Premier's Note: Electricity Rate Mitigation Package

Premier, on Friday morning we will present to you our recommendation for an electricity rate mitigation package that will reduce residential electricity bills by ~25%. The following note will provide a brief overview of the current state of play and the path forward, and for your information I have enclosed the Ministry of Energy deck that goes into greater detail on each specific piece.

First, a quick overview of the actions you have taken to reduce electricity bills since you became Premier:

- Renegotiated the Green Energy Investment Agreement (Samsung), reducing contract costs by $3.7 billion;
- Deferred the construction of two new nuclear reactors at Ontario Power Generation's Darlington facility, avoiding an estimated $15 billion in new construction costs;
- Reduced Feed-In-Tariff (FIT) prices through annual price reviews, saving ratepayers at least $1.9 billion relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast; and
- Removed an expected $3.3 billion in Large Renewable Procurement (LRP) costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast, based on the competitive procurement of the first phase of the LRP.

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs, such as:
    - Providing an ***8 per cent rebate***, equivalent to the provincial portion of HST, for approximately 5 million eligible electricity consumers including residences, small businesses and farms;
    - Increasing the amount of rate protection available to approximately 330,000 eligible rural customers living in low-density areas by updating the Rural or Remote Rate Protection (RRRP) program -- ***$45/month when combined with HST rebate***;
    - Lowering the Industrial Conservation Initiative (ICI) threshold to 1 MW and removing sector restrictions so that more businesses can benefit – ***up to 34% savings***;
    - Suspending the second round of the Large Renewable Procurement (LRP II)

2017 Rate Mitigation Package

Premier, the following package will reduce residential bills by ~25% and can be ready for an announcement before the house resumes in February. The package consists of the following initiatives:

1. A refinancing of the **Global Adjustment** which would immediately reduce all residential electricity bills by approx. **$19-20/month** and the average industrial bill by approx. **$14.50/MWh**.
    - Broad based initiative that significantly benefits all Ontarians. No fiscal impact.
    - Under our current working proposal (slide 12), we would keep residential bills essentially flat until 2019-20 (at a $19-21/month decrease from present day). Consumers would not see noticeable increase to their bills in that time period, and bills would only increase by 3% each year following.
2. **Enhancing the RRRP program** that subsidizes rural customers (a large number of whom are on electric heat) on their distribution charges so that Hydro One R1 (medium density) consumers receive an added benefit too. This would generally equalize

distribution charges to the average residential customer across the province (*I can explain this in more detail in person; see slides 21&22 of the attached deck*).

- Rural Ontarians would receive an additional benefit of up to **$19.21/month** off their distribution charge.
- As slide 22 illustrates, Hydro One low-density customers would receive an added **$15.55/month** over and above the original RRRP **($31.50/month**) and the most recent Jan. 1 enhancement of **$29/month** – for a total benefit of **$76.50/month**.
- It is proposed that the RRRP program be moved to the tax base, which would reduce customer bills in urban areas by approx. **$1.60/month**.
  - The cost to the tax base would be approx. **$460M/year (See slide 8)**

3. Enhancing the Ontario Electricity Support Program (OESP) and moving it to the tax base:
   - At the current state of planning, the benefit would be **increased by 50%**. This would mean:
     - Single low income consumers would see an **increase from $30 to $45/ month ($540/year)**;
     - Families of four with electric heat could see an **increase from $55 to $82.50/month ($990/year)**; and
     - Indigenous and Métis consumers would also see benefit increases at the same level as those with electric heat and medical devices.
       - The Ministry is also considering options to support a "Delivery" line credit for Indigenous consumers. This would cost ~$18 million/year (Option 2d on slide 8) and would save Indigenous consumers between $75 and $100/month.
   - Funding OESP through the tax base would save the average residential consumer **$0.83/month**, and the average industrial **$1.10/MWh**.
     - The cost to the tax base would be **$162M in 2017, rising to $408M in 2022.**
   - Redesigning OESP and funding it as a government program through the tax base has added benefit: we are able to streamline the application process further, increase funding for partner agencies to work directly with individuals to get them enrolled, and explore the potential of automatically enrolling individuals who receive other provincial programs like ODSP (working with MCSS on this, and the federal government on eliminating the need for a "wet signature" application).
4. Improving the efficiency of OPG by ~$3/MWh by holding them to more aggressive cost targets.
   - Symbolic benefit of the government, as OPG's shareholder, being seen to be pushing OPG as hard as possible to drive maximum ratepayer savings.
   - See Slide 33 for a full explanation – essentially holding OPG to their stretch targets as the new baseline.

Considerations

In the out years (post-2025), the proposed Global Adjustment option has a cost pressure of approx. $11/month (above current projections) that will have to be managed. The good news here is that while our options are limited to bend the cost curve today in 2017, there are many options for removing costs from the system when we get to the mid-2020s, so that $11 pressure can be reduced.

As I write this, TBS/MOF/IESO and KPMG are working on the accounting treatment for the Global Adjustment. We expect this to be landed in the next week or two.

Premier, in short, this is the current state the rate mitigation package that we believe will provide a real and immediate benefit to all Ontarians, with an added benefit for those who need it most. Additionally, it goes far beyond anything the opposition have suggested they would do to reduce rates – which we can point out every chance we get.

I look forward to the discussion tomorrow and in the coming weeks as we finalize and prepare to launch.

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