CLD ?

Tony Prod →

→ Alectra
→ Toronto

Hydro One →

Toronto
Alectra

$200 million

Ontario

MINISTRY OF
ENERGY

Rate Mitigation Options for Class B Electricity Consumers

→ OPA efficiencies → should we put this back on the table?

Working Draft

March Bill

→ what is the OEB doing?
→ what is Hydro One doing?
→ uncertainty
→ constraints

February 2017

→ variability across utilities

CONFIDENTIAL DRAFT

Context

- Class B electricity consumers comprise of about 50,000 customers that include many commercial and mid-size manufacturers (i.e., automotive parts suppliers, plastics manufacturers), large commercial buildings (i.e., office blocks, mid-sized shopping malls) and broader public sector facilities (i.e., hospitals, college campuses).

  & many of them have due the Carter minutes

- Class B consumers are too large for the Regulated Price Plan (so do not qualify for the 8% rebate for small businesses or Time-Of-Use pricing) and too small to be Class A (so do not qualify for the Industrial Conservation Initiative (ICI) for large consumers).

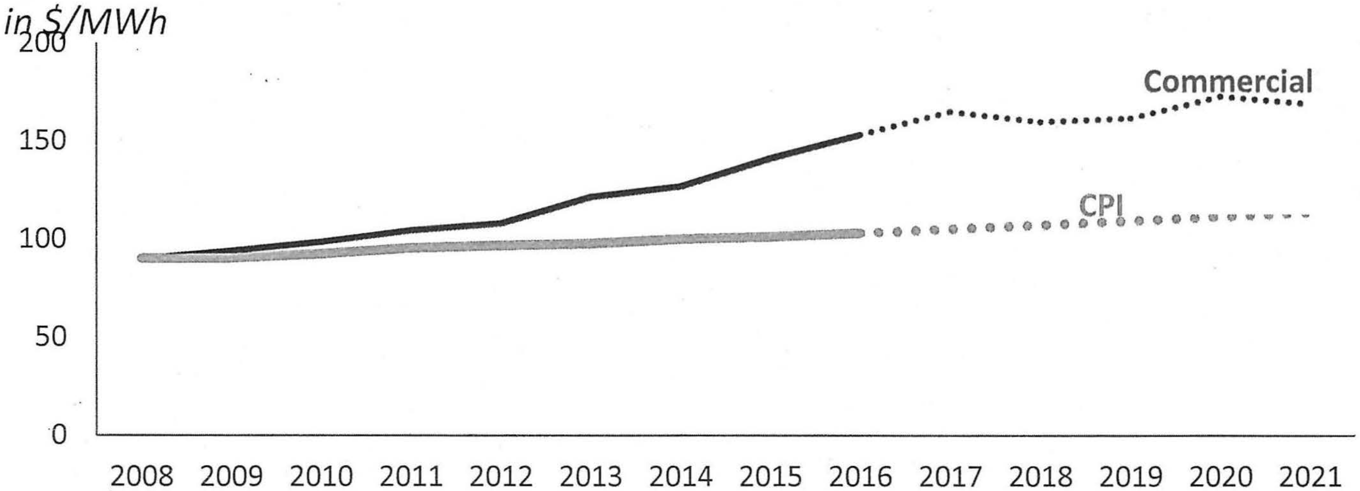
- Price mitigation initiatives could be provided to Class B to address stakeholders' concerns (e.g., Coalition of Concerned Manufacturers of Ontario, etc).

all competition running pressures

+ manufacturers

Illustrative Electricity Prices

in $/MWh



Class A

Capacity

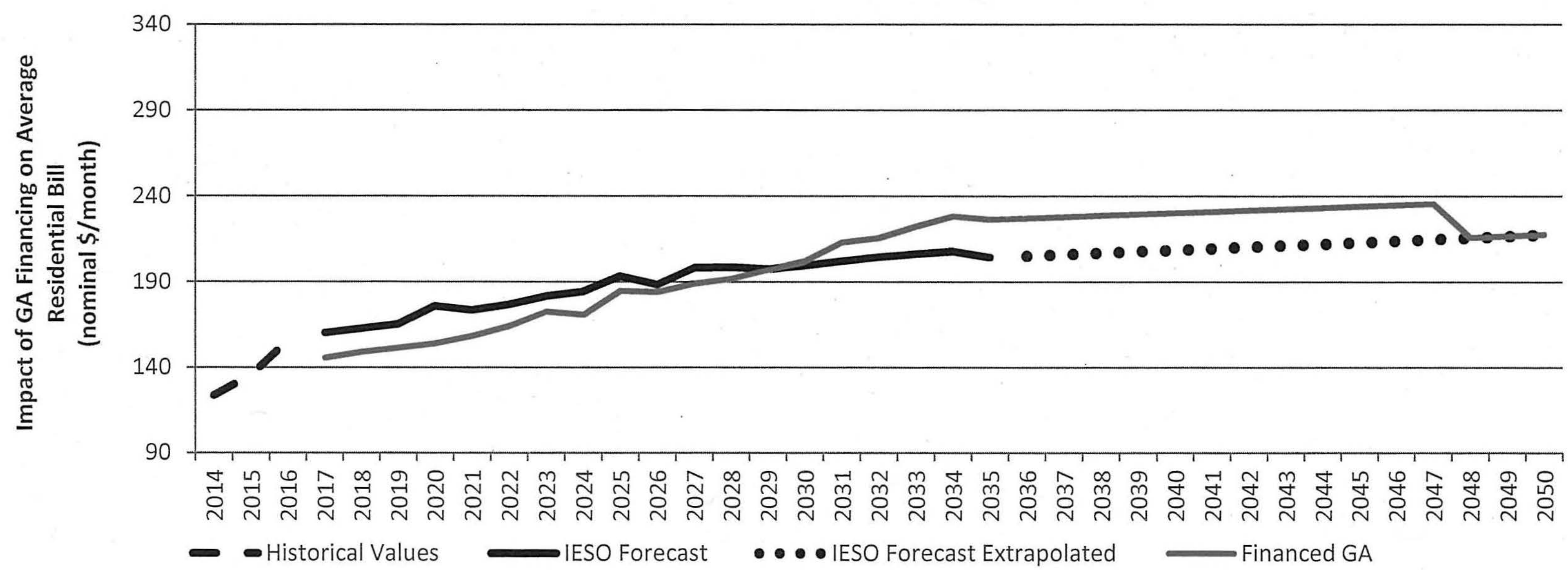
Source: IESO; OEB; Ministry of Energy

Rate Mitigation Options

- Options for consideration include:
  1) GA Smoothing for All;
  2) Lower the Cost of Global Adjustment (GA) by Funding a Portion of Conservation through the GGRA;
  3) Remove Debt Retirement Charge Early (DRC) for Class B Consumers;
  4) Extend 8% Rebate to Include Class B Consumers; and
  5) Provide Tax-Based Assistance Package for Class B Consumers (i.e., SMEs).

- The options listed above can be combined to reduce prices for all electricity consumers including Class B or to target Class B specifically.

1. GA Smoothing for All (Borrow $2.3 billion in 2017)



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Average Monthly Residential Bill Impact pre-tax *($/month)*	-13.0	-12.2	-12.4	-19.5	-13.5	-11.4	-8.2	-12.2	-7.8	-4.0	-8.6	-6.2	-0.6	2.2	9.3	9.5
Total Accumulated Debt *($ billion)*	2.3	4.6	7.0	10.8	13.8	16.5	18.8	21.9	24.4	26.3	29.2	31.8	33.5	34.8	34.9	35.0
Total Change in Accumulated Debt *($ billion)*	2.3	2.3	2.4	3.8	2.9	2.7	2.3	3.1	2.5	1.9	2.9	2.6	1.7	1.3	0.1	0.1

	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Average Monthly Residential Bill Impact pre-tax *($/month)*	13.8	17.6	19.2	19.1	19.0	18.9	18.9	18.8	18.7	18.6	18.5	18.5	18.4	18.3	18.2	0.0
Total Accumulated Debt *($ billion)*	34.3	32.9	31.0	29.1	27.1	24.9	22.7	20.3	17.8	15.2	12.5	9.6	6.5	3.4	0.0	0.0
Total Change in Accumulated Debt *($ billion)*	-0.7	-1.4	-1.8	-1.9	-2.0	-2.1	-2.2	-2.4	-2.5	-2.6	-2.7	-2.9	-3.0	-3.2	-3.4	0.0

Notes: Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 at the rate of inflation with a limit of $3.25billion above the true cost of GA in any given year. IESO forecast is based on IESO's revised OPO forecast as of December 2016. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. RPP does not include customers on retail contracts.

update to 20[illegible]

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1. GA Smoothing for All (Borrow $2.3 billion in 2017) – Estimated Impacts — 202[illegible] $10 [illegible]

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	**160**	**165**	**160**	**162**	**173**	**169**
Class B Revised Total (excludes HST)	**160**	**145**	**140**	**142**	**144**	**148**
Year-over-Year Change		-9%	-3%	1%	1%	3%
Change from Forecast		-12%	-12%	-12%	-17%	-13%

Large Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class A Total (excludes HST)	**90**	**91**	**93**	**88**	**95**	**96**
Class A Revised Total (excludes HST)	**90**	**77**	**80**	**74**	**76**	**81**
Year-over-Year Change		-14%	3%	-7%	2%	8%
Change from Forecast		-15%	-14%	-15%	-21%	-15%

Residential (750 kWh/month)	Actual 2016	2017	2018	2019	2020	2021
Total Bill (includes HST)	**163**	**172**	**175**	**178**	**189**	**187**
Total Bill (excludes HST)		153	155	158	168	165
Impact of GA Financing		-13	-12	-12	-19	-14
Impact of Tax-Basing Social Programs		-2	-2	-2	-3	-3
Subtotal		137	140	143	146	149
8% rebate		-11	-11	-11	-12	-12
HST		18	18	19	19	19
Revised Bill (includes HST)	**163**	**144**	**147**	**150**	**153**	**157**
Year-over-Year Change		-12%	2%	2%	2%	3%
Change from Forecast		**-16%**	**-16%**	**-16%**	**-19%**	**-16%**

Notes: Based on IESO's revised OPO forecast as of December 2016. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing. RPP does not include customers on retail contracts.

2. Lower the Cost of Global Adjustment (GA) by Funding a Portion of Conservation Through the GGRA

- Under the Climate Change Action Plan (CCAP), Ontario committed $1 billion to $1.32 billion of intended GGRA funding over the 2017 to 2020 period to keep electricity rates affordable.

- Conservation supports the reduction of GHGs by avoiding/deferring future energy infrastructure investments and reducing reduced natural gas peaking generation and related GHGs.
  - Electricity conservation programs between 2015 and 2020 are expected to result in 1.3 Mt of GHG reduction in 2020, equivalent to taking 300,000 cars off the road in that year.

- The cost of conservation could be shifted away from the rate-base to provide price mitigation for all electricity consumers, including Class B.

- Assuming the CCAP funding is spread equally over the four year period at $250 million to $330 million annually, Class B commercial and small industrial consumer would be reduced by up to $2.50/MWh.

Estimated Benefit	2017	2018	2019	2020	2021
Class B ($/MWh)	1.90 – 2.50	1.90 – 2.50	1.90 – 2.50	1.90 – 2.50	1.90 – 2.50
Class A ($/MWh)	1.20 – 1.56	1.20 – 1.56	1.20 – 1.56	1.20 – 1.56	1.20 – 1.56
Residential Bill ($/750 kWh)	1.43 – 1.90	1.43 – 1.90	1.43 – 1.90	1.43 – 1.90	1.43 – 1.90

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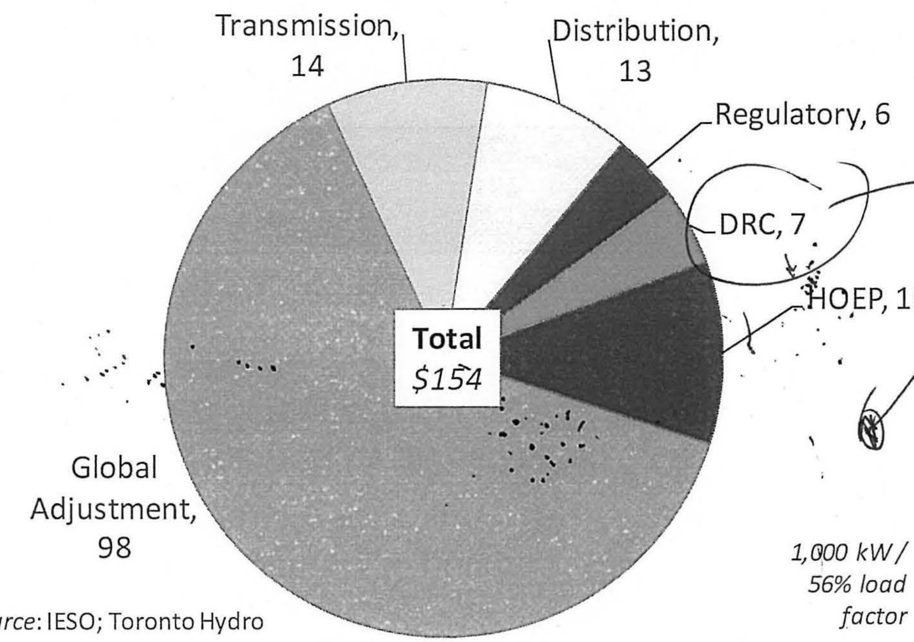
3. Remove Debt Retirement Charge Early (DRC) from Class B Consumers

- The Debt Retirement Charge (DRC) has already been removed from residential bills. For all other consumers the DRC is scheduled to be removed by April 2018.
- Eliminating DRC earlier would save $7/MWh for <u>all</u> non-residential consumers.
  - This would represent a 4% reduction for a Class B consumer based on current prices.
- Removing the DRC for Class B is estimated to add about $475 million to the fiscal plan for 2017-2018.

7.5

Typical Commercial Price ($/MWh)

2016 Average (Non-RPP Class B)



Source: IESO; Toronto Hydro

4. Extend 8% Rebate to Include Class B Consumers

- Ontario currently rebates the provincial portion of the HST from the pre-tax bills of electricity consumers eligible for RPP (e.g., residential, small business and farms) as of January 1, 2017.
- The 8% rebate could be extended beyond RPP eligible consumers to non-RPP Class B.
- Providing the rebate to more consumers would increase the cost by an estimated $XX million per year. Fiscal impacts would vary depending on changes in demand from Class B, including consumers that switch from Class A to Class B to take advantage of the rebate.

Commercial & Small Industrial ($/MWh)	Actual 2016	2017	2018	2019	2020	2021
Class B Total (excludes HST)	160	165	160	162	173	169
Class B Revised Total (excludes HST)	160	152	147	149	159	155
Year-over-Year Change						
Change from Forecast						

5. Tax-Based Assistance Package for Class B Consumers (i.e., SMEs)

- Consideration could be given to provide a comprehensive package of tax-based measures to reduce prices for Class B consumers, including:
  - Lowering corporate taxes for SMEs;
  - Tax credits; and
  - Tax-based incentives.

allows us to target

competing

- Tax-based incentives are offered in a number of neighbouring jurisdictions such as New York, Minnesota, Iowa, South Carolina and Texas to reduce the cost of electricity that retain jobs or are considered electricity intensive.

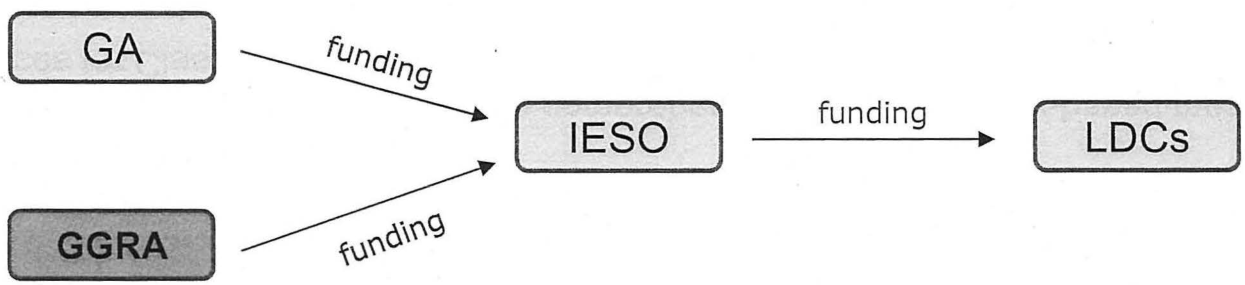
- Fiscal impacts would vary depending on the design of the strategy. Further analysis would be required on the potential impacts for consumers and the fiscal plan.

· Cabinet → mitigation

· Trade implications – retaliation?

Considerations – General

- GA smoothing accounting / legal analysis is ongoing.
- The Crown Law Office at the Ministry of the Attorney General is currently reviewing the legal viability of using cap and trade proceeds from the GGRA towards planned 2017-2020 conservation programs.
  - Should it be viable, IESO would work with MOECC to request funding for these programs. Currently, LDCs receive funding via the GA for conservation programs (see diagram below).
  - On March 22, 2017, Ontario is holding its first cap and trade auction.
- There is precedent for removing DRC from electricity consumers' bills. Effective January 1, 2016, DRC was removed for residential electricity bills. However, the remove the DRC ~~early would only~~ provide Class B consumers relief until April 2018 (i.e., approximately 1-yr of relief).
- Extending the 8% rebate beyond RPP increases the fiscal impact and would require further coordination with MOF.
- The Ministry would work with MOF and MEDG to develop targeted tax-based credits and initiatives.



Considerations – Ratepayer / Fiscal Impacts

- Below are estimated ratepayer and fiscal impacts.

Class B Impact ($/MWh)	2017	2018	2019	2020	2021
GA Financing - Bills Lowered by 16% *	-20	-20	-20	-19	-19
Fund a portion of Conservation through GGRA**	-2.5	-2.5	-2.5	-2.5	-2.5
Eliminate DRC for Class B	-7	-	-	-	-
Extend 8% Rebate	-13	-13	-13	-14	-14
Tax-based Initiatives	TBC	TBC	TBC	TBC	TBC

Fiscal Impact ($M)	2017-18	2018-19	2019-20	2020-21	2021-22
GA Financing - Bills Lowered by 18% *	-	-	-	-	-
Fund a portion of Conservation through GGRA**	225-330	225-330	225-330	225-330	225-330
Eliminate DRC for Class B ?	475	-	-	-	-
Extend 8% Rebate	TBC	TBC	TBC	TBC	TBC
Tax-based Initiatives	TBC	TBC	TBC	TBC	TBC

* **Note:** GA smoothing does not have a fiscal impact because it is assumed that both legal authority and accounting treatment are met.
**Note: Funding via the Greenhouse Gas Reduction Account (GGRA), estimated impact illustrates the high end of the range.