Ontario

Ontario’s Fair Hydro Plan Legislation

Ministry of Energy

May 2017

WORKING DRAFT

Minister

Deputy Minister

Context

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25% for a typical residential consumer, starting in the summer of 2017. About half a million small businesses and farms are also expected to benefit.

- Any rate increases for residential consumers over the next four years would be held to the rate of inflation.

- These measures include the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The OFHP is part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.

Context – Status Update

- Ontario's Fair Hydro Plan (OFHP) has the following major components:
  1. Refinancing the Global Adjustment (GA);
  2. Helping vulnerable electricity consumers;
  3. Extending the Industrial Conservation Initiative (ICI);
  4. Improving Sector Efficiency; and
  5. Modernizing Ontario's Electricity Market.

- Since the announcement of Ontario's Fair Hydro Plan (OFHP), a number components have been implemented.
  - [In April 2017], the Affordability Fund Trust was established. It is expected that electricity distributors will be able to begin applying to the Affordability Fund Trust in Summer 2017.
  - In April 2017, ICI was expanded to allow eligible electricity consumers in the manufacturing and greenhouse sectors (i.e., with North American Industry Classification Standard (NAICS) codes commencing with the digits "31", "32", "33", and "1114") in Ontario with an average monthly peak demand of greater than 500 kW and less than 1 MW to opt in to ICI.

- On April 20, 2017, the Ontario Energy Board (OEB) announced new Regulated Price Plan (RPP) rates effective May 1 that includes a portion of the bill reduction proposed under the OFHP, the shifting of the funding of the Ontario Electricity Support Program (OESP) off the rate-base. The full reduction from the OFHP are expected to be addressed through a July 1st RPP rate adjustment.

New Regulated Price Plan Rates – Effective May 1, 2017

- Effective May 1, new RPP rates released by the OEB will include 50% of the estimated reduction in GA. This reduction in RPP rates, along with the removal of the OESP charge and the existing 8% rebate, will mean that May bills will be 17% lower than they would otherwise have been for an average consumer (15% lower for the typical Toronto Hydro consumer).

TOU Price Periods	Existing TOU Prices	Forecast TOU Prices without consideration of the proposed Fair Hydro Plan	May 1, 2017 TOU Prices including a portion of the proposed Fair Hydro Plan
Off-Peak	8.7¢/kWh	9.1¢/kWh	7.7 ¢/kWh
Mid-Peak	13.2 ¢/kWh	13.3 ¢/kWh	11.3 ¢/kWh
On-Peak	18.0 ¢/kWh	18.5 ¢/kWh	15.7 ¢/kWh

Source: OEB

- Once the legislation and regulations for GA refinancing are complete, the OEB is expected to make a further rate adjustment for RPP consumers to achieve the full 25% for a typical consumer.

Ontario's Fair Hydro Plan – Proposed Legislation

- To implement OFHP, the Ministry has prepared legislation and regulations in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs).

- The proposed OFHP legislation, supporting regulation and amendments to existing legislation (e.g., *Electricity Act* and *Ontario Energy Board Act*) will enable implementation of the following key components of the Plan:

  1. Refinancing the Global Adjustment (GA) – The proposed legislation outlines how costs would be fairly allocated among eligible consumers over time.

  2. Helping Vulnerable Electricity Consumers – The proposed legislation broadens the Rural or Remote Rate Program (RRRP), expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these program to be funded through the tax-base.

- This presentation provides an overview of these key components of OFHP legislation.

1) Refinancing the Global Adjustment

GA Refinancing – Overview of Proposed Legislation

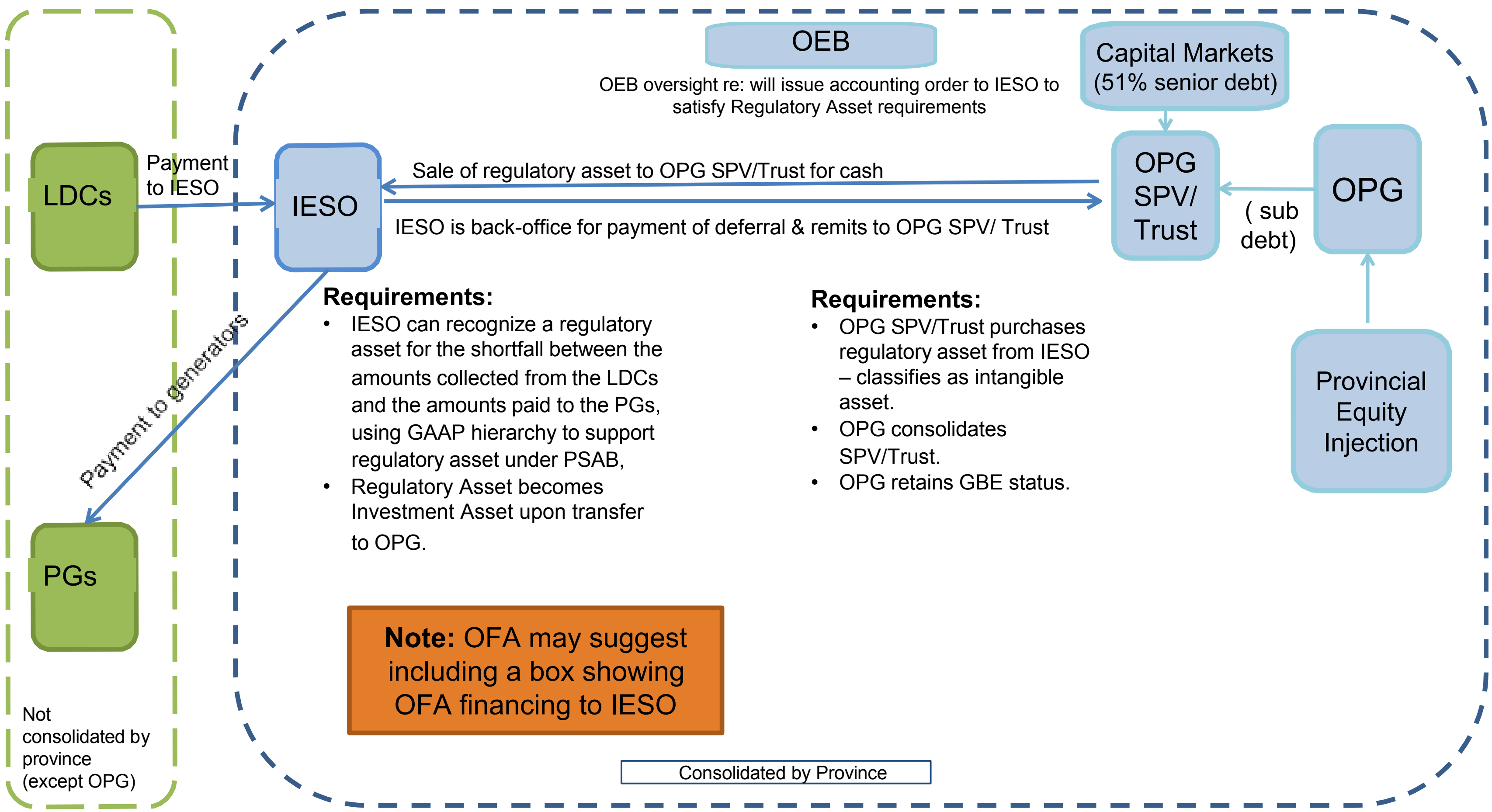
- Refinancing the Global Adjustment would be achieved through stand-alone legislation, regulations and amendments to existing legislation and regulations.

- The proposed legislation would outline:
  - Roles and responsibilities for the OEB, IESO, OPG and the Province;
  - A detailed Preamble, Purpose and Definitions;
  - Details with respect to:
    - Fair Adjustment;
    - Clean Energy Adjustment;
    - Implementation (i.e., Financial Services Manager, Fair Allocation Amount and Financing Plan);
    - Regulatory Asset; and
    - Investment Asset;
  - Details with respect to scope of provincial undertaking and guarantee and supporting regulation; and
  - Amendments to other acts.

- The associated amendments to existing legislation and regulations include:
  - *Electricity Act, 1998*: amendments to provide OPG with the authority to establish a special purpose vehicle (SPV) for the investment asset and *Ontario Energy Board Act, 1998*: amendments to allow for OEB to set rates recognizing GA refinancing.

GA Refinancing – Roles and Responsibilities

- The following diagram provides an overview of the entities that would implement GA Refinancing.



GA Refinancing – Legislative Overview

<u>Preamble and Purpose</u>

- The preamble of the proposed legislation establishes the rationale for the allocation of "clean energy costs" over time. That is, the development of a clean, modern and reliable electricity system has increased costs for ratepayers.

- The purpose of the proposed legislation is to support the Government of Ontario's commitment to ensure that the costs of these investments are allocated fairly among present and future generations of consumers.
  - Costs to be allocated include clean and renewable generation facilities, conservation, demand management, energy efficiency programs.

- The supporting legislation defines the mechanisms and framework that would achieve the refinancing of the Global Adjustment. **Note:** These mechanisms are described in the following slides.

- The legislation also establishes assurances that the Province would:
  - Through the Minister of Finance as provided by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and
  - Not hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).

- The proposed legislation aligns eligibility with the *Ontario Rebate for Electricity Consumers Act, 2016*.
  - "Specified consumers" who would receive the rebate would fall into two groups – Regulated Price Plan (RPP) consumers and non-RPP consumers that would receive a separate adjustment on their bills.

GA Refinancing – Legislative Overview (Cont'd)

Fair Adjustment

- Sets out the mechanism for the Ontario Energy Board (OEB) to determine the "relief", including the initial decrease in rates to achieve the 25% decrease, for the period July 1, 2017 to April 30, 2018.
  - Under the legislation, the OEB must determine the amount within 15 business days of the legislation coming into force.

- The Fair Adjustment also allows the Lieutenant Governor in Council (LGIC) to make regulations prescribing electricity rates for the period May 1, 2018 to June 30, 2021. After June 30, 2021, regulations will have regard to the fair allocation amount and clean energy adjustments.

Clean Energy Adjustment

- The Clean Energy Adjustment is the mechanism to recover the under-collection of GA from eligible consumers during the recovery period.
  - This is an adjustment to a consumer invoice on a monthly basis to repay principal, interest and other financing.
  - IESO and each electricity distributor will act as an agent for the financing entity to impose, invoice and collect the clean energy adjustments.

- This section outlines:
  - The process for determining the total Clean Energy Adjustment amount;
  - The obligation on individual ratepayers for the re-collection of the amount; and
  - The inability to offset or bypass re-collection of the amount.

GA Refinancing – Legislative Overview (Cont'd)

Implementation

- The implementation section defines the periods and mechanisms to enable under-collection and recovery.

Fair Allocation Amount

- The Fair Allocation Amount is a calculation of a fair measurement and allocation of clean energy costs over time.
  - The Minister of Energy is to calculate the Fair Allocation Amount and provide the amount to the Financial Services Manager. Subsequent calculations may be undertaken by other agents as prescribed by the Minister.

- It is expected that the calculation would lead to decreased rates in the near term with rates higher than forecast in the long term.

- Under the legislation the calculation of the Fair Allocation Amount is guided by several principles including the use of reasonable assumptions and proportional allocation of clean energy costs and benefits.
  - Inflationary increases would occur as per the six-month RPP periods rather than on an annual basis and end June 30, 2021.

GA Refinancing – Legislative Overview (Cont'd)

Financial Services Manager

- The legislation appoints OPG as the Financial Services Manager.

Financing Plan

- Under the legislation, OPG, as the Financial Services Manager, is required to prepare a Financing Plan and submit it to the Minister.

- The Plan sets out the funding obligations and amounts related to the financing of the under-collected GA amounts.

- The Plan shall be governed by principles, including:
  - Fair Adjustment period (July 1, 2017 to June 30, 2021);
  - Reasonable assumptions; and
  - Alignment with the Fair Allocation Amount.

GA Refinancing – Legislative Overview (Cont'd)

- The ability to engage in the fair distribution of clean energy costs requires financing during periods where the collection of the clean energy costs is deferred to later years.

- The legislation outlines mechanisms that are required to enable the financing and meet requirements for rating agencies and investors.

Regulatory Asset

- IESO will have a funding gap resulting from the reduction in amounts collected during the first five years.

- Under the legislation, IESO calculates the under-collection of GA based on the Fair Adjustment and the Fair Allocation amount.

- The legislation enables IESO to record the under-collection of GA in a variance account, and deems this under-collected amount to be a Regulatory Asset.
  - OEB would determine rates to allow IESO to recover under-collection recorded in its variance account.

- IESO is authorized to sell all or a portion to the OPG Special Purpose Vehicle (SPV)/Trust under the Financing Plan.

GA Refinancing – Legislative Overview (Cont'd)

Investment Asset

- The sale of the regulatory asset from IESO to the OPG Special Purpose Vehicle (SPV)/Trust creates an "Investment Asset".
  - The legislation establishes property rights for the Investment Asset such as the right to collect interest and the clean energy adjustment from eligible consumers.

- The Investment Asset allows for the recovery of the under-collected GA as the Investment Asset may in turn be sold to other investors or group of investors.
  - **Note:** The purpose of these clauses in the legislation is to ensure generation facilities and provincially-funded programs remain fully funded.

Amendments to Other Acts

- The legislation stipulates required amendments to existing legislation and regulations such as: **[placeholder for Legal]**

GA Refinancing – General Considerations

- The proposed legislation to enable refinancing of the GA provides significant rate relief to electricity consumers that have been burdened with the costs of the necessary investments that have been made to decarbonize and modernize the province's electricity infrastructure.

- Given the long term nature of this program (i.e., approximately thirty-years), the calculations related to refinancing of the GA set out in the proposed legislation will be subject to fluctuations in Ontario electricity demand, GA and interest rates in the medium to long-term.
  - Should electricity demand be higher than forecast as a result of greater electrification, the cost of paying off the debt will be spread over a greater pool of consumption and decreasing future costs for individual ratepayers. Note: the reverse is also true in regards to decreasing demand.
  - Should interest costs increase from the assumed 5%, total borrowing costs would rise.

- The Ministry has developed legislation in close collaboration with key ministries (i.e., Treasury Board, Finance, Attorney General, Cabinet Office), agencies (i.e., OEB, IESO, OPG) and third party financial advisors and local distribution companies (LDCs) to minimize risk, where possible.

GA Refinancing – Financing Considerations

- The Ministry has worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the proposed legislation enables refinancing of the GA.
  - The proposed legislation sets out that the province would provide assurances in the form of a “provincial guarantee” to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that the full value is recovered.

- Despite the assurances provided in the legislation it is still possible that the full value of the Regulatory Asset may not be purchased.
  - In such cases, IESO may be able to retain the unsold amounts recorded in its variance account for a short period of time.
  - The legislation also enables the Province to guarantee borrowing of the trust in certain circumstances. Specifics of these guarantees will be determined in regulation and agreements.

- In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt.
  - The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG’s capital structure remains in line.
  - The Ministry of Energy has received an appropriation for $1.1 billion operating asset to support these injections for the fiscal year 17/18, and will report back through PRRT for future funding

- OPG will seek to achieve the highest possible credit rating (AAA is possible) in order to reduce borrowing costs and attract a wide investor base. Credit ratings will depend on provisions in legislation, regulation and agreements as well as the capital structure of the SPV / Trust. Despite these factors, rating agencies may see the Province’s rating forming a ceiling given the contingent guarantees that the Province will provide (described above

GA Refinancing – Accounting Considerations

- The legislation to enable the refinancing of the GA has benefitted from the review and input of KPMG, E&Y and OPCD.
- The proposed legislation establishes mechanisms to enable the funding, sale and transfer between IESO and OPG that respond to the accounting requirements and advice outlined in the March 1, 2017 Cabinet Submission, such as concerns regarding consolidation by the Province.
- Under the proposed legislation, OEB will issue an “accounting order” to authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. [KPMG advises that s level of OEB oversight addresses the accounting requirements need to establish IESO’s Regulatory Asset. **Need to confirm]**
  - The Auditor General (AG) will likely raise concerns with how IESO’s ability to establish a regulatory asset. Ministry and agency staff have provided technical briefing to the AG and her office.
- The proposed legislation and the associated amendments to the Electricity Act, 1998, enshrine OPG’s SPV/Trust as a stand-alone entity able to conduct business separately under a Trust agreement. [E&Y advises that the accounting requirements have been met. **– Need to confirm**]
  - OPG will have the authority to set up the SPV and assign it with powers regarding decision-making, funding and ongoing operation.
  - OPG and IESO are developing a process that will allow interest payments to occur under GA Refinancing.

GA Refinancing – Legal Considerations

- Placeholder for LSB

2) Helping Vulnerable Electricity Consumers

Electricity Support Programs to Help the Most Vulnerable – Overview

- To date, a number of electricity support programs are funded through the electricity rate-base. There is opportunity to provide support to a more targeted subset of customers who are disproportionately affected by increased electricity costs and to shift these costs to the tax base. These customers include:
  - **High Distribution Cost Customers**: Some customers in rural areas where the cost to deliver electricity is high can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.
  - **Low-Income Customers**: Rising electricity costs make up a disproportionally large amount of the household expenditures for low-income households.
  - **First Nation On-Reserve Customers**: On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.
- To provide targeted assistance to the customers and alleviate electricity cost burden, Cabinet agreed on March 1st 2017 to:
  - **Enhance Rural or Remote Rate Protection** (RRRP) by funding its costs through the tax base and providing additional support to customers of designated Hydro One rate classes and other high distribution cost Local Distribution Companies (LDCs).
  - **Enhance Ontario Electricity Support Program** (OESP) by funding its costs through the tax base and increasing eligible benefits by 50%.
  - **Implement On-Reserve First Nations Delivery Credit**, to remove Delivery charges for on-reserve First Nations customers.
- Cabinet also agreed to establish a new Affordability Fund, which would provide energy efficiency measures at no or minimal cost to those who are ineligible for low-income conservation programs, have difficulty paying their electricity bills, and who cannot make energy efficiency upgrades without financial assistance.
  - The Affordability Fund does not require legislative amendment and is not part of this submission.

Rural or Remote Rate Protection – Broadening Rate Protection

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.
  - RRRP is currently funded by ratepayers in Ontario and funded through the regulatory line of the electricity bill. Currently costs $1.58/month for a 750kWh consumer.

Shifting RRRP Costs to the Tax-base

- Section 79 of the OEB Act is amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost will be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.

Broadened Distribution Rate Protection

- In addition, Energy is proposing legislative amendments that will broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through appropriated funds and would provide significant benefits to prescribed residential customers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs. Roughly 800,000 customers would receive benefits from the broadened rate protection.
  - These LDCs are: Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.
- The legislative amendments would provide Cabinet with the authority to create regulations defining the program.

Broadening Distribution Rate Protection – Program Mechanics

- If the proposed legislation passes, Energy intends to propose regulations that would empower the Ontario Energy Board to set a maximum monthly distribution charge for customers of the affected LDCs.
- The maximum charge would not affect the role of the OEB in setting rates. Affected LDCs would still need to file rate applications with the OEB to assess whether or not their costs are reasonable.
- The difference between OEB-approved rates and the maximum monthly charge would be reimbursed to LDCs from the tax-base.

Roles and Responsibilities

ENERGY/MoF

- Appropriate Funds from Legislature
- Provides funding to IESO
- MOF – Audit and Compliance

IESO

- Receives Funds and Makes Payments to prescribed LDCs

OEB

- Sets harmonized maximum amount of charge annually
- Rate setting process remains unaltered

High Cost LDCs

- Delivers program to consumers.

Consumers

- Distribution costs harmonized at maximum amount resulting in savings

Distribution Rate Protection – Implementation

- The program will require regulations to detail how the program would be implemented:
  - A mechanism will need to be created to ensure that LDCs/OEB/IESO/Province are aligned in the year-to-year forecasting and costing of the RRRP program and the enhancements.
  - How the harmonized maximum charge will be set and calculated.
  - Providing rules to ensure there is flexibility in the program if there are significant changes to LDCs (e.g. mergers and acquisitions, changes to rate structures, etc)
- The OEB will need to set the harmonized maximum charge by July 1st, 2017 in order for LDCs to be able to be able to retrofit their billing systems in order to deliver the program in the near term.
- The Ministry has been meeting with affected LDCs to discuss implementation. While the legislation would provide LDCs until October 1, 2017 to begin providing the rebates (with retroactive eligibility to July 1), all LDCs indicate they can begin providing rebates as of July 1.

Ontario Electricity Support Program (OESP) – Overview

- The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.

- OESP benefits vary by income level and family size, and there are two benefit scales that include:
  - The basic program credit ranged from $30/month to $50/month.
  - An enhanced credit that ranged from $45/month to $75/month for consumers that are either Indigenous, use electric heat or have certain medical devices.

- The OESP launched on January 1, 2016, and in just over a year:
  - Almost 190,000 have been enrolled in the program representing 33% of the total targeted low-income population. Nearly 300,000 applications have been received.
  - As of March 1, 2017, over $60million in benefits have been provided to vulnerable consumers.
  - 172 intake agencies have been mobilized to assist low income consumers to apply for the OESP.

- The March 1, 2017 Cabinet Minute directed the Ministry to expand every benefit level of the OESP by 50%, move the program from a ratepayer funded program to a government funded program beginning in 2017 and pursuing additional measures to substantially increase take-up.

Ontario Electricity Support Program (OESP) (cont'd)

- On March 23, 2017, the OEB issued a Decision and Order to cancel the OESP charge on all customer bills on May 1 ($0.0011 per kilowatt-hour consumed), and begin using the variance account to continue financing the program (the net difference between the amount of OESP charge collected and the amount paid out)

- On April 11, 2017, amendments to the OESP regulation (O.Reg. 314/15) were filed. These amendments include expanding the credits amounts by 50% and introducing new eligibility categories so that more Ontarians are eligible for the program.
  - The proposed legislative change will allow the OESP to be funded from the tax base once the variance account is depleted, and provide Ministry of Finance with audit capabilities to ensure funds are spent as they were intended.

- The legislative change will also provide the necessary authority for the Ministry of Community and Social Services (MCSS) and the OEB to align OESP program delivery with other social assistance programs and help increase program uptake (TBC).

- The fiscal impact of the program was reduced by TB/MBC for 2017-18, from $186 million to $140 million, with out-year forecasts remaining unchanged.

Ontario Electricity Support Program (OESP) (cont'd)

- The amendments to the OESP regulation (O.Reg. 314/15) are reflected below. Increases in credit amounts are in red, and the new eligibility categories are circled. These changes come into effect on May 1, 2017.

Existing OESP Benefit Scales

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$30	$30	$34	$38	$42	$50	$50
	$28,001 - $39,000	-	-	$30	$34	$38	$42	$50
	$39,001 - $48,000	-	-	-	-	$30	$34	$38
	$48,001 - $52,000	-	-	-	-	-	-	$30

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$50	$55	$60	$75	$75
	$28,001 - $39,000	-	-	$45	$50	$55	$60	$75
	$39,001 - $48,000	-	-	-	-	$45	$50	$55
	$48,001 - $52,000	-	-	-	-	-	-	$45

New Credit Amounts and Eligible Households

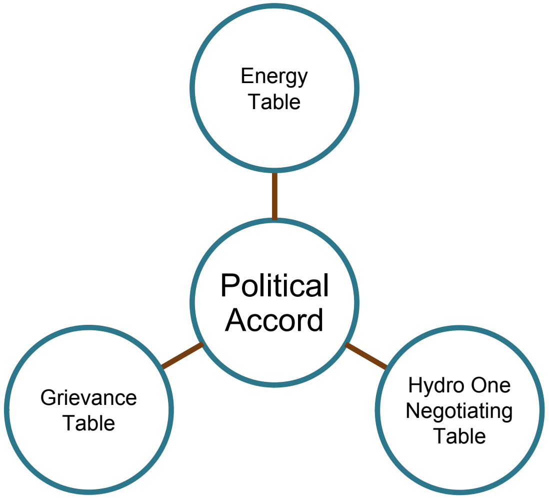
Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$51	$57	$63	$75	$75
	$28,001 - $39,000	-	$40	$45	$51	$57	$63	$75
	$39,001 - $48,000	-	-	$35	$40	$45	$51	$57
	$48,001 - $52,000	-	-	-	-	$35	$40	$45

Sliding Scale #2		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$68	$68	$75	$83	$90	$113	$113
	$28,001 - $39,000	-	$60	$68	$75	$83	$90	$113
	$39,001 - $48,000	-	-	$52	$60	$68	$75	$83
	$48,001 - $52,000	-	-	-	-	$52	$60	$68

Delivery Credit for On-Reserve Consumers – Overview

- On June 27, 2016, following discussions on Hydro One shares and rates at the Chiefs of Ontario's (COO's) All Chiefs Conference, the Minister of Energy issued a letter directing the OEB to prepare a report providing "advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers".

- On-Reserve First Nations customers experience challenges with energy affordability and are seeking to address historical grievances associated with electricity system infrastructure.



- On December 29, 2016, the OEB provided a report to the Minister which recommended:
  - Elimination of the delivery charge for all on-reserve First Nations residential customers served by licensed distributors, and elimination of the monthly service charge for customers of licensed distributors which charge a bundled rate (no specific delivery charge);
  - Automatically qualify on-reserve First Nations residential customers (~21,500 customers);
  - Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers;
  - The OEB suggested the program should be funded from the tax base as it is targeted to a particular segment of the provincial population.

- On March 1, 2017, Cabinet gave approval to establish "*a new province-wide government funded program beginning in 2017 that would eliminate the delivery charge for First Nations customers on reserve.*"

Delivery Credit for On-Reserve Consumers – Overview

- The new program would be implemented by amending the *Ontario Energy Board Act, 1998*, by adding a new section 79.4 which would establish a Delivery Credit for On-Reserve Consumers.

- The section provides that:
  - All prescribed on-reserve consumers, the entirety of their delivery line items would be credited.
  - It also provides that for consumers who are served by a distributor that does not have a delivery line item, the monthly service charge or similar charge would be credited (a very few distributors that serve on -reserve customers, such as remote communities, do not have a delivery line item).

- The program would be entirely funded through the tax base.

- The section includes the power to make regulations prescribing further program eligibility details such as:
  - The class of customers eligible (residential full-time, residential seasonal, band offices, commercial, etc.);
  - Whether on-reserve customers who are not status would be eligible, or whether eligibility would be restricted to status individuals only, and the method for determining status, if required;
  - Determining what is considered on-reserve;
  - Determining the method of calculating the delivery credit.

- Specifics around eligibility, including whether non-status individuals and customers that are not residential are eligible are still subject to ongoing discussion between ENERGY and COO.

Distributor	Number of On-Reserve Residential Customers
Algoma Power Inc.	473
Attawapiskat Power Corporation	336
Bluewater Power Distribution Corporation	237
Cat Lake Power Utility Ltd.	80
Cornwall Electric Distribution	514
Hydro One Networks Inc.	16,679
Hydro One Remote Communities Inc.	2,579
PUC Distribution Inc. (Sault Ste. Marie)	264
Thunder Bay Hydro Electricity Distribution	332
Total Number of Customers	**21,494**

Social Programs – Funding Processes

- As social programs are moved to the tax-base, LDCs are reimbursed for credits provided to customers by IESO, which is subsequently reimbursed by ENERGY. This is the same procedure followed for the reimbursement of the 8% Provincial Rebate under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

- The proposed legislation includes provisions that establish the funding frameworks for these programs that mirror ORECA. These procedures would be further developed through regulation.

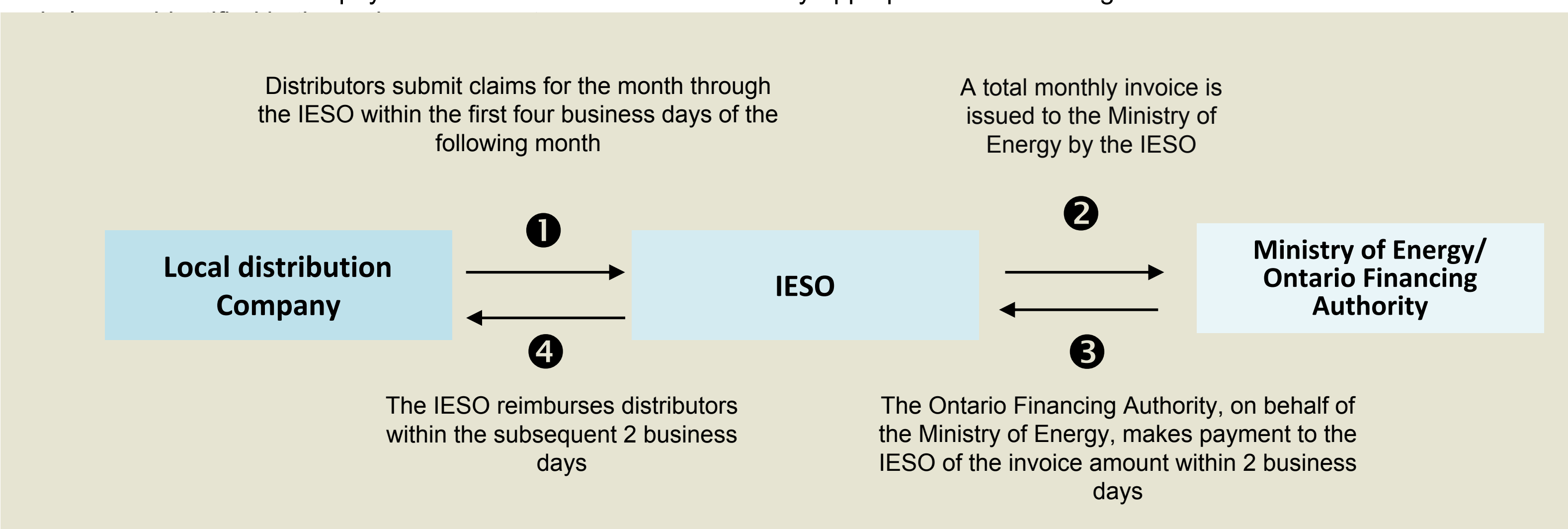
<u>Ministry of Finance</u>

- The Fair Hydro Plan Act includes several provisions granting the Ministry of Finance oversight and accountability functions to oversee the flow through of tax-payer money. These include; provisions requiring information to be shared with MOF, enhanced record keeping obligations on parties receiving funds, MOF audit and inspection powers, and offences for being non-compliant.

<u>Independent Electricity System Operator</u>

- The IESO is responsible for receiving payments from the Minister of Energy and compensating distributors for the lost revenue as a result of delivering the program. Each LDC will require a program specific variance account where the balances will be tracked by IESO.

- The IESO will then make payments to distributors from the money appropriated from the legislature in accordance with the outstanding



Social Programs – Budget

- As approved in the TB/MBC submission of Mach 1st, 2017 and confirmed in Vote-Item 2905-1, the financial impacts of the social programs for the period July 1 2017- March 31 2018 are as follows:

Program	2017-18 Budget
Rural or Remote Rate Protection	$344,000,000
Ontario Electricity Support Program	$140,000,000
On-Reserve First Nations Delivery Credit	$15,000,000

- The IESO manages a variance account for the OESP, which holds the difference between the amount of OESP charge collected from the rate base, and the amount of OESP paid out in the form of credits. The amount in the variance account is about $120 million as of March 1, 2017.
- These funds will be used to fund the OESP program until the variance account is depleted, at which point the transfer payment line will be used to finance the program costs.
  - Due to the potential range in costs of the OESP, which will depend on program uptake and any costs associated with supporting increased participation, the set allocation is required despite the variance account.
- ENERGY will return will updated out-year figures following program implementation.

Communications

- Placeholder

Cabinet Minute

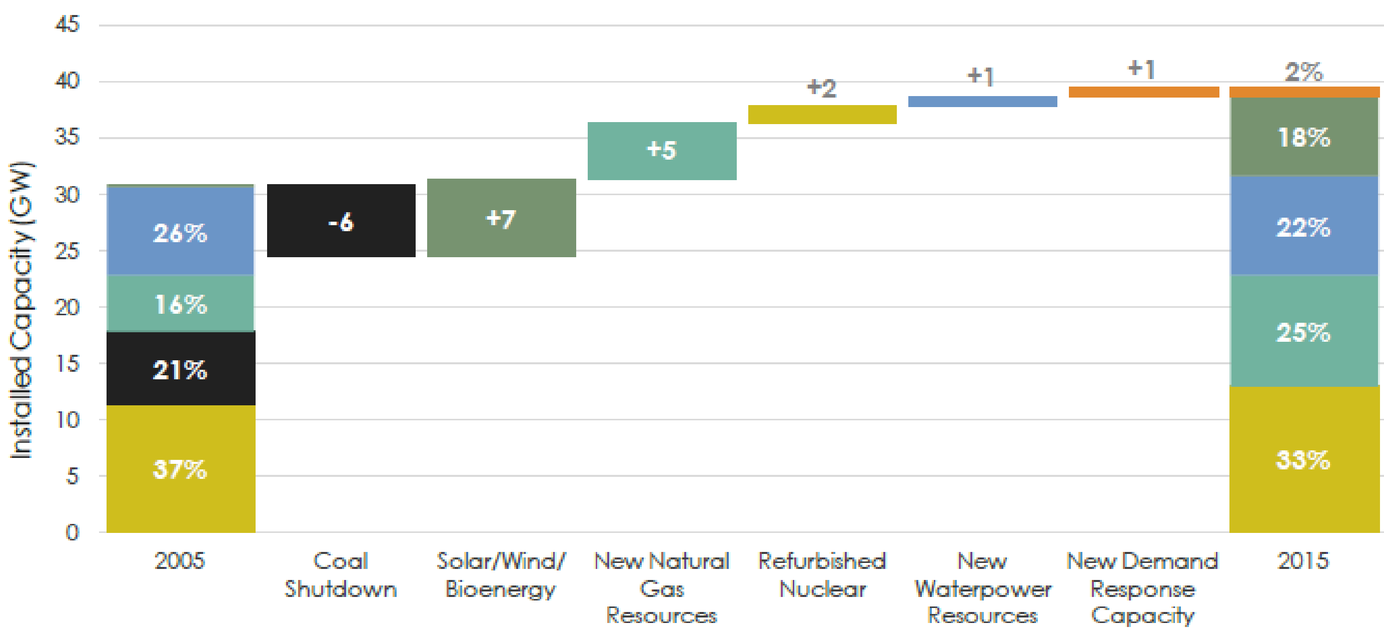
- Placeholder

Ontario

Appendix

Infrastructure Investments

- Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure. Since 2005, Ontario has invested more than $50 billion in generation, transmission and distribution assets to ensure the system is clean and reliable.



Source: IESO Ontario Planning Outlook

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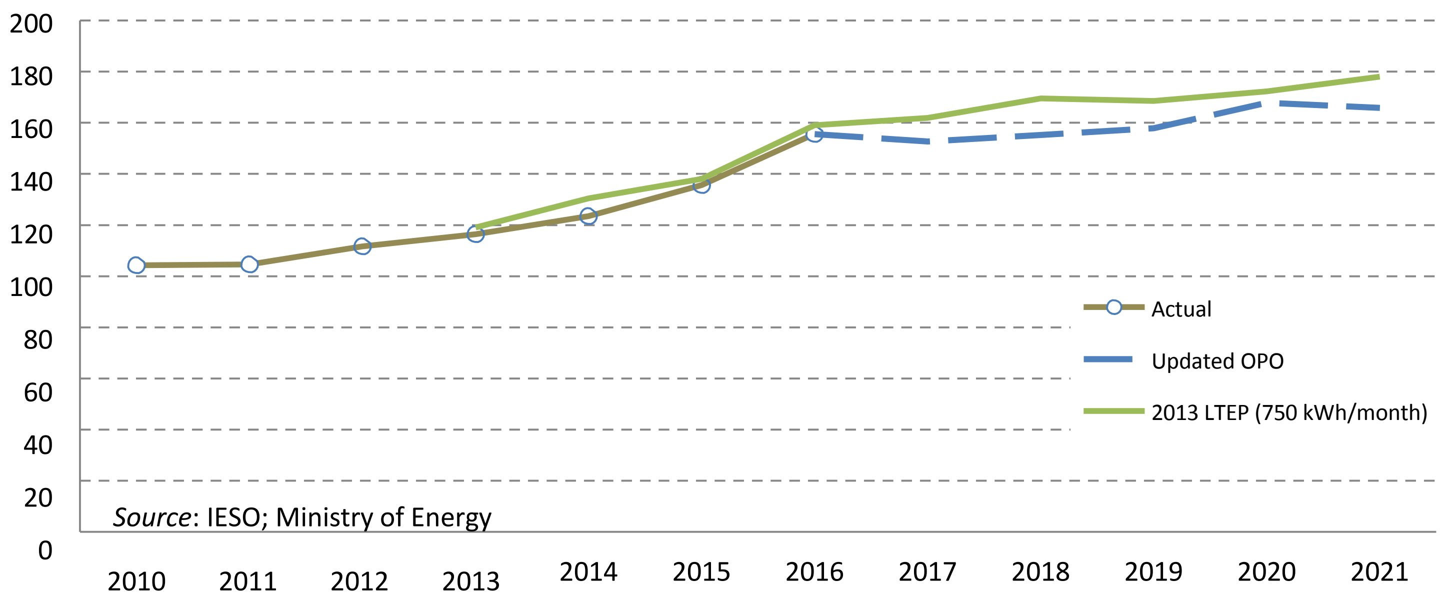
Ontario

Electricity Prices Infrastructure Investments

- Electricity price increases have generally outpaced inflation. There have been several government policies that have impacted electricity prices over the past several years, including: HST, the Industrial Conservation Initiative (ICI), the Ontario Clean Energy Benefit (OCEB) and the Debt Retirement Charge (DRC).

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

Illustrative Typical Residential Electricity Bills
Historical and Forecast in $/month



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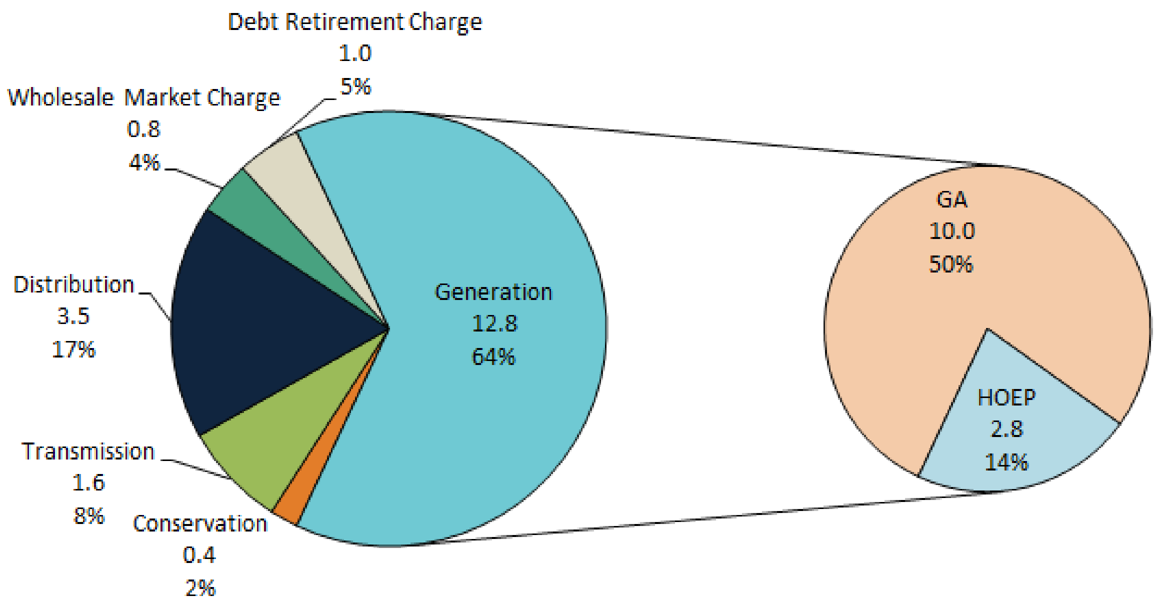
Global Adjustment

- In 2015, generation accounted for 64% of total electricity system costs. Total system costs in 2015 were $20 billion.

2015 Electricity System Cost
$ billion



Source: IESO

GA Smoothing for RPP-Eligible Only

- Placeholder

Delivery and Distribution Charge – Background

- The **Delivery** line on a typical consumer bill is specific to a consumer's Local Distribution Company (LDCs) and accounts for roughly 25-35% of the total bill before taxes.

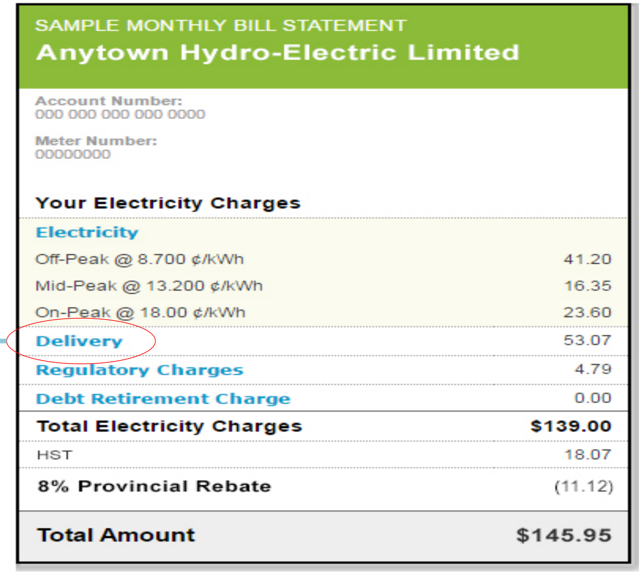
- Delivery covers the costs of getting electricity from generating stations across the province to homes and businesses and combines three cost components of the electricity sector into one line item charge:

  - **Transmission:** The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a variable charge that is approved by the OEB.

  - **Distribution:** The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line.

    - This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.

  - **Line Loss:** The costs to recover electricity that is lost as heat when its delivered over a power line. Each LDC is assigned by the OEB a specific line-loss adjustment factor to reflect their loses particular to their assets. This factor is multiplied against the monthly electricity cost to determine the monthly cost.



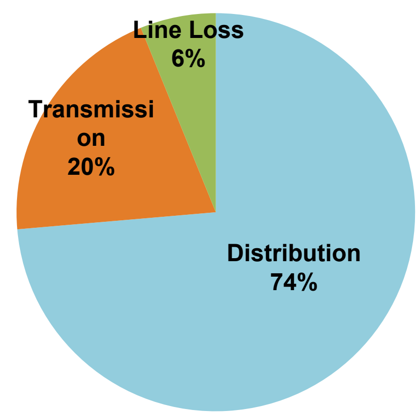
SAMPLE MONTHLY BILL STATEMENT
Anytown Hydro-Electric Limited

Account Number:
000 000 000 000 0000

Meter Number:
00000000

Your Electricity Charges	
Electricity	
Off-Peak @ 8.700 ¢/kWh	41.20
Mid-Peak @ 13.200 ¢/kWh	16.35
On-Peak @ 18.00 ¢/kWh	23.60
Delivery	53.07
Regulatory Charges	4.79
Debt Retirement Charge	0.00
Total Electricity Charges	**$139.00**
HST	18.07
8% Provincial Rebate	(11.12)
Total Amount	**$145.95**

Cost breakdown of Delivery Line for an Average Residential Bill*



* Toronto Hydro Bill @ 750kWhs

Rural or Remote Rate Program – Background

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the Province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.
  - RRRP is funded by ratepayers in Ontario.
- Part of the program helps fund the costs of Hydro One customers classified into the “R2” residential rate class. There are 335,000 R2 customers across the Province. These customers have some of the highest Delivery costs in the Province.
  - From 2001-2016 the program provided $125.4 million annually to help defray these costs.
  - In the 2016 Speech from the Throne, this funding was expanded by $116.4M to a total of $241.9 million.
  - As of Jan 2017 R2 customers receive $60.50/month off their distribution costs.
- These customers still have high delivery and high distribution costs and are often faced with significantly higher than average bills.
  - The higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable.

Economic Conditions on Reserve

- On-reserve First Nations customers face unique challenges that impact electricity affordability, such as the poor quality of the housing stock on-reserve. These challenges result in significantly higher electricity consumption levels and costs.
- First Nations living on reserve are particularly vulnerable low-income consumers: the average income is considerably lower compared to First Nations living off reserve and compared to non-Indigenous populations:
  - Average income of First Nations on reserve in Ontario: $21,100;
  - Average income of First Nations off reserve in Ontario: $31,527;
  - Average income of Non-Indigenous people in Ontario: $42,506; and
  - Median incomes on smaller reserves can fall below $10,000 (e.g., Cat Lake FN).
- Employment rates also differ between on-reserve First Nations, off-reserve First Nations and Non-Indigenous individuals, as well as other indices of social vulnerability:
  - 54% of Indigenous people over 15 years old and living on-reserve in Ontario are unemployed or not in the labour force;
  - The on-reserve unemployment rate is 18.3% compared to 6.4% in Ontario generally; and
  - 67% of families residing on-reserve are single parent families, compared to the Canadian equivalent of 19%.
- First Nations are seeking redress for historic grievances related to lands affected by energy developments, such as transmission or distribution infrastructure built on reserve lands and traditional territories where, in some cases, they may not have been appropriately consulted.
- Further, in some circumstances, linear infrastructure corridors cut First Nation reserves in half, significantly disturbing the use and management of an already small land base; the First Nation communities disturbed by the energy infrastructure report having experienced long wait times (e.g., 20 years) for their communities to get connected and receive the benefits of the energy derived from the local infrastructure.