

**Ministry of Energy, Northern Development and Mines Review of
Ontario’s Long-Term Energy Planning Framework via the Environmental Registry of Ontario**

(ERO # 019-3007)

Market Surveillance Panel

April 27, 2021

On January 27, 2021, the Ministry of Energy, Northern Development and Mines (Ministry) posted a proposal on the Environmental Registry of Ontario website seeking input on long-term energy planning in Ontario with the intention to “increase the effectiveness, transparency and accountability of energy decision-making in Ontario”. The Panel submits the following comments in support of this review to assist the Ministry in obtaining its objective. In order to “increase the effectiveness, transparency and accountability of energy decision-making in Ontario”, the Panel suggests a focused and purposeful mandating of Ontario’s technical planning agency and its economic regulator – specifically the IESO and the OEB.

The Panel’s responses to the Ministry’s 9 guiding questions are as follows:

- i) *How can we promote transparency, accountability and effectiveness of energy planning and decision-making under a new planning framework?*

Previous planning frameworks have stressed the competing objectives of having plans implemented in a timely manner and having regulatory reviews and approvals of the actual plans. The time required for the application preparation, review and approval processes of the successive plans could be as much as 50% of the maximum time interval between plan applications. This process issue can greatly reduce the capability of system and market operators to respond with appropriate agility to ever changing market conditions and therefore the effectiveness of energy planning is impaired.

Previous frameworks also inherently diluted the attribution of plan execution accountability. Plan review and approval processes have typically led to comparisons of the proposed plan to interested parties’ suggested alternatives. This process can result in the approval of a plan that is significantly different than the one sought by the agency responsible for its implementation. In essence, the plan to be executed is no longer owned by the system planner/operator. This process issue reduces the capacity for those implementing the plan to be held accountable for its success in meeting its stated goals.

The Panel has considered these two impediments to accountability and effectiveness in the development of this response. The adoption of the following roles and responsibilities would avoid past planning framework weaknesses and increase effectiveness by enshrining long-standing energy planning objectives in legislation and clearly defining responsibilities and accountabilities.

Effective and Informative Framework: A consistent, purposeful, transparent and long-term approach to planning that leads to the required competitive procurement will instill confidence in consumers and Market Participants. Confidence is necessary to attract investment in the electric system components identified in the planning process.

Energy planning objectives that espouse efficiency, cost minimization, reliability and competition are inalienable in a competitive energy market. These objectives should be enshrined in governing legislation mandating the IESO's pursuit of these objectives. The Ministry should also provide the IESO with energy policy objectives and guidance that focus on its desired broad long-term outcomes. (See elaboration in response to question iii)

The IESO should be mandated to develop a planning and procurement process to achieve those objectives. The IESO would create documents describing how the IESO determines what resources are needed to meet the expected electricity system usage and how they will be procured. That documentation would be the basis of an application to the OEB for approval of the IESO's planning and procurement process.

The OEB should be mandated to conduct an open and transparent hearing to test the IESO's processes. The test for the IESO would be to demonstrate how its processes will achieve its legislated mandate of pursuing efficiency, cost minimization, reliability and competition as well as the Ministry's stated goals.

The IESO should be accountable for the creation and execution of an energy system plan through the OEB-approved processes. The IESO should be mandated to file a triennial report with the OEB demonstrating its adherence to the approved processes.

The OEB should be mandated to design a streamlined threshold criteria test to be applied to the IESO's reported adherence to the approved processes. In the event of a finding that the threshold test is not met the OEB would hold a hearing to ascertain if adherence was in fact not met and to determine what remedial action should be taken if required.

The IESO should be mandated to apply for amendments to its approved planning and procurement processes as changes in underlying circumstances dictate.

ii) *What overarching goals and objectives should be recognized in a renewed planning framework?*

A Planning Framework that Pursues efficiency and cost-effectiveness, relying to the maximum extent on Competitive Market Mechanisms: An effective planning and procurement process should have as its objective the creation and maintenance of an efficient and cost-effective electricity system that relies on competition where feasible and also achieves stated government goals including the environment. The process should include analysis of alternative scenarios with varying assumptions about demand, evolving energy technology and costs. This may include the development of rate structures that are consistent with – and help to achieve – plan outcomes.

A Planning Framework that Maximizes the Inherent Value of Competitiveness in the Operation of the Electricity Markets and Procurement:

Transparent, fair and competitive platforms that enable the offering of products and services create consumer confidence that their electricity service is reliable and cost-effective. The planning approach should be assessed for the presence of these attributes as well as concomitant ongoing self-assessment and continuous improvement protocols.

Non-competitive procurements are in progress in Ontario which lack transparency and accountability and will create an environment that discourages competition for future procurements. The Panel has

recently recommended that the IESO provide greater detail to Market Participants and potential investors relating to determining and meeting system needs and that the IESO utilize competitive procurements, wherever possible.¹ Non-competitive procurements should be as short-term as possible with the clear intention that they would be displaced by competition as soon as possible. When non-competitive procurements do occur, information should be published that clearly states which party was awarded the contract, what need was addressed, what effort was made to encourage competition and why a non-competitive procurement was justified.

- iii) *What respective roles should each of the Government, IESO, and the OEB hold in energy decision-making and long-term planning?*
- iv) *What kinds of decisions should be made by technical planners at the IESO and the OEB as regulators?*
- v) *What types of decisions should require government direction or approval?*

Government: The Government should focus on setting broad energy policy and maintaining well-functioning operating and regulatory systems. Government policy guidance should be long-term in vision and calibrated to endure predictable short-term changes in the economy, costs and technology. Government should avoid directed procurements and prescriptive solutions. Its guidance should be objective based.

IESO: See response to i)

OEB: See response to i)

- vi) *Are there gaps in the IESO and the OEB's mandates and objectives that limit their ability to effectively lead long-term planning?*
- vii) *Should certain planning processes or decisions by the IESO, the OEB, or the government receive additional scrutiny, for example through legislative oversight or review by an expert committee?*

The OEB and IESO Require Focused Mandates: The Panel has suggested mandate changes to accommodate improved energy planning effectiveness and accountability in its response to question i). In response to question iii) the Panel identified the Government's role in ensuring that it has a well-functioning regulatory system. A well-functioning regulatory system should have sufficient checks and balances to provide for energy planning without additional levels of scrutiny.

- viii) *How often and in what form should government provide policy guidance and direction to facilitate effective long-term energy planning?*

Government Should Focus on Providing Sufficient Authority to the IESO and OEB While Avoiding Prescriptive Solutions: The primary form of guidance that should be provided by government is through

¹ See the Panel's Monitoring Report 33 published December 2020 and the Panel's comments to the IESO submitted as part of the Resource Adequacy stakeholder engagement on February 17, 2021: <https://www.oeb.ca/sites/default/files/msp-monitoring-report-202012.pdf> and <https://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/rae/ra-20210217-market-surveillance-panel.ashx>

the statement of objectives in statutes. Clear separation of energy policy from other public interests should be maintained to allow allocation of related costs and appropriate means of cost recovery.

Long-term energy planning in Ontario has undergone significant changes in the past decade, and more changes are expected following this review. Since the 2004-2014 period during which 93 directives were issued, the Government has reduced the number of Ministerial Directives with prescriptive solutions for electricity system needs, enhancing the independence of the IESO in the process.² As the IESO moves towards more market-based approaches for addressing system needs, the Government should allow both competitive and non-competitive procurements to proceed with a process for review without prescribing how needs should be addressed.

In order to provide greater independence to technical experts and regulators, the Government should continue to shift decision-making responsibility from the Ministry towards transparent processes executed by the IESO and the OEB. The Government should also continue to monitor – and adjust as necessary through legislation – the effectiveness of long-term planning by periodically reviewing the authority of the IESO and the OEB.

ix) How do we ensure effective and meaningful Indigenous participation in energy sector decision-making?

The Panel is supportive of efforts to improve engagement with Indigenous peoples through direct consultation.

² See the Auditor General's 2015 Annual Report, Section 3.05 "Electricity Power System Planning" page 214: <https://auditor.on.ca/en/content/annualreports/arreports/en15/3.05en15.pdf>