Ontario

MINISTRY OF
ENERGY

Energy Accessibility

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CONFIDENTIAL DRAFT

Background

- A primary policy objective for the Ministry is to ensure that the energy sector is responsive to the needs and requirements of the consumers it serves.
- As the energy system enables the requirements of modern life and supports the provincial economy, critical functional characteristics of the system would include:
  - Recovery of costs in a fair, equitable, and affordable manner;
  - Clear and open sector operation that is easily understood and accessed by consumers;
  - Serving as an enabler of economic development and competitiveness;
  - Promoting open access and confirming the sector serves the interests of all Ontarians; and
  - Ensuring reliable service and other performance outcomes that serve the public interest.
- As the Ministry prepares the next Long-Term Energy Plan (LTEP), there is opportunity to address these challenges and promote equitable and affordable access to the energy sector, both in terms of grid connection and interaction with sector organizations.
- This deck presents an overview of these challenges, the related feedback received through the LTEP consultation process, and options and recommendations for inclusion in LTEP.

Achievements Since 2013 LTEP

- While not explicitly commitments made in the 2013 LTEP, number of actions have been taken to improve access to the sector for consumers:
  - The introduction of the Ontario Energy Report;
  - The merger of the IESO and OPA in 2015;
  - Improve utility performance monitoring and benchmarking through the Renewed Regulatory Framework for Energy (RRFE);
  - An increased role for the OEB's in providing consumer education, outreach and engagement (Bill 112); and
  - Enhanced consumer protection measures (Energy Consumer Protection Act).
- The 2017 LTEP is a more holistic look at the energy sector and will examine in-depth ways to make the sector more consumer centric, understandable and accessible.

Current Context

- The energy sector is continuing to evolve to seek efficiencies and improve service for customers:

Recent Energy Sector Reforms			
Structure	**Cost Allocation**	**Consumer Protection**	**Utility Best Practices**
• MergeCo Approval • Increased OEB Oversight (Bill 112)	• Fixed distribution costs • Natural gas expansion • OEB Report on First Nations rate	• Energy Consumer Protection Act • OEB consumer engagement initiatives • Creation of Hydro One Ombudsman	• Corporate Governance • Cybersecurity • Consumer complaint reporting

- Stakeholders and consumers continue to flag that the energy sector is costly and inaccessible, and that it is difficult to properly gauge the value provided by the system. The Long-Term Energy Plan is an opportunity to gather this feedback and develop additional initiatives to improve accessibility of the energy sector.

Stakeholder Feedback Summary

- Through LTEP stakeholder and public engagement sessions, EBR submissions, and additional stakeholder outreach, the Ministry has collected significant feedback on issues of affordability and accessibility.
- Solutions to some of these identified challenges will be proposed in the Affordability deck.

Prices

- **Electricity mitigation**
- **Natural Gas mitigation**
- **Bending the cost curve**

- **Cost certainty:** homes/businesses want predictability of costs.
- **Delivery Charge:** Customers not aware what it covers. Unfair that it varies across province.
- **Industrial Competitiveness:** Prices are putting Ontario at a competitive disadvantage in attracting investment. Need more support for all sizes of businesses.
- **LDC issues:** Customers identifying rising costs; challenge for utilities as they account for ~20% of bill.
- **RPP changes:** More TOU prices should be offered to recognize differences in homes/businesses' consumption patterns and incent the desired consumer behaviour to shift loads.
- **Support from Tax-Base:** More funding is needed from tax base given supply mix/costs are locked in.
- **Engagement/communication:** More efforts are needed to explain the different components of bill, why they have gone up and what support programs are available for different customer groups.
- **Utilize existing assets:** Government should re-contract with existing supply as contracts expire through competitive price auctions.

Notes: The summaries capture the overall feedback and is at a higher-level. Summaries from individual table discussions are available for reference.

Proposed LTEP Initiatives

Summary of Proposed LTEP Initiatives

Accessibility
1. Strengthening LDC Accountability to Consumers
2. Enhancing Sector Transparency and Consumer Literacy.
3. Protecting Tenants through Rate Regulation of Sub-Metering Providers.
4. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process
5. Regulatory Flexibility and Financial Support for Natural Gas Expansion

- Some of these initiatives require further analysis and evaluation prior to determining full scope and an appropriate path to implementation.

1. Strengthening LDC Accountability to Consumers

Recommendation

- **Direction:** Direct the Ontario Energy Board (OEB) to examine and implement options to continue the work of the Renewed Regulatory Framework by enhancing utility performance through incentives for improved performance and penalties for poor performance in key areas. Options could include:
  - Optimization of investment planning, including tying return on equity (ROE) to performance and risk;
  - Strengthen LDC Scorecard by connecting it to LDC financial performance through earnings sharing or penalties paid to consumers;
  - Revise rate-setting to reflect tightening productivity requirements and capital cost avoidance
  - Create regulatory incentives for LDCs to pursue efficiencies and service sharing agreements.

Considerations

- **Forecast:** Recommended option should not have a material impact on the electricity forecast.
- **Prices:** Improved LDC performance should have a downward pressure on the distribution portion of the total electricity bill, with modest total bill impact.
  - Distribution rates only account for roughly 20% of the total electricity bill.
  - Opportunities for improved efficiencies and increased LDC performance may have moderate price impact on distribution rates, but are likely to result in mitigating increases rather than driving decreased rates.
  - Direct payments to consumers for failing to meet a performance threshold (ex: $20 for an extended outage) would have greater bill impact but would be rare and intermittent in occurring.
- **Regional:** Different LDCs are currently operating at differing levels of operational performance and efficiency. Customers of highly-performing LDCs may see less of an impact than customers of poorly-performing LDCs, who have greater opportunity for improved performance.

1. Strengthening LDC Accountability to Consumers (cont'd)

Considerations

- Stakeholders provided general input on improving the regulatory framework.
- LDCs are looking for regulatory mechanisms that allow and encourage utilities to deliver services that meet the needs of consumers and are responsive to the changing environment.
- LDCs particularly expressed interest in expanding shared-service agreements with other LDCs.
- Like other components of Ontario's electricity system, distribution sector costs have risen as investments have been made to update and modernize system infrastructure. Over the same time period, distribution sector productivity and cost efficiency have decreased. This trend raises concern that customers are not realizing a net benefit from sector cost increases, as customers receive less value from the distribution bill.
  - For the period 2002-2012, sector productivity has decreased by an annual average of -0.93% when including Hydro One and Toronto Hydro, the worst performers.
- The OEB, through the Renewed Regulatory Framework for Energy (RRFE), has since 2012 attempted to move the distribution sector towards a performance/outcomes-based regulatory framework. While new reporting requirements such as the LDC performance scorecard are positive developments, RRFE does not tie these system performance expectations to LDC financial performance.
- The 2013 LTEP included a commitment to review the implementation of the LDC Scorecard and develop additional policy options.

1. Strengthening LDC Accountability to Consumers

Considerations Cont'd

- Performance-based options have the potential to indirectly incent consolidation (in a manner that returns benefits to consumers), improve customer experience, and potentially reduce ROE in an equitable manner in the event performance expectations are not met.
- Encouraging shared partnerships on services between utilities will help reduce costs in the back end and encourage further innovation for small to medium sized utilities.
- Under the Ontario Energy Board Act, the OEB's role is established as an independent regulator with authority to establish appropriate mechanisms to regulate local distribution companies (LDCs). The Minister of Energy holds broad responsible for energy sector outcomes over the long-term and is accountable for the OEB's fulfillment of its mandate as well as the OEB's performance.

Example of utilities sharing services and driving innovation:

Grid Smart City

- Thirteen LDCs working together to achieve greater economies of scale, efficiency and effectiveness.

CHEC

- CHEC, an association of 15 LDCs and modeled after a cooperative to combine resources

Centre Wellington
Collus PowerStream
InnPower
Lakefront Utilities
Lakeland Power
Midland Power Utility
Niagara-on-the-Lake
Orangeville Hydro
Orillia Power
Ottawa River Power
Renfrew Hydro
Rideau St. Lawrence
Wasaga Distribution
Wellington North
West Coast Huron

2. Enhancing Sector Transparency and Consumer Literacy

Recommendation:

- **Exploratory:** The Ontario Energy Report (OER) could be leveraged to provide more information on Global Adjustment to the public.
- **Exploratory:** Initiatives to increase accessibility and a consumer centric approach could be pursued. The LTEP could reference the OER and the Ministry's efforts to improve energy literacy.

Considerations:

- The need for a more engaged, energy literate public was highlighted in the Drummond Report, the 2013 Auditor General's Annual Report, and the 2013 and 2016 LTEP stakeholder consultation sessions.
- In response, the Ministry launched emPOWERme in 2013. It includes class room-focused fact sheets, videos, interactive tools, infographics and other energy-focused educational resources.
- In December 2016, Premier Wynne expressed an interest to provide more detail about the Global Adjustment (GA) to consumers.
- A link to the OER could be added to electricity bills to increase consumer awareness of the available resources
- In 2014, the Ministry, working with the IESO and OEB, launched the Ontario Energy Report (OER) website. In addition to quarterly reports on electricity, natural gas and oil, the site includes links to many other electricity sector publications and reports.
- Consumers voiced concerns during the 2017 LTEP consultations regarding the need for increasing transparency of Global Adjustment, while simultaneously asked for increased bill simplification.
- The Ministry also actively promotes energy literacy via Twitter, and more recently, through social media channels such as LinkedIn and Facebook.
- In the past, the Ministry supported Pollution Probe and the Mowat Centre's efforts to promote energy literacy.

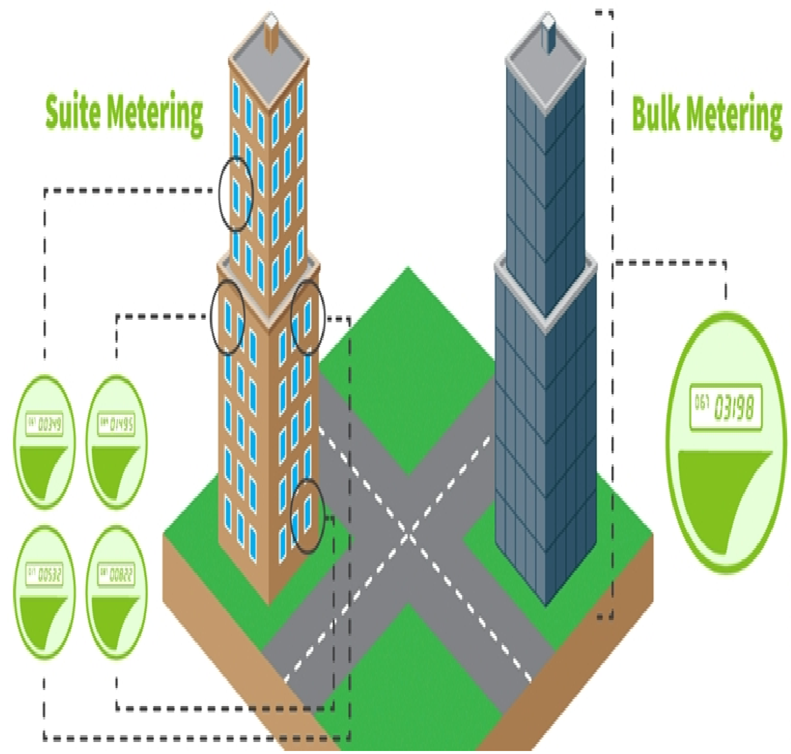
3. Protecting Tenants Through Rate Regulation of Sub-Metering Providers

Recommendation

- **Exploratory:** Task the OEB with conducting an assessment of whether Unit Sub-Meter Providers (USMPs) charges should be regulated as a means to ensure that the OEB is adequately fulfilling its mandate to protect the interests of electricity customers, including those billed by USMPs, with respect to rates

Considerations

- Unit sub-meter providers are private companies which install ‘unit sub-meters’ for individual units in a multi-unit building (connected to an LDC’s bulk meter) and bill unit occupants directly
- As per O.Reg. 389/10 individual metering (‘suite metering’ – see diagram) is required in all new multi-unit buildings built after January 1, 2011 and is optional for pre 2011 buildings.
  - To comply, buildings can chose either ‘unit smart metering’ by an LDC or unit sub-metering by a USMP.
- USMPs are licenced by the OEB and are subject to the OEB’s ‘Unit Sub-Metering Code’.
- USMPs are required to pass on LDC bill charges as measured by the bulk meter at cost but their additional monthly fees (for sub-metering and billing) and miscellaneous charges (e.g. disconnection) are not reviewed or approved by the OEB
  - USMP fees usually vary by building and by customer type and are typically not available online.



3. Protecting Tenants Through Rate Regulation of Sub-Metering Providers

Considerations (Cont'd)

- The OEB Act contains an un-proclaimed provision which authorises the OEB to regulate USMP charges.
- Some USMPs have recently lobbied government to mandate suite metering for all multi-unit buildings as a conservation measure

Key USMP Stats
• 29 Licenced USMPs • 7 USMPs serve ~175,000 residential & small business unit sub-metering customers (as of December 2015, according to Ontario Clean Energy Benefit payment data);

- **Forecast:** Regulations of USMP charges is not expected to affect the electricity demand forecast or require modelling
- **Prices:** Regulation of USMP fees and charges may result in more consistent, transparent and potentially lower electricity bills for USMP customers. The OEB's assessment would have to include a cost-benefit analysis which would consider additional costs to the OEB to rate regulate this sector versus the benefits to the relatively small pool of USMP customers
- **Regional Impacts**: USMP providers service multi-unit buildings in urban areas across the province

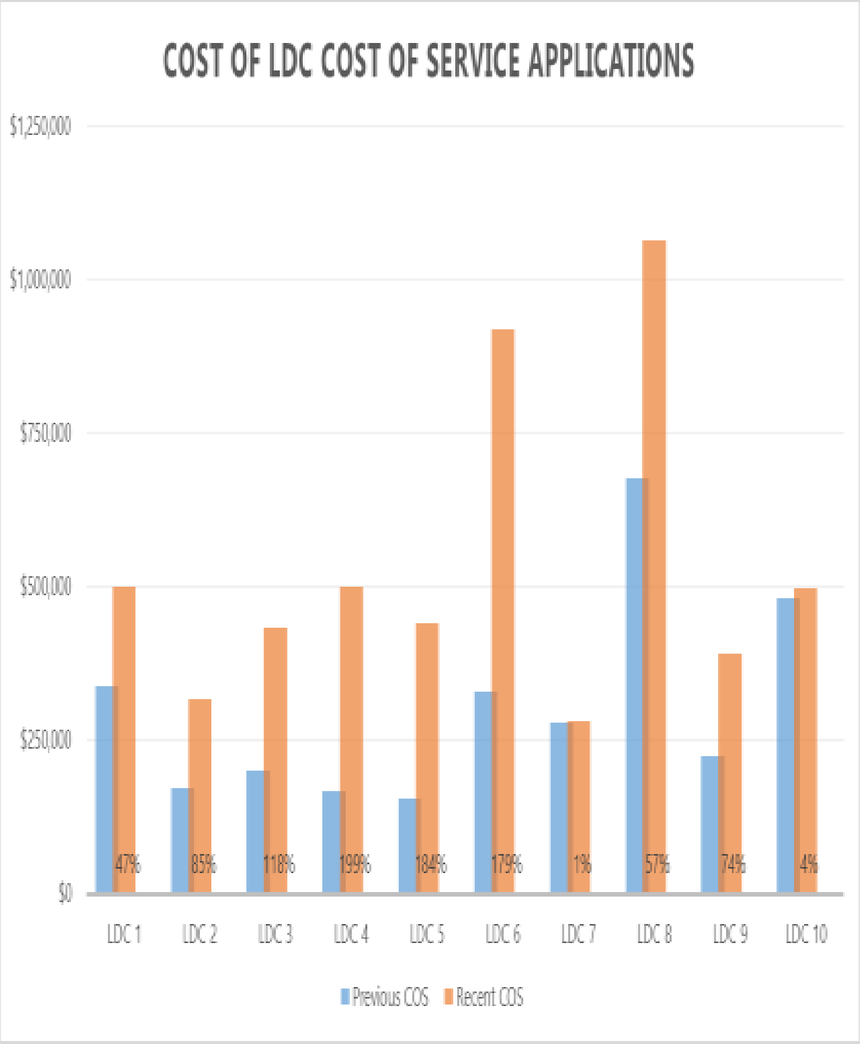
4. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process

Recommendation

- **Exploratory:** Ministry and OEB to work together to consider how the regulatory process can be reformed to clarify policy signals for regulated entities, ensure access and transparency for consumers, reduce costs and burdens, and better support and enforce new performance expectations.
- **Exploratory:** Consider moving OEB costs to the tax-base.
- **Exploratory:** Digitize OEB operations and allow for Ontarians to participate in rate hearings digitally.

Considerations

- Local Distribution Companies are concerned that regulatory processes have become increasingly costly, time-consuming and overly-prescriptive with limited cost-benefit analysis to justify.
- LDCs are hesitant to prepare comprehensive rate filings due to unclear guidelines. LDCs believe certain regulatory and reporting requirements placed on LDCs can be streamlined, and instead focus on achieving outcomes.
- Providing LDCs with regulatory clarity and consistency would assist in achieving new LDC performance expectations.



4. Ensuring a Modern, Streamlined and Cost Effective Regulatory Process (cont'd)

Considerations

- A number of reviews and changes have been introduced to the OEB regulatory and process framework in recent years in an attempt to become more consumer-focused and promote LDC efficiency and productivity. Such an initiative would represent a continuation of work the OEB has already begun.
- The OEB is an independent regulator and as such they set their own procedural and administrative rules (within the confines of existing legislation) and will ultimately determine how reforms are implemented in practice.
- Current performance measures designed by the OEB on its own operations have been assessed to be almost fully achieved, leaving little scope and incentives from within the regulator for further changes and improvements. However, there are general concerns that the regulatory process still requires further work to ensure LDC efficiencies are returned to consumers.
  - The Mandate Review of the OEB, underway in Q1 2017, can inform development of a new performance framework.
- As intervenor costs make up a large portion of OEB-assessed costs, the Ministry could encourage the OEB to continue to reform its consumer engagement practices.
- While moving OEB costs to the tax-base would result in on-bill savings for customers, such a move would need to be considered in light of the need to protect the OEB's independence in decision-making.
- **Forecast:** This initiative is not expected to affect Ontario's demand forecast.
- **Prices:** Across LDCs, costs for hearings have increased, separate and apart from inflationary increases. Hydro One's latest Custom IR application cost $679,889 to file. The OEB's regulatory cost per customer in 2015 was $5.71, up 39.3% over 2009. Enhanced cost effective regulatory processes is expected to result in downward pressure on distribution rates for consumers.
- **Regional:** Consumers served by LDCs that are larger and more operationally complex would experience the greatest benefits as these rate filings tend to drive OEB costs.

5. Regulatory Flexibility and Financial Support for Natural Gas Expansion

Recommendation:

- **Decision:** Support natural gas expansion noting the OEB decision and MOI funding, while recognizing that natural gas will not be available in every corner of the province.
- **Exploratory:** Seek to maximize the value of existing natural gas infrastructure while reducing GHG emissions through integrated energy solutions.

Considerations:

- Natural gas is commonly used as a heating fuel. Compared to other heating fuels, natural gas has a lower carbon footprint than propane or heating oil. Natural gas would have a higher carbon footprint than electricity or renewable sources like biomass (e.g., wood).
- Extensive natural gas infrastructure is in place in Ontario (approximately 75% of homes are heated with natural gas in Ontario). The infrastructure includes extensive storage and capacity to meet peak heating demands.
- Stakeholders identified that access to natural gas is urgently needed in rural Ontario to lower energy costs for homes and businesses, to facilitate industrial expansions and to attract investment.
- In February 2015, the Minister asked the Ontario Energy Board (OEB) to assess what options may exist to connect more communities to natural gas and to ensure the rational expansion of Ontario's natural gas transmission and distribution system.
- In November 2016, the OEB issued a decision on a generic hearing regarding natural gas expansion. The decision gives more flexibility to utilities (by allowing stand-alone rates and surcharges) to make expansion to unserved communities more economically feasible and encourages competition to service communities.
- Also supporting natural gas expansion is the plan from the Ministry of Infrastructure to support expansion by a loan and/or grant program.

5. Regulatory Flexibility and Financial Support for Natural Gas Expansion (cont'd)

Considerations

- The 2013 LTEP highlighted that Ontario wants to ensure communities can access natural gas to take advantage of low prices.
- Maximizing and maintaining the use of natural gas infrastructure can help keep costs down by avoiding "stranded asset" risk where ratepayers pay for minimally utilized / unused assets.
- Overall system costs need to be considered in the LTEP – natural gas can continue to play a role during the transition to a low carbon economy by meeting key needs (e.g., peak heating demand).
- Renewable Natural Gas (RNG) is an opportunity to leverage existing natural gas infrastructure and green the economy - RNG is a renewable fuel source that can help meet Ontario's climate change objectives. Expanding natural gas to rural areas will increase pipeline connections to potential sources for RNG supply
- There may be niche economic opportunities for natural gas to replace higher carbon intensity diesel / gasoline in the transportation sector. Climate Change Action Plan has initiatives to support infrastructure expansion, a current barrier to natural gas use in the transportation sector.
- Due to high cost of pipeline connections, natural gas will not be economically viable for all regions / areas of the province. Other fuels (e.g., electricity, heating oil, propane, wood, etc.) will have to meet end user needs.
- **Forecast:** Expansion of gas services is not anticipated to have a significant impact on electricity or gas demand on a provincial scale .
- **Prices:** Individual consumers could see major energy cost savings for space and water heating.
- **Regional:** Expansion will affect regional electricity and gas demand and associated planning on a community scale.

Next Steps

Next Steps

- Revise proposed initiatives based on feedback.
- Return with initiative-specific briefings with additional analysis, as required.
- Determine affordability measures through parallel rate mitigation discussions.
- Incorporate feedback from agencies.
- Finalize proposals for inclusion in Cabinet submission