

Electricity Price Mitigation

Cabinet Sept. 12, 2016	Announcement tbd
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This government's commitment	"The government will also take steps, through investments in residential energy efficiency, to ensure that the net impact of cap and trade on electricity cost would actually provide a modest benefit of up to \$2 per month, on average, to residential consumers. <i>– Ontario Budget 2016</i>
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SUMMARY OF PROPOSAL

The Ministry of Energy is seeking Cabinet approval to implement the following electricity price mitigation initiatives. The approach identified below would provide relief across all electricity consumer classes:

- Provide an 8% rebate equal to the provincial portion of HST to consumers eligible for the Regulated Price Plan (i.e., residential, small business and farms) and update the Rural or Remote Rate Protection (RRRP) program to provide relief to rural customers.
- Expand ICI eligibility by lowering the threshold to 1 MW to provide support to Class B electricity consumers (i.e., commercial, institutional and small industrial) and redirect cap and trade proceeds to commercial and industrial electricity consumers to provide a modest reduction in rates.

8% Rebate to Regulated Price Plan (RPP) Eligible consumers

Under the proposal, ENERGY would introduce legislation in September to provide a rebate of 8% to consumers eligible for the Regulated Price Plan (this would be equivalent to the provincial portion of the HST). The below table indicates which consumers would be eligible for the rebate.

Eligible for the 8% rebate (< 50 kW or $< 250,000$ kWh/year)	Not eligible for the 8% rebate (> 50 kW or $> 250,000$ kWh/year)
• Residential Regulated Price Plan consumers • Residential retail consumers • Multi-unit residential buildings and other facilities used as residential rental units • Long-term care homes and school residences • Regulated Price Plan eligible farms • Small businesses - Coffee / snack retailer - Convenience store - Apparel store - Hair salon - Small insurance office	• Class A consumers - Manufacturer - Large grocery store - Mines - Auto assembly plants • Class B consumers (except farms that have opted out of the Regulated Price Plan) - Commercial offices (low rise) - Hotel - General warehousing

Those ineligible to receive the 8% rebate will benefit from one or more of the other initiatives under this proposal (e.g., RPP Update, ICI expansion, proceeds recycling).

Rural or Remote Rate Protection Update

RRRP is a rate-based funded program that helps offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a \$175-million program. For an average residential customer, the cost of supporting RRRP is roughly \$1 per month. For other customers, the cost can range from \$65 for a greenhouse to \$8,000 for a medium industrial.

The majority of the program funding (\$125.5 million) is provided to Hydro One's lowest-density customers – classified as R2 customers. There are approximately 329,000 R2 customers. The current program provides a rebate of \$31.50. The proposed update to the program would increase the benefit to \$60/month.

The proposal includes an additional \$110 million in program funding that would see an increased benefit of approximately \$28 / month. This would bring R2 bills in line with Hydro One R1 (medium density) bills at 1000kWh and would increase the R2 portion of the RRRP to \$235 million with a monthly impact on an average residential consumer of approximately \$0.60. ENERGY is also proposing that RRRP could be indexed at inflation or "trued up" on a regular basis to ensure the benefit remains constant.

Industrial Conservation Initiative (ICI) Expansion

The ICI was implemented in January 2011 to help large industrial power users control their electricity costs while shifting electricity consumption away from peak periods, thus benefiting all electricity consumers by decreasing the need for costly peaking generation.

Currently, electricity consumers over 5 MW and consumers from 3-5 MW in certain energy intensive sectors (e.g., pulp and paper, auto, manufacturing, chemicals and mines) are eligible for ICI (i.e., approximately 300 Class A consumers).

Under the proposal, ICI would be expanded so that all consumers over 1 MW are eligible for the program, which would:

- Reduce electricity peak demand and electricity system costs by incenting more consumers to lower their electricity demand during peak periods;

- Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods; and
- Increase the electricity bills for non-ICI participants to ensure full cost recovery in the electricity system.

Newly eligible consumers in the program would mostly fall into the smaller industrial, institutional and commercial category, including: automotive supply chain companies, office towers, large shopping malls, greenhouses and others. The base setting period for the expanded program would begin in 2017, with the benefit seen by consumers starting in 2018.

	Benefit to New ICI Participants	System Benefit	Financial Impact	Residential Bill Impact
	Bill Savings	Peak Demand Reduction (MW)	GA shifted to Class B (\$M)	
Short-term	Up to 21%	80	47	Increase of \$0.42/month
Long-term	Up to 34%	165	82	Increase of \$0.74/month

Recycle cap and trade proceeds to commercial and industrial consumers

The 2016 Budget committed to offset the impact of cap and trade for commercial and industrial consumers, while also providing a benefit of up to \$2 per month for residential consumers. To meet this commitment, the Climate Change Action Plan (CCAP) committed \$1.3 billion from the Greenhouse Gas Reduction Account (GGRA) over the first compliance period (2017-2020). However, providing an 8% rebate to RPP consumers would allow for GGRA proceeds previously committed to residential consumers to be redirected to other consumers classes and/or GHG reduction initiatives in the fiscal plan.

Under this proposal, non-RPP Class B consumers and Class A consumers would receive volumetric recycling of proceeds totalling \$270 million per year on average over the first compliance period. These consumers would see a benefit of about \$3/MWh on average in addition to offsetting the cost of carbon.

This represents additional recycling to commercial and industrial consumers compared to the CCAP commitment, while requiring an estimated \$60 million less proceeds per year (i.e., a reduction of \$0.24 billion over the first compliance period).

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What is the expected cost to government?

The proposal would cost an estimated \$1 billion per calendar year (i.e. \$4 billion from 2017-2020), representing an additional pressure on the fiscal plan.

- On a fiscal year basis, the estimate is about \$300 million for fiscal year 2016-2017 and approximately \$1.2 billion per fiscal year for 2017-2018 and beyond.

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The Ministry also proposes to use \$270M/year of cap and trade proceeds to mitigate electricity prices for commercial and industrial consumers, on a volumetric basis. This would require an estimated \$60 million less per year in proceeds than previously estimated (\$330M), and could provide fiscal plan flexibility of about \$60M per year to commit to other GHG reduction initiatives in the fiscal plan. If cap and trade proceeds are not available to support this initiative, commercial and industrial consumers would likely pressure for other relief.

The cost of the ICI and RRRP program expansions will be spread across the electricity rate base, and are estimated to cost approximately \$0.60/month (RRRP) and \$0.74/month (ICI) for the average residential customer.

How will the changes be communicated?

Public high-profile communications would coincide with introduction of legislation in September 2016. Stakeholder outreach/technical briefings will be held with LDCs, Ontario Chamber of Commerce, the Association of Major Power Consumers in Ontario, Ontario Energy Board low-income table, AMO, and others.

The changes will be positioned as:

- A fiscally prudent plan to benefit all ratepayers in a meaningful way.
- Rural customers will receive significant rate relief.
- Businesses across Ontario will have even more opportunity to be competitive and manage their energy costs.

Terms you need to know

- **Global Adjustment (GA)** – Amount that accounts for differences between the market price of electricity and rates paid to regulated and contracted generators and for conservation programs. The GA is collected from all electricity ratepayers in Ontario.
- **Local Distribution Companies (LDCs)** – Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Regulated Price Plan (RPP)** - Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 4.9 million residential consumers, small businesses and farms are eligible for the RPP.
- **Class B Consumer** – commercial, institutional and small industrial consumers typically with load size between 0.05 – 3 MW. Class B consumers pay GA as a flat rate applied to electricity consumption. Class B electricity consumers/market participants includes those that choose not to become Class A.
- **Class A Consumer** – large commercial, large industrial with average peak above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity

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Energy to confirm.

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consumption during the five highest peak demand hours during the year.

CABINET OFFICE ANALYSIS

This proposal aims to provide significant relief to Ontario electricity ratepayers. The proposal would also meet and exceed the 2016 Budget commitment to offset the impact of cap and trade on electricity rates in Ontario for commercial and industrial electricity consumers, while also providing a modest benefit of up to \$2 per month for residential electricity consumers. The proposal builds on earlier electricity rate mitigation initiatives, including the Ontario Clean Energy Benefit (OCEB), ending the electricity Debt Retirement Charge (DRC), and the Ontario Electricity Support Program (OESP) that targets low-income households.

Since 2010, electricity prices have risen considerably in Ontario, particularly for households and small businesses. Prices are forecast to continue to increase as additional renewable energy generation is brought online. Ontario currently provides rate mitigation to various electricity consumers through a combination of tax-based and rate-based programs. Rate-based programs are funded by shifting costs from one consumer group to another.

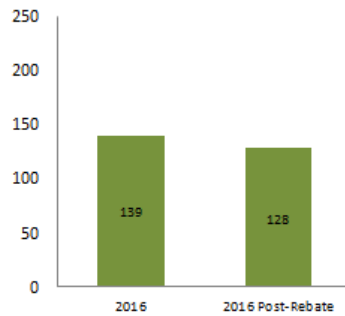
Under the proposal, all electricity consumers will benefit from one or more of the proposed electricity price mitigation initiatives.

Residential and Small Business

Residential and small businesses (below 50 kW or 250,000 kWh/year), multi-unit residential, and farms eligible for the Regulated Price Plan will be eligible for the 8% rebate. In addition, rural residential consumers classified as low-density customers (i.e., R2 customers) will be eligible for the RRRP subsidy increase.

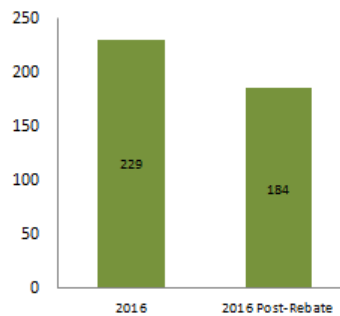
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Typical Residential Bill
750kWh per month, 8% only



The benefit is a 8% reduction.

Rural (R2) Residential Bill
1,000kWh per month, 8% and RRRP Update



The benefit is a 20% reduction.

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The amount of the 8% rebate will fluctuate with consumer consumption – the higher the pre-tax bill, the higher the rebate will be.

Industrial and Commercial Consumers

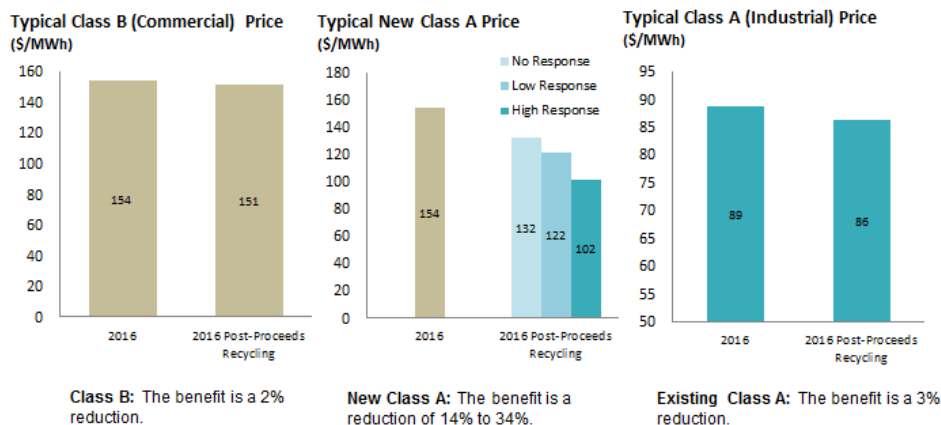
The ministry is recommending lowering the Class A threshold to include customers with monthly peak demand greater than 1 MW. This is expected to add about 300 new commercial, institutional and small industrial Class A customers to the existing pool. It is estimated that these new Class A customers would see their electricity bills reduced by up to 34% in the long-term. Non-ICI consumers (e.g., residential and Class B consumers) would see an increase in their bills of approximately \$0.98/MWh as a result of this change.

The Ministry is recommending that new entrants be required to opt-in to the ICI program in order to become a Class A customer. The reason for this requirement is that customers in industries that are unable to shift their power use away from times of peak demand (e.g. motor vehicle manufacturing) may see their bills increase if they were included in Class A of the ICI program.

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Under this proposal, non-RPP Class B consumers and Class A consumers would receive volumetric recycling of proceeds totalling \$270 million per year on average over the first compliance period. These consumers would see a benefit of about \$3/MWh on average in addition to offsetting the cost of carbon.

Risks and Considerations:

Electricity Rates

The 8% rebate is structured and expected to be delivered in a similar fashion to the former OCEB. There is a risk that the government could be criticized for replacing the OCEB with a smaller rate relief package, just one year after the OCEB ended. In addition, the proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. In fact, many other factors, including nuclear refurbishment and renewable energy generation, will contribute to forecasted electricity rate increases. The ministry, working with the IESO, continues to develop the next Long-Term Energy Plan document...

Commented [KM11]: Energy to provide information on how the LTEP will consider and address rising electricity costs.

Fiscal Pressures

This proposal does not align with the 2016 Budget fiscal plan and there are no proposed offsets identified. In 2016-17 the proposal would result in a fiscal pressure of \$300M, growing to \$1.2B in 2017-18 and beyond. The proposal does not include a scheduled review period or an end date for the legislated benefit, resulting in an ongoing fiscal pressure that could only be removed by legislative amendment.

Variable Impact across Electricity Consumers

For the rate-based portions of the proposal (the expansion of ICI and RRRP) the result is an increase in costs for ratepayers not included in those programs (primarily residential, small business and farms). Shifting costs to some consumers to lower rates for others carries the

risk that the charge would be characterized as an unconstitutional tax. To establish that the charge is legitimate, it must be established that the purpose and effect of the charge is to facilitate the maintenance of a financially viable electricity system by way of load management or some other feature under which those who are subsidized provide an overall system benefit enjoyed by those who subsidize them.

Under the proposal, some eligible consumers (e.g., multi-unit residential buildings) may receive multiple benefits (8% rebate and RRRP), while others would be eligible for only one type of benefit.

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Use of Cap and Trade Proceeds

The *Climate Change Mitigation and Low-Carbon Economy Act, 2016* specifies that money gathered from cap and trade auctions (auction proceeds) may be used to fund, directly or indirectly, costs relating to prescribed initiatives *that are reasonably likely to reduce, or support the reduction of, greenhouse gas* and costs relating to any other initiatives that are reasonably likely to do so.

The Climate Change Action Plan released in June 2016 committed up to \$1.32 billion over 4 years to help keep electricity rates affordable for residential and industrial consumers. This initiative was estimated to reduce up to 3,000,000 tonnes of greenhouse gas (GHG) emissions by 2020.

\$ Billions	2017-18	2018-19	2019-20	2020-21	Total
Total Committed in CCAP	\$1.5 – 2.1	\$1.5 – 2.1	\$1.5 – 2.1	\$1.5 – 2.1	\$6.0 – 8.3
Electricity Price Mitigation	Up to 0.3	Up to 0.3	Up to 0.3	Up to 0.3	Up to 1.3

Redirecting cap and trade auction proceeds to lower the cost of electricity would offset consumers' contributions to non-emitting generation. Using cap and trade auction proceeds to lower the cost of electricity would make it more competitive with traditionally cheaper fossil fuels. Doing so incents fuel-switching away from fossil fuels toward much cleaner grid-connected electricity and support the CCAP's goals of electrification.

While the impact of cap and trade would be added to electricity bills as of January 2017, the offsetting effect of proceeds recycling may not occur immediately depending on implementation and potential alignment with the first auction expected in March 2017.

Should there be low demand for carbon allowances, auction proceeds would be less than the amount projected in the CCAP. This could mean a short-fall for proceeds recycling as proposed. However, natural gas utilities are expected to purchase allowances quarterly equal to their emissions.

Stakeholder Response

Placeholder

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Alternative Options Considered

- 1) 8% rebate across all consumer classes – providing an 8% rebate to all consumers would ensure that residential, small business, commercial and industrial consumers would receive the benefit. The projected cost of an 8% rebate to all consumers would be approximately \$1.8B/year.
- 2) Federally administered point-of-sale rebate – under the HST agreement with the federal government, Ontario can designate items as eligible for a point-of-sale (POS) rebate of the eight per cent provincial portion of the HST in certain circumstances and within a certain envelope of rebate “room”. At \$735M and growing, a POS rebate on electricity would likely exceed the amount of rebate room available (approx. \$500M). This option would require successful negotiation with the federal government on amending the HST agreement.
- 3) Mitigation through tax credits – Ontario could make changes to tax credits and benefits it provides through the Personal Income Tax system to help lower-income Ontarians with their electricity costs. Options include increasing the OEPTC energy amount, creating a new electricity tax credit, or increasing the NOEC amount. OEPTC and NOEC are notional and not based on usage. In most cases, home energy receipts are not required.

Delivery

The 8% rebate and RRRP updates would be effective January 1, 2017. Implementation of the 8% rebate will be done through LDCs, and will require adjustments to LDC billing systems, which could impact delivery costs and timelines.

The Ministry indicates it will consult with LDCs (possibly through Ontario Energy Board) to accurately assess these impacts once the program has been announced. In the past, LDCs have asked for at least six months’ notice when implementing billing system changes, which can be mitigated by allowing LDCs to provide retroactive rebates if their systems cannot be updated in time for the January 2017 implementation.

The ICI expansion will impact ratepayers in 2018, due to the time required to implement the expansion and for billing changes. Implementation of the change will be done by a Minister’s regulation amendment in Fall 2016.

Recycling cap and trade proceeds would commence in 2017, subject to the results of Ontario’s first cap and trade auction. Energy, working with MOECC will report back to TB/MBC in Fall 2016 for final approval on the use of proceeds to support this initiative.

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Linkages:

Ontario’s Climate Change Action Plan (CCAP)

The CCAP reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas pollution and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to \$2 per month, on average, to residential consumers.

Under Action 4.4 “Keep Electricity Rates Affordable”: the CCAP committed to “use cap and trade proceeds to offset the cost of greenhouse gas pollution reduction initiatives that are currently funded by residential and industrial consumers through their bills.” Redirecting cap and trade auction proceeds to lower the cost of electricity would offset committed investments/initiatives which reduce GHGs (e.g., non-emitting generation and conservation programs). By using the proceeds to lower the cost of electricity, there is potential to incent fuel-switching away from fossil fuels toward much cleaner grid-connected electricity and support CCAP goals of electrification.

Electricity Rate Mitigation Initiatives:

The OCEB was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

The government also recently ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, as of January 1, 2016, and put in place the low-income targeted Ontario Electricity Support Program (OESP), effective xx, 2016.

Other Jurisdictions

Jurisdiction	Tax	Tax Paid by Business Consumers	Tax Paid by Residential Consumers	Comment
British Columbia	PST	Yes – 7%	No	- PST does not apply to residential energy, including electricity, acquired solely for residential use in a residential dwelling. - BC's carbon tax does not apply to electricity bills.
Alberta	None	N/A	N/A	Alberta does not have a provincial sales tax.
Saskatchewan	PST	Yes – 5% Except for electricity purchased to heat a building.	No	- PST does not apply to electricity purchased for use in a residential dwelling. - PST does not apply to electricity purchased for use in heating a building that is heated solely by the electricity.
Manitoba	PST	Yes – 8% Reduced rate of 1.6% applies to electricity used by a qualifying business to operate machinery	Yes – 8% Electricity purchased for mixed use, 80% of which is home heating, has a reduced rate of 1.4%. Electricity solely to heat the purchaser's home is exempt.	Winnipeg also applies a tax of 2.5% on residential and 5% on commercial.
Ontario	HST	Yes (less ITC (input tax credits))	Yes – 8%	
Quebec	QST	Yes (less ITCs)	Yes – 9.975%	
Nova Scotia	HST	Yes (less ITCs)	Yes – 10% less provincially administered rebate.	Rebate is equal to the provincial portion of the HST, and is administered similar to OCEB, but applies to many energy sources.
New Brunswick	HST	Yes (less ITCs)	Yes – 10%	
Prince Edward Island	HST	Yes (less ITCs)	Yes – 9% (10% beginning Oct 1, 2016)	
Newfoundland and Labrador	HST	Yes (less ITCs)	Yes – 10%	Had a provincially administered Home Heating Rebate program until July 2015.
Federal	GST	Yes (less ITCs)	Yes – 5%	

PROPOSED CABINET MINUTE

Cabinet agreed that:

1. ENERGY implement electricity price mitigation for residential, commercial and industrial consumers, as follows:

- i) Provide a rebate of 8% on the pre-tax cost of electricity for all electricity consumers eligible to be billed under the Ontario Energy Board's Regulated Price Plan; and any other consumers who would be eligible if their electricity account was with a licensed distributor;
- ii) Increase the total amount of rate protection available to R2 low density electricity consumers under the Rural or Remote Rate Protection Program (RRRP) by increasing the subsidy by \$110 million from its current level of \$127 million, which has been capped since 2004;
- iii) Implement a mechanism to periodically adjust the total annual amount of rate protection available to R2 low density electricity consumers under the RRRP, effective on or after January 1, 2018; and
- iv) Expand eligibility for participation in the Industrial Conservation Initiative (ICI) to smaller industrial, institutional and commercial customers by lowering the eligibility threshold to 1 MW and removing restrictions on eligible sectors.

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2. ENERGY and MOF seek necessary TB/MBC approvals in Fall 2016.

3. ENERGY and MOF seek approvals for:

- i) the proposed *Ontario Rebate for Electricity Consumers Act, 2016* which would, subject to the Legislature's approval of the Act, include the following elements:
 - i. The rebate would be available starting January 1, 2017;
 - ii. The legislation would specify the types of costs to which the rebate would or would not be applied, with authority to make changes by regulation;
 - iii. The legislation would address invoicing requirements, including authority to prescribe how the rebate is to appear on consumers electricity bills;
 - iv. The legislation would include authority to prescribe the way in which the rebate is to be flowed through to consumers, and the way in which electricity vendors providing the rebate are to be reimbursed;
 - v. The legislation would include record-keeping requirements for electricity vendors and other prescribed persons;
 - vi. The legislation would include inspection powers for inspectors appointed by the minister of Finance, including powers related to the recovery of overpayments;
 - vii. The legislation would include consequential amendments to the *Ontario Energy Board Act, 1998* and the *Ontario Clean Energy Benefit Act, 2010*,
 - viii. The legislation would provide for regulation-making authority to establish a limitation period for ceasing payments and reimbursement based on past entitlement. Similar amendments would be provided for the *Ontario Clean Energy Benefit Act, 2010* but would allow the ceasing of all payments and reimbursements after a prescribed date.

4. ENERGY to report back to LRC and Cabinet for approval of any supporting regulations under the proposed *Ontario Rebate for Electricity Consumers Act, 2016*, and with other complementary regulatory amendments.

5. ENERGY notes the following amendments:

- i) amendments to Ontario Regulation 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* to lower the Industrial Conservation Initiative (ICI) threshold to 1 megawatt and require electricity consumers and market participants between 1 MW and 5 MW to opt in.
- ii) amendments to Ontario Regulation 442/01 (Rural or Remote Electricity Rate Protection) made under the *Ontario Energy Board Act, 1998*, to increase support through the Rural and Remote Rate Protection Plan to R2 low density electricity customers.

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6. ENERGY work with MOECC to recycle an estimated annual average of \$270 million of Cap and Trade auction proceeds from the Greenhouse Gas Reduction Account for non-RPP commercial and industrial electricity consumers over the first compliance period (2017-2020) through a volumetric rebate mechanism.

7. ENERGY and MOF work with the Premier's Office and the Cabinet Office on the development and implementation of an integrated communications strategy.

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TB/MBC

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LRC

Cabinet approved version [number] of the proposed *Ontario Rebate for Electricity Consumers Act, 2016* for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.