Ontario

MINISTRY OF
ENERGY

Hydro One "Addressing Affordability" Report

February 3, 2017

Hydro One "Addressing Affordability" Report

- On January 30, 2017, Hydro One shared a report with recommendations to increase electricity affordability for consumers. The recommendations included:
  - Reducing GA by moving a portion of it to tax base and limiting funding of GA by residential and small business customers;
  - Eliminating barriers to LDC consolidation to remove $1.7 billion of costs from the distribution sector;
  - Expediting the transition to fixed distribution rates with fiscal plan assistance to help those customers with electric heat, and providing additional rate relief to rural customers by limiting their distribution charges to the provincial average
  - Establishing an "Affordability Fund" for LDCs to access to provide relief to customers suffering from acute hardship and do not qualify for low income assistance
  - Enhancing the Ontario Electricity Support Program (OESP)
- The following slides contain initial analysis and comparison with the Ministry's proposals.

1. Global Adjustment Reduction

Hydro One Recommendations: 1) Increase the amortization of generation payments by way of “financial instruments”; 2) Conduct a detailed analysis of rate-payer funded policies that benefit the province as a whole and appropriate a portion of those costs to the tax base; and 3) Place “reasonable limits” on Regulated Price Plan consumers’ contribution toward the Industrial Conservation Initiative.

Comparison with Ministry proposals

- Overall, Hydro One’s GA recommendations are focused to a greater extent on assisting low volume consumers compared to Ministry proposals, which are mindful of all Class B consumers.
- The Ministry is considering a proposal that would smooth GA costs by spreading them over a longer period.
  - The Ministry is considering a 25 or 30-year timespan, whereas Hydro One is recommending a 30 or 40 year period of time. Hydro One highlights in their report that the creation of financial instruments would be central to the proposal. The Ministry is looking at an accounting structure that would feature a new entity, likely a trust, to oversee the debt in a deferral account.
- Similar to the Hydro One proposal on GA, the Ministry has considered moving the responsibility for certain GA environmental costs (i.e., a portion of renewable generation costs) from ratepayers to taxpayers. The Ministry has also considered moving the responsibility for certain social costs (e.g., RRRP and OESP) from ratepayers to taxpayers.
- The Ministry recognizes that ICI, particularly with the latest expansion of the program, shifts costs to Class B consumers, including RPP consumers. The Ministry has considered options that would limit the impact of ICI on Class B, such as having taxpayers pay for the amount of the cost shift.
  - It is not clear from the Hydro One proposal what exactly is meant by “placing reasonable limits” on how much residential and small business consumers contribute to the program. For example, this could be achieved by moving the associated costs to the tax base, or by altering ICI to lower the overall benefit for Class A consumers, or both.

1. Global Adjustment Reduction (Cont'd)

Initial Analysis

- Given the high number of Hydro One customers that have electric heat, it may be sensible from Hydro One's point of view to focus their price mitigation policies on RPP consumers. However, for the province as a whole, price mitigation for all Class B consumers, including small businesses, is a concern.

- By having a narrow focus on RPP consumers, Hydro One's GA recommendations enable relatively large bill reductions for these consumers since their consumption is roughly half of overall Ontario consumption.

- From the report's paragraphs on ICI, it appears that Hydro One is advocating for a cap on the total amount of GA that needs to be funded by Class B.
  - This would serve to reduce Class B costs and increase Class A costs (absent any shift to the tax base), unfavourably impacting industrial competitiveness. Class A peak demand would also increase under this option, as the financial incentive to reduce consumption would be muted.
  - It is not clear to what extent the increase in Class A costs would be offset by the other two GA recommendations in the report (i.e., increasing amortization and shifting costs to tax payers).

- Hydro One's report indicates that the three GA recommendations in combination would result in a savings for RPP consumers of about $19/month and cost $1.5B annually, however the report does not provide the benefit that each of the three recommendations would yield individually, nor does it convey how the savings/cost would change over time.
  - At some point, the savings to consumers from GA amortization would reverse and become a cost pressure; this is not noted in the report.

2. LDC Consolidation Support

- **Hydro One Recommendation:** the Government of Ontario should eliminate barriers and stimulate consolidation of LDCs to remove $1.7 billion in costs from the distribution sector.

Comparison with Ministry Proposals

- The Ministry has been supportive of voluntary LDC consolidation following the release of the Ontario Distribution Sector Review Panel report. Time-limited tax changes have been had to assist with these transactions.

- The Ministry has also facilitated consolidation through the sale of Hydro One Brampton to the newly formed LDC Alectra (merger of Powerstream, Horizon, and Enersource).

- Through rate mitigation discussions, the Ministry is considering asking the Ontario Energy Board to enhance LDC efficiency and productivity requirements. This could indirectly incent consolidation as LDCs seek economies of scale to comply.

Initial Analysis

- Hydro One is the most active utility in LDC acquisition. Hydro One has consistently offered above book value for LDC assets, as well as committed to community employment and investment guarantees in purchase agreements with municipalities.
  - In recent years Hydro One has purchased the LDCs of Norfolk, Haldimand, Woodstock, and is completing transactions for Orillia and Peterborough.

- Hydro One's position in the sector enables it to field the most competitive bids for consolidation. However, customers of LDCs purchased by Hydro One over a decade ago have experienced some of the largest rate increases in the Province.
  - Ex: Ratepayers in Arkona, Ontario have seen rates increase 268% since 2006.

- Hydro One is considered by the OEB to be among the worst performing LDCs in terms of cost efficiency. While Hydro One does freeze the rates of customers it acquires for a period of time, it is likely that over time customers of LDCs purchased by Hydro One will experience upward rate pressures as they are folded into the Hydro One rate classes.

3. Expediting the Transition to Fixed Rates

- **Hydro One Recommendation:** The Government of Ontario should remove delivery charge inequity by providing additional rate relief to rural customers by bringing their distribution charges in line with the Provincial average. This involved $90M to expedite the transition to fixed distribution charges, and $200M to move rural and northern customers closer to the provincial average distribution rate of $38/month.

Comparison with Ministry Proposals

- The Ministry is considering accelerating the move to fixed rates for those customers who benefit in the R1 and R2 rate classes. Hydro One's proposal calls for including Urban and Seasonal customers as well. This explains the difference between the Ministry's projected cost of $64M and Hydro One's $90M estimate. Both the Ministry and Hydro One agree funding would end when the move to fixed rates is completed.

- The Ministry recently enhanced the Rural or Remote Rate Protection (RRRP) program to move Hydro One R2 customers closer to what other customers in the Province pay, addressing those costs specifically driven by low-density. Moving customers closer to a provincial average would not align with a cost-to-serve principle.

Initial Analysis

- Ministry staff have reviewed Hydro One's data figures and do not dispute their cost estimates for their specific options, and have used the same data set in preparing its own cost projections.
    - Projections of ~$30/month in savings from accelerating to fixed rates would be dependent on consumption level but align with the Ministry's findings.
    - Projections of ~$18/month in savings from moving to a provincial average would be accurate. Howeverthe $38 average figure references is believed to be a simple average of LDC rates; as Hydro One and other costly distributors like Toronto Hydro make-up the bulk of residential consumers, a weighted average would be higher.

- Moving Hydro One customers to a provincial average would move their costs significantly below those of other, less costly-to-serve distributors. This raises equitability considerations.

- Using fiscal plan support to control Hydro One's costs at a provincial average would reduce their incentive to pursue cost efficiency and productivity gains, and would weaken the OEB's ability to require these improvements.

4. Affordability Fund

- **Hydro One Recommendation:** The Government of Ontario should establish an Affordability Fund (potentially funded from surpluses collected under the OESP) for LDCs to access so that Hydro One can provide relief to customers suffering from acute hardship who do not qualify for existing low income assistance and conservation programs. This would help customers currently struggling with their bills and could help reduce disconnections/ reconnections that can cost $2K.

Comparison with Ministry Proposals

- ENERGY is exploring the potential to establish an Affordability Fund, with funding criteria and reporting requirements.
  - To allow for funds to flow in 2017/18, ENERGY would sign a Transfer Payment Agreement (TPA) with a qualified third party/ies to administer the Fund.
  - LDCs would apply for funding and redistribute support to those customers that meet the targeted eligibility criteria.

Initial Analysis

- Some electricity customers who struggle to pay their utility bills do not meet the definition of a low-income household and therefore are not eligible for the Home Assistance Program.
- Establishing an "Affordability Fund" for LDCs could provide a means to help struggling customers who do not qualify for low income programs and cannot upgrade their homes without financial assistance.
  - Over time the Fund could help these customers get back on track with their bills and save on disconnection costs.
  - The Fund would be targeted to customers on an as-needed basis (vs. marketed as an open-intake program).
- Recipients could receive measures similar to those available in the Home Assistance Program (weatherization, energy efficient appliances and lighting controls).
  - As an illustration, with $200 million, the estimated reach of the fund could be 15,000 to 65,000 households, depending on measures and uptake.

5. Enhance OESP

- **Hydro One Recommendation:** The Government of Ontario should consider changing the Ontario Electricity Support Program (OESP) by removing the number of occupants in the household feature.

Comparison with Ministry Proposals

- The Ministry is considering increasing OESP credit amounts by 50%, and shifting OESP funding from the rate base to the tax base. All customers would experience a small benefit in the form of no longer paying the $0.0011/ kWh OESP charge.

Initial Analysis

- Hydro One suggested their recommendation could provide customers with $75 more a month for those electrically heated. This assumes the customer qualifies for the OESP and earns less than $39K.

- Removal of the number of occupants in the household feature would result in more households qualifying for the OESP (see table below). However, a one person household earning under $28K would receive the same size credit ($75) as a household with 7 or more members. This change may not maximize funding going to those in most need.

- A number of programs exist that provide energy support (Northern Ontario Energy Credit, Ontario Energy and Property Tax Credit, Ontario Electricity Support Program, Low Income Energy Assistance Program), although they are income based. Those who earn slightly more than the thresholds for these programs, and rely on electricity for heating would spend a higher percentage of income on heating costs than someone comparable with natural gas.

- The OESP program has a surplus amount in its variance account, with the OESP charge exceeding the OESP credits being paid out. However, an increase in the credit amount and more applicants processed every day should reduce this surplus.
    - Legal analysis required on whether this surplus could be made available for other purposes is required, although re-purposing the amount for a new fund or program was never contemplated.

Sliding Scale #2 (electric heat, First Nations, Metis, Inuit, medical devices)		**Household Size**							
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7 or More Persons	H1 Concept
Income Bracket	< $28,000	~~$45~~	~~$45~~	~~$50~~	~~$55~~	~~$60~~	~~$75~~	~~$75~~	$75
	$28,001 - $39,000	-	-	~~$45~~	~~$50~~	~~$55~~	~~$60~~	~~$75~~	$75
	$39,001 - $48,000	-	-	-	-	~~$45~~	~~$50~~	~~$55~~	$55
	$48,000 - $52,000	-	-	-	-	-	-	~~$45~~	$45