

# Rate Mitigation Proposal – An Alternative Approach (Plan B)

Working Draft

February 2017

## Proposal

- Ministry of Energy has developed a proposal for achieving a comparable level of electricity rate mitigation in order to reduce debt levels and minimize the impact on the province's fiscal plan.
- The proposal includes the following options:
  - Enhance the tax-base funded 8% rebate to a 13% rebate (i.e., incremental 5%);
  - Enhance the tax-base funded 8% rebate to a 15% rebate (i.e., incremental 7%);
  - Fund enhancements to electricity support program through the tax-base;
  - Reduce one-time funding for the new Affordability Fund from \$200 million to \$100 million in 2016-17;
  - Amortize conservation program costs (i.e., over a 10 or 15 year period);
  - Provide support for Class B consumers:
    - Lowering Industrial Conservation Initiative (ICI) threshold below 1 MW; and
    - Removing Debt Retirement Charge (DRC) early for Class B.
  - Set Regulated Price Plan (RPP) rates “annually” instead of “bi-annually”.
- These proposals are an alternative to Global Adjustment (GA) Smoothing (i.e., avoids risk of up to \$3.5 billion of unplanned expenses as result of consolidation).

## Option 1: Enhance Tax-Base Funded 13% Rebate (Incremental 5%)

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

| Residential (750 kWh/month)        | Actual 2016 | 2017       | 2018       | 2019       | 2020       | 2021       |
|------------------------------------|-------------|------------|------------|------------|------------|------------|
| <b>Total Bill (includes HST)</b>   | <b>158</b>  | <b>164</b> | <b>167</b> | <b>170</b> | <b>181</b> | <b>178</b> |
| Total Bill (excludes HST)          | 140         | 145        | 148        | 150        | 160        | 158        |
| Existing 8% rebate                 |             | -12        | -12        | -12        | -13        | -13        |
| Additional 5% rebate               |             | -7         | -7         | -8         | -8         | -8         |
| HST                                |             | 19         | 19         | 20         | 21         | 21         |
| <b>Revised Bill (includes HST)</b> | <b>158</b>  | <b>145</b> | <b>148</b> | <b>150</b> | <b>160</b> | <b>158</b> |
| Year-over-Year Change              |             | -8%        | 2%         | 2%         | 6%         | -1%        |
| Change from Forecast               |             | -12%       | -12%       | -12%       | -12%       | -12%       |

| Commercial & Small Industrial (\$/MWh)      | Actual 2016 | 2017       | 2018       | 2019       | 2020       | 2021       |
|---------------------------------------------|-------------|------------|------------|------------|------------|------------|
| <b>Class B Total (excludes HST)</b>         | <b>160</b>  | <b>165</b> | <b>160</b> | <b>162</b> | <b>173</b> | <b>169</b> |
| <b>Class B Revised Total (excludes HST)</b> | <b>160</b>  | <b>165</b> | <b>160</b> | <b>162</b> | <b>173</b> | <b>169</b> |
| Year-over-Year Change                       |             | 3%         | -3%        | 1%         | 7%         | -2%        |
| Change from Forecast                        |             | 0%         | 0%         | 0%         | 0%         | 0%         |

| Large Industrial (\$/MWh)                   | Actual 2016 | 2017      | 2018      | 2019      | 2020      | 2021      |
|---------------------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|
| <b>Class A Total (excludes HST)</b>         | <b>90</b>   | <b>91</b> | <b>93</b> | <b>88</b> | <b>95</b> | <b>96</b> |
| <b>Class A Revised Total (excludes HST)</b> | <b>90</b>   | <b>91</b> | <b>93</b> | <b>88</b> | <b>95</b> | <b>96</b> |
| Year-over-Year Change                       |             | 1%        | 2%        | -5%       | 8%        | 1%        |
| Change from Forecast                        |             | 0%        | 0%        | 0%        | 0%        | 0%        |

**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. While initiatives would take several months to implement (e.g., June/July 2017), the above estimate for 2017 reflects a full-year impact including retroactivity to January 2017.

## Option 2: Enhanced Tax-Base Funded 15% Rebate (Incremental 7%)

- Total bill below is based on a revised IESO forecast. See footnotes for more information.

| Residential (750 kWh/month)        | Actual 2016 | 2017       | 2018       | 2019       | 2020       | 2021       |
|------------------------------------|-------------|------------|------------|------------|------------|------------|
| <b>Total Bill (includes HST)</b>   | <b>158</b>  | <b>164</b> | <b>167</b> | <b>170</b> | <b>181</b> | <b>178</b> |
| Total Bill (excludes HST)          | 140         | 145        | 148        | 150        | 160        | 158        |
| Existing 8% rebate                 |             | -12        | -12        | -12        | -13        | -13        |
| Additional 7% rebate               |             | -10        | -10        | -11        | -11        | -11        |
| HST                                |             | 19         | 19         | 20         | 21         | 21         |
| <b>Revised Bill (includes HST)</b> | <b>158</b>  | <b>143</b> | <b>145</b> | <b>147</b> | <b>157</b> | <b>155</b> |
| Year-over-Year Change              |             | -10%       | 2%         | 2%         | 6%         | -1%        |
| Change from Forecast               |             | -13%       | -13%       | -13%       | -13%       | -13%       |

| Commercial & Small Industrial (\$/MWh)      | Actual 2016 | 2017       | 2018       | 2019       | 2020       | 2021       |
|---------------------------------------------|-------------|------------|------------|------------|------------|------------|
| <b>Class B Total (excludes HST)</b>         | <b>160</b>  | <b>165</b> | <b>160</b> | <b>162</b> | <b>173</b> | <b>169</b> |
| <b>Class B Revised Total (excludes HST)</b> | <b>160</b>  | <b>165</b> | <b>160</b> | <b>162</b> | <b>173</b> | <b>169</b> |
| Year-over-Year Change                       |             | 3%         | -3%        | 1%         | 7%         | -2%        |
| Change from Forecast                        |             | 0%         | 0%         | 0%         | 0%         | 0%         |

| Large Industrial (\$/MWh)                   | Actual 2016 | 2017      | 2018      | 2019      | 2020      | 2021      |
|---------------------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|
| <b>Class A Total (excludes HST)</b>         | <b>90</b>   | <b>91</b> | <b>93</b> | <b>88</b> | <b>95</b> | <b>96</b> |
| <b>Class A Revised Total (excludes HST)</b> | <b>90</b>   | <b>91</b> | <b>93</b> | <b>88</b> | <b>95</b> | <b>96</b> |
| Year-over-Year Change                       |             | 1%        | 2%        | -5%       | 8%        | 1%        |
| Change from Forecast                        |             | 0%        | 0%        | 0%        | 0%        | 0%        |

**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. While initiatives would take several months to implement (e.g., June/July 2017), the above estimate for 2017 reflects a full-year impact including retroactivity to January 2017.

## Option 3: Fund Enhancements to Electricity Support Program Through The Tax-Base

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax-base.
- To provide targeted assistance to the customers and alleviate electricity cost burden, ENERGY proposes to:
  - Enhance Rural or Remote Rate Protection (RRRP) by funding its costs through the tax base and providing additional support to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).
  - Enhance Ontario Electricity Support Program (OESP) by funding its costs through the tax base and increasing eligible benefits by 50%.
  - Implementing On-Reserve First Nations Delivery Credit, to remove Delivery charges for on-reserve First Nations customers.
- The existing programs cost of RRRP and OESP would continue to be funded through the rate-base.
- If enhancements to RRRP and OESP were funded through the rate-base, they would cost about \$1.90/month on average between 2017 and 2020 for a typical residential consumer.

## Option 4: Reduce One-time Funding for the New Affordability Fund From \$200 million to \$100 million in 2016-17

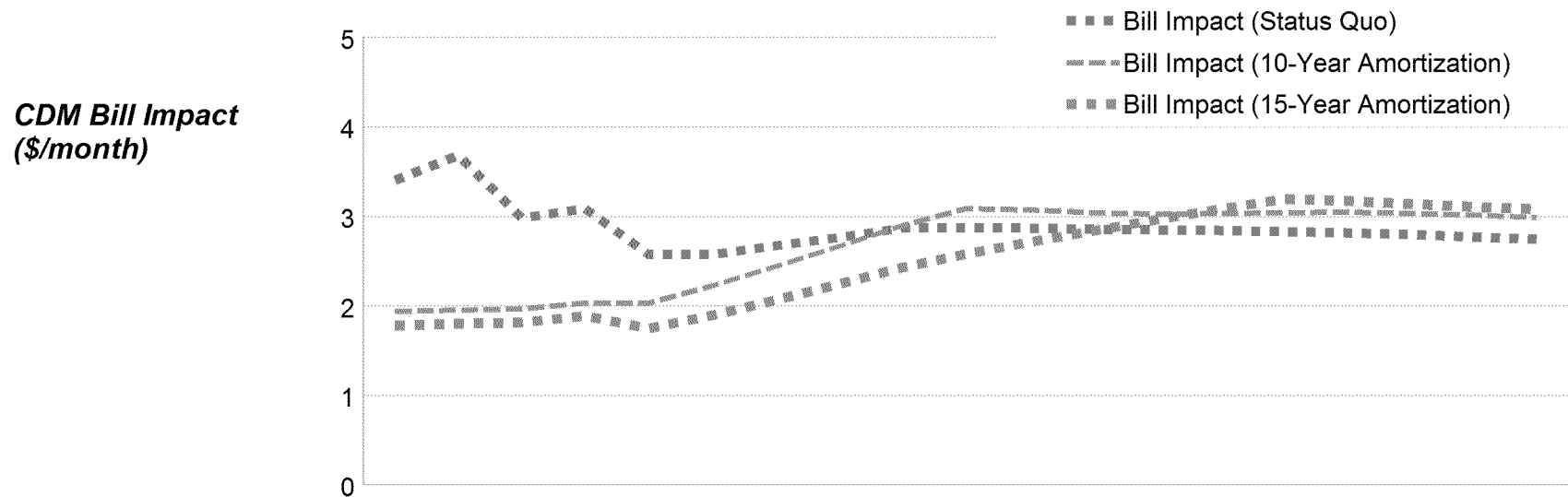
- The proposed “Affordability Fund” would be established to assist electricity customers who cannot qualify for low-income conservation programs.
- The “Affordability Fund” would provide LDCs with an additional tool to help customers in need.
  - LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills and avoid future disconnections.
  - This option addresses vulnerable electricity consumers in the Province.
- The original project cost was approximately \$200 million in the coming fiscal year (funding from the tax-base).

## Option 5: Amortize Conservation Program Costs

- Currently, Conservation and Demand Management (CDM) program costs are recovered from the Global Adjustment (GA) mechanism about one month after expenses are incurred.
  - About \$3 billion from the electricity ratepayer base will be spent on conservation programs delivered under the Conservation First Framework (CFF) and the Industrial Accelerator Program (IAP) between 2015 and 2020.
- As a potential rate mitigation measure, certain CDM costs could be amortized. This would involve IESO borrowing funds from the Ontario Financing Authority (OFA) on an annual basis to fund program incentives (non-administrative costs).
  - The time period over which costs could be amortized would be over the lifetime of funded CDM measures.
  - ENERGY would work with IESO to determine the appropriate lifetime period – the graph on the next slide, which illustrates residential bill impacts, presents two cases: **10-year and 15-year measure lifetimes**.
- In both cases, amortizing a portion of conservation spending would produce a benefit for electricity ratepayers in excess of \$1/month from 2017 to 2020. Over time the benefit would decrease and turn into a cost (higher electricity rates than would otherwise occur), as interest charges begin to grow. Estimated interest charges are as follows (a 3% interest rate is assumed; increases in interest rates could result in higher overall interest charges):
  - \$712 million (\$2016) – Amortizing eligible 2017-2035 CDM costs for 10-year period; and
  - \$1.3 billion (\$2016) – Amortizing eligible 2017-2035 CDM costs for 15-year period .
- Legislative changes would be needed to allow recovery of interest payments from ratepayers, or these costs could be recovered from the Consolidated Revenue Fund (CRF, or taxes).

## Option 5: Amortize Conservation Program Costs (cont'd)

### Conservation Residential Bill Impact – Status Quo, 10-Year and 15-Year Amortization



Source: IESO; Ministry of Energy

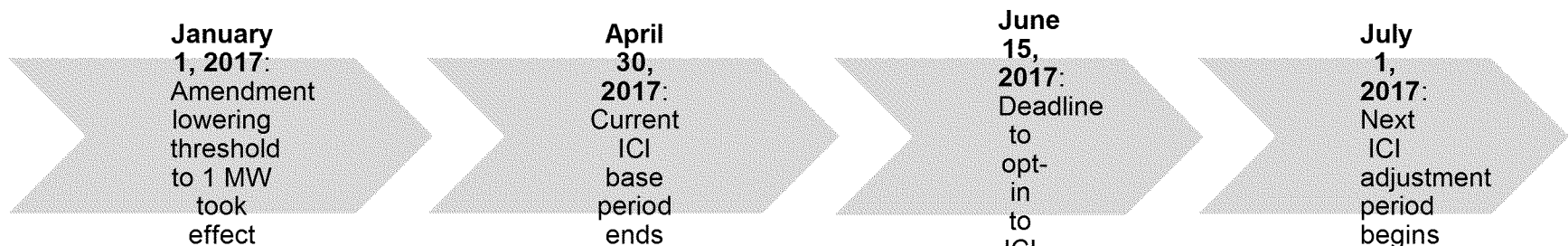
**Note:** Chart assumes that conservation incentive costs are available for amortization while administration cost are not. Although there is variability from year to year, incentives represent about two-thirds of electricity conservation spending in Ontario. Chart assumes electricity conservation spending continues at a similar rate beyond 2020. Chart assumes a 10 of 15-year borrowing rate of 3.0%.

## Option 6: Support for Class B Consumers By Lowering ICI Threshold Below 1 MW

- The threshold for participation in the Industrial Conservation Initiative (ICI) was recently lowered to 1 MW. Beginning in July 2017, new participants will be billed Global Adjustment (GA) on the basis of their contribution to province-wide peak demand.
- To address competitiveness for consumers whose electricity demand is too low to currently qualify for ICI, government could consider reducing the eligibility threshold below the current 1 MW:
  - A reduction below 1 MW would provide smaller consumers the opportunity to achieve savings depending on their ability to reduce demand during the five system peak hours.
  - A decision would have to be made on where to set the new eligibility threshold (i.e., 50 kW).
- To target the proposal, sector restrictions could be included as part of the proposal (based on North American Industry Classification Standards or NAICS codes).
  - Prior to the recent expansion of ICI that took effect in January, consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses.
  - A narrower version of the proposal would be to allow only manufacturers below 1 MW to participate.
- A lowering of the ICI threshold could deliver price reductions for the newly eligible Class A consumers that choose to opt-in to Class A. Class B industrials that run only a day shift, resulting in fairly peaky load profiles would be worse off in Class A.

## Option 6: Support for Class B Consumers By Lowering ICI Threshold Below 1 MW (cont'd)

- With the recent lowering of the ICI eligibility threshold to 1 MW, there is no information available regarding the actual impact on new participants and the electricity system.
- Preliminary analysis by ENERGY staff show that the estimated impact of an expansion of ICI from 1 MW to 50 kW would increase a typical residential bill by up to 0.66%, or just over \$1/month based on a 2016 bill of about \$158.
  - The actual impact would vary depending on uptake and consumer responsiveness.
- If the ICI threshold is further lowered, 500 kW may be an appropriate level to provide benefit to larger Class B consumers while limiting the cost shift to other consumers. Lowering to 500 kW would result in residential bill increases lower than the 0.66% referenced above.
- In order for any changes to ICI eligibility to take effect before the next 12-month billing period beginning July 1, 2017, regulatory amendments would have to be made before the end of April 2017.

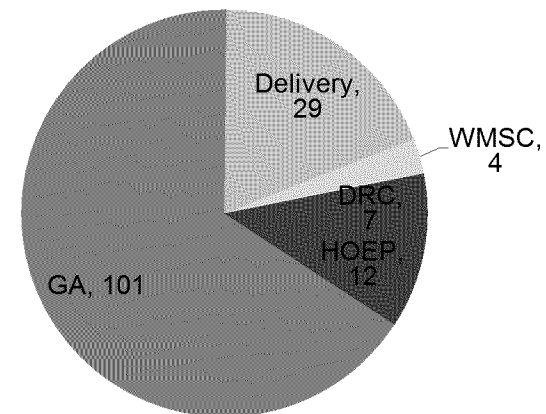


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## Option 6: Support for Class B Consumers By Removing the Debt Retirement Charge (DRC) Early

- The Debt Retirement Charge (DRC) has already been removed from residential bills. For all other consumers the DRC is scheduled to be removed by April 2018.
- Eliminating DRC earlier would save \$7/MWh for all non-RPP Class B consumers.
  - This would represent a 4% reduction for a Class B consumer based on current prices.
- Options include:
  - Providing a reduction in DRC rather than complete elimination for Class B;
  - Removing the DRC completely for non-RPP Class B (**recommended**); or
  - Shifting DRC which otherwise would be paid by Class B to Class A consumers. This could require extending the legislated DRC retirement date or increasing DRC for Class A.

**Typical Non-RPP Class B Price**  
in \$/MWh



| Fiscal Impact (\$M) <sup>11</sup>    | 2017-18 | 2018-19 |
|--------------------------------------|---------|---------|
| 1) Reduce DRC by \$3.50/MWh          | 148     | -       |
| 2) Remove DRC completely for Class B | 295     | -       |
| 3) Shift Class B DRC to Class A*     | 295     | -295    |

\* **Note:** Estimates assume elimination of DRC could be reflected in bills as early as April 1, 2017.

## Option 7: Set RPP Rates Annually Instead of Bi-Annually

- There are about 4.8 million residential and small business consumers participating in the RPP. About 4.5 million residential and small business consumers pay Time-of-Use (TOU) prices under the RPP.
- RPP prices are adjusted every six months (in May and November) by the Ontario Energy Board (OEB) based on projected supply cost over the next 12 months and true-up to actual costs incurred to date.
- The rate setting frequency of RPP prices could be reduced to every 12 months.
  - The first one-year RPP rate could be set as of May 2017 pending any required legislative/regulatory amendments.
- This option is not expected to impact RPP ratepayer bills. However, administration of the RPP would change. Setting rates over a longer period would provide certainty to consumers, but would be subject to greater variance due to forecasting uncertainties.
- Further analysis is required regarding amendments to the *Ontario Energy Board Act*.

## Fiscal Roll-Up

| Fiscal Impact (\$M)                                                         | 16-17 | 17-18         | 18-19         | 19-20         | 20-21         |
|-----------------------------------------------------------------------------|-------|---------------|---------------|---------------|---------------|
| 5% - 7% Rebate Enhancements                                                 | -     | 710 - 994     | 720 - 1,009   | 733 - 1,027   | 761 - 1,066   |
| RRRP Enhancements*                                                          | -     | 216           | 222           | 228           | 234           |
| Ontario Electricity Support Program 50% Enhancement & New Matrix Categories | -     | 68            | 102           | 132           | 153           |
| On-Reserve First Nation Delivery Credit                                     | -     | 20            | 20            | 20            | 20            |
| Affordability Fund**                                                        | 100   | -             | -             | -             | -             |
| Remove DRC early for Class B***                                             | -     | 295           | -             | -             | -             |
| <b>Total</b>                                                                | 100   | 1,109 – 1,593 | 1,024 – 1,313 | 1,037 – 1,331 | 1,065 – 1,370 |

**\*Note:** includes only the benefits by reducing distribution for Hydro R1 and R2 customers plus seven additional LDCs. Does not include the current RRRP amounts for R2 customers, Algoma or Remotes.

**\*\*Note:** Funding for the Affordability Fund is one-time in 2016/17.

**\*\*\*Note:** Based on removing the DRC completely for non-RPP Class B through tax-based funding.

## Considerations

- Proposal provides a level of electricity rate mitigation that reduces pressure on ratepayers and tries to minimize the impact on the province's fiscal plan.
  - Builds on rate mitigation initiatives announced in the 2016 Speech from the Throne.
- In addition, this proposal helps a broad range of electricity consumers, including:
  - Vulnerable electricity consumers through enhancements to RRRP and OESP, and the Affordability Fund;
  - Residential consumers, small businesses and farms through the enhanced rebate; and
  - Small medium enterprises (SMEs) from a lowering of the ICI threshold below 1 MW.
- Large industrial electricity consumers would not see any benefit from these proposals.
- The proposal is administratively less complex than GA smoothing and easier to implement. For example, the Ministry already has experience implementing the 8% rebate.
- Further analysis is required to identify legal risks. Legislative and/or regulatory amendments would be required for some options.