

Memo to: Jan Carr, Amir Shalaby, Mary Ellen Richardson, Paul Shervill, Peter Love, Vipin Prasad, Emay Cowx
From: Jack Gibbons, Ontario Clean Air Alliance
Re: OPA Discussion Paper #3, *Conservation and Demand Management*, (September 22, 2006)
Date: October 4, 2006

Introduction

The Ontario Power Authority's (OPA's) Discussion Paper on *Conservation and Demand Management* has two fundamental flaws:

1. It incorrectly assumes that Ontario's conservation and demand management (CDM) goals are capped at: a) 2700 MW by 2010; b) 6300 MW by 2025; and c) \$4 to 8 billion;¹ and
2. It ignores Minister Duncan's directive to the OPA to phase-out coal "in the earliest practical time frame".²

Fundamental Flaw #1

The OPA's belief that Ontario's CDM goals are capped at: a) 2700 MW by 2010; b) 6300 MW by 2025; and c) \$4 to \$8 billion reflects a profound misunderstanding of Minister Duncan's June 13, 2006 directive to the OPA re: its Integrated Power System Plan (IPSP) as well as of the *Ontario Energy Board Act*.

Contrary to the OPA's interpretation, Minister Duncan's June 13th directive established *minimum* -- not maximum -- CDM targets of 2700 MW by 2010 and 6300 MW by 2025. Furthermore, Minister Duncan's directive does not set a \$4-8 billion cap on CDM spending.³

The OPA's IPSP is also subject to the Ontario Energy Board's (OEB) review and approval processes. The OEB's legislative mandate is:

- "1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry."

As the OEB has noted, its legislative mandate requires it "to consider whether and how the IPSP achieves the goals set out in the Supply Mix Directive in an economically prudent and cost effective manner."⁴ That is, the IPSP's CDM goals must *exceed*

Minister Duncan's minimum CDM targets if incremental CDM resources can be obtained at a lower cost than conventional electricity supplies.

Fundamental Flaw #2

Minister Duncan's June 13th OPA directive requires the OPA to plan "for coal-fired electricity generation in Ontario to be replaced by cleaner sources in the earliest practical time frame that ensures adequate generating capacity and electricity system reliability in Ontario."

Everything else being equal, this directive entails that the OPA should seek to achieve its CDM targets at the earliest possible date. However, the OPA's *Discussion Paper* fails to even acknowledge the existence of this directive. Furthermore, the *Discussion Paper* does not propose CDM procurement policies that will facilitate a coal phase-out "in the earliest practical time frame".

Ontario Clean Air Alliance's Recommendations

1. To achieve compliance with Minister Duncan's directive and the *Ontario Energy Board Act*, the OPA should acquire *all* the CDM resources that can meet Ontario's electricity service needs at a lower (avoided) cost than conventional new electricity generation, transmission and distribution infrastructure.
2. To the maximum extent possible CDM resources should be acquired from the private sector, including Ontario's electric and gas utilities, pursuant to standard offer contracts. Specifically, the OPA should acquire small-scale (10 MW or less) demand response and combined heat and power resources exclusively via standard offer contracts.
3. To the fullest extent possible the OPA should also acquire energy efficiency and fuel switching resources (e.g., switching from electricity for space and water heating to hybrid solar/electric water heaters, geothermal heat pumps and natural gas) via standard offer contracts. To the extent that this is not practical, the OPA should enter into resource procurement contracts with Ontario's electric and gas utilities and energy service companies.
4. To facilitate the phase-out of Ontario's coal plants "in the earliest practical time frame" the OPA should finalize its demand response, small scale renewable and combined heat and power standard offer contracts by December 31, 2006. In addition, the OPA should: a) establish energy efficiency and/or fuel switching standard offer contracts by December 31, 2006; or b) immediately enter into contract negotiations with Ontario's gas and electric utilities and/or energy service companies to procure energy efficiency and fuel switching resources.

In our view, Minister Duncan has given the OPA clear direction to maximize the tremendous value of CDM programs in Ontario. The Minister's directive to ensure the phase out of coal power "in the earliest practical time frame" can also only be interpreted

as meaning that every effort must be made to exploit readily available and cost-effective CDM initiatives to the fullest in order to assist the province in achieving this important goal. The OPA should welcome the opportunity to be a driver in vastly improving Ontario's electricity productivity (and therefore its economic productivity and quality of life), rather than setting artificial and unnecessary limits on its own actions.

¹ OPA, *Ontario's Integrated Power System Plan: Discussion Paper 3: Conservation and Demand Management*, (September 22, 2006), pp. 1, 10, 11 and 33.

² Letter from the Honourable Dwight Duncan, Minister of Energy to Mr. Jan Carr, CEO, OPA re: Integrated Power System Plan (June 13, 2006).

³ Letter from the Honourable Dwight Duncan, Minister of Energy to Mr. Jan Carr, CEO, OPA re: Integrated Power System Plan (June 13, 2006).

⁴ OEB, *Staff Discussion Paper on the Review of the Ontario Power Authority's Integrated Power System Plan and Procurement Processes*, (September 8, 2006), p. 3.