, such as environmental, economic and social benefits. The value attributed to non-energy benefits shall be subject to review at the formal mid-term review provided in section 6.1 of the March 2014 Direction.
3. The OPA shall procure and coordinate the cost-effective services of energy managers to ensure their sufficient availability to target small business, commercial and institutional customers across the province. For certainty, this shall not restrict Distributors from developing complementary Province-Wide Distributor CDM Programs and Local Distributor CDM Programs to procure and coordinate the cost-effective services of energy managers within their licensed service areas.

General

4. This direction supplements and amends previous directions to the extent that such previous directions are inconsistent with the provisions of this direction. All other terms of any previous direction remain in full force and effect.

This direction takes effect on the date it is issued.

Sincerely,



Bob Chiarelli
Minister

- c. James D. Hinds, Chair, Ontario Power Authority
Serge Imbrogno, Deputy Minister, Ministry of Energy
Halyna Perun, Director, Legal Services Branch, Ministries of Energy, Economic Development, Employment and Infrastructure, and Research and Innovation