



October 30, 2003

Hon. Dalton McGuinty
Premier of Ontario

and

Hon. Dwight Duncan
Minister of Energy

Queens Park,
Toronto, Ontario

Dear Premier McGuinty and Minister Duncan,

On behalf of the Renewable Energy Task Team and all members of the renewable energy industry, we would like to welcome you to your new positions, and wish you the best of luck in addressing the challenges facing Ontario in energy policy. We can assure you that the renewable energy industries intend to put the full weight of our organizations behind the effort of helping you to implement the government's stated policies in renewable energy.

Our Team has consulted widely with members of the renewable energy industry to prepare a viable implementation strategy to achieve our shared objectives. Our key recommendations are as follows:

1. To issue a top-level statement of the government's intention to move forward aggressively on the development of renewable energy and energy efficiency in this province.
2. To move immediately to acquire new renewable energy resources (commissioned after April 2001) through issuance of a Request For Proposals for new renewable resources.
3. To institutionalize renewable energy as a government-wide objective, through the establishment of a Renewable Energy Secretariat, and ensuring the business plans of relevant ministries reflect Ontario's energy imperatives.

In consulting with the members of the industry, our Team has found a great deal of consensus on the steps that need to be taken. In this regard we have prepared the attached briefing material

setting out what we believe are key considerations required to facilitate meaningful progress in this area.

In addition, we would refer you to the previous work of the Renewable Energy Task Team, for a set of detailed recommendations developed over the past ten months. These documents, along with a the forthcoming report detailing the proposed architecture of the Renewable Portfolio Standard, represent a very strong basis of advice, which we believe will set you in good stead to move forward expeditiously in this area.

We would like to stress that the private sector is attuned to this issue and ready to help the government achieve its clean air objectives.

We also support significant advances for energy efficiency and energy conservation in the province through world-class programs designed in collaboration with stakeholders, but without expending large amounts of time consulting on principles.

We believe that these initiatives will not only be a major step towards cleaning up our environment, but will also prove to be very attractive economically.

We look forward to working with you and your staff to bring about cleaner air and sound energy policy for the province of Ontario, and would be pleased to discuss these recommendations directly with you.

Sincerely,

Jake Brooks, Executive Director
Independent Power Producers' Society of Ontario

and David Boileau, Chair
The Renewable Energy Task Team

*Summary Memo
October 30, 2003*

Immediate action items to achieve policy goals

Top-Level Support for Renewable Energy

- There needs to be a strong signal from the Premier that this is high priority for the government
- Requires the active co-operation of other departments, requiring a political “push”
- Achieving the addition of 5% to the system with renewable resources by 2007 will require immediate action
- We will need the joint efforts of several departments and agencies to make it happen and encourage the continued involvement of the Premier to make sure it happens

Request for Proposals

- Immediately issue an RFP for the first 500 MW toward the government's stated target of 1,350 MW of new renewable power supply by 2007
- Extensive consultation has already taken place on this through the RETT
- The Ministry has also done significant background work
- Must proceed immediately to hit the targeted amounts by the target date. The preparation work is done, and the industry is ready to respond, so this is easily actionable.

Renewable Energy Secretariat

- It's not just a matter of creating a market but also the removal of barriers that currently impede the efficient installation of additional renewable energy capacity
- Create Secretariat to carry out the plan and assure that the agenda is carried forward and barriers alleviated within government
- A central agency to advocate on behalf of the industry within government, and to keep government informed on options and technology improvements is vital to sound policy development in the future.

October 30, 2003

Memo to Incoming Ontario Minister of Energy

**Joint Briefing Note on
Renewable Energy Priorities for Ontario**

October 30, 2003

Prepared with input from:

- Renewable Energy Task Team
- Independent Power Producers' Society of Ontario
- Ontario Waterpower Association
- Canadian Wind Energy Association
- Canadian Bioenergy Association
- Ontario Sustainable Energy Association
- Canadian Solar Industries Association
- Other contributors

This document is provided on a “without prejudice” basis, and although efforts have been made to reflect the overall views of the industry, there are undoubtedly instances where individual organizations may have views on specific areas that differ from this overall statement.

For more information, contact IPPSO online at www.newenergy.org or 416-322-6549.

Outline:

- 1. Purpose of this document**
- 2. Implementation of government energy/environment policy**
- 3. Recommended focuses**
 - **Top level leadership**
 - **RFP**
 - **Renewable Energy Secretariat**
- 4. Other key considerations**
- 5. Conclusions**

1. Purpose of this Document

This document is designed to outline how the power generation sector can assist the new government of Ontario in meeting the renewable energy commitments outlined in its platform. The sector welcomes the Ontario Liberal Party's commitment to improve the investment climate for power producers and is intent on doing its part to contribute to the resolution of the current electricity supply crisis and air quality concerns in Ontario. We seek to reach a durable consensus on the most important priorities for the government to address in the area of energy and environmental policy.

During the election, the Ontario Liberal Party articulated a vision that could result in significant changes to the electricity mix in Ontario. If progress toward these commitments is to be achieved, there is no time to waste in devising and implementing a workable plan. Certainly issuing a Request For Proposals for the first tranche of the Ontario Liberal Party's Renewable Portfolio Standard soon will be important. All the contributors to this document are united in their desire to help the new government achieve success at meeting the objectives underlying its promises of achieving major environmental improvement in the electricity system on an economic and sustainable basis.

2. Implementation of government energy/environment policy

Clearly, the incoming government has established clean air as one of its top priorities, and it has already targeted the closure of coal-fired power plants as a key means of meeting this objective. But coal is only one part of the picture. An environmentally-attractive and economically viable energy policy must take into consideration the many kinds of air pollutants (smog precursors, particulates, toxics, and greenhouse gases) as well as impacts on water and land use, and provide the means for increasing the use of energy efficiency and renewable energy, while controlling overall costs for consumers.

Top leadership must announce that:

- Renewable energy is a priority,
- All ministries involved must act quickly to support implementation,
- Remaining barriers already identified to the ministries will be removed, and
- Policies to encourage large-scale deployment of renewable energy will be prepared and implemented.

The announcement must be soon, public, and include buy-in by line ministries around the cabinet table, and provide for dependable follow-up.

We would recommend enunciation of detailed targets and time-frames, within the province's energy policy, having the objectives of substantially increasing Ontario's production and use of renewable power, increasing the efficiency of energy use, co-generation, and district energy systems on an expedited time-frame. It is important that the government clearly establish its intentions as early as possible, with as much detail as possible, in order to encourage the many other relevant players to begin the process of deploying their own resources in a supporting fashion. (This includes investors, municipalities, customers, non-profit sector partners, local distributors, energy companies, First Nations, regulators, and many others.)

In the collective view of contributors to this document, such an action plan should include:

1. Top-Level Support

- There needs to be a strong signal from the Premier that this is high priority for the government
- Requires the active co-operation of other departments, requiring a political "push"
- Achieving the addition of 5% to the system with renewable resources will require immediate action
- We will need the joint efforts of several departments to make it happen and encourage the continued involvement of the Premier to make sure it happens

2. Request for Proposals

- Immediately issue an RFP for the first 500 MW toward the government's stated target of 1,350 MW of new renewable power supply by 2007
- Extensive consultation has already taken place on this through the RETT
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3. Renewable Energy Secretariat

- It's not just a matter of creating a market but also the removal of barriers that currently impede the efficient installation of additional renewable power supply
- Create Secretariat to carry out the plan and assure that the agenda is carried forward and barriers alleviated within government
- A central agency to advocate on behalf of the industry within government, and to keep government informed on options and technology improvements is vital to sound policy development in the future.

Further important matters for focus and attention are as follows:

1. In the medium term, a Renewable Portfolio Standard may need to be modified in order to accommodate changes in market design. It is vitally important that the renewable energy strategy of the government be considered when market design changes are enacted.
2. Significant advances for energy efficiency, energy conservation and on-site renewables such as solar, biomass and small wind in the province through world-class programs designed in collaboration with stakeholders, but without expending large amounts of time consulting on principles.
3. Development of a strategy for transmission upgrades that is consistent with the overall regulatory framework for transmission while alleviating barriers to renewable and other generation resources.
4. Enhancements to the system for emission reduction trading to more fully recognize the value of emission-reducing power production
5. Co-ordination with the national climate change program.

3a. Recommended first focus: Clear and unequivocal statement of government leadership and intentions on renewable energy

Building Ontario's renewable energy capacity will require collaboration and support of many institutions besides the Ministry and the industry. Attracting confidence and readiness amongst lenders, municipal and community partners requires that everyone have solid assurances about the depth and dependability of the government's commitment to proceed along a sustainable renewable energy path.

To establish and maintain this confidence and readiness to contribute to the program, we recommend the following major steps:

- a) Clearly enunciated policy stating the government's objectives and intentions for increasing the use of renewable energy and energy efficiency in the stated time frames
- b) Issuance of the first Request for Proposals for new renewable power supplies
- c) Establishment of a Renewable Energy Secretariat or similar agency, with a significant budget and a mandate to champion the development of renewable energy and energy efficiency, and to help clear any hurdles that may exist within the present system. (See section 3c, below.)

It's critical to move quickly on the commitments that the government has made to reduce air emissions through improvements in the energy sector. Renewable power sources will be more economic, and the improvements to air quality will benefit more Ontarians if they are started early. Clearly, if the government's commitments are to be met in the promised time-frames, increasing our renewable energy capacity should be seen as an urgent matter, and plans and programs should be put in place as soon as possible to achieve meaningful results.

3b. Recommended second focus: Issuance of the first RFP under the Renewable Portfolio Standard

The Renewable Portfolio Standard or RPS is the most dependable and visible initiative the government can take to achieve its overall objectives in terms of cleaner air and new supply. It has the advantage of acting directly on the investment process, ensuring that competitive forces are brought to bear on every aspect of the new investment. Our understanding is that the new Government's proposed Renewable Portfolio Standard envisages meeting the objectives through the issuance of Power Purchase Agreements by the Government or a body with the creditworthiness of the Government like the Ontario Electricity Financial Corporation (OEFC).

We believe, at least in the short term, that the issuance of government-backed contracts is the most practical approach. An industry group, "the Renewable Energy Task Team," (RETT) has already been working with Ministry of Energy staff on a plan for the implementation of such an RPS. A copy of this group's final report will be forwarded shortly. Suffice it to say, in order to meet the initial objective of 5% of new renewable power supply by 2007, an announcement should be issued in the fall of 2003 committing to a Request For Proposals for a minimum of 500 MW to be issued early in 2004. This should then be followed by subsequent RFPs for the balance to meet the minimum target of 1350 MW by the end of 2007.

To meet the government's commitment that Ontario electricity suppliers obtain at least 10% of their electricity from new, clean, renewable sources by 2010 will require construction of approximately 400 MW of capacity each year, starting in 2004. This much capacity would produce approximately 15 additional TWh of renewable energy per year by 2010.

3c. Recommended third focus: Mandating the Renewable Energy Secretariat

To facilitate the implementation of the Renewable Energy Strategy, it is imperative that interministerial coordination be formalized through a mandated entity – a Renewable Energy Secretariat. The Secretariat should have leadership from key ministries (Energy, Finance) and representation from line ministries with regulatory mandates affecting renewable energy development (Natural Resources, Environment, Municipal Affairs etc.)

Short-term priorities for the Renewable Energy Secretariat should include - Working with stakeholders to design and develop the later tranches of the RPS

- Monitoring the treatment of renewable energy concerns in development of the market design
- The evolution of Ontario's emission trading system
- Co-ordination with national climate change program
- Developing and implementing plans for reducing barriers for each of the renewable energy technologies
- Facilitation of net billing and low-cost connection for generation under 50 kW
- Addressing transmission issues, including facilitating access to transmission for renewable energy
- Looking after other key considerations, some of which are enumerated below

4. Other Key Considerations

4a. Strengthening and improving the market

We agree with the Ontario Liberal Party's statement about creating a better environment for private generators and making the most out of opportunities for collaboration between the public and private sectors.

In the longer term, the economic development of renewable energy systems is most likely to be achieved through a functional market system that establishes meaningful prices and creates the impetus for all players (loads and generators) to behave in an economically efficient and sustainable manner.

The market mechanisms that now exist in Ontario have largely worked as designed in a technical sense. The imperfections that remain are best addressed through an orderly stakeholdered process of refining the rules, such as that already established through the IMO's Market Evolution Program

Our industry is ready to assist the government in coming to a workable policy on how the market can continue to be improved for the benefit of the province of Ontario.

4b. Improvements to the emission trading system

Ontario now has a functioning emission trading system, but it should be improved to more fully realize its potential. A key objective should be to ensure that the value of tradable certificates is commensurate with the value to society of the reduced emissions - whether the reductions are direct, or indirect as in the case of renewable energy.

One feature that should be enhanced and not be compromised in the existing system is the provision for renewable and low-emission energy producers to create marketable emission reduction certificates.

In addition to the objectives noted above, there are technical improvements that can be made. This is a very specialized area that will require work with experts in government, with the renewable energy industry and with emitters. Consultation with experts such as Clean Air Canada Inc. will help clarify these issues.

It is our general view that with respect to the challenges of coal generated electricity, the focus should be on the emission not the fuel. In other words, all options should be considered that would see the reduction of emissions, and an emission trading system is an important part of the solution.

4c. Co-ordination of disparate instruments at provincial and federal levels

We welcome provincial participation in international and inter-provincial efforts to align and co-ordinate the various systems applicable to our sector. By implementing the priorities identified above, Ontario's new Liberal government will have started down the path of meeting its energy and clean air objectives and will have moved into a leadership role in the deployment of new renewable energy in Canada. This will put Ontario in a strong position to engage with the federal government and other provincial partners in the development of a national renewable energy strategy that ensures that the many disparate initiatives currently underway in Canada are developed in a synergistic way that can complement Ontario's key interests and priorities.

Renewable energy producers currently face a complex array of programs and incentives which attempt to certify, value and monetize their environmental benefits. Most of the systems are incompletely developed, and few of them bear any firm relationship to any other. To summarize, the overlapping instruments include the following:

- NOx and SOx reduction trading program (provincial)
- Renewable Portfolio Standard (Ontario, yet to be defined)
- National climate change program (targeted measures and domestic offset program, yet to be defined)
- Green tags and green power certification guidelines, for consumer marketing of green power
- Attribute tracking system (Ontario)
- International certificate tracking system (under discussion)
- Federal and Provincial procurement programs for self supply

It is possible that a given renewable energy project might have to apply for and receive separate certification of the generating source, certification for green tags, NOx emission reduction certificates, inclusion in an RPS, greenhouse gas reduction units, and so on. While it's not expected that the rules for qualifying for the various certifications and credits would be made identical, it is reasonable to work towards a common system of measurement, rules of disclosure, etc. At the very least, it's important to expedite the resolution of details, so that the benefits of these systems can be used for development as soon as possible.

There are numerous areas within government control that have important effects on the prospects for development of renewable energy systems. These must be clearly identified and brought into synchronicity with the government's overall policy of quickly increasing Ontario's renewable energy capacity. For example:

- Land release policy for waterpower and wind power (Ministry of Natural Resources)
- Property Tax (Ministry of Finance)
- Transmission and distribution rate design (Ontario Energy Board)
- Environmental screening thresholds (Ministry of Environment)
- Planning, zoning, building codes, etc. (Ministry of Municipal Affairs and OMB)

5. Conclusions and Recommendations

The field of renewable energy holds great promise for the province of Ontario, if we take early steps to create a conducive environment for development. These steps would include the major focuses outlined above, and in particular the following undertakings:

- * Top Level Commitment and Leadership on Renewable Energy
- * Initiation of the First RFP for new renewable energy
- * Preservation and expansion of the function of the newly-created Office of Alternative Energy through the creation of the Renewable Energy Secretariat
- * Building on the recommendations already put forward by the Renewable Energy Task Team in its report "Generating Investment in Ontario"
- * Enunciation of clear and well developed timelines and targets within a provincial energy policy with the objectives of substantially increasing our production and use of renewable power, increasing the efficiency of energy production and use, and increasing the use of both co-generation, and district energy systems on an expedited basis.
- * Acceleration of the work of the Renewable Energy Task Team and Ministry of Energy staff in establishing the framework for the implementation of the Renewable Portfolio Standard with an objective of issuing the first Request for Proposals in early 2004.

The renewable energy industry looks forward to working with the new government of Ontario to bring forward these changes for the benefit of all Ontarians.

Appendix: Examples of cross-departmental issues that have been identified

1. Environmental assessment thresholds for renewable energy projects – **MOE** has posted proposals to EBR, but final decisions have not been made.
2. Crown land policies – **MNR** has done extensive work on Crown land policies for wind projects, but has not released final plans. There are significant obstacles preventing release of crown sites for waterpower development. 87% of the province is Crown land.
3. Zoning and planning. **MMAH** has begun consultations on this issue. There is currently a patchwork of zoning regulations and implementation, that can be significantly streamlined.
4. Building codes. **MMAH** has begun consultations on the application of the Ontario Building Code to wind turbines.
5. Property tax. The previous government announced that new renewable energy projects would be exempt from property tax, with compensation for the municipality. The **Ministry of Finance** is proposing that the compensation be only for land taken out of use by a wind project, and not for the foundation and structure that is built. This will result in virtually no revenue for municipalities from wind projects, thus reducing their incentive to welcome them to their area.
6. Voluntary green marketing. It is against market rules for Local Distribution Companies to market green power at a premium. The development of such a market has built 170 MW of wind capacity in Alberta, at no cost to the province, or ratepayers. **Market rules** should allow the development of a green premium market.
7. Transmission and distribution connection costs and rules need significant attention. The **OEB** is currently reviewing rules, but in a limited way, as cost allocation is not under review.