Harmonizing Delivery Rates for High Cost LDCs - Fiscal and Ratepayer Impacts

- The current draft Cabinet Submission proposes to harmonize distribution rates for Hydro One R2 and R1 consumers, as well as consumers of other high cost LDCs, at $38/month – the lowest average distribution cost among the selected LDCs.
    - This proposal would provide benefits to ~700,000 customers and would cost ~$210M in the first fiscal year, in addition to costs for Rural or Remote Rate Protection (RRRP).
- Such harmonization would result in significant Delivery line reductions. However as transmission and line loss costs remain volumetric, total Delivery line costs would still increase with customer consumption.
- Such a proposal could be expanded to harmonize costs at the lowest average Delivery line charge. The following is a discussion of fiscal and ratepayer impacts for harmonizing Delivery rates in affected LDCs at $50/month.

Fiscal Impacts

- The following table highlights the program costs for the Rural or Remote Rate Protection Program (RRRP) pre- and post-enhancements outlined in the Speech from the Throne for Hydro One R2 customers and $50/month harmonization of delivery charges for residential customers in selected LDCs.

Initiative	Total Cost/Potential Fiscal Impact ($M) (Items are inclusive of the ones before)
RRRP pre-Speech from the Throne Enhancements	$127
RRRP post-Speech from the Throne Enhancements	$242
$50/month Delivery Cost Harmonization (includes the $242M of RRRP)	$525-$600

- The growth in costs is caused by:
    - Limiting Delivery line charges to $50 means transmission and line loss charges do not increase based on consumption. Benefit levels to high volume consumers increase significantly as a result.
        - Ex – 2600kWh/month customer: $55.52 in monthly savings with harmonized distribution rates, $91.81 in monthly savings with harmonized Delivery charges.
    - The number of high cost outlier LDCs that could be captured under program eligibility increases as a result of focusing on Delivery costs – from 9 LDC rate classes under the Cabinet Submission proposal to 13 with Delivery harmonization.

Ratepayer Impacts

- The benefits of $50/month delivery charge harmonization would vary depending on delivery costs in a customer's LDC, as well as a customer's consumption levels. Depending on their LDC, customers of similar consumption profiles and patterns will receive different benefits. The following table outlines how such a program could impact different residential consumers:

$50 Delivery Line Harmonization – Example LDC Customer Benefits (2017 rates)			
LDC	**@500kWh/Month**	**@1000kWh/Month**	**@2500kWh/Month**
Hydro One R2 **(post $60.50 RRRP)**	$0	$28.08	$115.45
Hydro One R1	$4.55	$25.33	$87.66
Algoma Power	$8.13	$31.00	$99.61
Atikokan Hydro	$8.01	$20.96	$59.81
Sioux Lookout Hydro	$0	$8.7	$43.40
InnPower	$0	$6.8	$62.50

- While ~700k customers would see some benefits from harmonizing distribution rates at $38/month, as a result of a $50 delivery line occurring at a higher consumption level, the total number of customers experiencing benefits decreases to ~650,000.

Considerations

- The total cost/potential fiscal impact figures are based on extrapolations from select LDCs, and may not capture the impact of high-volume outliers;
    - ENERGY previously forecasted a $55 Delivery cap across the Province to cost ~$800M, inclusive of RRRP. The decrease to $600M for the option described above is to due elimination of a 15% risk buffer included in previous projection and the program not applying to Toronto Hydro and other LDCs with large customer bases.
- The program would be subject to fiscal risk based on cost escalation and weather;
- Setting a $50/month cap across the province could disincent utilities from pursuing cost efficiencies and/or provide an incentive for utilities to invest above and beyond basic system requirements;
- Once a delivery cap is in place, it may be difficult to transition away from tax base subsidies. Removing the cap would lead to sudden cost increases; and
- Based on past experience, a new program to be delivered on customers' bills takes at least 6 months to implement from the time that the enabling regulation is filed because it would require

billing system changes for LDCs. Such implementation costs have not been built into the estimated program costs/potential fiscal impacts outlined above.