

* before July? - latest draft → May 1st →

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MEETING NOTE

NAME OF ORGANIZATION:

Secretary of the Cabinet

DATE/TIME OF MEETING:

Tuesday, March 28th / 8:00 – 8:30 AM

LOCATION OF MEETING:

SOC Boardroom, Room 6420, Whitney Block

FAO report
summary

ATTENDEES:

Ministry of Energy

Serge Imbrogno, Deputy Minister

Cabinet Office

Steve Orsini, Secretary of the Cabinet

AGENDA:

1. Ontario's Fair Hydro Plan (OFHP) – Implementation
2. Long-Term Energy Plan (LTEP)
3. Ivey Energy Centre Policy Brief

* 4. PAO } monthly
 updates
 Base (Dargatzis)
* 5. OFHP → E-hinders

NOTES ON AGENDA ITEMS:

1. Ontario's Fair Hydro Plan (OFHP) – Implementation

Suggested Response:

- The Ministry of Energy is working to implement Ontario's Fair Hydro Plan. This includes refinancing the Global Adjustment (GA), with support from energy agencies.
- To implement GA refinancing, multiple working committees have been established, including representatives from ENERGY, MOF, TBS/OPCD, IESO, OEB, OPG and external advisors (see Appendix).
- Under Ontario's Fair Hydro Plan, we are also proposing to expand the Industrial Conservation Initiative (ICI) to include smaller manufacturers with average peak demand greater than 500 kW. It is expected that these consumers would be able to opt in to ICI in June 2017.

5. AG To receive
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audit request.

- **Customers who qualify as a Class A, under ICI, are expected to be notified of their peak demand factor by their local distribution company (LDC) by May 31. Eligible customers must opt in to the initiative by notifying their LDC by June 15 if they would like to be charged as a Class A for the 12-month period beginning July 1.**
- **Ontario's Fair Hydro Plan also includes the establishment a new Affordability Fund, which will support Ontarians to undertake energy efficiency improvements, who do not qualify for low-income conservation programs and who otherwise would be unable to do so without financial assistance.**
- **With 60,000 Ontarians at risk of disconnection from their electricity service each year, there is an immediate need to help more customers. Energy efficiency improvements can help put these customers on a more sustainable path.**

Background:

Ontario's Fair Hydro Plan

- On March, 2, 2017, the government announced Ontario's Fair Hydro Plan, which includes:
 - A benefit from the funding of support programs through provincial revenues for all electricity consumers.
 - Electricity consumers eligible for the Regulated Price Plan (RPP) would be eligible for GA refinancing.
 - Small manufacturers would become eligible to participate in the Industrial Conservation Initiative. See below for more information.
 - Sector efficiency would be improved and Ontario's electricity market would be modernized, working in collaboration with the Independent Electricity System Operator (IESO) and the OEB.

Shifting Support Programs to Provincial Revenues

- Ontario's Fair Hydro Plan also proposes to shift the cost of the OESP and RRRP program from being paid through electricity bills to being paid for through provincial revenues. This would cost the government up to \$2.5 billion over the next three years.

GA Refinancing

- The majority of the province's electricity generators have 20-year contracts. Many of these generators are expected to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future electricity consumers by reducing the need to finance the development of new generating assets.
- Refinancing a portion of GA would provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period.
 - In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity consumers.
 - In later years, the cost of refinancing would be recovered from consumers. Under current forecasts, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding \$1.4 billion.
- Electricity consumers that are eligible for the RPP would benefit from GA refinancing.
 - In order to be eligible for the RPP, annual consumption must be below 250,000 kWh/year or peak demand must be below 50 kW. This includes residential consumers as well as most small businesses and farms.
 - Consumers who are eligible for RPP, but have opted out to become a retail or wholesale consumer would also receive the benefit.
- Eligible small businesses would include dry cleaners, convenience stores, small restaurants and retail stores, but would exclude businesses such as larger restaurants, welding shops, medium and large office buildings and big box retailers.

Industrial Conservation Initiative (ICI)

- ICI encourages Ontario's largest consumers to reduce consumption during peak periods to reduce their electricity costs by an average of up to one-third. This provides savings to participating consumers and reduces peak demand, deferring the need to build new generation.
- Consumers participating in ICI are charged GA on the basis of their share of the total system demand during the highest five peak hours of the year (i.e., the peak demand factor).
- Customers who qualify as a Class A are expected to be notified of their peak demand factor by their local distribution company (LDC) by May 31. Eligible customers must opt in to the initiative by notifying their LDC by June 15 if they would

like to be charged as a Class A for the 12-month period beginning July 1.

- Expanding participation in the ICI program would:
 - Reduce cost pressures on the electricity system by empowering more consumers to lower their electricity demand during peak periods; and
 - Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.
- Newly eligible customers will have the opportunity to opt in to the ICI program.

Expansion to Electricity Consumers Greater Than 1 MW

- Since July 2015, Class A includes energy-intensive consumers with an average monthly peak demand greater than 3 MW and less than 5 MW in select industries including manufacturing.
- In the September 2016 Throne Speech the government announced that it was expanding access to ICI to include more than one thousand newly eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW.
 - In addition, sector restrictions have been removed and smaller industrial, institutional and commercial businesses would be eligible to participate.
- Effective July 1, 2017, Class A will include all electricity consumers with peak demand greater than 1 MW without any sector restrictions.

Expansion to Manufacturers Between 500 kW to 1 MW

- Ontario's Fair Hydro Plan proposes to expand the ICI to include smaller manufacturers (i.e., NAICS codes commencing "31", "32" and "33") with average peak demand greater than 500 kW and less than 1 MW. Final details on timelines will be available once the regulation is developed and approved.
- The cost impact across industries and individual facilities would vary.
- Consideration is being given to allowing consumers who were at one time ICI participants to remain eligible for ICI if at any time they drop below the ICI threshold while participating in conservation programs.
- Manufacturers under NAICS codes 31-33 that would be eligible for ICI include:

○ Food Manufacturing (NAICS 311) ○ Beverage and Tobacco Product	○ Nonmetallic Mineral Product Manufacturing (NAICS 327)
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Manufacturing (NAICS 312) ○ Textile Mills (NAICS 313) ○ Textile Product Mills (NAICS 314) ○ Apparel Manufacturing (NAICS 315) ○ Leather and Allied Product Manufacturing (NAICS 316) ○ Wood Product Manufacturing (NAICS 321) ○ Paper Manufacturing (NAICS 322) ○ Printing and Related Support Activities (NAICS 323) ○ Petroleum and Coal Products Manufacturing (NAICS 324) ○ Chemical Manufacturing (NAICS 325) ○ Plastics and Rubber Products Manufacturing (NAICS 326)	○ Primary Metal Manufacturing (NAICS 331) ○ Fabricated Metal Product Manufacturing (NAICS 332) ○ Machinery Manufacturing (NAICS 333) ○ Computer and Electronic Product Manufacturing (NAICS 334) ○ Electrical Equipment, Appliance and Component Manufacturing (NAICS 335) ○ Transportation Equipment Manufacturing (NAICS 336) ○ Furniture and Related Product Manufacturing (NAICS 337) ○ Miscellaneous Manufacturing (NAICS 339)
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Affordability Fund

- The Fund, established through the tax base, will be administered by an independent Trust and accessible to electricity distributors.
- Eligible customers will be identified by electricity distributors.
 - The program is expected to be entitlement based, i.e. targeting customers who are in bill arrears, facing disconnection, and/or not able to undertake energy efficiency improvements without financial assistance, and are not eligible for the low income Home Assistance Program. Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake.
 - It is expected that the program will assist eligible customers by providing energy efficiency measures ranging on average from \$3,000 to \$5,000 per customer at no or minimal costs.
 - The measures funded through the Fund would be similar to, or build on those available through the existing low-income conservation program called the Home Assistance Program.
- On March 23, 2017, the Affordability Fund Trust was established with Computershare Trust Company of Canada (Computershare) as its Original (interim) Trustee.

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement (TPA) with Computershare to flow \$100 million to the Affordability Fund Trust.
 - Computershare is a trusted partner in some of the largest public and private organizations in Canada and globally and will act as the Original Trustee for the Affordability Fund Trust.
- By May 31, 2017, Computershare will be replaced with a Board of Trustees who will be responsible for distributing funds to electricity distributors across the province at their discretion based on an application process and targeted eligibility criteria. It is expected that the Board of Trustees will include representation from three electricity distributors as well as two social service agencies.
- An Advisory Committee has been established through the Trust Deed which will provide recommendations to Computershare on appointments to the Board of Trustees. Advisory Committee members include:
 - Brian Bentz (CEO, Alectra),
 - Bryce Conrad (CEO, Hydro Ottawa),
 - Robert Mace (CEO, Thunder Bay Hydro),
 - Ferio Pugliese (Vice President Customer Care and Corporate Affairs, Hydro One) and
 - Terry Young (Vice President Conservation and Corporate Relations, IESO).

2. Long-Term Energy Plan (LTEP)

Suggested Response:

- **The Ministry of Energy continues to work on developing the next Long-Term Energy Plan (LTEP).**
- **The Ministry continues to review engagement feedback and have had preliminary policy briefings with the Minister of Energy and his staff.**
- **As the content for LTEP is developed, the Ministry of Energy will work closely with other ministries both where policy areas overlap, and also to ensure alignment with other government initiatives (e.g. the Climate Change Action Plan, 2017 Budget, etc.)**

Background:

- Development of the next LTEP is following the process outlined in the Energy Statute Law Amendment Act, 2015 which came into force on July 1, 2016.
- The LTEP engagement process officially began on October 13 with the release of the LTEP discussion guide, an in-person engagement schedule, and the Environmental Registry Notice. The Environmental Registry notice closed on December 16, 2016.
- The Ministry received over 1,500 submissions through the Environmental Registry, emails and other channels.

- Engagement with Indigenous communities continues. The Ministry of Energy plans to report back to Indigenous communities and organizations on what was heard during the LTEP engagements and to discuss potential policy and program initiatives moving forward.
- Both the LTEP engagement and development processes are being supported by an electricity technical report which was released by IESO on September 1, 2016, and a fuels sector technical report which was prepared by Navigant Consulting and released September 30, 2016.
- Pending Cabinet approval, the Ministry of Energy expects to release an LTEP and associated Implementation Directives to IESO and OEB in mid-2017.
- The Environmental Commissioner of Ontario (ECO) released a Special Report on Developing the LTEP in December 2016. One of the report's recommendations was to consult the public on a draft LTEP. The Ministry is considering options to address this recommendation, including releasing a summary of engagement feedback prior to the LTEP release.
- The Minister of Energy will review subsequent implementation plans outlining how IESO and OEB intends to implement the objectives laid out in the Directives.

3. Ivey Energy Centre Policy Briefs

Suggested Response:

- **Ivey's draft reports are well-researched and have been thoroughly reviewed by Ministry staff.**
- **The reports will contribute to the ongoing conversation around electricity generation costs in Ontario.**
- **Do you have any further suggested changes to the reports prior to their publication?**

Background:

- Ivey has drafted two policy briefs: *The Economic Cost of Electricity Generation in Ontario* and *Background on Generation Capacity Markets*

First Ivey policy brief: The Economic Cost of Electricity Generation in Ontario

- The report provides a policy solution that would address rising electricity bills and their impact on Ontarians. Specifically, the report suggests spreading the cost related to IESO-contracted generation over a longer period of time, to correspond with the estimated service lives of the generators.

- Ivey's recommendation is nearly identical to the government's Global Adjustment Financing proposal that is part of Ontario's Fair Hydro Plan.
- The authors conclude that smoothing generation costs could lower electricity system costs by \$1.5-2 billion per year in the short term, equivalent to about 8% of total system costs.
- The authors point out that smoothing generation costs could be accomplished three ways:
 - Offer generators with existing contracts the opportunity to bid for new contracts that would supersede their current contracts.
 - Reduce consumer bills by an amount equal to the difference in generation costs based on current contract lengths and contract lengths that reflect useful service lives; and
 - In future contracting exercises, invite generators to submit bids that include the proposed contract duration.
- The authors use U.S. Energy Information Administration and International Energy Agency assumptions to estimate likely generator lifespans.
- In addition to the discussion of smoothing generation costs, the Ivey report describes three "structural changes" that have occurred in Ontario's generation sector since the 1990s:
 - The addition of nuclear generation concluding in a price freeze in the 1990s;
 - The 2002 rate freeze following the opening of the wholesale market in the same year; and
 - The "rebalancing of the supply mix" that began in the mid-2000s.
- The report goes on to highlight following factors that have contributed to higher generation costs in Ontario:
 - Phase out of coal-fired generation;
 - Increasing share of renewable fuels;
 - Overall growth in installed generation capacity; and
 - Increasing electricity exports and associated Global Adjustment (GA) costs.

Second Ivey policy brief: Backgrounder on Generation Capacity Markets

- The report suggests that there are potential benefits in the form of cost savings from adopting a capacity market in Ontario.
- The report begins with a description of key attributes and functioning of capacity markets. It then provides a discussion of the anticipated financial benefits of implementing a capacity market in Ontario as well as an overview of the experience of capacity markets in other jurisdictions. Finally, some important caveats and key messages are discussed in considering the implementation of a capacity market in Ontario.
- In terms of lessons for Ontario, the reports point out that:
 - Competitive capacity markets can be subject to significant price volatility;
 - Successful capacity markets in other jurisdictions rely crucially on well-functioning wholesale energy, ancillary services, and secondary capacity markets; and
 - Proper governance is crucial to obtaining the greatest benefits from a capacity market.

Appendix – Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

