Ontario

**CABINET BRIEFING NOTE AND LRC RECOMMENDATION**

Energy
**DRAFT Financing Global Adjustment**

| Cabinet (info) | TB/MBC | Cabinet | Announcement | TB/MBC | Cabinet | Introduction |
|---|---|---|---|---|---|---|
| Feb 15, 2017 | March 1, 2017 | March 1, 2017 | March 2, 2017 | May 9, 2017 | May 10, 2017 | May 11, 2017 |

## Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

**Context for Decision:**

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. Up to 500,000 small businesses and farms would also benefit. These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

OFHP has the following major components:

1. Refinancing the Global Adjustment (GA);
2. Helping vulnerable electricity consumers;
3. Extending the Industrial Conservation Initiative (ICI);
4. Improving sector efficiency; and
5. Modernizing Ontario's electricity market.

Since the announcement of OFHP, a number of components have been implemented (i.e., Affordability Fund and ICI expansion).

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would support OFHP to provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate a portion of the GA amongst current and future electricity ratepayers, and help the most vulnerable

Ontarians through enhancements to electricity support programs. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as: maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for eligible ratepayers in the near term while recovering these costs over the mid- to long-term:
   - July 1, 2017 to April 30, 2018, reduces after-tax electricity costs for specified consumers by 25%, inclusive of the 8% rebate and shifting of support program funding to provincial revenues.
   - May, 1 2018 to June 30, 2021, electricity rates will be prescribed by regulation with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
   - July 1, 2021 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and administrative costs. (See page 14- Future Impacts to Electricity Rates)
   - Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998,* expanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through IESO (including accommodating payments to and from any appropriate entity) to manage the refinanced GA costs. (See page 19- OPG Mechanism)
2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate-base to the tax-base. The bill amends the *Ontario Energy Board Act, 1998* to:
   - Move the recently expanded Ontario Electricity Support Program (OESP) to the tax base, allow for the potential transition of the program administration to the Crown or other entity, and to enable information exchange between the Ontario Disability Support Program and Ontario Works to potentially allow for automatic enrolment procedures to be established;
   - Amends the Ontario Energy Board Act, 1998 to enable the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial revenues, rather than from electricity customers.

- Amends the Ontario Energy Board Act, 1998 to enable a broader Distribution Rate Protection (DRP) program (broadened RRRP) which provides additional distribution rate protection to residential customers of prescribed higher cost LDCs by enabling the regulations to prescribe a maximum distribution charge. The cost of this program would be paid for through provincial revenues.
- Amends the Ontario Energy Board Act, 1998 to enable the provision of an on-reserve First Nations Delivery Credit (FNDC), which would cover 100% of the delivery charge for on-reserve First Nation residential customers. The cost of this program would be provided for through provincial revenues.

**Terms you need to know**

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **Delivery charge –** The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.
  - Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates for residential customers are moving to a fully-fixed charge _by 2019 for most LDCs. Some LDCs, such as Hydro One and Algoma Power are transitioning over a longer period.__
  - Line Loss: The costs to recover electricity that is lost when it is delivered over a power line.
- **Regulated Price Plan (RPP) –** Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known

as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.

- **Customer classification for Hydro One** – Customer service classes are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. Lower customer density increases the cost to serve. Residential class R1 customers are considered 'medium density' customers and residential class R2 are considered 'low density customers.' Hydro One also served urban residential customers, considered "high density" through its UR class. Hydro One also has urban and non-urban general service classes.
- **Rural or Remote Rate Protection (RRRP)** – Rural or Remote Rate Protection currently provides distribution rate protection to certain rural or remote customers in Ontario whose distribution costs are higher than those of most Ontario consumers. The program is currently funded by all Ontario consumers through the regulatory charge on the electricity bill.
- **Ontario Electricity Support Program**: OEB administered program that provides an ongoing rate reduction directly on the bills of lower income electricity customers who have applied and meet the eligibility requirements.
- **Ontario Power Generation (OPG)** – A business corporation owned by the province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB)** – A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO)** – An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Class A Consumer** – Large commercial and large industrial consumers with average peak load size above 1 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year.
- **Non-RPP Class B Consumer** – Commercial, institutional and small industrial consumers, typically with load size under 1 MW. Class B consumers pay GA as a volumetric rate applied to all electricity consumption. Class B consumers include those that choose not to become Class A.
- **Special Purpose Vehicle (SPV)** – Subsidiary company with an asset and liability structure and legal status that makes its obligations secure
- **Security Interest** – Agreement that gives beneficiary certain preferential rights in the event the secured assets are sold

## Why does Ontario need these changes? Why now?

The actions taken by the Government of Ontario to achieve a clean, modern and reliable electricity system have resulted in significant costs. The burden of financing the electricity system improvements and funding key programs has unfairly fallen on the shoulders of today's consumers.

On March 2, 2017, the Ontario government announced OFHP, which included the initiatives contained in the proposed legislation (e.g., refinancing the GA, expanding electricity support programs).

There has been increased media attention and public pressure for the government to provide ratepayer relief. The government has committed to implement OFHP rate relief measures by the summer of 2017.

## What is the expected cost to government?

The total cost of the proposal is $499 million funded through the fiscal plan and $2.5 billion to be funded through the electricity rate base.

| TABLE 1: Cost Impact ($M) | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|
| Moving Social Programs to Government-Funded (tax base) (details provided in the chart below) | 499 | 753 | 829 | 892 |
| GA Refinancing (ratebase) | 2,534 | 2,668 | 2,942 | 3,420 |
| | | | | |
| | | | | |

The proposed legislation identifies OPG as the Financial Services Manager (FSM) and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from IESO. The OPG would finance these purchases through a combination of an "equity investment" by the Province ($1.1 billion in 2017-18; See Table 1) and external private sector financing. The structure has been designed to increase gross debt of the Province (to finance the equity injection in OPG), increase interest on debt related to that external debt, increase net investment in OPG, and increase earnings of OPG. The Province's net debt will remain unchanged as the equity investment in OPG will offset the additional Provincial borrowing.

The estimate for the combined impact of the social programs initiatives that would begin in 2017/18 is expected to be $499 million in 2017/18, growing to $753 million in 2018/19 and rising. This represents an additional pressure on the plan. These estimates are based on variable inputs such as program uptake, future energy consumption of various consumer groups and future distribution rates, and are therefore subject to change.

| Program | 2017-18 Budget |
|---|---|
| Rural or Remote Rate Protection | $344,000,000 |
| Ontario Electricity Support Program | $140,000,000 |
| On-Reserve First Nations Delivery Credit | $15,000,000 |

Note: As approved in the TB/MBC submission of Mach 1, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31, 2018. ENERGY will return updated out-year figures following program implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, electricity prices are forecast to exceed forecast residential monthly bills by about 10 per cent each year from what otherwise would have been from 2028 to 2047 (**Note:** Values are subject to change). The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

## What are the key steps to deliver this proposal?

- May 11, 2017 – Introduce legislation.
- Spring- Summer 2017 – Energy to work with IESO, OEB, OPG and LDCs on the implementation of Ontario's Fair Hydro Plan.
- Energy will post a proposal to the regulatory registry in early May outlining proposed new regulations and amendments needed to support the implementation of OFHP. June 20, 2017 – Energy to bring regulations to LRC/Cabinet.
- July 1, 2017 – The remaining OFHP reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

## How will the changes be communicated?

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there were news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement OFHP to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA refinancing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

## Notes and Recommendation from LRC

LRC item direct to Cabinet.

## Cabinet Office Analysis

The proposed legislation allows for the implementation of the key elements of OFHP announced on March 2, 2017 to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) Refinancing proposal will provide 25% in rate relief in aggregate (including the 8% announced in 2016 and shifting of support program costs to the tax base) for typical residential consumers between July 1, 2017 and April 30, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and June 30, 2021.

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and OFHP combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

### 1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to refinance a portion of GA costs to future ratepayers by recognizing the longer term benefit of many of these generating assets to the electricity system (similar to extending and re-financing a mortgage). The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current contracts (typically 20 years). Similarly, conservation costs are currently recovered through the GA in the year they are incurred while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In addition, the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

<u>Fair Adjustment</u>

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction in average rates for eligible consumers in recognition of the investment in clean energy initiatives since 2005.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for "specified consumers" (i.e., consumers to whom the legislation applies).

<u>Clean Energy Adjustment</u>

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager (FSM), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2021- April 30, 2047 – to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to approve the rate at which "specified consumers" are invoiced to recover the clean energy adjustment.

<u>Fair Allocation Amount</u>

- The fair allocation amount is calculated by the Minister of Energy consistent with the principles of the bill. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to ratepayers; and aligning funding obligations that may be incurred during each reference period (i.e., typically every 6 months as per the RPP periods).
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and the consumers who benefit from these investments in the system. (Page 16-Legal Risk; See page 17- Fiscal Pressure)

Financing Plan

- Prepared by the Financial Services Manager (FSM) to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister of Energy.
- May be amended as determined by the FSM.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities and interest rates) will be used over time.
- The OEB would review the administrative costs of the FSM.

Regulatory Asset and Investment Asset

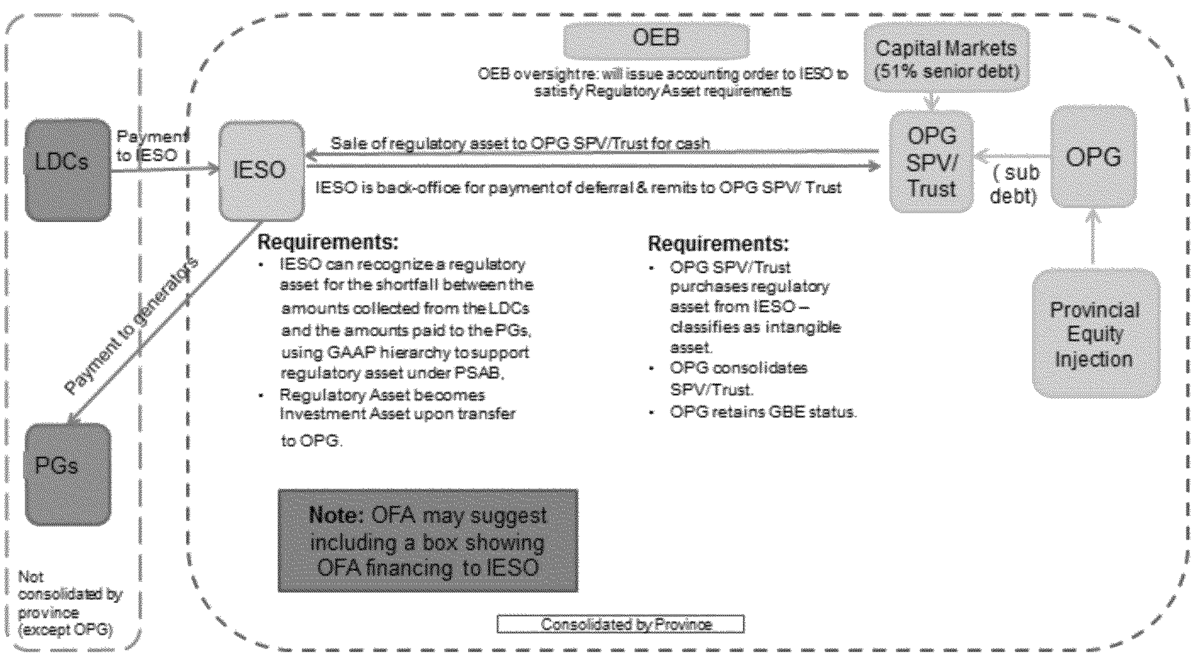
- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e., the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset. IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the

Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.

- After 4 years (July 1, 2021), the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. (See page 17- Fiscal Pressure)
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the OEB, the Minister or the Crown would be effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay amounts in respect of the clean energy investment or to impair or postpone the invoicing, collection or remittance of the clean energy adjustment.
- The Minister of Energy and the Minister of Finance together, with LGIC approval, may enter into agreements for in respect of the proposed bill, including agreements regarding the performance of IESO or electricity vendors.
- The Minister of Energy and the Minister of Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.



The bill establishes a structure in which the IESO records the GA cost recovery deferral as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible consumers would receive a 25% reduction in electricity rates from July 1, 2017 to June 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the Financial Services Manager, and following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in July 2021 would be invoiced the "Clean Energy Adjustment" on their electricity bills through existing IESO and LDC processes. The OEB would approve the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG. The Province's net debt will remain unchanged as the equity investment in OPG will offset the additional Provincial borrowing.

The legislation commits the government to backstop the financing by authorizing the Minister of Energy and the Minister of Finance to provide performance guarantees, indemnities and bond purchase covenants and limits the effect that government action can have on the clean energy adjustment. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing the of guarantees and the cost of borrowing from private lenders is unknown at this time. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increases in line with CPI by this mechanism. Based on the current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

- IESO requirements :
  - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - "Market books" are reflected on corporate books; and,
  - OEB to act as regulator.
- OPG requirements:
  - OPG SPV/Trust purchases regulatory asset from IESO – classifies as intangible asset;
  - OPG consolidates SPV/Trust; and
  - OPG retains GBE status.

However, despite the fact that the structure has satisfied the financing, accounting and legal requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the Unites States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG SPV/Trust to work and will have limited control over OPG's direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

**2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:**

Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit credit amounts by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from $30-$50 to $35-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $52-$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and allow for the potential transition of the program administration to the Crown or other entity. The cost to the fiscal plan would be $186 million in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Works (OW) and the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automatic enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program. ENERGY is continuing to work with MCSS to increase the uptake of the program and automate enrollment of current social assistance clients.

Moving Existing RRRP to the Tax Base and Providing Additional Distribution Rate Protection (Broadened RRRP):

Currently, RRRP is an approximately $290 million program paid for by ratepayers, levied through a charge of $0.0021 per kWh for all Ontario customers. For an average residential customer, the cost of supporting RRRP is roughly $1.58 per month. For other customers, the cost to support the RRRP can range from $65 for a greenhouse to $8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers, customers served by Hydro One Remote Communities Inc., customers served by Algoma Power Inc., and customers served by three James Bay First Nation LDCs (Attawapiskat, Fort Albany, Kashechewan)

The proposed bill amends the Ontario Energy Board Act, 1998 to enable the funding of existing Rural or Remote Rate Protection (RRRP) for prescribed customers to be provided for through provincial revenues, rather than from electricity customers. The intention is to draft regulations permitted under this section to move the portion of RRRP costs used to support Hydro One R2 customers from rate payers to the tax base. This is the majority of the cost associated with RRRP.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to prescribe a maximum distribution charge for prescribed classes of residential customers for certain prescribed high cost distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to prescribe residential customers of the following LDCs to receive distribution rate protection: Hydro One R1 and R2 rate classes, Algoma Power (excluding reclassified residential customers), Atikokan Hydro, Sioux Lookout Hydro, Lakeland Power – Parry Sound, InnPower, Chapleau PUC, and Northern Ontario Wires.

The prescribed LDCs would continue to collect the revenue they are entitled to through the OEB approved distribution charge. The shortfall between the set maximum charge collected from customers and the approved OEB charge would be made up of out provincial funds. The OEB would continue its usual rate setting activities for prescribed LDCs, as authorized under the *Ontario Energy Board Act, 1998*. However, prescribed customers of prescribed LDCs would pay no more than the maximum charge determined by the OEB. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted broadened RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be $344 million in 2017/18. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

<u>On-reserve First Nations Delivery Credit</u>

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to create a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation residential customers served by licenced electricity distributors and eliminate the monthly service charge or minimum monthly charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program The OEB estimates that on average customer would receive a monthly benefit of $85. The program will cost approximately $20 million annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1st.

## Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's average bill in July 2017 is a 25% decrease (combined with the 8% from ORECA effective Jan. 1, 2017 and shifting of the funding of OESP and RRRP to provincial revenues), followed by an increase in price over time. This includes the 8% rebate that came into effect on January 1, 2017. Between May 2018 and June 2021 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25% (and as much as 40-50%).

| Residential (750 kWh/month) | Actual 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Total Bill (includes HST)** | **158** | **164** | **167** | **170** | **181** | **178** |
| Total Bill (excludes HST) | 140 | 145 | 148 | 150 | 160 | 158 |
| Impact of GA Financing | | -26 | -26 | -26 | -32 | -28 |
| Impact of Tax-Basing Social Programs | | -2 | -2 | -2 | -3 | -3 |
| Subtotal | | 117 | 120 | 122 | 125 | 127 |
| 8% rebate | | -9 | -10 | -10 | -10 | -10 |
| HST | | 15 | 16 | 16 | 16 | 17 |
| **Revised Bill (includes HST)** | **158** | **123** | **126** | **128** | **131** | **133** |
| Year-over-Year Change | | -22% | 2% | 2% | 2% | 2% |
| **Change from Forecast** | | **-25%** | **-25%** | **-25%** | **-28%** | **-25%** |

| 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** | **162** | **157** | **159** | **170** | **166** |
| Year-over-Year Change | | 1% | -3% | 1% | 7% | -2% |
| Change from Forecast | | -2% | -2% | -2% | -2% | -2% |

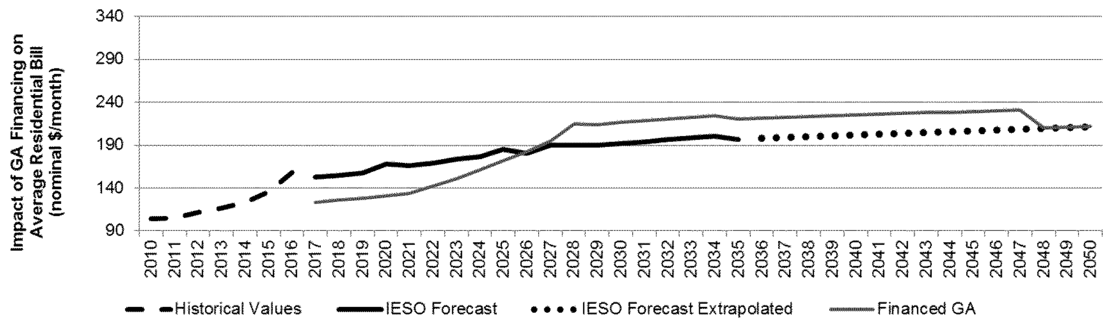
| Large Industrial ($/MWh) | Actual 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Class A Total (excludes HST)** | **90** | **91** | **93** | **88** | **95** | **96** |
| **Class A Revised Total (excludes HST)** | **90** | **88** | **90** | **84** | **92** | **93** |
| Year-over-Year Change | | -2% | 2% | -6% | 9% | 1% |
| Change from Forecast | | -4% | -4% | -4% | -4% | -4% |

**Notes:** Based on IESO's revised OPO forecast as of February 2017. 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.

## Risks and Considerations:

Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term, but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the forecast cost of electricity which would have otherwise been paid over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.




**Notes:** Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of $2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. 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.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers April 1, 2018.

Future repayment cost estimates are based on a static interest rate of 5%, and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional (See page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for Ontario's Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. **Note:** The Ministry has launched a third party research project to assist with implementation of GA refinancing. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the 8% reduction that was already provided.

Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses.

Fiscal Pressure

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.

- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired [TBD]. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this outlook, it may increase the perceived risk of the investment asset and therefore its saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and June 2021 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate $150 million [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

<u>Legislative Officers</u>

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

Data and assumptions that underpin the GA Financing proposal have been submitted to the Financial Accountability Officer (FAO). The FAO is expected to have an opinion on how this proposal may impact the state of the province's finances.

<u>OPG Mechanism</u>

- Accountability
    - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
    - Accountability to the government or the public, amount of government control of the entity, including future rate increases.
- New structure
    - Structure is complex, involving:
        - IESO as originator of the regulated asset and responsible for flow of funds;
        - OEB as regulator of the new mechanism;
        - OPG responsible for financing and managing the mechanism; and
        - The Province providing ongoing equity capital infusions to OPG and backstop.
    - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
    - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
    - Connection to BPS compensation framework/lack of national comparator.

  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g., the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

Benefits for all Consumer Classes

Ontario's Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

**Stakeholder Considerations:**

General public (including residential and small businesses) – Likely support a proposal that is projected to provide 25% in average rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable". Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to cap and trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the "Clean Energy Adjustment."

Solar PV sector – May react negatively to price relief as it can be seen to undercut the economics of net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

**Delivery:**

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer2017 and would reinforce/integrate with Ontario's Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

1. **Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs**

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation.

## 2. Enhancing Social and Conservation Programs

OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall).

The OEB and utilities already began making changes to their systems to implement the 50% credit increase and adding additional eligibility so that more households could qualify for the program. These changes are expected to be completed in time for the May 1, 2017 implementation date.

RRRP Enhancement

Regulations would be required to establish the details of the program. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date (ENERGY is planning to prescribe July 1). The bill includes transitional provisions that would ensure customers remain eligible for the rate protection from the prescribed date. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

On-Reserve First Nations Delivery Credit

ENERGY is consulting with affected LDCs, the OEB, the IESO and Chiefs of Ontario (COO) to help develop a plan to identify eligible on-reserve consumers, as well as identify any potential implementation issues.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the prescribed effective date (ENERGY is planning to prescribe July 1). The bill includes transitional provisions that would ensure customers remain eligible for the delivery credit from the prescribed date.

Once available, the rebate would appear on the eligible customer's electricity bills as a credit for their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

**Linkages:**

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a 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. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers the DRC is scheduled to be removed by April 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by shirfitn electricity consumption away from peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to 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.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers. This commitment to residential consumers was met by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been addressed. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and
- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to "consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade". As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

## Proposed Cabinet Minute

**Approval of draft bill for introduction**

Cabinet approved version XX-XX of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.