



February 13, 2018

Independent Electricity System Operator  
1600 – 120 Adelaide Street West  
Toronto ON M5H 1T1

Dear Stakeholder Relations:

**RE: NAVIGANT'S DRAFT FINAL MID-TERM REVIEW REPORT**

Local distribution companies (LDCs) have been successfully delivering conservation and demand management programs to over 5 million residential, commercial, industrial, and institutional customers throughout Ontario for over a decade. LDCs are proud of their success and role as the face of conservation in Ontario. At the halfway mark of the Conservation First Framework (CFF), the LDC community has exceeded the objectives and with limited budget are tracking to exceed the government's 7 TWh distributor target. The framework is performing and is a success. LDCs are committed to continuing to deliver conservation on behalf of and to the benefit of their customers.

The Electricity Distributors Association (EDA), as the voice of Ontario's local electricity distribution sector, has been actively engaged in the Mid-Term research undertaken by the Independent Electricity System Operator (IESO) and their consultant, Navigant. We appreciate the opportunities to provide feedback to date on behalf of LDCs and trust that this input has been helpful. We hope that the Mid-Term-Review will result in steps to strengthen this customer-centric framework and set the stage for conservation post-2020.

On January 3, 2018, the IESO issued a deck prepared by their consultant, entitled "*Conservation Framework Mid-Term Review: Final Report*". The following comments reflect the input received from LDCs, including members of the EDA's Conservation and Sustainability Issues Council, on the Navigant report. This letter also expands on the EDA's email to the IESO, on February 6, 2018, highlighting unsubstantiated conclusions in the consultant's report.

Separate from this response, the EDA will be providing, later this month, to the IESO, along with the Ministry of Energy, a report outlining the LDC community's perspective on the topics identified in the Minister of Energy's direction for the Mid-Term Review.

## **NAVIGANT'S KEY FINDINGS**

Navigant highlighted five key findings from their research on the CFF. Note the following headings are direct excerpts from Navigant's report as summarized on their slide 11.

### ***The Framework is performing***

The EDA concurs that the framework is performing well and that LDCs are on track to achieve the objectives set out in the Energy Conservation Agreement (ECA). Specifically:

- ✓ The framework is on track to exceed all identified objectives and targets.
- ✓ LDCs have achieved over 50% of their aggressive target by the mid-point of the framework.
- ✓ Customers are pleased with the ability to manage electricity costs due to the conservation and demand management (CDM) efforts of their LDC and their network of trade allies.
- ✓ The framework should be enhanced to accommodate new priorities, such as climate change, all of which can be done through the existing and flexible ECA.
- ✓ LDCs have been effectively managing their budgets to ensure ratepayer value and that conservation programs well serve their customers.
- ✓ LDC conservation programs are being delivered at half the cost of the next lowest cost generation supply and lower than the previous centralized conservation framework.
- ✓ Customers have engaged in conservation equitably across all regions of the province, a unique attribute of the distributed LDC-delivery model.

### ***Minor adjustments necessary to enable shifts in allocated budgets and targets***

The EDA concurs with Navigant that adjustments through the target exchange process originally contemplated by the ECA will deliver the desired target results at or below the overall budget. On January 12, 2018, the EDA provided the IESO with detailed recommendations focused on target exchange guidelines. These recommendations included the following:

1. Target exchange should remain in its current form, as contemplated in the ECA, as it was designed to facilitate the collaboration between LDCs in achieving the provincial energy savings target.
2. Increase ratepayer value by (a) following the principle from the Minister of Energy's Direction "Reward LDCs who effectively deliver conservation" as contemplated in the ECA; and (b) facilitate the enablement and the achievement of all cost-effective conservation.
3. Reduce unnecessary administration by establishing a minimum threshold, around 15% of the originally allocated target, for streamlined approval of target exchanges. Rationale for target exchange applications beyond the minimum threshold should be discussed in advance between the LDC and IESO.



4. IESO should pursue next steps, including a new Guideline, or amendment to the Target Exchange Guideline, to include a mechanism for a target exchange for LDCs with the Industrial Accelerator Program.

We note Navigant's claim that customers would "like to see more oversight on target exchange". In review of Navigant's past reports and customer workshop summary, there was no mention from the few customers who participated, that they wished more administrative oversight by the IESO on target exchange.

Based on the draft target exchange guidelines issued in late December 2017, the EDA is concerned that more oversight will add costs, administrative burden, and inadvertently reduce the ability to achieve LDCs targets. The IESO already has control over target exchanges and better transparency can be achieved through the mechanisms recommended by the EDA above.

### ***Barriers to continuous program/framework improvements***

The framework is working well, and the targets are being achieved under budget. Navigant also identifies that customers are "happy with available programs"<sup>1</sup>.

The EDA acknowledges that there are always opportunities to improve the process, however there have been barriers to continuous improvement. The EDA supports the update of the program working groups and are supportive of the new structure having a project charter and clear direction for enhancing programs effectiveness for customers. The IESO and LDCs are currently working on the new structure and we look forward to a collaborative solution to improving these successful programs.

Navigant's claim that there is "strong cost management with the cost envelope, little consideration to manage overall costs"<sup>2</sup> is confusing, and unsubstantiated. LDCs have been very effective in managing their budget and delivering conservation at historically low cost per kilowatt hour (kWh). Navigant's prior *Budget, Target and Cost Effectiveness* report shows levelized cost as 3.3¢ and 2.1¢ for 2015 and 2016 respectively. This is significantly less than any form of generation supply to the electricity system. Further, based on cost-effectiveness ratios of 2:3, every dollar spent on conservation saves \$2-\$3 on the electricity system – meaning the framework could cost double its current amount and still be of financial benefit to the electricity system. Therefore, the EDA would conclude that not only is cost management effective within the LDCs' envelope, the cost of the overall framework is effective and will reduce the long-term cost of energy in Ontario.

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<sup>1</sup> Navigant, "Conservation Framework Mid-Term Review - Final Report", Slide 8, January 3, 2018.

<sup>2</sup> *Ibid.*, Slide 13.

### *IESO and LDCs' relationship adds costs and limits effectiveness of framework*

The EDA disagrees with this key finding language on slide 13 as it does not reflect the points Navigant appears to be highlighting. The relationship between any counterparty to an agreement intuitively adds costs, however, the ECA is nimble and provides mechanisms to effectively manage the relationship. This finding also does not align with evidence that the framework is cost-effective. The ECA, as with most agreements, can always be tweaked and improved. As such, we believe this following revised statement better reflects the intention of the key finding "Reducing administrative requirements between the IESO and LDCs will reduce costs and increase effectiveness of the framework" instead of "IESO and LDCs' relationship adds costs and limits effectiveness of framework". The EDA supports reduced administrative costs and increased transparency in program objectives.

### *Landscape has shifted from when the framework was implemented*

LDCs are excited to participate in developing and delivering additional customer focused programs, particularly, programs that assist in reducing the impact of climate change. The ECA between IESO and LDCs is a nimble and flexible document that could be easily amended to include climate change programs. By working together, collaboratively, we can deliver an enhanced customer experience. The LDC community could leverage existing relationships with customers, delivery agents, marketing groups while minimizing customer confusion by acting as a one-stop shop.

### **NAVIGANT'S OPPORTUNITY MODULES**

Navigant's report provides six "CFF Opportunities" that, while mostly outside of the directed Mid-Term-Review, they believe could assist with the second half of the framework. We appreciate the opportunity to comment on these findings, recommendations, and alternatives.

### *Forecasting*

The EDA concurs with the observation that CDM Plans "force fit" budgets and targets. This has been a concern expressed by LDCs. Some LDCs have attempted to provide additional detail outside of the CDM Plan process to enable IESO to better forecast the overall budget and savings achievement. LDCs welcome an enhanced process for forecasting. However, increasing the CDM Plan submission process from annual to quarterly, as recommended by Navigant, will increase administrative burden, and will not achieve the desired results.

LDCs are committed to delivering conservation programs to all their customers throughout the full term of the framework, and beyond. As such LDCs support providing, as many already do, reasonable forecasts to the IESO. Similarly, LDCs have requested and would appreciate



reasonable forecasts from the IESO for centrally supported programs to the LDC's customers, such as Home Assistance, COUPONS, and HVAC.

The EDA recommends that the CDM Plan process be improved with further consultation between LDCs and the IESO. The EDA is pleased to facilitate the process between the contractual counterparties to ensure all viewpoints are heard. We acknowledge and support that forecasting is important to the Framework. However, the CDM-IS system is yet to be completed and tested for its intended purpose – to replace iCon. Using a future CDM-IS system is a reasonable approach, however, for 2018 a simple forecast tool that can be updated quarterly by LDCs and IESO may offer a simplified solution. Once CDM-IS is fully functional for its intended purpose, IESO and LDCs should discuss the merits of harmonizing forecasts from the simplified reporting to the broader more complex information system.

### ***Targets and Budgets***

The EDA's recommendation on target exchange are summarized above. There is incredible value in target exchange between LDCs as intended in the ECA original design. The framework is cost-effective and will continue to be cost-effective under the target exchange parameters outlined above. To support the achievement of the province's conservation target, it is imperative that impediments be removed, and not added, to this tool. The EDA recommends the continued support of a collaborative LDC-led target exchange. The EDA is supporting the facilitation of this process for LDCs, easing the administrative burden on the IESO.

We would like to clarify the Navigant note on slide 18 that an LDC commented that the target exchange process may not be sufficient to address all budget needs. It is our understanding that the comment is directed toward the lack of clarity and forecast of the centrally supported programs. It is difficult to ensure sufficient budget exists without a reasonable forecast from the IESO's vendors on the delivery of programs. The comment also supports the transfer of budget and target from the underperforming IESO-run Industrial Accelerator Program (IAP).

The EDA supports the exchange of target and budget from IAP to CFF. LDCs are on track to exceed target, with appropriate target exchange flexibility, and can effectively manage budget and target to assist IESO with achieving the full provincial target (i.e. Distributor and Transmission connected targets) of 8.7 TWh.

### ***Program Responsiveness and Flexibility***

As noted earlier in this submission and in EDA's prior correspondence on "Short Term Opportunities" to the IESO, dated December 1, 2017, we believe that the programs are working well and there are opportunities for improvement. The CFF is performing at a lower cost than the prior framework; is extremely cost-effective (i.e. system financial benefits are more than double the costs); and most importantly as noted by Navigant, customers are "happy with the

available programs<sup>3</sup>". The EDA supports the updated recommendations from the LDC community to the IESO on an improved programs governance, including the creation of a Joint Operating Program Committee that includes small to mid-size LDCs through EDA representation.

We also note that the iCon system, the portal to which customers participate in programs has been identified as a point of frustration for all stakeholders. LDCs have been actively working with their customers to ensure the continued participation in conservation programs. The EDA supports efforts for improved customer-centric tools.

Customer satisfaction is a key driver for all LDCs and it is part of their regulated scorecard. LDCs and their partners are always seeking feedback for improvement in programs and in their everyday business. The EDA recommends continued LDC delivery of programs, leveraging the LDCs' engagement with their customers. Also, additional stakeholder feedback (e.g. EM&V findings, broader consultations, etc.) should be incorporated with the LDCs' personal customer interactions in an annual program review process.

### Customer Coverage

Overall, the LDC community has been delivering to all customer segments. The LDCs have also been very effective in ensuring customer coverage equitably across the Province. Figure 1 highlights the regional equity, with exceptional performance in the North. This is a unique attribute to LDC-delivered programs.

**FIGURE 1: CONSERVATION SAVINGS UNIFORMLY DELIVERED ACROSS** <sup>4</sup>



*Note 1: many LDCs cross regions, in these cases for simplicity, targets and progress were equally distributed across the applicable regions (All is Hydro One)*

*Note 2: Unverified results are typically lagged at least 6 months; 2017 unverified progress only represents 6 months of data, the CDM Plans and APS 2016 represent the anticipated full year of savings*

<sup>3</sup> *Ibid.*, Slide 6.

<sup>4</sup> Navigant, "Conservation Framework Mid-Term Review – Final Report", Appendix B.7 Slide 35, January 22, 2018



We concur that there is always room for improvement and that the ECA does not require a threshold performance in each sector. The adequate balance of sector delivery is part of the IESO governance in their review of CDM Plans. As IESO have direct insights to government policy, we believe the preferred solution is to continue to have IESO provide insights on the adequacy of customer coverage. We recommend that IESO provide their insights in advance of the annual planning process to ensure that programs are delivered to meet the IESO's expectations. Further, the EDA continues to be available to assist the IESO in facilitating discussions with LDCs should there be perceived shortfall in delivery to any segment of customers. LDCs have proven successful in addressing and resolving delivery challenges.

With respect to Province-Wide Programs, we concur with Navigant's findings that there are too many programs classified by IESO as "province-wide". Several programs have limited applicability in all LDC service areas (e.g. Residential New Construction). The EDA recommends that the province-wide program list be simplified by reducing it to the most effective and commonly desired programs in all LDC service areas. The EDA also supports the IESO as a back stop in areas where an LDC determines that local delivery nor an LDC-partnership is not pragmatic. For example, if Residential New Construction remains province-wide, then an LDC with no or few homes being constructed could opt for IESO delivery. However, the EDA encourages the IESO to work with neighbouring LDCs when seeking to fill program delivery gaps. The EDA also recommends that programs removed from the "province-wide" list be available to LDCs, at the LDCs discretion.

### ***Non-Energy Impacts***

The CFF is being delivered very cost effectively. As mentioned, every dollar spent on CFF is returning over double that amount in system value. Adding the Non-Energy-Impacts (NEI) will further demonstrate the value of conservation to the system, to reducing the impact of climate change, and most importantly to the customers operating and maintenance costs. The EDA supports the addition of NEI to the system benefits, at a minimum by adding in the impact of reduced Green House Gases (GHG).

### ***Integration and Collaboration***

LDCs have been successfully collaborating to ensure customers are satisfied with the programs offered. Increased collaboration is welcomed and encouraged and is part of the culture of the LDC community. Many LDCs are collaborating in Joint CDM Plans to the benefit of customers and at a lower cost than without the joint plans. Many small LDCs were not allocated sufficient budget to ensure adequate customer coverage, making the joint plan not only collaborative, but essential. LDCs are excited to participate in additional customer focused programs, particularly, programs that assist in reducing the impact of climate change. The EDA supports Navigant's proposed "Opportunities" including transparency by the IESO and Ontario Energy Board (OEB) in

attribution, funding, and evaluation; improved regional planning processes to integrate conservation and demand management; and the communication of the current and future value of on-going collaborations<sup>5</sup>.

## **FUTURE FRAMEWORK**

We appreciate IESO's and Navigant's discussion of the post-2020 framework. The EDA strongly recommends a strategic discussion around the future framework continue in 2018 and early 2019. The EDA has already begun these discussions with LDCs and will be engaging the IESO and Ministry of Energy as well as other key stakeholders.

From experience, we know that customers want program continuity and a continued relationship with their conservation partners. We also know that many projects take up to two years from inception to completion, therefore certainty of funding beyond 2020 is critical to LDC customers. The EDA recommends that the IESO establish a budget for post-2020 projects. That budget should be developed with LDCs and communicated to all LDCs once complete.

Finally, the EDA recommends a multi-year extension to the very successful CFF. For instance, an additional six-years could be added to the framework (i.e. to 2026) with an additional 7 TWh target and suitable budget. A streamlined mid-term-review of the updated framework should be conducted in 2022 to assess the need for additional conservation during the nuclear refurbishment period commencing in early to mid 2020s<sup>6</sup>.

Thank you for the opportunity to comment on this deck and for the opportunity to provide on-going feedback to the IESO. The EDA and LDCs look forward to continued and productive collaboration with the IESO. The framework is working to the benefit of customers. We are proud of its success and are committed to continuing to work to improve the framework.

Sincerely,



Teresa Sarkesian  
President and Chief Executive Officer

cc Terry Young, Vice-President, Conservation & Corporate Relations

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<sup>5</sup> *Ibid.*, Slide 22.

<sup>6</sup> Ontario Ministry of Energy, "Ontario's Long-Term Energy Plan 2017, Delivering Fairness and Choice", Page 37