ADD ON

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	September 13, 2016
Agenda Class:	Major
Last reviewed by: N/A	**Tracking to:** Cabinet - September 14, 2016

SUBMISSION TITLE:	Electricity Price Mitigation

NO MATERIALS RECEIVED –BASED ON FPC SUBMISSION

I. DECISION BEFORE THE BOARD

The Ministry of Energy is requesting approval of a suite of initiatives providing relief to various electricity consumer classes.

II. RECOMMENDATIONS:

Board Judgment

- Approve a suite of initiatives to provide relief to various electricity consumer classes (pending Cabinet policy approval):
  - Providing a pre-tax 8% rebate to Regulated Price Plan consumers;
  - Expanding the Industrial Conservation Initiative;
  - Updating the Rural and Remote Rate Protection program; and,
  - Using cap and trade proceeds to ensure industrial and commercial consumers are not negatively impacted by cap and trade. Balance of proceeds intended for electricity relief through the Climate Change Action Plan could provide some fiscal offsets (to be confirmed by Energy).
- Approve in principle an expenditure increase estimated at $261M in 2016-17 for the Electricity Price Mitigation, offset from the Treasury Board Contingency Fund. [estimate subject to refinement from the Ministry]
- Direct the Ministry to report back to TB/MBC with implementation details, including confirmation of financial implications, and required TB/MBC approvals to implement.
- Recommend to Cabinet that the Ministry proceed to Cabinet with the proposed legislation (TBD).

III. FINANCIAL SUMMARY

$ Millions	**2016-17**	**2017-18**	**2018-19**
Initiative cost requested	261.0	1006.0	1004.0
Initiative cost recommended	261.0	1006.0	1004.0
Recommended program base	261.0	1006.0	1004.0
Offset Recommended	0.0	60.0 (TBD)	60.0 (TBD)
Total Fiscal Impact	261.0	946.0	944.0

IV. Key Comments and Considerations

Context

Electricity costs have increased as the province has made investments in clean energy generation and modernized electricity infrastructure. Electricity bills are expected to continue to increase as more renewable energy projects come online.

As part of the 2016 Budget, the government committed to mitigating electricity cost impacts that were anticipated from the cap and trade program. This included a commitment to provide a modest benefit of up to $2 per month, on average, to residential consumers. The Climate Change Action Plan (CCAP) included up to $1.32B over 4 years to help keep electricity rates affordable for residential and industrial consumers.

The Ontario Clean Energy Benefit (OCEB) expired December 31, 2015, as part of the originally planned, five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. With the end of OCEB, the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, as of January 1, 2016, and also put in place the low-income targeted Ontario Electricity Support Program (OESP).

In order to achieve the CCAP commitment and additional price mitigation, the Ministry of Energy has developed price mitigation options that consider tax-based levers, cap and trade proceeds, and shifting costs within the rate-base.

Proposal *(based on FPC materials; proposal still being refined by Ministry)*

The Ministry is proposing the following to mitigate electricity prices for consumers:

- Provide an 8% pre-tax rebate to Regulated Price Plan consumers (i.e., residential, small business and farms), similar to OCEB but without the 3,000 kilowatt-hour per month cap.
- Provide targeted business support by expanding the ICI eligibility threshold to customers above 1MW in all sectors.
- Provide relief to rural customers by updating Rural and Remote Rate Protection (RRRP).
- Use of cap and trade proceeds to ensure industrial and commercial consumers are not negatively impacted by cap and trade.

	Measure	Annual Impact	Targeted Recipients
1.	8% Rebate to Regulated Price Plan	Fiscal ($1B)*	Residential, small business and small farms, and other small users
2.	Expanding ICI eligibility to customers above 1MW in all sectors	Rate base ($47M/$82M)**	Intermediate and large-sized industrial, commercial and institutional consumers above 1MW in all sectors
3.	Updating Rural and Remote Rate Protection	Rate base ($110M)	Residents in rural or remote locations: Hydro One's lowest-density R2 customers.
4.	Redirecting proceed recycling to Commercial and Industrial or provide fiscal offsets to the 8% rebate	TBD	TBD

* Annual numbers from ENERGY.

** Short-term/Long-term rate base impact, where short term is one year after expanded eligibility takes place and long-term is expected impact once new customers have time to change behavior.

Consumer impacts of the proposal are TBD.
Due to the nature of the ICI Global Adjustment mechanism and cost recovery of RRRP, the rate base proposals (#2 and #3) benefit the targeted recipients, but come at a cost to all other electricity rate payers in Ontario.

Fiscal Impact

- Slide 25 of the final version of the recent Electricity Price Mitigation Options deck notes that "proceeding with an 8% Regulated Price Plan (RPP) rebate without a cap would cost an estimated $1 billion per year".
- The $1 billion figure is a 2017 to 2020 calendar year average of cost estimates developed by Ministry of Energy staff, as follows:

$ millions	**2017**	**2018**	**2019**	**2020**
	1,003	1,014	975	1,049
Avg. 2017-20	1,010			

- On a fiscal year basis, the above estimates become:

$ millions	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	261	1,006	1,004	994
3-Year Avg.	1,001			

- Ministry staff are in the process of developing a refined estimate of the cost.

Cap and Trade Proceeds

The 2016 Budget committed to offset the impact of cap and trade for commercial and industrial consumers, while also providing a benefit of up to $2 per month for residential consumers (on average). While residential and other consumers would benefit from the 8% pre-tax rebate, this does not apply to non-Regulated Price Plan consumers (larger industrial, commercial, and other consumers). As such, the Ministry is proposing to direct a portion of cap and trade auction proceeds to industrial and commercial consumers not in the RPP to mitigate impacts.

To be characterized as a regulatory charge under the cap and trade program, auction proceeds need to be spent on programs that are reasonably likely to reduce or support the reduction of greenhouse gases. It is unclear from current materials whether this proposal meets this requirement.

Other Considerations

- This request does not align with the 2016 Budget fiscal plan and there are no proposed offsets.
- The 8% rebate would provide a typical residential consumer about an $11 per month benefit on average (about $10, after the impact of RRRP and ICI expansion), exceeding the Budget 2016 $2 per month on average cap and trade commitment.
- Reduction in electricity prices that does not consider consumption amounts (e.g., without the cap in the previous OCEB program) does not promote electricity conservation and may be seen as unaligned with climate change objectives.

- There is potentially a need for supplementary estimates as the existing vote (2905) Electricity Price Mitigation does not include a separate item for the 8% rebate (2905 was used for the Ontario Clean Energy Benefit and currently includes the Northern Ontario Energy Credit).
- Other price mitigation measures introduced following the implementation of the HST, as well as the end of OCEB, would continue.
  - Both the energy portion of the Ontario Energy and Property Tax Credit (OEPTC) and NOEC were introduced/ enhanced following the introduction of the HST and have a significant annual fiscal cost (totalling about $500 million annually).
  - The DRC on residential consumers was ended early, as of January 1, 2016 (about a $340 million impact in 2016-17).
  - OESP is a low-income targeted program funded by electricity consumers through the electricity rate base.
- New legislation would be required (may be similar to the Ontario Clean Energy Benefit Act, 2010). Amendments to various regulations to expand ICI and RRRP would also be required.

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APPENDIX A: PROPOSED MINUTE

UNDER DEVELOPMENT

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			Appropriations Basis
$ Millions		**2016-17**	**2017-18**	**2018-19**	**2016-17**
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	261.0000	1006.0000	1004.0000	261.0
Operating Offset	Oper	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue Increase/ Offset		0.0000	60.0000	60.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**261.0000**	**946.0000**	**944.0000**	**261.0000**