Delivering Fairness and Choice
LTEP 2017

Chapter 1. Ensuring Affordable and Accessible Energy

Making Energy Affordable

Over $50 billion has been invested in the electricity system over the past decade and a half. These investments significantly improved the reliablilitiy of our electricity system. Last year, over 90 per cent of the power generated in Ontario came from greenhouse gas emission-free sources of energy. We now have a robust electricity supply that that is expected to strongbe sufficient to meet Ontario elctricity demand into the middle of the next decade. All of this leaves us well positioned to plan for and meet any of the challenges that may occur over the next 20 years.

At the same time, as a result of these much-needed investments, electricity prices have increased in Ontario. The Province is helping to relieve the cost pressures resulting from these system improvements through initiatives such as Ontario's Fair Hydro Plan, bringing electricity to off-grid communities, and expanding access to natural gas.

We must now focus on the system's customers, making sure they benefit from the work that has been done and helping them prepare for the future. Technological innovation is creating different types of customers, and we need to have an affordable energy system that meets their diverse needs and supports the Province's economic development.

The Ontario Fair Hydro Plan

On May 31, 2017, the government passed legislation to enable Ontario's Fair Hydro Plan, which will reduce electricity bills for residential consumers and as many as half a million small businesses and farms in the province.

Ontario's Fair Hydro Plan:

- Lowers electricity bills by an average of 25 per cent for residential consumers, with increases held to the rate of inflation for four years. Lower-income Ontarians and those living in eligible rural communities would receive even greater reductions, as much as 40 to 50 per cent.

- Expands the Ontario Electricity Support Program (OESP) to provide additional support for households of eligible size and combined income.

- Expands the Rural or Remote Rate Protection Program (RRRP) to provide Distribution Rate Protection for additional customers served by local distribution companies with the highest rates.

- Provides on-reserve First Nations customers of licensed distributors with a 100 per cent credit of the delivery line or service charge line on their monthly electricity bills.

- Expands the Industrial Conservation Initiative (ICI) to include smaller manufacturers with peak demands between 500 kW and 1 MW. ICI provides a strong incentive for participating consumers to lower their consumption in peak hours to reduce their bills by about one-third.

- Includes the rebate equal to the provincial portion of the Harmonized Sales Tax (HST) for customers eligible for the Regulated Price Plan, which reduces electricity costs by 8 per cent on the amount before tax.

In addition to the measures included in Ontario's Fair Hydro Plan, there are other existing programs that provide price mitigation and support to Ontario families in paying their electricity bills. These programs include:

- Ontario Energy and Property Tax Credit for low- to moderate-income individuals;
- Low-income Energy Assistance Program for emergency situations;
- saveONenergy Home Assistance Program that provides home energy efficiency assessments to income-eligible consumers; and
- Northern Ontario Energy Credit for low- to middle-income families and individuals living in northern Ontario.

In addition to ICI, there are a number of other measures in place to mitigate industrial, commercial and institutional electricity prices. These include:

- Northern Industrial Electricity Rate Program which recognizes the unique needs of northern industries such as higher energy costs due to climate and distance to markets;
- Industrial Accelerator Program that assists eligible transmission-connected companies to fast track capital investment in major energy conservation projects; and
- saveONenergy for Business where LDCs offer distribution-connected businesses financial incentives for audits, retrofits and process and system improvements to help manage their electricity use.

Refinancing the Global Adjustment to Ensure Intergenerational Fairness

Ontario's Fair Hydro Plan provides assistance to consumers by refinancing a portion of Global Adjustment (GA), a cost recovery mechanism which reflects costs associated with Ontario's contracted and regulated generation and the cost of conservation and demand management programs.

The majority of the province's electricity generators have 20-year contracts, but many of them – such as wind, solar and natural gas facilities – will continue to provide value as they are expected to operate beyond the life of their contracts. To relieve the burden on today's ratepayers and share costs more fairly with future generations, a portion of the GA is being refinanced to spread the cost of electricity investments over a longer period of time, reflecting the expected lifecycle of the facilities that have been built. This will provide significant and immediate rate relief and will ensure intergenerational fairness. Present-day consumers should not carry the entire burden of investments that will benefit future generations.

While a portion of the costs covered by the GA would be refinanced in the early years to reduce pressure on today's electricity ratepayers, the cost of refinancing would be recovered from ratepayers in later years. Ontario's Fair Hydro Plan also reduces electricity bills by shifting the funding of the RRRP and OESP from electricity bills to provincial revenues.

OESP

The OESP has been enhanced by increasing its monthly credits by 50%, to cover more low-income Ontarians. This credit is an on-bill, immediate reduction to those Ontarians who are eligible for this program.

This new legislation will have the OESP costs funded by provincial revenues, which will reduce regulatory charges for all Ontario ratepayers.

The Ontario Energy Board (OEB) leads this program and has planned an extensive communications rollout, to ensure that more people are aware of the program, and an insert will be included in the Canada Child Benefit (CCB) notice in July 2017.

Affordability Fund

Ontarians told us that there is a pressing need to help certain consumers get on a more sustainable path with their electricity bills. To address this need, Ontario is establishing an Affordability Fund that will help provide Ontarians who are not eligible for low-income conservation programs and who are otherwise unable to make energy efficiency improvements without financial assistance, with energy efficiency improvements for their households. Measures that could be funded include energy-saving LED light bulbs, power bars, insulation and energy efficient window air-conditioners and refrigerators.

Electricity distributors are in the best position to identify consumers who are in need of assistance and to provide them with energy efficiency improvements. Working with Hydro One, Ontario has established an independent Trust to oversee the Fund and ensure funding is efficiently distributed to electricity distributors. It is expected that electricity distributors will be able to begin applying to the Affordability Fund in the summer of 2017 *[NTD: will have to update as summer progresses].*

Expanded RRRP

The RRRP provides a rate subsidy to rural or remote residential customers who are faced with higher distribution costs compared to urban areas. The RRRP is currently provided to approximately 350,000 Hydro One R2 (low density) residential customers. RRRP is also currently provided in areas served by Algoma Power and Hydro One Remote Communities.

Under the new legislation the Province has expanded the RRRP to provide Distribution Rate Protection to additional electricity customers served by local distribution companies (LDCs) with the highest distribution rates, including: Hydro One R1 (medium density) and R2, Northern Ontario Wires Inc., Lakeland Power (Parry Sound service territory), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power. This would extend RRRP availability to about 800,000 customers.

Going forward, RRRP costs will be funded by provincial revenues, reducing regulatory charges for all Ontario ratepayers

On-reserve Credit

In 2016 the Ontario Energy Board (OEB), at the request of the Minister of Energy, engaged with First Nations, including remote communities, the distributors serving them, and consumer groups, to develop an On-Reserve First Nation rate solution.

In its report, The OEB recommended the elimination of the delivery charge for all on-reserve First Nations residential customers and remove the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of $85.

The government has accepted the OEB's recommendation and has passed legislation that will create the On-Reserve First Nations Delivery Credit (FNDC), which will benefit approximately 21,500 customer. This enabling legislation will also have these costs funded by provincial revenues, which will reduce regulatory charges for all Ontario ratepayers.

The FNDC will provide much needed relief from the high costs of electricity in First Nations communities and encourage socio-economic well-being by addressing a long standing historical grievance.   This is an important step to advance reconciliation and the strengthening of Ontario's relationship with First Nations as envisioned by the Political Accord

Natural Gas Expansion

During the 2017 LTEP engagement, unserved communities said they urgently needed access to natural gas is to lower energy costs to their homes and businesses, to facilitate industrial expansions and attract investment.

The government is using its new $100 million Natural Gas Grant Program, launched in April 2017, to help expand access and support projects that have the potential for economic development of local communities. Both expansion of natural gas pipelines and the infrastructure for liquefied or compressed natural gas are eligible. The program is administered by the Ministry of Infrastructure.

The 2013 LTEP highlighted that Ontario wants to expand access to natural gas to more communities. The Minister of Energy asked the Ontario Energy Board (OEB) in February 2015 to assess the options for connecting more communities to natural gas, while ensuring the rational expansion of Ontario's natural gas distribution system. The OEB issued its regulatory framework for natural gas expansion in November 2016. The framework gives utilities more flexibility by allowing them to charge increased rates and surcharges specifically to the customers who benefit from expansion, thereby making expansion to unserved communities more economically feasible. The OEB's regulatory framework for natural gas expansion also included provisions which encourage rate competition between multiple potential service providers who are interested in serving these communities.

As the natural gas utilities and municipalities consider the new OEB rules and the Natural Gas Grant Program, it is anticipated they will file additional applications for natural gas expansions with the OEB, although it may not make economic sense to expand natural gas to all areas and all regions of the province.

The expansion of natural gas service will reduce greenhouse gas (GHG) emissions in areas where it can replace propane and heating oil. While natural gas is more GHG intensive than electricity, given Ontario's clean electricity supply mix, its expansion will lower costs for homeowners and business, who will then have additional resources to invest in improving the energy-efficiency of their buildings. When natural gas expansion supports local industries and businesses, the local jobs may reduce commuting times. Finally, natural gas expansion will build on and increase the efficiency of existing storage and transmission facilities and increase any future connection to supplies of renewable natural gas.

Gasoline Price Review

Families and businesses have asked for more information on how gasoline and diesel retail prices are set. Northern communities, in particular, have expressed concerns over variations in prices across regions and over time. As a result, in November 2016. the Minister of Energy directed the OEB to undertake a review of Ontario's retail market for gasoline and diesel fuel.

The price of gasoline and diesel fuel in Ontario is generally determined by world prices for crude oil and the North American wholesale markets; changes in supply and demand lead to changes in prices. In addition, competition among suppliers can also affect prices at the local or regional level.

The Gasoline Price Review will focus on three main topics:

- The extent and causes over time of regional variations in the retail price of gasoline and diesel fuel;
- How pricing and markets in Ontario compare with other jurisdictions; and
- The information available to consumers about pricing and price variations.

There are several factors that tend to make gasoline prices higher in northern Ontario than in southern Ontario. They include:

- Northern fuel terminals are supplied by more expensive means of transportation: rail, ships and trucks. Southern terminals are supplied by pipelines, which enable lower wholesale prices in the South;

- There are longer distances in Northern Ontario between the fuel terminals and the end-users in Northern Ontario, another source of increased delivery costs for gasoline in the North; and

- Retailers in smaller markets tend to sell less gasoline. A lower volume of sales requires higher revenue per litre to cover fixed costs for buildings, equipment and employees. With fewer customers, retailers in smaller centres also have less opportunity to subsidize gas prices from the sale of other items or services, such as food and car washes.

The OEB has hired external experts to assist in conducting research with the public and key stakeholders on this review and expects to report back to the Ministry with its findings later this year. The government intends to review the OEB's report in detail and consider the information in future decision-making.

<u>[Background/Potential Call-Outs]</u>

Four key factors determine the price of gas the pump:

- The price of crude oil purchased by refiners on global commodity markets and processed into gasoline. The prices for crude oil can be volatile as they are influenced by global supply and demand, current inventory levels and geopolitical events.

- The difference between the cost of the crude oil and the wholesale price of gasoline. This portion includes the cost of buying the crude oil and processing it into "wholesale gasoline”, and the refiner’s rate of return. Since “wholesale gasoline” is traded globally, Canadian prices are tied closely to U.S. prices, so significant supply disruptions in the U.S can have an impact on Ontario prices.

- The difference between the wholesale and retail price of gasoline price, excluding taxes. This portion covers the costs the retailers incur selling gasoline at retail outlets, and includes marketing costs, staffing and overhead costs and credit card fees. It also includes a rate of return for service station operators.

- The three fuel taxes Ontarians pay on gasoline:

    - A 10-cent-per-litre federal excise tax;
    - A 14.7-cent-per-litre Ontario gasoline tax; and
    - A 13 per cent HST,

Since Ontario’s cap and trade program came into effect on January 1, 2017, suppliers of fossil fuels have to buy GHG emission allowances for all the fuels they provide. A report commissioned by the Ministry of the Environment and Climate Change[1] estimated the cost of purchasing CO2 emission allowances to be 4.3 cents a litre for gasoline and 5.0 cents a litre for diesel fuel. This is also known as the “carbon price.” Consequently, since January 1, 2017, the impact of cap and trade has been reflected in the wholesale price of gasoline.

Increased Consumer Protection

Ontario is taking further action to protect consumers from the risks of unfair business practices in the electricity sector. Through the *Electricity Consumers Protection Act*, Ontario has already restricted the door-to-door sale of energy contracts to protect consumers from fraudulent claims and high-pressure sales tactics. We will now turn our attention to protecting those consumers who live in condominiums and other multi-unit residential buildings.

Often, these consumers are not actually customers of a local distribution company but deal with private companies who meter their units and send them a bill for their use of energy. Consumers are charged for this metering service through pricing arrangements set with the owner or developer of the building. Consumers have little understanding or awareness of the costs of these meter service providers or the value of what they pay for. That is why the government is expand the role of the Ontario Energy Board to regulate the rates of these meter service providers and conduct appropriate oversight of their business practices. This will ensure consumers pay just and reasonable rates for the service they receive.

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[1] “Impact Modelling and Analysis of the Ontario Cap and Trade Program” report by EnviroEconomics, Navius Research and Dillon Consulting