Ontario

MINISTRY OF
ENERGY

Ontario’s Fair Hydro Plan – Minister’s Update

September 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP), which proposes new measures to lower electricity bills by 25 per cent on average for residential electricity customers, as well as initiatives to reduce costs for low-income consumers, First Nations and small manufacturers.

- The Ministry of Energy worked with a number of ministries (i.e., MOF, TBS/OPCD, MAG and CO), energy agencies (i.e., OPG, OEB and IESO), external advisors and local distribution companies (LDCs) on the development of legislation, regulations and ongoing implementation.
  - On April 10, 2017, Ontario expanded the Industrial Conservation Initiative (ICI) to include manufacturers and greenhouses with peak demand from 500 kW to 1 MW.
  - On June 1, 2017, the *Fair Hydro Act, 2017* (FHA) received Royal Assent.
  - As of July 1, 2017, the full impact of the OFHPA reductions is in effect.

- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
  - GA Refinancing;
  - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
  - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- Full reduction related to OFHP for regulated consumers as determined by the OEB for rates that came into effect on July 1, 2017.

- Ongoing work with ENERGY agencies (i.e., OPG, OEB and IESO), key ministries (i.e., MOF and TBS/OPCD) and external advisors. Key deliverables include:
  - **Provincial Protection and Assurances ~~Support~~ Agreement (PPAA):** Province to provide contingent supports to enable structure. On September 25, 2017, the PPAA term sheet was reviewed by TB. Final agreement will be subject to an OIC to be approved by Cabinet.
  - **Fair Allocation Amount (FAA):** Minister of Energy to calculate the Fair Allocation Amount (FAA) and provide the amount to the Financial Services Manager (OPG). Letter expected to be sent by the end of September 2017;
  - **Management Fees Regulation:** Confirmation of methodology to determine the fees OPG charges for providing Financial Management Services including role of OEB in reviewing costs. Proposed regulation to be reviewed by LRC on October 16, 2017;
  - **Moratorium Period Interest and Fee Recovery:** Amendments to O. Reg. 429/04 to allow for interest and fee recovery through the GA until the end of the moratorium on Clean Energy Adjustments (i.e., 2021); Proposed regulation to be reviewed by LRC at October 16, 2017;
  - **Equity Injection:** Province to purchase shares of OPG on a monthly basis;
  - **Subordinated Debt:** OPG will lend the equity injection from the Province to the Trust by way of subordinated debt; and
  - **PILs Exemption:** Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle.

- The OFHP impact has been incorporated into the 2017 Long-Term Energy Plan (2017 LTEP) modeling for the residential price curve.

<u>Status / Next Steps</u>

- Next Steps:
  - Fall 2017/Winter 2018:
    - Provincial Protection and Assurance Agreement OIC;
    - Fair Allocation Amount letter;
    - Management Fees and Interest and fee recovery regulation amendments;
    - Equity injection agreements in place;
    - PILs Exemption;
    - Sale of the Regulatory Asset by IESO to OPG SPV/Trust; and
    - Sale of the Investment Asset by OPG SPV/Trust to market to investors.

2) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:

1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit**) made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers**) made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

2) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a "reserve"

- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as "reserve", "member of a band", are taken directly from the traditional meaning provided in the Indian Act.

- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.

- Based on information provided by LDCs, there are up to 6,000 customers potentially eligible for FNDC but are not yet enrolled in the LDC system as HST exempt. Hydro One has informed the Ministry that with targeted outreach efforts it has newly enrolled 1,400 of these into both HST exemption and the FNDC. They continue to average 20-40 new sign-ups a day.
  - Data on recipients is coming to the Ministry via the IESO request for payment reimbursement. Staff will process this data and return with an updated recipient figure.

- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
  - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).

Communications Strategy

  - The FNDC postcard ~~that~~ has been distributed to First Nation Band Councils for distribution within their communities to raise awareness of the FNDC and encourage those who may be eligible but have not registered for an HST exemption to consider doing so.
  - An electronic version of the postcard has been posted by COO on their website.

- Chiefs of Ontario Communiqué.
  - COO sent a Communiqué to all First Nation Chiefs in June to encourage them to make sure their members are registered to receive the HST exemption from their LDC so that they will receive the FNDC.

2) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.

1. OEB calculates the "monthly base distribution charge" cohort of LDCs using 2017 rates.
2. OEB sets Maximum Charge using the lowest "monthly based distribution charge" from the cohort.
3. Cohort LDCs charge eligible customers up to the maximum charge for base distribution.
4. LDCs recover approved distribution costs above the maximum charge from the tax base.

- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at $36.43/month. The maximum charge will be updated at least once annually going forward.
  - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from $1.66/month for the average customer to $0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

2) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
  - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
  - On July 25, 2017, TB/MBC approved 20 FTEs in a joint submission with ENERGY and MCSS to support implementation activities related to increasing the enrolment of SA clients on OESP.
  - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients).
  - MCSS has already begun to directly contact these clients by phone and will follow up with letters in late September 2017. The call centre will be ready to receive calls by October 2017.
  - Software system upgrades will are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

<u>Status / Next Steps</u>

- An OIC proclamation for provisions in the OEBA and further regulatory changes are needed to implement the transition from rate base to the tax base. This will happen when the OESP variance account is nearly depleted, which is expected in the fall.
- The Ministry will work with the OEB over the next several months to transition OESP administration to government. It is also working with MOF on Benefits Administration Integration and will consider options for including OESP in that initiative.
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected in November), the MOU between CRA and MOF will be updated to reflect change.

3) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who don't qualify for low -income conservation programs to make energy efficiency improvements to their homes, which couldn't otherwise be done without the support.
- The Fund, established through the tax base, is being administered by an independent Trust and will be accessible to electricity distributors.

Status / Next Steps

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement with Computershare, which acted as the Original Trustee until the Board of Trustees was established, to flow $100M to the Affordability Fund Trust.
- The Board of Trustees includes representation from United Way Ottawa, the Neighbour to Neighbour Centre, Thunder Bay Hydro, Hydro One and Alectra. ENERGY is represented on the Board, with non -voting status.
- Hydro One is providing administrative support to the Trust. The Trust has retained, through Hydro One, a consultant (Accenture) to support consultation activities and develop program design.
- Consultations with LDCs were undertaken over the summer, including an August 1st session with over 30 LDCs participating.
- On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation.
- The Affordability Fund program is expected to launch in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis.

4) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow eligible electricity consumers/market participants in the manufacturing sector and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI.

- Prior to the amendment to O. Reg. 429/04, ICI participation was only available to electricity consumers with average monthly peak demand greater than 1 MW.

Status / Next Steps

- Newly eligible consumers had to opt in with their LDC by June 15 to participate in ICI for the billing cycle beginning July 1.

- Information regarding ICI participants is gathered by the Independent Electricity System Operator (IESO) every July. ENERGY should expect to receive this information from IESO mid-October.

5) OFHP Billing Requirements

- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act*, 2017 (OFHPA) and the *Ontario Energy Board Act*, 1998 to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
  - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
  - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
  - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for $00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

5) Redesign Action Plan (RAP)

- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
  - Enhancing the customer experience (e.g., providing more useful information);
  - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
  - Consolidating the regulatory framework; and
  - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
  - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
  - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

5) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

Pre-July 1, 2017 OFHP Bill Inserts	July 1, 2017 OFHP Required Messaging	Aug. – Oct. 2017 RAP Consultations	Fall – Winter 2017 RAP Proposed Regulatory Amendments	Winter 2018 – RAP Final Regulatory Framework

Pre-July 1, 2017 – OFHP Bill Inserts

- Requirement for LDCs to issue "8% rebate" envelopes and include "8% rebate" on-bill messaging revoked from O. Reg. 364/16.
- LDCs voluntarily issued OFHP bill inserts in June ahead of finalized OFHP regulations (bill inserts printed by ENERGY).

July 1, 2017 – OFHP Required Messaging

- OFHP regulations introduced requiring LDCs to comply with the following by July 1st:

1. Issue OFHP bill inserts on a quarterly basis for one year;
2. Include OFHP on-bill messaging;
3. Include a FNDC line item, where applicable; and
4. Remove outdated on-bill messaging (e.g., DRC).

- Hydro One exempted from specified OFHP invoicing requirements and O. Reg. 275/04.

Aug. – Oct. 2017 – RAP Consultations

- ENERGY to convene a RAP Working Group, including Hydro One, the EDA, the OEB, the Coalition of Large Distributors, as well as other LDCs and industry assoc.
- As part of this group, ENERGY to seek feedback on changes to bill presentment, regulatory reform, and billing system design.

Fall – Winter 2017 – RAP Proposed Regulatory Amendments

- Following RAP consultations, ENERGY to introduce regulatory amendments to simplify bill presentment by the end of 2017.
- Hydro One to begin rolling out its redesigned electricity bills in Q4 2017.

Winter 2018 – RAP Final Regulatory Framework

- New/amended invoicing regulations to become effective as of January 1, 2018.
- Hydro One expected to complete its roll-out of redesigned bills to its low volume consumers by Q2 2018.
- New regulations to include ample transition period for LDCs to adopt new regulatory invoicing requirements (e.g., 6 months – 1 year)

OFHP Key Milestones

2017: Sep, Oct, Nov, Dec
2018: Jan, Feb, Mar, Apr, May, Jun

GA Refinancing

- **Sept. 29** OPG Board Meeting to approve OFHP Items
- Rating Agency Process
- **Oct. 16**: Regulatory amendments related to management fees and interest/ fee recovery during moratorium period.
- Finalize other items to support first bond issuance:
  - PILs exemption;
  - Protection Agreement OIC; and
  - Sub-Debt Agreement.
- OPG Bond Issuance

Ongoing Financing

- OPG to purchase Regulatory Asset from IESO on monthly basis
- OPG to issue long-term bonds periodically
- Province to inject capital into OPG periodically as requested
- Regulatory amendments related to inflationary increases in years 3 and 4

Social Programs (FN Delivery Credit, OESP)

- **Sept. 18** First full reimburse-ment request received from IESO
- FNDC LDCs sign up eligible customers
- Minister letter to OEB on cost forecasting
- PRRT Update
- Proclaim OEBA amendments to shift OESP to the tax base
- Hydro One Distribution Rate Application Oral Hearing and Adjudication (Decision timeline TBD by OEB)
- OEB to revise Maximum Distribution Charge

Affordability Fund

- LDC Engagement, Program Design to be finalized
- Program Launch
- Fund expected to be accessible to LDCs Through the PRRT process, report back to TBC/MBC on Affordability Fund in Fall 2017

Billing

- Research and Consultation
- LRC
- LDC Implementation

Next Steps

- Ongoing work to implement OFHP with ministries, energy agencies, external advisors and LDCs.
- Ongoing work to incorporate OFHP into the 2017 Long-Term Energy Plan (e.g., narrative, input into the residential bill forecast).

Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Affordability Fund Trust - Board of Trustees

- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government