ONTARIO'S FAIR HYDRO PLAN

- **Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential customers.**
- **Ontario's Fair Hydro Plan also includes initiatives to reduce costs for businesses.**

SUGGESTED RESPONSE:

- **Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than $50 billion has been invested to modernize the system.**
- **The government has been making important investments in a cleaner and more reliable energy system, but these investments have led to higher electricity bills.**
- **We have heard from Ontarians across the province that the price of electricity has risen too quickly, which is why we are moving forward with a plan to ensure the costs are shared more evenly over the years ahead.**
- **Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers.**
- **As many as half a million small businesses and farms are also benefitting from the reduction.**
- **These measures include the 8 per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.**
- **Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.**
- **Taken together, these changes are delivering the single largest reduction to electricity rates in Ontario's history.**

Ontario's Fair Hydro Plan (OFHP) includes:

- **Refinancing the Global Adjustment (GA) over a longer time period. Electricity consumers that are eligible for the 8 per cent rebate are also eligible for GA refinancing, including all residential consumers, farms, most small businesses, long-term care homes and condominiums.**
- **Helping vulnerable electricity consumers by enhancing electricity support programs, including:**
  - **Provide enhanced Distribution Rate Protection to additional customers served by Local Distribution Companies (LDCs) with some of the highest rates. We currently provide rate protection to approximately 350,000 Ontarians living in rural or remote areas through the Rural or Remote Rate Protection (RRRP) program. The enhancement would extend relief to approximately 800,000 households in total.**
  - **Expanding the OESP, which provides relief directly on the bills of low-income consumers who have applied and meet the eligibility criteria. The expansion increases OESP credits by 50 per cent and helps more Ontarians to benefit from the program.**

- **Establishing a new Affordability Fund that will be accessible to LDCs for customers who do not qualify for low-income conservation programs and who are unable to undertake energy efficiency improvements without financial assistance.**
- **Establishing a new On-Reserve First Nations Delivery Credit to provide a 100 per cent credit for delivery charges for First Nations residential customers living on reserve and served by a licensed distributor.**

- **Expanding the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW.**
- **Shifting cost recovery for the Ontario Electricity Support Program (OESP) and the majority of the Rural or Remote Rate Protection (RRRP) from electricity bills to provincial revenues, lowering regulatory charges for everyone by approximately $3/MWh.**
- **Improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).**

<u>July 2017 Regulated Price Plan (RPP) prices</u>

- **As a result of the *Fair Hydro Act, 2017* achieving Royal Assent on June 1st, the OEB updated RPP prices to reflect the full benefit of GA refinancing of 25 per cent, or $41 per month, on average relative to what they would have been without the initiatives that are part of Ontario's Fair Hydro Plan.**
    - **The decrease is a result of the 8 per cent rebate, the shifting of funding for support programs from electricity bills to provincial revenues, and the Ontario Energy Board (OEB)'s decision to implement 50 per cent of the value of GA refinancing.**
- **The OEB also determined the GA Modifier to be applied to the bills of customers who are eligible for GA refinancing but are not customers of the RPP.**
- **The new RPP prices and non-RPP GA Modifer are in effect for electricity consumed between July 1, 2017 and April 30, 2018.**
    - **Eligible consumers will see the full reduction for the first time when they receive their bill for the July 2017 billing period.**

BACKGROUND:

1. **GA Refinancing**

- The GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs.

- As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts.

- Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and “bring forward” that benefit for ratepayers today by deferring some of the current costs.

- To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

- In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today’s electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

- The government has aligned eligibility for GA refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for 8 per cent rebate are also eligible for GA refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

    - All RPP consumers receive GA refinancing through the Ontario Energy Board’s (OEB) RPP rate setting process.

    - Consumers not participating in RPP but who are eligible for GA refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers’ bills.

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2. **Helping Vulnerable Electricity Consumers**

Affordability Fund

- As part of Ontario’s Fair Hydro Plan, the government also announced the establishment of an Affordability Fund that will provide energy efficiency measures to Ontarians who are not eligible for the Save on Energy Home Assistance Program (HAP), and who otherwise would be unable to make energy efficiency improvements without financial assistance.

    - HAP, delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (from Statistics Canada).

- Electricity distributors and other stakeholders have indicated to ENERGY that there is an immediate need to help customers in bill arrears and facing service disconnection.

    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - At the end of 2015, LDCs also reported over 560,000 residential electricity accounts in arrears; of these about 19,900 (~3.6%) accounts were eligible to participate in the LEAP low-income support program.

- On January 30, 2017, Hydro One submitted to ENERGY an “Addressing Affordability” report, which outlined a number of recommendations on electricity rate mitigation. The report included a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.
    - ENERGY has worked with Hydro One to establish an independent Trust that will administer the Affordability Fund, with an initial funding amount of $100 million from the tax base.

  A centralized delivery model through a Trust has been established to ensure independent oversight of funds and to facilitate efficient distribution of funds to electricity distributors

<u>*OESP*</u>

- Ontario’s Fair Hydro Plan recognizes that electricity bills can represent a challenge for customers who pay a larger share of their income towards energy costs, such as low-income households and seniors on a fixed income.

- The OESP is an income-tested, application-based program that lowers electricity costs of the most vulnerable consumers through a rebate directly on their electricity bills.

Starting May 1, 2017, the OEB increased OESP support for low-income consumers by 50 per cent and expanded eligibility for the program. New eligibility categories were also introduced, enabling certain household sizes in higher income brackets to become eligible for the OESP.

- The Province is also aligning the OESP with other social assistance programs to help get more vulnerable consumers into the program so they can receive the support they need on electricity bills.

- Additional amendments in *Ontario Energy Board Act, 1998* provide the Ministry of Community and Social Services (MCSS) with the authority to collect the information needed to complete OESP applications for social assistance clients, and for the OEB to share information with MCSS to support its efforts to align OESP with other social assistance program delivery.

- Corresponding amendments to O. Reg. 314/15 has enabled MCSS to implement these legislative changes and ensure that applicants deemed financially eligible for Ontario Works and the Ontario Disability Support Program are automatically eligible for the OESP if they receive electricity bills. Ontario's Fair Hydro Plan also includes shifting cost recovery for OESP (and RRRP) through the tax-base instead of through ratepayers, reducing regulatory charges for everyone and ensuring the programs continue to serve those in need.

- The OESP Variance Account, which is administered by the Independent Electricity System Operator (IESO), is sufficient to enable the continued funding of the program until the program formally shifts to the tax-base.

*****For more details on OESP, please see HBN E1 – Low-Income Energy Consumers.***

Household Income (After Tax)	Household Size (Number of people living in household						
	1	2	3	4	5	6	7+
< $28,000	$45	$45	$51	$57	$63	$75	$75
$28,001 - $39,000	$40	$40	$45	$51	$57	$63	$75
$39,001 - $48,000	$35	$35	$35	$40	$45	$51	$57
$48,001 - $52,000	$35	$35	$35	$35	$35	$40	$45
Over $52,001	$35	$35	$35	$35	$35	$35	$35

Household Income (After Tax)	Household Size (Number of people living in household) Energy Intensive						
	1	2	3	4	5	6	7+
< $28,000	$68	$68	$75	$83	$90	$113	$113
$28,001 - $39,000	$60	$60	$68	$75	$83	$90	$113
$39,001 - $48,000	$52	$52	$52	$60	$68	$75	$83
$48,000 - $52,000	$52	$52	$52	$52	$52	$60	$68
Over $52, 001	$52	$52	$52	$52	$52	$52	$52

Orange cells – SA eligibility categories that currently fall outside OESP. These new OESP eligibility categories will align with the nearest credit amount within the same income band.

Purple cells – the base amount for SA clients that exceed the current income threshold.

Red cells – The red credit amounts are the new OESP eligibility categories, as part of OFHP.

RRRP

- Ontario's Fair Hydro Plan recognizes that there are opportunities to enhance support for vulnerable electricity consumers, including Ontarians living in low-density areas where the cost to deliver electricity is greater than in higher-density and urban areas. These customers can experience difficulty in reducing their electricity bill through conservation, particularly when reliant on electric heating.

- 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. It currently benefits approximately 350,000 customers. Part of the program helps fund the costs of Hydro One customers classified into the “R2” residential rate class (low density), who pay some of the highest delivery costs in the Province.

- Customers still face high delivery and high distribution costs and are often faced with significantly higher than average bills. Higher than average consumption patterns coupled with higher than average distribution rates has resulted in monthly bills many view as no longer affordable or equitable.

- As part of the Fair Hydro Plan, the Province has broadened rate protection to provide distribution charge relief to additional customers served by Local Distribution Companies (LDCs) with some of the highest distribution rates.

- About 800,000 customers will benefit from the enhanced rate protection. Residential customers from the following LDCs will benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers, Northern Ontario Wires, Lakeland Power (Parry Sound), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Ontario's Fair Hydro Plan also includes shifting cost recovery for RRRP and OESP through the tax base instead of through ratepayers, reducing regulatory charges for everyone and ensuring the programs continue to serve those in need.

On-Reserve First Nations Delivery Credit

- Acting on the recommendation from the Ontario Energy Board, Ontario's Fair Hydro Plan provides a credit for all delivery charges for First Nations on reserve residential customers of licenced distributors.

  This initiative will provide residential customers, on average, a monthly benefit of $85 for approximately 21,500 on-reserve First Nations residential customers. The First Nations On-Reserve Delivery Credit is funded by provincial revenues.

3. Expanding the Industrial Conservation Initiative (ICI)

- Ontario’s Fair Hydro Plan features new measures to lower electricity bills for businesses across the province, including the expansion of ICI.

- ICI lowers costs for eligible consumers that reduce consumption during the top five system peak hours of the year. This benefits businesses financially and benefits the system by deferring the need for new generation. ICI consumers can reduce their electricity costs by up to one third.

- As part of Ontario’s Fair Hydro Plan, in April 2017 ICI was expanded to allow 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”) with an average monthly peak demand of greater than 500 kW and less than 1 MW to opt in to the program. Changes are in effect as of July 2017.

- Effective January 1, 2017, to give more businesses the incentive to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed. Newly eligible consumers that opt-in will see the impact beginning in July 2017.

  - Prior to lowering the ICI eligibility threshold and removing sector restrictions, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses.

The government is also assisting consumers who are considering participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

4. Improving Sector Efficiency and Modernizing Ontario's Electricity Market

- Ontario currently has a robust supply of electricity and is in a good position to improve efficiency, increase transparency, and enhance opportunities for innovation and competition to reduce system costs.

- Under Ontario's Fair Hydro Plan, the government is continuing to look for opportunities to improve sector efficiency and reduce system costs. This includes:

- Working with the Ontario Energy Board (OEB) to:

  - Encourage shared partnerships on services between utilities, which would help reduce costs and encourage further innovation for small to medium-sized utilities;
  - Review business cases behind its regulatory requirements to reduce red tape and eliminate costs that LDCs indicate are creating pressures on operating expenses; and
  - Look at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

- Continuing to support IESO's Market Renewal initiative, including projects such as:

  - Moving to technology neutral procurements through a capacity market will provide new opportunities for innovation and modernization and ensure ratepayers receive the best prices possible;
  - Moving to a single-schedule energy market (from the current two-schedule market);
  - More frequent intertie scheduling to better align with other jurisdictions and maximize existing assets; and
  - Implementing a day-ahead market.

  - Market Renewal will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost.

    - The project is expected to save up to $5.2 billion over a 10-year period, and forms a key component of Ontario's plan to bring down the cost of electricity in the province.

2. New Regulated Price Plan Rates – July 1, 2017

- The Ontario Energy Board (OEB) sets Regulated Price Plan (RPP) prices every 6 months based on projected supply cost so Ontarians know what to expect.

- On May 1, 2017, the OEB set provisionial RPP prices to reflect the partial implementation of Ontario's Fair Hydro Plan pending the passage of enabling legislation.

  - Prices decreased from the rates set on November 1, 2016.

  - The total bill for an average residential customer became about $127, which was about $26 or 17 per cent lower than it would have been without the initiatives that are part of Ontario's Fair Hydro Plan.

- The decrease was a result of the 8 per cent rebate, the shifting of funding for support programs from electricity bills to provincial revenues, and the Ontario Energy Board (OEB)'s decision to implement 50 per cent of the value of GA refinancing.

- As a result of the *Fair Hydro Act, 2017* achieving Royal Assent on June 1st, 2017 the OEB updated RPP prices again to reflect the full benefit of GA refinancing. The update increased savings on residential bills from 17 to 25 per cent, or $41, on average relative to what they would have been without the initiatives that are part of Ontario's Fair Hydro Plan.

- The OEB also determined the GA Modifier to be applied to the bills of customers who are eligible for GA refinancing but are not customers of the RPP.
  - Electricity vendors will be expected to ensure the adjustment is reflected on their customers' bills as soon as possible, and to make retroactive payments where necessary.

Table 1: **GA Modifier and Changes to Time of Use Prices**

Category	Times	Forecast TOU prices without consideration of OFHP	TOU prices effective July 1, 2017	Change from forecast
Off-peak	Weekdays 7pm-7am All day weekends and holidays	9.1¢/kWh	6.5 ¢/kWh	-29%
Mid-peak	Weekdays 11am-5pm	13.3 ¢/kWh	9.5 ¢/kWh	-29%
On-Peak	Weekdays 7pm-11am and 5pm-7pm	18.5 ¢/kWh	13.2 ¢/kWh	-29%
GA Modifier per MWh	$-32.90			

Table 2: **Changes to Tiered Prices**

Price tiers	Forecast tiered prices without consideration of OFHP	Tiered prices effective July 1, 2017	Change from forecast
Tier 1	10.7 ¢/kWh	7.7 ¢/kWh	-28%
Tier 2	12.5 ¢/kWh	9.0 ¢/kWh	-28%

3. The Legislation

- The *Ontario Fair Hydro Act, 2017* received Royal Assent on June 1, 2017.

- The *Fair Hydro Act, 2017* enables the lowering of electricity bills by 25 per cent on average for all residential consumers. As many as half a million small businesses and farms are also benefitting. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- In crafting the *Fair Hydro Act, 2017* the governmentconsulted broadly, including with:
  - Ontario's energy agencies;

  - Experts across government;
  - External accounting experts;
  - External legal advisors;
  - Financial Advisors; and
  - Local Distribution Companies (LDCs).

- The legislation delivers on the government's commitment to fairness. Electricity rates are coming down and making life more affordable for families and businesses across the province.

- The legislation:

  - Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This is being accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.

  - Modifies the Ontario Electricity Support Program (OESP) to ensure it is funded by government instead of ratepayers, reducing bills for all.

  - Broadens rate protection to provide distribution charge relief to additional customers served by Local Distribution Companies (LDCs) with some of the highest distribution rates.

  - Provides on-reserve First Nations households with a 100 per cent credit of the delivery line on their monthly electricity bills, effective July 1, 2017.

- A number of supporting regulations to enable implementation of OFHP are in effect, including:

  - Ontario Regulation 195/17 made under Part II of the Ontario Fair Hydro Plan Act, 2017 (OFHPA), to support the required calculations related to the refinancing of GA;

  - Ontario Regulation 206/17 under the OFHPA that provides further detail on the roles and responsibilities of the Financial Services Manager (i.e. Ontario Power Generation), the Independent Electricity System Operator (IESO) and Ontario Energy Board (OEB) under the OFHPA.

  - New regulations under the OFHPA and the Ontario Energy Board Act, 1998 (OEBA) and amendments to existing regulations under the OEBA and ORECA to support implementation and clarify program details of the social programs, as well as support transparency and communication of the changes made under the OFHP.

  - Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) made under the Electricity Act, 1998.