

**Ministry of Energy**

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December 16, 2016

Mr. Bruce Campbell  
President and Chief Executive Officer  
Independent Electricity System Operator  
1600--120 Adelaide Street West  
Toronto ON M5H 1T1

Dear Mr. Campbell:

**RE: Non-Utility Generators (NUGs) under Contract with the Ontario Electricity Financial Corporation (OEFC), Feed-in Tariff (FIT) Procurements, 2015-2020 Conservation First Framework, and Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program**

I write in my capacity as the Minister of Energy in order to exercise the statutory power I have to amend or revoke continued directions issued to the Independent Electricity System Operator (IESO) under the *Electricity Act, 1998*, as amended (the "Act").

## **BACKGROUND**

### **NUGs under Contract with OEFC**

On December 14, 2015, the IESO was directed to discontinue negotiations for New Contracts (as defined in that direction) for NUGs, while continuing to engage stakeholders, including NUG representatives as relevant, in the IESO's development of an Ontario capacity auction, rules and protocol for Ontario-based capacity exports and to continue to consider NUGs as options to maintain regional reliability.

A number of the thermal NUGs (OEFC NUGs) have contracts (OEFC Contracts) with the Ontario Electricity Financial Corporation (OEFC) that have not yet ended. The terms of those OEFC Contracts, which were originally signed nearly 20 years ago, provide incentives for most of the OEFC NUGs to operate as baseload electricity resources.

Ontario has put in place legislation for its new cap and trade program to limit greenhouse gas pollution while moving to a low-carbon economy. Given the evolution of Ontario's electricity system, there are opportunities to increase system value, reduce costs for Ontario electricity consumers and lower carbon emissions in the province, if the IESO is able to negotiate replacement contracts (IESO Contracts) with OEFC NUGs that incentivize them to operate in a manner that is better aligned with the integrated power system's needs.

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## **FIT Procurements**

In the 2013 Long-Term Energy Plan, the Ministry of Energy committed to exploring the evolution of the microFIT program to net metering. To support this process, the ministry established an Advisory Working Group and undertook stakeholder engagement, including a posting of proposed updates to Ontario's 2005 Net Metering regulation on the Environmental and Regulatory registries in August 2016. Proposed updates include, for example, removal of the existing 500 kW limit on net metered facilities and enabling storage. The ministry is proposing to bring forward amendments to the regulation in the near future and has identified other potential changes for further consultation in winter 2017.

The ministry has also commenced work on the development of the next Long-Term Energy Plan, with stakeholder and Indigenous engagement to be concluded this month. The development of the next LTEP provides an opportunity to examine the future role of distributed renewable energy generation under an updated net metering regulation and in a manner that recognizes the province's robust electricity supply. It is anticipated that the next LTEP will be published in spring 2017.

## **2015-2020 Conservation First Framework**

On March 31, 2014, the IESO was directed to continue to provide, through its Conservation Fund, support and funding for new and innovative electricity conservation initiatives as a means to assist licensed electricity distributors (Distributors) and others in their conservation efforts.

On November 16, 2015, the Ontario Energy Board (the "Board") issued its five-point multi-year *Regulated Price Plan Roadmap* (Roadmap) to redesign the Regulated Price Plan (RPP) to better respond to policy objectives, improve system efficiency, and to give consumers greater control.

One of the major elements of the Roadmap is the implementation of pilot projects for new pricing models and non-price tools (Pilot Projects). The Pilot Projects would, among other things, test alternative pricing options that are aimed at achieving objectives of the RPP. The results of the Pilot Projects would provide an objective basis to inform future decisions about RPP pricing and the design of new tools for customers to manage their electricity usage and provide for increased system efficiency.

On July 18, 2016, the Board issued its *Regulated Price Plan Roadmap: Guideline for Pilot Projects on RPP Pricing*, inviting Distributors to participate in developing and implementing Pilot Projects. A number of Distributors have filed applications with the Board for that purpose.

These Pilot Projects will be funded through the Conservation Fund so the IESO may use the Pilot Project results to help identify potential complementary Conservation and Demand Management programs or initiatives that could assist RPP customers in responding to different pricing mechanisms.

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## **Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program**

With the Conservation First Framework and renewed Industrial Accelerator Program now underway for close to two years, opportunities have been identified to improve the availability of programs province-wide for customers. A list of all approved Province-Wide Distributor CDM Programs, Local Distributor CDM Programs and associated program rules are located on the IESO website.

### **DIRECTION**

Therefore, pursuant to my authority under section 25.32 of the Act, I hereby make the following amendments to the directions listed below:

#### **1. NUGs under Contract with OEFC**

The direction dated December 14, 2015, titled “Non-Utility Generator Projects, Combined Heat and Power Standard Offer Program 2.0, Chaudière Falls Hydroelectric Generation and Whitesand First Nation Biomass Cogeneration” is amended as follows:

1.1 Paragraph 1.1 is amended to read as follows:

“Subject to paragraphs 1.4 and 1.5 below, discontinue negotiations for New Contracts for NUGs.”

1.2 The following new paragraphs 1.4 and 1.5 are added:

1.4 Enter into negotiations with the OEFC NUGs regarding a new IESO Contract to change the incentive structure for supplying electricity or capacity so that the facilities operate in a manner that better aligns with the integrated power system’s needs and that would satisfy all of the following requirements:

- (i) Expected cost and operability benefits for the Ontario electricity system are greater than the cost and operability benefits afforded under the current OEFC Contract;
- (ii) All IESO obligations under the IESO Contract end no later than the date on which the current term of the existing OEFC Contract expires

1.5 The IESO is not required by this direction to enter into an IESO Contract with an OEFC NUG where the IESO is unable to reach agreement with the OEFC NUG on terms that satisfy the requirements set out in paragraph 1.4 of this direction.

#### **2. FIT Procurements**

##### **FIT 5 Procurement Target**

The direction dated June 24, 2015, titled “Feed-in Tariff (FIT) Program” is amended as follows:

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- 2.1 The paragraph that reads: "For greater clarity, the IESO shall include any unallocated capacity from each future annual microFIT target to the subsequent FIT procurement target" is revoked.
- 2.2 The paragraph that reads: "Similarly, the IESO shall add any remaining unallocated capacity from FIT procurements to the subsequent FIT procurement target." is revoked.

The direction dated April 5, 2016, titled "Future Renewable Energy Procurements" is amended as follows:

- 2.3 Paragraphs 2.2 and 2.3 are revoked.
- 2.4 A new paragraph 2.2 is added that reads: "The FIT 5 procurement target shall be up to 150 MW."

### **FIT 6 Procurement**

The direction dated June 12, 2013, titled "Renewable Energy Program" is amended as follows:

- 2.5 By revoking the paragraph that reads: "Furthermore, in each of the next four years, starting in 2014, the OPA will award up to 150 MW of contracts for Small FIT Projects. If the full annual Small FIT MW procurement target is not allocated in a given year, the remaining capacity will be added to the Small FIT MW procurement target in the following year." and replacing that paragraph with a new paragraph that reads: "Furthermore, in each of the next three years, starting in 2014, the IESO will award up to 150 MW of contracts for Small FIT Projects. If the full annual Small FIT MW procurement target is not allocated in a given year, the remaining capacity will be added to the Small FIT MW procurement target in the following year. The final FIT application period will be held in 2016. The IESO shall cease accepting applications under the FIT program by December 31, 2016 and any unallocated procurement target at the end of that procurement process will remain unallocated."

## **3. 2015-2020 Conservation First Framework**

### **Support and Funding for Research and Innovation**

- 3.1. The direction issued on March 31, 2014, entitled "2015-2020 Conservation First Framework" is amended by adding the following new paragraphs to the section titled "Support and Funding for Research and Innovation":
  - 8.3 The IESO shall provide, through its Conservation Fund, support and funding for pilot projects for new pricing models and non-price tools (Pilot Projects) specified by the Board.

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- 8.4 Since the Pilot Projects are adhering to the Board's guidelines and processes related to such Pilot Projects, the IESO shall provide such Conservation Fund funding without adherence to the Conservation Fund's application process or other requirements. The IESO will create a simplified process for enabling Distributors delivering Pilot Projects to access Conservation Fund funding.
- 8.5 The IESO shall make Conservation Fund funding available for the Pilot Projects in such amounts as determined by the Board.
- 8.6 The IESO shall fund only Distributor costs for delivering the Pilot Projects in accordance with the Board specified Pilot Project expenditures. The IESO will pay the Distributor for Pilot Project costs on the terms set out in the procurement contract with the Distributor delivering the Pilot Project.
- 8.7 The IESO shall enter into one or more procurement contracts with Distributors selected by the Board to fund the Pilot Projects specified by the Board. The IESO shall use a simplified and expedited procurement process for that purpose.

#### **4. Delivery of Programs under the Conservation First Framework and the Industrial Accelerator Program**

- 4.1. The direction issued on March 31, 2014 entitled "2015-2020 Conservation First Framework" is amended by adding a new sub-section 3.6 to Section 3: CDM Plans and Programs, as follows:
  - 3.6 i. Further to the Distributor CDM Requirement that includes making available a core set of province-wide CDM programs in their licensed service areas, and despite Section 1.3 of the Conservation First Framework Direction, the IESO shall request that Distributors that are not making available one or more approved Province-Wide Distributor CDM Programs, considering the eligible program participants in their licensed service area per the program rules, resubmit revised CDM Plans by May 1, 2017 outlining how they will make all approved Province-Wide Distributor CDM Programs available in their licensed service areas beginning in 2017 using their allocated CDM budget. As new approved Province-Wide Distributor CDM Programs and associated program rules become available, the IESO shall request Distributors with eligible program participants to resubmit revised CDM Plans within four months, outlining how they will make the new approved Province-Wide Distributor CDM Program available in their licensed service area.

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- ii. Where a Distributor with eligible program participants is not making an approved Province-Wide Distributor CDM Program(s) available to eligible program participants in its licensed service area, the IESO shall deliver the Province-Wide Distributor CDM Program(s) in that Distributor's licensed service area if a Distributor has not submitted a revised CDM Plan indicating an intention to do so per the timelines in Section 3.6(i).
  - iii. The IESO shall establish a budget to fund the approved Province-Wide Distributor CDM Programs that are to be delivered by the IESO that is within the budget established under Section 1.4 of the Conservation First Framework Direction.
  - iv. Where the IESO delivers an approved Province-Wide Distributor CDM Program in a Distributor's licensed service area, the associated electricity savings shall not count toward that Distributor's CDM Target.
- 4.2. The direction issued on July 25, 2014, entitled "Industrial Accelerator Program" is amended by adding the following new sub-sections to section 3.1, as follows:
- vi. The IESO shall undertake a pay-for-performance pilot program for customers that are eligible for the Industrial Accelerator Program that is consistent with the Centrally-Delivered Pay-for-Performance Multi-Distributor CDM Program.
  - vii. The IESO shall allow transmission-connected customers with distribution-connected sites to elect to have their transmission-connected and distribution-connected sites administered through the Industrial Accelerator Program. Any associated electricity savings that result from distribution-connected sites participating in the Industrial Accelerator Program shall count toward Distributor CDM Targets under the Conservation First Framework Direction.

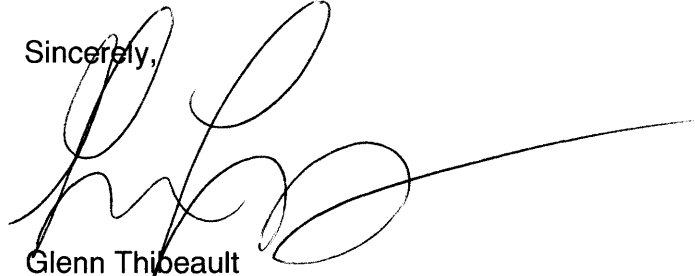
## **General**

- 5.1. This direction supplements and amends previous directions to the extent that a previous direction is inconsistent with the provisions of this direction. All other terms of any previous directions remain in full force and effect.

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This direction takes effect on the date it is issued.

Sincerely,



Glenn Thibeault  
Minister

- c. Tim O'Neill, Chair, Independent Electricity System Operator  
Rosemarie Leclair, Chair and CEO, Ontario Energy Board  
Serge Imbrogno, Deputy Minister, Ministry of Energy  
Carolyn Calwell, Director, Legal Services Branch, Ministries of Energy; Economic Development and Growth; Infrastructure; Research, Innovation and Science; and Accessibility