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Ontario Minister of Energy Directs IESO to Deliver a New Conservation and Demand Management Framework

By Christian Nianiaris and David Stevens

On September 30, 2020, the Minister of Energy, Northern Development and Mines approved a Minister's Directive (2020 Minister's Directive) requiring the Independent Electricity System Operator (the IESO) to establish a new four-year electricity conservation and demand management (referred to as CDM) framework (the new CDM Framework). Coming into effect January 1, 2021 upon the termination of the current 2019-2020 Interim CDM Framework, new CDM programs will be rolled out by the IESO.

The 2020 Minister's Directive discusses the new CDM Framework's intention of providing "continued opportunities for electricity consumers to manage their electricity costs, provide stability for the network of companies involved in the delivery of CDM programs in the province and help to cost-effectively meet electricity system needs." While this is the goal of CDM programs generally, the new CDM Framework continues the focus set in the Interim CDM Framework toward helping commercial, industrial and institutional (referred to as CII Consumers) as well as on-reserve First Nations, low-income, and income-eligible residential consumers. The 2020 Minister's Directive underlines the government's view of the importance of CDM in helping electricity consumers manage their energy costs, particularly in light of the challenges of the COVID-19 pandemic.

Background - CDM in Ontario

CDM policies bring stability to the electricity system as a whole. CDM includes activities that actively reduce the peak demand for and/or the consumption of electricity from the electricity grid. Various behind-the-meter customer renewable generation (e.g. residential solar panels) and energy-efficient technologies (that produce the same output while decreasing the amount of electricity used) are also considered to be CDM. As described in a recent submission from the Ontario Energy Association, Ontario's previous CDM Framework had a proven track record of lowering costs for consumers, improving business competitiveness, relieving capacity constraints, deferring higher-cost capital solutions, and improving and maintaining system reliability.

In 2019, the 2015-2020 Conservation First CDM Framework was replaced by the 2019-2020 Interim CDM Framework, that was intended to "streamline and centralize" CDM program delivery. As set out in a 2019 Minister's Directive terminating the previous CDM Framework, the Interim CDM Framework was intended "to refocus efforts on the most cost-effective initiatives and discontinue programs and delivery models that are less effective in driving cost efficiencies and meeting system needs." The Interim CDM Framework expires on December 31, 2020.

The 2020 Minister's Directive

Cost effectiveness while meeting electricity needs is the key driver of the new CDM Framework. The 2020 Minister's Directive explains that in recognition of limited forecasted needs in the new CDM Framework's first two years (2021 and 2022), ongoing CDM programs will be designed to maintain program delivery capacity in the province and meet consumer needs, while enabling a ramp up of program offerings in 2023. At that time, through a "mid-term review", the electricity system's needs will be reevaluated and "consideration will be given to the need for changes to the programs, targets and budgets of the CDM Framework." The 2020 Minister's Directive emphasizes that the new CDM Framework will "leverage competitive procurements and calls for proposals in order to increase competition, improve cost-effectiveness and solicit consumer-based solutions."

The 2020 Minister’s Directive sets out details about the governance, delivery and scope of CDM programs that will be delivered by the IESO under the new CDM Framework. It also includes “Limits of Funding” that must be followed. The total budget ceiling for the CDM Framework is \$692 million over the four-year lifespan of the new CDM Framework, with up to \$457 million of this amount to be allocated to programs for CII Consumers, competitive mechanisms to address local and/or regional electricity system needs, and online education tools for consumers; up to \$43 million for central services costs; up to \$156 million for the Energy Affordability Program (for low-income and income-eligible consumers); and up to \$36 million for on-reserve First Nations programs. Unspent amounts are not to be reallocated to other areas. Importantly, the IESO is directed to only implement CDM programs that “demonstrate positive costbenefit benchmarks when jointly considered as a portfolio in accordance with the IESO’s Cost-Effectiveness Guide.”

By December 1, 2020, the IESO is required to submit a CDM plan for the four-year term, detailing the specifics of the CDM programs to be offered, including their estimated annual costs and expected peak demand reduction and energy savings results. The expected savings of electricity and the expected demand reductions will be treated as the “targets” for the CDM plan.

The IESO will be required to report regularly on the implementation, progress and results of the CDM plan on a program-by-program basis. The IESO is also required to submit a Mid-Term Review Report by December 31, 2022 outlining: (a) the alignment of the “targets” with the provincial, regional and/or local electricity system needs as identified by the IESO; (b) the alignment of the CDM program offerings with consumer needs in Ontario; (c) lessons learned; (d) the progress and impact of CDM programs, including for low-income and income-eligible consumers and on-reserve First Nations consumers; and (e) recommendations on the remainder of the CDM Framework. The mid-term review may result in changes to the CDM plan.

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