BACKGROUNDER

Ministry of Energy

Ontario's Fair Hydro Act, 2017

The Fair Hydro Act, 2017 would, if passed, lower electricity bills by 25 per cent on average for all residential consumers and as many as half a million small businesses and farms. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

The 25 Per Cent Average Reduction

Measures that make up the 25 per cent average reduction include:

- Refinancing a portion of the Global Adjustment (GA) – this would provide significant and immediate rate relief by spreading the cost of Ontario's electricity investments over the expected lifecycle of the generation infrastructure assets.

- Shifting the cost of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP) program from ratepayers to provincial revenues.

- The eight per cent rebate equal to the provincial portion of the HST that took effect on January 1, 2017.

In crafting the Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies
- Experts across government
- External accounting experts
- External legal advisors
- ~~Potential investors~~ Financial Experts/Advisors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Refinancing the Global Adjustment

Recent investments in electricity infrastructure will create benefits for years to come. For example, the majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA would be refinanced. Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over time.

Initial analysis indicates that the accumulated debt will not exceed $28 billion, including interest.

Increases Held To Inflation

The Fair Hydro Act, 2017, would allow future increases to hydro bills to be set by regulation. This enables the government's commitment to hold increases, for four years, to the rate of inflation. By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

Clean Energy Adjustment

In the early years, it is intended that a portion of the costs covered by the GA would be refinanced to lower hydro bills for today's electricity ratepayers. In later years, the cost of refinancing would be recovered through adjustments to consumer hydro bills called a Clean Energy Adjustment. Clean Energy Adjustments would appear on bills when consumers start to repay the borrowed amount. Initial analysis indicates that this is currently anticipated to occur in the mid-to-late 2020s.

Provincial Guarantees

The legislation will enable Province to provide guarantees to investors to protect investors from risks that cannot otherwise be mitigated. For example, guarantees will address the risk to investors that future governments may undermine their investment by impairing the recovery of Clean Energy Adjustments.

The Ontario Energy Board (OEB) would continue its role as regulator for the electricity sector. In particular, it would continue to set commodity rates for Regulated Price Plan (RPP) consumers, including any cost reductions under the Fair Hydro Act, 2017.

add + & OPG's role - my orig'l perm.
+ + IESO's role

New and Enhanced Social Programs

In addition, the Fair Hydro Act, 2017 would shift the costs of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection program (RRRP) from ratepayers to provincial revenues. These programs, along with the creation of the First Nations On-Reserve Delivery Credit and Affordability Fund, will cost the province $2.5 billion over the next three years.

Broadening Distribution Rate Protection

- RRRP program provides a rate subsidy to rural and remote residential customers who face higher distribution costs.

- About 800,000 customers would benefit from the new broadened distribution rate protection program. Customers of LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma. The benefits would differ from LDC to LDC.

Expanding the OESP

- The OESP is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers, providing a rebate directly on bills. There are two scales: one with basic credits, and an enhanced credit for Indigenous people or those who use electric heat or certain electrically intensive medical devices.

- Effective May 1, 2017, Ontario increased the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from $30 to $45 per month ($540 per year, an increase of $180), and single, low-income consumers who qualify for the enhanced scale would see an increase from $45 to $68 ($816 per year, an increase of $276).

Providing a First Nations On-Reserve Delivery Credit

- In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network.
- As a result of recommendations from the OEB, the Government plans to eliminate the delivery charge for all on-reserve First Nations residential customers and remove the monthly service charge for customers of licensed distributors which charge a bundled rate.

The Fair Hydro Act, 2017 would, if passed, enable the above initiatives. In addition, an Affordability Fund has been established. No legislative amendments were required for this fund.

Establishing an Affordability Fund

- Ontario has established an Affordability Fund that will provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.
- The Province is paying for the Affordability Fund through provincial revenues.

Energy Sector Efficiencies —

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Taking Costs out of the System — [illegible] 2nd

Market Renewal

BACKGROUNDER

Ministry of Energy

Implementing Ontario's Fair Hydro Plan

Ontario's Fair Hydro Plan would lower electricity bills by 25 per cent on average for residential consumers and initiatives to reduce costs for up to 500,000 small businesses and farms. The measures that make up the 25 per cent decrease include:

- Refinancing the Global Adjustment (GA);
- Shifting the cost of the Ontario Electricity Support Program and Rural or Remote Rate Protection (RRRP) program to provincial revenues; and
- The eight per cent rebate introduced in January 2017.

Today, the government has introduced the Fair Hydro Act, 2017, which would, if passed, implement several key initiatives of Ontario's Fair Hydro Plan.

The proposed legislation sets the mechanism for an immediate reduction in GA which would lead to achieving the full the 25 per cent bill decrease by July 1, 2017. A regulation to the Act would constrain increases for typical ratepayers over four years to the rate of inflation.

Rates beyond the first four years would be set to reflect the Fair Allocation Amount, a calculation of the fair distribution of clean energy costs over time to be prepared by the Minister of Energy under the legislation.

The under-collection of GA in the near term represents the value of the benefits provided to ratepayers. This under-collection would be funded through financing undertaken by the Ontario Power Generation (OPG).

The cost of refinancing would be recovered from future ratepayers on their bills through "clean energy adjustments". These adjustments would be invoiced to ratepayers through the Independent Electricity System Operator (IESO) and local distribution companies to repay the financing undertaken by OPG.

The proposed expanded and new social programs and shifting of existing costs to provincial revenues will cost approximately $2.5 billion over the first three years of Ontario's Fair Hydro Plan.

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BACKGROUNDER

Ministry of Energy

Energy Sector Efficiencies

Ontario's Fair Hydro Plan proposes new measures to lower electricity bills by 25 per cent on average for all residential consumers and as many as half a million small businesses and farms. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

Ontario's commitment to lowering energy costs for ratepayers would include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements.

Ontario Energy Board (OEB)

- The OEB regulates and licences more than 70 Local Distribution Companies (LDCs).
- The OEB sets electricity rates and prices and monitors and assesses the performance of electrical utilities.
- The OEB will identify opportunities for cost efficiencies by:
  - Encouraging shared partnerships on services between utilities, which would help reduce costs and encourage further innovation for small to medium-sized utilities.
  - Reviewing business cases behind its regulatory requirements to reduce red tape and eliminate costs that LDCs indicate are creating pressures on operating expenses.
  - Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

Independent Electricity System Operator (IESO)

- The IESO plans for the province's electricity needs, balances the supply and demand for electricity in Ontario in real time and administers conservation programs.
- The IESO and partners have begun a market renewal project to enhance efficiency and performance of the wholesale electricity market.
- Changes related to the IESO's market renewal initiatives are estimated to save at least $200 million per year, starting in 2021.

Long-Term Energy Plan 2017

- The Ontario Government has commenced work on the next Long-Term Energy Plan (LTEP).
- Ontario is in a positive electricity supply situation and well-positioned to meet demand at this time. The LTEP process is designed to be iterative and flexible and only commit resources as demand needs become clearer. The Province is committed to continuing to put conservation first in its energy planning decisions, where cost-effective.
- When new electricity supply is needed, the next LTEP would ensure that future procurements are focused on outcomes, rather than contracting with specific technologies. This technology-neutral approach would foster innovation and create competition. This approach is expected to lower the cost of electricity supply.
- The Province is committed to continuing to put conservation first in its energy planning decisions, where cost-effective, and to developing an LTEP that helps the province achieve its greenhouse gas reduction goals.
- The Ministry of Energy anticipates that the next LTEP will be published in 2017.

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BACKGROUNDER

Ministry of Energy

Previous Actions to Reduce Energy Costs

Ontario's Fair Hydro Plan proposes new measures to lower electricity bills by 25 per cent on average for all residential consumers and as many as half a million small businesses and farms. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

Ontario has taken a number of other actions to reduce electricity costs, including:

- An agreement to trade electricity, energy capacity, and energy storage with Quebec. This is expected to reduce electricity system costs by $70 million.
- Removing the Debt Retirement Charge (DRC) early for all residential customers, saving the typical household $65 per year.
- Renegotiating the Green Energy Investment Agreement (GEIA) with Samsung, reducing contract costs by $3.7 billion.
- Deferring the construction of two new nuclear reactors at Darlington, avoiding an estimated $15 billion in new construction costs.
- Maximizing the value of our existing nuclear fleet by starting Bruce Power refurbishments in 2020, instead of 2016, helping to achieve $1.7 billion in savings relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast and by continuing to operate Pickering until 2024, pending regulatory approvals, which would save ratepayers as much as $600 million.
- Reducing Feed-In Tariff (FIT) prices through annual price reviews, saving ratepayers at least $1.9 billion.
- Introducing a competitive Large Renewable Procurement (LRP I) process to drive costs down by approximately $1.5 billion relative to the 2013 LTEP forecast.
- Expanding eligibility for the Industrial Conservation Initiative (ICI) which could provide up to one-third savings for eligible customers.
- Suspending the second Large Renewable Procurement program (LRP II) and the Energy From Waste Standard Offer Program (EFWSOP), resulting in up to $3.8 billion in savings, relative to the 2013 LTEP forecast.
- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – resulting in savings of up to $129 M.

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BACKGROUNDER

Ministry of Energy

Enhancing Electricity Support and Conservation Programs

Ontario's Fair Hydro Plan proposes new measures to lower electricity bills by 25 per cent on average for all residential consumers and and as many as half a million small businesses and farms. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills

These new measures will cost the government up to $2.5 billion over the next three years.

Moving Rural or Remote Rate Protection (RRRP) to Tax Base and Broadening Distribution Rate Protection

- The Rural or Remote Rate Protection (RRRP) program provides a rate subsidy to rural and remote residential customers who face higher distribution costs compared to urban areas.
- The RRRP is currently provided to approximately 350,000 rural residential customers in Ontario.
- The Province will expand distribution rate relief to provide distribution rate protection to additional customers served by LDCs with the highest rates. About 800,000 customers would benefit from the new broadened distribution rate protection program. LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma. The benefits would differ from LDC to LDC.
- The Province will also move to fund RRRP costs through the tax base, reducing regulatory charges for all Ontario ratepayers.

Expanding the Ontario Electricity Support Program (OESP)

- The OESP is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers, providing a rebate directly on bills. There are two scales: one with basic credits, and an enhanced credit for Indigenous people or those who use electric heat or certain electrically intensive medical devices.
- Effective May 1, 2017, Ontario increased the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from $30 to $45 per month ($540 per year, an increase of $180), and single, low-income consumers who qualify for the enhanced scale would see an increase from $45 to $68 ($816 per year, an increase of $276).
- Ontario is exploring automatic qualification for customers who are enrolled in other provincial low-income social programs.
- The Province is also moving forward in having the OESP funded by provincial revenues rather than the rate base, reducing regulatory charges for all Ontario ratepayers.

Providing a First Nations On-Reserve Delivery Credit

- In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy

Network.

- Following the engagement process the OEB recommended:
  - o Eliminating the delivery charge for all on-reserve First Nations residential customers and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of $85.
  - o Automatically qualifying on-reserve First Nations residential customers (approximately 21,500 customers).
  - o Enabling greater information sharing between distributors and Band Councils to identify all on-reserve First Nations customers.
  - o The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.

The government has introduced legislation that would, if passed, enable the above initiatives. In addition, an Affordability Fund will be established through a transfer payment agreement with Hydro One. No legislative amendments are required for this fund

Establishing an Affordability Fund

- Ontario is establishing an Affordability Fund that will provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.
- The Province has worked with Hydro One to establish an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Electricity distributors are best positioned to identify their customers who are in need of assistance, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that electricity distributors will be able to begin applying to the Affordability Fund in Summer 2017.
- The Province is paying for the Affordability Fund through provincial revenues.

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