

Ontario's Long-Term Energy Plan, 2013: "Achieving Balance" Through Clean Energy, Conservation & Innovation

"We are determined to create policies that are sustainable and predictable." - Bob Chiarelli, Minister of Energy, speaking at an event hosted by the Ontario Energy Association and The Empire Club of Canada on December 3, 2013 in Toronto, Ontario.

On December 2, 2013, the Government of Ontario's Ministry of Energy (the "**MOE**") released its latest **Long-Term Energy Plan** ("**LTEP**"). The LTEP sets out the Government's plan of action for the energy sector, including strategies for mitigating increases in electricity rates; increased renewable energy procurement; nuclear refurbishment; enhanced regional planning with respect to energy infrastructure; transmission enhancements; encouragement of Aboriginal participation in energy development, transmission and conservation projects; and the expansion of natural gas infrastructure.

The plans are guided by the goal of balancing five core principles: cost-effectiveness, reliability, clean energy, community engagement, and conservation and demand management. Clean energy sources will continue to be the focus for future supply growth, as they have been since the Liberal government first came to power in 2003, but the rapid rate of growth seen over the past

decade will be moderated. Conservation through innovation is an essential component of many of the plans set out in the LTEP and will also interface with the renewable energy sector through innovative technologies that integrate energy storage with generation.

Clean Energy Supply

The LTEP reports with pride that the Ontario government's commitment to eliminate coal-fired generation by 2014 has been achieved by a major shift in the supply mix, mainly to renewable energy sources, but complemented by gas-fired generation. Renewable energy will continue to expand in the supply mix. The feed-in tariff ("**FIT**") program will continue to be used for smaller projects, with an annual procurement target of 150 MW in 2014 (for projects sized between 10 and 500 kW), and a microFIT annual target of 50 MW (for projects under 10 kW). Wind, solar and bioenergy will be phased in somewhat more gradually than planned for in the 2010 LTEP, but are collectively slated to grow to 10,700 MW of installed capacity by 2021. The target for hydroelectricity will also be increased from 9,000 MW to 9,300 MW by 2025. In 2014 alone, up to 300 MW of wind, 140 MW of solar, 50 MW of bioenergy and 50 MW of hydroelectric capacity will be made available for procurement.

Large renewable procurements (projects greater than 500 kW) will now be offered through a competitive process which will place greater emphasis on cost-efficiency, an element missing from the standard offer and FIT models of the past six years. This is essentially a return to the green energy procurement model originally employed by this government when they first came to power a decade ago. The MOE is planning on launching the new large renewable procurement process by the end of the first quarter of 2014. In an apparent effort to diversify the participants, the program will have multiple successive rounds and will encourage innovation by considering proposals that incorporate energy storage with the generation models. However, the process will begin with a "Request for Qualifications" phase before

proceeding to the RFP itself, which will in fact reduce the number of ultimate participants. Parties interested in participating in this procurement process will have the opportunity to engage in a dialogue with the government by commenting on the structure of the large renewable procurement RFQ and RFP – this creates an opportunity to ensure that the ultimate RFP parameters are favourable to participants' interests. Those wishing to participate in the bidding process should prepare themselves early as the RFQ submission window is likely to be brief.

Nuclear Generation

While refurbishment of the Darlington and Bruce nuclear generating stations is planned to begin in 2016, the construction of new nuclear reactors has been deferred indefinitely. Since nuclear generation remains a major source of baseload power for Ontarians, the refurbishments will allow a significant portion of the baseload be supplied in a cost-effective manner without committing to the costly construction of new nuclear reactors. This is motivated by lower demand forecasts and avoiding upward pressure on electricity rates from new builds. However, there is flexibility to respond to higher than expected demand. It remains to be seen whether the MOE will be able to avoid cost overruns and project delays, which have frequently been experienced in Ontario's nuclear history.

Conservation

The MOE will continue working with the various government agencies – Hydro One, Ontario Power Generation, the Independent Electricity System Operator (the "**IESO**"), the Ontario Power Authority (the "**OPA**") and the Ontario Energy Board (the "**OEB**") – in order to ensure that conservation is a primary consideration in the planning, approval and procurement processes. Specific targets include offsetting electricity demand growth with a long-term conservation target of 30 TWh by 2032 and meeting 10% of peak demand through the use of demand response programs aimed at reducing peak period use of electricity by 2025. This should result in additional opportunities for commercial loads to manage their

energy use and cost pro-actively. However, if the upcoming RFPs continue to include capacity payments for long-term generation availability, it remains to be seen what portion of these reductions will lead to actual cost savings for ratepayers and what portion will simply be charged through the steadily increasing "Global Adjustment" charge.

In addition to encouraging conservation from commercial users, the MOE will be relying on innovations in information technology as a method of encouraging conservation by consumers:

- The "Green Button Initiative" allows consumers to access information about their electricity consumption. This type of data will allow developers to create software applications whereby consumers can view, manage and control their energy use.
- In October 2013, the Energy Apps for Ontario Challenge was announced – this competition offers \$50,000 to support the best new apps that use smart meter data to help Ontarians manage their electricity use.
- The OPA will also implement a social network benchmarking pilot program whereby consumers can test various methods of comparing their energy consumption against other consumers. If successful, it can be expected to lead to more initiatives utilizing information technology and networking technologies to promote energy awareness and conservation.

Again, it remains to be seen what benefit ratepayers will actually see from consumption reductions given the impact of the Global Adjustment charges on the all-in cost of electricity.

Annual Report

An annual Ontario Energy Report will be issued to provide the public with progress updates on the implementation of the LTEP, including the changing supply and demand conditions in Ontario, the progress of renewable energy as part of the supply mix, and achievement of conservation targets. While much of this data is already available from the IESO, OPA, OEB Market Surveillance Panel and other sources, the Report may serve a useful function in

holding the MOE and the various agencies to account on implementation of the plan and the need for updates as unforeseen developments occur.

Natural Gas Infrastructure

Oil and natural gas are also heavily relied on by Ontarians and supply approximately 75% of Ontario's primary energy use, in addition to the role of natural gas as a fuel source for electricity generation. The Union Gas Dawn and Enbridge Gas Distribution Tecumseh storage facilities can store a total of 255 billion cubic feet of natural gas. Since natural gas can be bought when prices are low, large storage facilities are necessary to ensure that sufficient quantities of natural gas are available during peak demand periods. The strategic importance of these facilities will likely increase as the delivery of shale gas to southwestern Ontario through the expansion of US pipeline infrastructure increases. However, the LTEP does not explicitly contemplate the impact of an expected application to convert a major gas pipeline to oil service in the coming years. Expansion of natural gas infrastructure to rural and northern Ontario will allow consumers to enjoy access to natural gas as a clean, cost-efficient energy source. While firm plans for this type of expansion are not specified, the LTEP does commit that the government will work on options to expand the infrastructure to service more communities in rural and northern Ontario and this could lead to significant new projects.

In addition to extensive experience advising clients with respect to procurement design, **McMillan's Energy Group** has a long track record of assisting proponents of wind, solar and other generation projects as well as advising on commercial and regulatory matters in the electricity sector. For further information on the opportunities presented by the LTEP, please contact your regular McMillan lawyer or any member of **McMillan's Energy Group**.

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[a cautionary note](#)

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