**Premier’s Note: Electricity Rate Reduction Package**

Premier, tomorrow at policy time and subsequently at your meeting with Ministers Matthews, Sousa, Sandals and now Thibeault, we will be presenting an updated package of initiatives to reduce electricity bills across the province.

The package is outlined below with a bit of optionality within each pillar. Overall, we can announce to Ontarians next week that we will be delivering the single largest price reduction in the history of the province:

- Every Ontarian will see the reduction in their electricity bill grow from 8% to 25%
- Rural Ontarians with high distribution charges will see an enhanced benefit (options below)
- Low-income Ontarians will benefit from an additional 50% enhanced OESP and auto-enrolment

Below are the mechanisms through which we can achieve these benefits, and the remaining choices we can make – most notably on the Global Adjustment smoothing and rural distribution charge benefits.

## 1. Global Adjustment Smoothing

Premier, as we have discussed in recent weeks, the structuring of 20-year electricity contracts over many years has created an unfair situation for Ontarians where they are paying disproportionate costs today and in the short term, rather having the costs spread out over the actual life of the assets. Therefore, in the interest of creating a more equitable distribution of costs, the best approach is to spread out the cost of the Global Adjustment (GA) over a longer period of time.

In order to do this, we need an entity to administer the smoothing that is consistent with our accounting standards and allows us to maintain oversight and accountability. After a full consideration of different options, it became clear that using a Government Business Enterprise to borrow money and smooth out the GA was the best option. Ontario Power Generation is the natural entity for this.

- OPG nuclear and hydroelectric assets already make up half of the cost of the Global Adjustment, and OPG currently administers an $18 billion nuclear fund. OPG also has experience with rate regulated accounting and is subject to Ontario Energy Board oversight.

OPG would create a holding company and financing subsidiary to carry out the GA smoothing and associated borrowing. We will introduce legislation and regulation that stands behind OPG to strictly govern how borrowed funds are recovered through the ratebase, at what cost and level of increase over time, and the term of the spreading. The legislation will also outline strict oversight and accountability measures, such as a narrowly defined and clear mandate, MOAs, and boards of directors accountable to the province.

A very important piece of the mandate for this entity will be that any future investments in the electricity system will not be lumped in with the GA smoothing mechanism. Put simply, the pot of money borrowed for this initiative needs a “path to balance” that is clearly defined and not deviated from for the benefit of Ontarians.

One additional point of oversight beyond legislation and OEB regulation is that, as sole shareholder of OPG, the Province has the ability to issue shareholder resolutions – another accountability lever we maintain.

Premier, in terms of the rate at which we borrow, spread out the Global Adjustment, and provide price relief to Ontarians, we have two options to consider:

***Option One – GA Smoothing for RPP (residential) Customers Only for 25% Reduction***
- Residential bills lowered 25%, small industrial & commercial lowered 3%, large industrial lowered 4%
- Amount borrowed in 2017: $2.2 billion; max total accumulated debt – $32.2 billion

This option provides the 25% benefit to every residential customer through GA smoothing, and meets our Budget commitment to industry that they will not see an increase to their electricity bills as a result of Cap and Trade.

***Option Two – GA Smoothing for RPP Customers for a 20% Reduction***
- Residential bills lowered 20%, small industrial & commercial lowered 3% and large industrial lowered 4%
- Amount borrowed in 2017: $1.5 billion; max total accumulated debt – $17.7 billion

While the amount borrowed is lower here, so is the benefit Ontarians would receive on their bills this year. It is worth noting that OPG is comfortable with this amount of borrowing, and subject to working out the legislative details and forming their subsidiary, do not see a problem in borrowing approx. $2.2 billion per year (as in option one).

2. **Delivery Charge: RRRP Enhancement**

Premier, as we have discussed before, we propose to move the RRRP program from the rate base to the tax base, in order to lower costs for all Ontarians. However, we also propose to enhance and expand the program to provide greater benefit to more people, and address the problem of exorbitant distribution rates leading to high Delivery lines on customer bills.

This proposal builds off of what Hydro One presented to you last Friday. Hydro One is currently set to do a longer phase-in of fixed distribution charges, but we propose to accelerate the move to fixed rates for high volume customers (electric heat, etc.) with support from the fiscal plan, and leaving low volume customers with no change.

Under this option, a Hydro One R1 customer would not pay more than $55.70 as a distribution charge, and Hydro One R2 customers would not pay more than $64.64.

*Additional Option:*

Premier, to go further with this expanded benefit, we could extend RRRP to the 7 LDCs with the highest distribution rates. While most LDCs in the province are within the same general pricing band on distribution, the highest seven LDCs are much more expensive. These LDCs are:
- Northern Ontario Wires (Cochrane/Kapuskasing)
- Parry Sound
- Chapleau
- Sioux Lookout
- InnPower (Innisfil)
- Atikokan
- Algoma
- Hydro One

Estimates of what the fixed monthly rate would be in each of these LDCs if fixed rates were fully implemented in 2017 range from $38/month for Northern Ontario Wires to $65/month for a Hydro One R2 customer.

Therefore one option for further rate mitigation would be to expand the RRRP benefit to bring each of these LDCs down to $38/month in distribution charges. The cost of this expansion alone is an additional $140 million/year from the fiscal plan. As every media story we have seen shows a Hydro One bill, this option certainly addresses that problem. However further consideration could be made to using the $140 million toward low-income support.

**3. Expansion of the Ontario Electricity Support Program**

Similar to RRRP, we propose to move the OESP to the tax base such that costs decrease for all ratepayers. More importantly, we propose to enhance the benefit that low-income Ontarians receive by 50%:

- 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, Métis, and Inuit consumers would also see benefit increases at the same level as those with electric heat and medical devices. These benefits could range from $67 to $113/month.
  - As part of the COO deal on Hydro One, the “Delivery” line credit for Indigenous consumers would be eliminated. This would cost ~$18 million/year and would save Indigenous consumers between $75 and $100/month.

Moving to a tax-based program will allow us to implement auto-enrol and other tools to get the participation rate in OESP up to 100%. MCSS is actively working with Energy on this issue, and will be engaging the federal government on the “wet signature” issue, in order to reduce the barriers to signing up in the meantime.

**4. Additional Measures**

Premier, in addition to the Indigenous delivery charge elimination above, there are a number of smaller measures we propose to include in this package:

- LDC Affordability Fund (as proposed by Hydro One in your meeting)
  - Customers who do not meet the definition of low-income, so we propose to establish an “affordability fund” so LDCs can help middle-low income customers who are struggling with their electricity bills.
  - Over time the Fund could help these customers get back on track with their bills and also save on disconnection costs.
  - The Fund would be targeted to customers on an as-needed basis (vs. marketed as an open-intake program).
- LDC efficiencies and “red tape reduction”
  - Ask the OEB to look at opportunities to further drive LDC efficiencies and productivity. In parallel, the OEB could be instructed to review business cases behind its own regulatory requirements to reduce “red tape” and eliminate costs that LDCs indicate are creating pressures on operating expenses.

    - The sector has also proposed to form a red tape task force on your behalf.
- OPG Efficiencies
    - OPG has also shared its stretch targets for total cost of generation, which average $52/MWh over the 2017-19 plan, a ~$3/MWh reduction (5-6%) relative to its $55/MWh business plan targets.
    - The Province could provide instructions to OPG to focus on its stretch target as part of the Minister's Concurrence letter. This is a public document that OEB would likely review and incorporate as part of OPG's current rate application.
    - If OPG is unable to meet more aggressive cost targets, this could impact net income, and the Province's fiscal plan.
- IESO Market Renewal
    - Moving to "technology agnostic" procurements that are competitively priced where and when we need the generation.
    - IESO improves technical operations to better align with other jurisdictions who use a day-ahead market.

**--**
**Phil Donelson, 647-530-6642**