

Rate Mitigation Update

Working Draft

March 20, 2017

CONFIDENTIAL DRAFT

Context

- On March 2, 2017, Ontario announced Ontario's Fair Hydro Plan (OFHP), which proposes new measures to lower electricity bills by 25 per cent on average for all residential electricity customers, as well as initiatives to reduce costs for low-income consumers, First Nations and small manufacturers.
 - On March 1, 2017, Cabinet approved the OFHP.
- The Ministry of Energy has established a Rate Mitigation Implementation Group and subcommittees to work through implementation of OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit);
 - Establishing an Affordability Fund; and
 - Expanding the Industrial Conservation Initiative.
- ENERGY continues to work 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).

Global Adjustment (GA) Refinancing

- Ongoing work with energy agencies (i.e., OPG, OEB and IESO), ministries (i.e., MOF and TBS/OPCD) and external advisors.
- Key deliverables include:
 - Legislation to provide authority for mitigation and recovery, including establishing the roles of the OPG, IESO and the OEB and creating a regulatory asset;
 - Amendments to O. Reg. 429/04 in the allocation of GA (to implement ICI changes) costs and O. Reg. 95/05 regarding the manner in which the OEB determines Regulated Price Plan (RPP) rates and the modifier that is to be applied to RPP-eligible GA rates;
 - Shareholder Declaration and Resolution to OPG;
 - Financing (e.g., IESO line of credit to bridge from May-July, OEFC to OPG equity injection structure; and OPG trust rating agency review and 3rd party lender market sounding (e.g., cost/term, etc);
 - Accounting opinions from E&Y (OPG) and KPMG (IESO); and
 - Third Party Technical Report regarding Long Lived Assets.

Status / Next Steps

- Initial draft versions of legislation and regulations have been developed.
- Initial draft of comfort letter to OEB to enable GA refinancing to be included in May RPP has been written . Send comfort letter to OEB week of ~~March 20~~ April 3, 2017.
- Initial draft versions of Shareholder Declaration and Resolution to OPG have been developed.
- Continue with drafting of legislation and ~~Begin drafting~~ regulations.
- Continue drafting of Shareholder Declaration and Resolution to OPG.

Affordability Fund

- The new Affordability Fund will support Ontarians who do not qualify for low-income conservation programs and who are unable to undertake energy efficiency improvements without financial assistance. The Fund, established through the tax base, will be administered by a Trust and accessible to LDCs.
- Eligible customers will be identified by LDCs. Priority would be expected to be given to homes primarily heated by electricity. The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake. It is expected that the program will assist eligible customers by providing measures ranging on average from \$3,000 to \$5,000 per customer at no or minimal costs.

Status / Next Steps

- ENERGY, with advice from the Ontario Provincial Controller Division (OPCD), is working with Hydro One on the development of a Transfer Payment Agreement (TPA) and Trust Declaration to establish the Trust.
- Computershare Trust Company of Canada (Computershare) will act as the interim Trustee for the Trust. Computershare will be replaced with a Board of Trustees, who will be responsible for distributing funds to LDCs across the province at their discretion based on an application process and targeted eligibility criteria. It is expected that the Trust will include representation from several electricity distributors as well as social service agencies.

Affordability Fund

- The new Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs and who otherwise would be unable to make energy efficiency improvements without financial assistance. The Fund, established through the tax base, will be administered by a Trust and accessible to electricity distributors.
- Eligible customers will be identified by electricity distributors. It is expected that priority will be given to homes primarily heated by electricity. The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake. It is expected that the program will assist eligible customers by providing measures ranging on average from \$3,000 to \$5,000 per customer at no or minimal costs.

Status / Next Steps

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement with Computershare, who will act as the Original Trustee, to flow \$100M to the Affordability Fund Trust.
- The Original Trustee will be replaced with a Board of Trustees, who will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria established by the Trust. It is expected that the Trust will include representation from three electricity distributors, two social service agencies and one (non-voting) government representative.
- Through the Declaration of the Trust, an Advisory Committee of senior executives has been established to provide recommendations to the Original Trustee on the Board of Trustees. Advisory Committee members include Brian Bentz (Alectra Utilities), Bryce Conrad (Hydro Ottawa), Robert Mace (Thunder Bay Hydro), Ferio Pugliese (Hydro One) and Terry Young (IESO).

Affordability Fund (cont'd)

Status / Next Steps

- **Week of March 20:** Execute TPA between ENERGY and the Trust (Computershare). Computershare to sign Trust Deed.
- **By March 31:** ENERGY to flow \$100 million through a TPA to the Trust.
- **April-June:** Trust Deed to be revised to include further details (e.g., procedures for the governance of the Trust, appointment of trustees and process to replace trustees, procedures for service agreements with Hydro One or other entities, customer eligibility criteria and processes for LDCs to apply for funds (to be developed in consultation with LDCs)).
- **June:** Report back to TB/MBC with final program details.
- **Summer:** LDCs to begin applying to the Trust for funds.

Affordability Fund (cont'd)

Status / Next Steps

- **April – May 2017:** Advisory Committee recommends Board of Trustees; Original Trustee appoints Board of Trustees
- **June 2017:** Trustees expected to engage with distributors, IESO and OEB, and low-income groups to design funding criteria and processes
- **June 2017 (TBC):** ENERGY to report back to TB/MBC with final program details and a performance management framework including outcome measures and targets
- **Summer 2017:** Estimated timeline for electricity distributors to begin applying to the Trust for funds

Electricity Support Programs

- On March 14, 2017, Energy staff met with LDCs stakeholders to provide them with an overview of the proposed support programs.
 - Further sessions with smaller sub-sets of LDC working groups specific to the broadened RRRP and the First Nation Delivery Credit are planned for March 23 and 24, 2017. Further sessions with the broader LDC working group will occur as needed to seek input on implementing any required on-bill messaging, changes to the OESP, and any other changes that would impact all LDCs.
- Meetings with the OEB and IESO are planned to discuss implementation considerations to inform drafting of proposed legislation and any supplemental regulations.
- For all support programs, on-bill messaging requirements should be determined in the near-term in order to provide LDCs with clear direction.

Ontario Electricity Support Program (OESP) – Status / Next Steps

- On March 9, 2017, the government posted a proposal on the Regulatory Registry (RR). ~~The Ministry is drafting amendments to the OESP regulation to implement~~ ~~The Ministry is working with the OEB to determine whether~~ the increase of 50% in credit amounts, and ~~introduce new credit amounts for expanded program eligibility will need a regulation or whether the OEB has the ability to make these changes on their own.~~ The Ministry is targeting the April 10, 2017 LRC date for some of these regulatory changes.
- The OEB issued a decision on March 23 to remove the OESP volumetric charge on May 1, and to use the existing variance account (the amount collect minus the amount paid; it is currently at \$107M) to finance the program until it becomes tax-based through legislative and regulatory changes.
 - ~~Increase the level of benefits under the OESP by 50%;~~
 - ~~Expand eligibility for the program by modifying the current household income and size categories; and~~
- ~~The Ministry is working closely with MCSS to explore automatic qualification for customers who are enrolled in other provincial~~
low-income social programs, such as Ontario Works and the Ontario Disability Support Program.

Electricity Support Programs (cont'd)

Broadening RRRP – Status / Next Steps

- The legislation required to enable tax funding for the existing RRRP program as well as the creation of new distribution rate protection for an expanded group of residential customers is being developed.
 - In addition to the required legislation, regulations will also be needed to put in place the necessary framework to deliver the programs. Details concerning the processes by which to establish the level of rate relief will be outlined in Regulation.
 - Ministry convened an LDC working group meeting on March 23 with impacted LDCs to discuss implementation considerations.
 - Impacted LDCs will require time to update billing systems to put in place the necessary changes that will allow them to deliver the new distribution rate protection. LDCs will want a reasonable amount of certainty (finalized regulations) before undertaking the system changes.
 - Ministry will collect billing implementation timeline estimates from LDCs
 - Ministry staff will also work with the OEB to address transitional issues related to the RRRP charge.

First Nation Delivery Credit (FNDC) – Status / Next Steps

- Legislation that is required to create the new FNDC to defray 100% of the cost of electricity delivery for on-reserve First Nations residential consumers and to enable tax funding is being developed.
 - Once the legislation is in place, regulations will also be needed to put in place the necessary framework to deliver the program. Consultation with relevant stakeholders, including Chiefs of Ontario, impacted LDCs, and agencies such as IESO, will be required to develop regulations to deliver the program.
 - Impacted LDCs will require time to update billing systems to put in place the necessary changes that will allow them to deliver the new distribution rate protection.
- An FNDC Working Group composed of Energy Staff and relevant stakeholders has been established to advise of the development of program mechanics. The first meeting of the working group was held on March 24, 2017.
- The OEB has not posted FN rate report just yet as conversations are ongoing between Ministry on a letter from the Minister to the OEB acknowledging receipt of the report and outlining the plan for implementation

Industrial Conservation Initiative (ICI)

- ICI is currently available to electricity consumers and market participants with an average monthly peak demand greater than 1 MW.
- Ontario is proposing to allow eligible electricity consumers/market participants in the manufacturing sector (i.e., with NAICS codes commencing with the digits "31", "32" and "33") in Ontario with an average monthly peak demand of greater than 500 kW and less than 1 MW to opt-in to ICI.
- In addition, the government intends to amend O. Reg. 429/04 such that electricity consumers may continue to participate in ICI even if their demand falls below the average monthly peak demand threshold while participating in certain prescribed conservation and demand management (CDM) programs.

Status / Next Steps

- On March 9, 2017, the Ministry posted the proposal to expand ICI on the Regulatory Registry (RR). Comments are due by April 8, 2017.
- As per the regulatory posting, the expanded ICI is expected to take effect on July 1, 2017 pending regulatory amendments to O. Reg. 429/04.
- The regulatory amendments are expected to proceed to LRC on April 10, 2017. If approved by LRC, the regulatory amendment will be in effect on the day it is filed (i.e., the week of April 10, 2017).

On-Bill Messaging

- Ministry has begun work on bill presentment to facilitate appropriate on-bill messaging to provide electricity consumers with information about the Fair Hydro Plan, as well as associated savings from the plan.
- A number of considerations will need to be taken into account when developing on-bill messaging including:
 - Billing system changes and associated timing requirements to implement those changes;
 - Scope of the messaging (on-bill, inserts, envelopes etc.)
 - Interface of new messaging with existing requirements.
- The ministry has reached out to the various LDCs to ask about timing for system changes that are required to adopt messaging.

Engagement with Legislative Officers

- Both the Financial Accountability Officer (FAO) and the Auditor General (AG) have expressed interest in the OFHP.

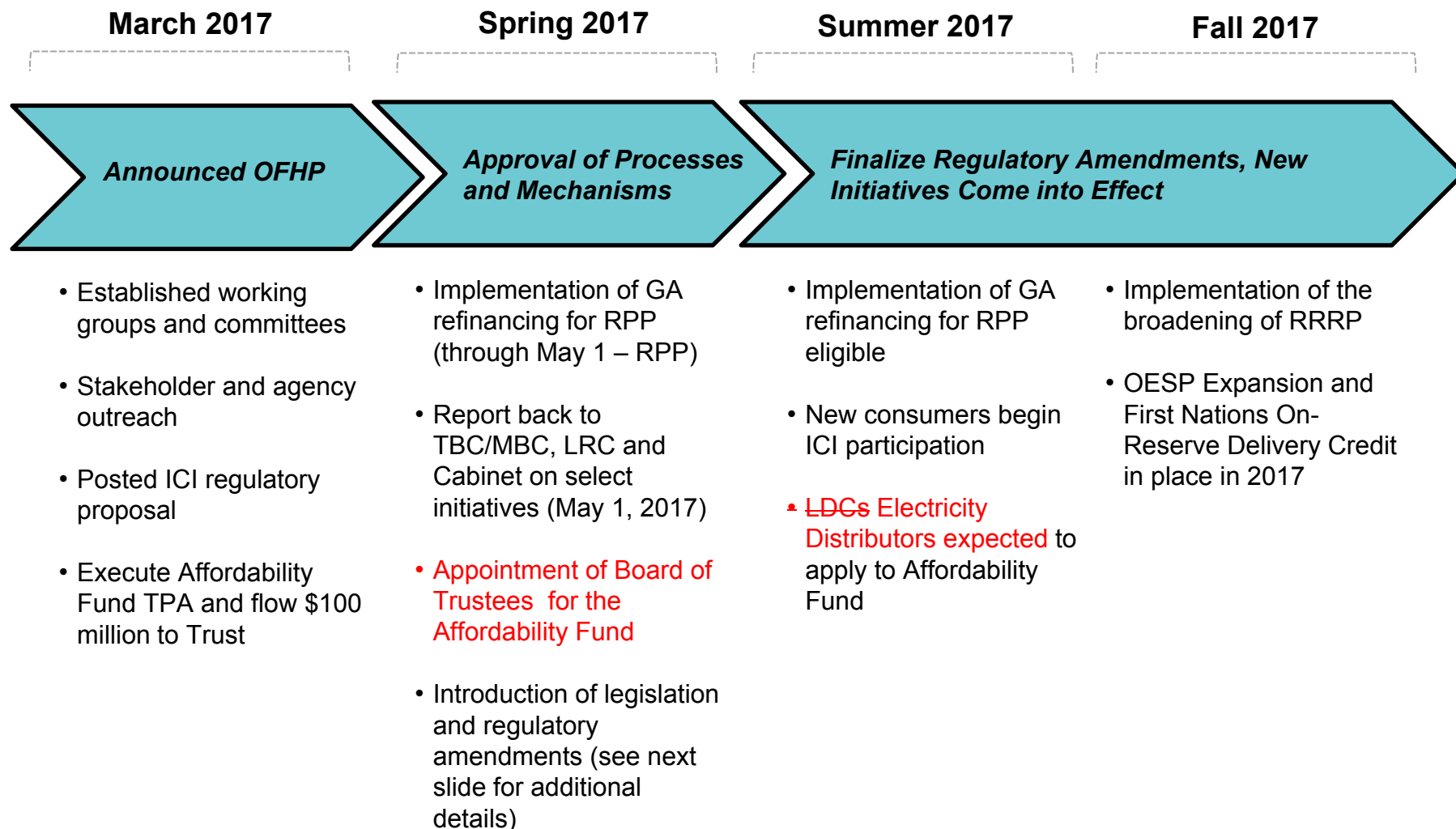
FAO

- On March 9, 2017, ENERGY and MOF provide the FAO staff with a technical briefing.
- On March 14, 2017, ENERGY and MOF received a letter requesting additional information on the OFHP.
- On March 30, 2017, ENERGY submitted materials to FAO. ~~The Ministry is currently preparing responsive materials.~~

AG

- AG is undertaking an IT audit of IESO. As part of this audit, AG requested all Cabinet Submissions from the Ministry of Energy related to IESO. On March 30, AG's Office was provided copy of Ontario Fair Hydro Plan Cabinet Submission.
- ENERGY and MOF is providing the AG with a technical briefing, tentatively schedule for April 12, 2017 (TBC).

Timing and Critical Milestones



Next Steps

- Ongoing work to implement OFHP with ministries, energy agencies, external advisors and LDCs.
- OEB is expected to communicate the May 1st – Regulated Price Plan (RPP) rates on April 20, 2017 (TBC).
- ENERGY to report back to TBC/MBC, LRC and Cabinet on May 1, 2017. On May 4, 2017, introduction of Legislation (TBC):
 - Debate – June 2017 (TBC); and
 - Passage / Royal Assent – Late June 2017 (TBC).

Appendix

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