

THE IMPACT OF ONTARIO FAIR HYDRO PLAN ON NET METERING

ISSUE:

Solar industry stakeholders have raised concerns regarding the impact of the Ontario Fair Hydro Plan (OFHP) on net metering uptake.

SUGGESTED RESPONSE:

Overview of the Ontario Fair Hydro Plan

- Ontario's Fair Hydro Plan proposes new measures to lower electricity bills for many consumers across the province. This includes a number of initiatives, such as the refinancing of a portion of Global Adjustment (GA).
- Refinancing a portion of GA provide significant and immediate rate relief to residential consumers, farms, long-term care homes, condominiums and many small businesses.

Impact of the Ontario Fair Hydro Plan on the Net Metering Business Case

- The ministry has modelled a range of potential net metering project configurations in order to assess the net metering business case.
 - The analysis suggests that in the near-term, most configurations would not yield positive returns, but over time the business case for net metering improves due to the decreasing installed cost (\$/W) of solar PV systems.
- As net metering uptake is already limited in Ontario due to the above-noted expected returns over the life of a project, it is unlikely that the OFHP will further impede market-driven uptake.
 - Lowering the volumetric price of electricity will reduce customer bill credits (i.e. the revenue customers earn from generation to cover installation costs), meaning the OFHP will decrease the value proposition of a net metering system to a residential customer.
 - However, based on ministry analysis, the OFHP will not fundamentally change annual expected uptake, as commodity prices are already insufficient to incent substantial uptake.

Climate Change Action Plan

- The Climate Change Action Plan includes commitments to help homeowners purchase and install low-carbon energy technologies, including solar energy generation systems.

OEB Move to Fixed Distribution Charges

- In April 2015, the OEB released its policy on a new electricity distribution rate design for residential customers. This design is moving from a two-part charge (fixed and variable based on usage) to a fully fixed charge. This change is to be implemented over four years, beginning in 2016.
- The benefit of the fixed monthly charge provides a "known rate" for the consumer and provides stability to the distributor on revenues required to provide the delivery of electricity, and make necessary investments when needed.
- The OEB estimates that close to 60% of customers will not see a significant change in the price of their bill.

- Customers with above-average consumption will see a decrease in bills due to the move to fixed distribution rates (i.e. \$8.47/month for 1500 kWh/month average consumption), and customers with below-average consumption will see a increase in bills (i.e. \$2.41/month for 600 kWh of monthly consumption).
- Fixed distribution charges also ensures revenue certainty to distributors as the price of solar PV systems declines and more customers potentially install residential systems.
 - Continued variable distribution charges would erode distributor revenues, and require fixed costs to be spread out over fewer non-net metered customers.
- Under the fixed distribution rates, self-consumption by net metering customers has the potential to reduce average monthly consumption which would consequently increase residential bills; however, it is unlikely that the potential increase in bills will be high enough to undermine the net metering business case.
 - Once distribution rates are fully fixed, they will be a set charge each month and net metering consumers will not be able to reduce such cost through their generation.

Distributed Generation Opportunities

- Analysis conducted by the IESO in December 2015 on the value-of-solar tariff (VOST) in Ontario indicates that while solar PV and other distributed resources may provide additional value to the grid (i.e. some level of local value incremental to provincial value) based on siting, these opportunities are limited.
 - The IESO estimated that a VOST would be below retail rates in most areas of the province, which led ENERGY to conclude that retail rate compensation is the most appropriate mechanism to support the transition from microFIT/FIT to net metering.
- Further opportunities for net metering will depending on the generation potential of individual projects, including location, citing, panel efficiency, and household consumption.

Net Metering Regulatory Updates

- The ministry is currently taking steps to amend the Net Metering Regulation (O.Reg. 541/05). The first phase of updates to the regulation which will be implemented by July 1, 2017 include:
 - Clarifying the carryover period for bill credits at a consecutive 12 month period;
 - Removing the 500 kilowatt (kW) project capacity size limit to allow for any sized renewable energy generation system, subject to the system being used primarily for the generator's own use; and
 - Allowing for the use of energy storage and its recognition for the purposes of net metering.

The ministry is also currently examining additional program updates related to third-party ownership of net metering facilities and inclusion of virtual net metering models in Ontario's net metering program, including engaging with stakeholders and Indigenous groups to help inform potential additional updates.

BACKGROUND:

- Net-metering is a billing arrangement which allows customers to generate renewable energy onsite for their own use, and to receive bill credits that can be carried forward for any surplus electricity they send to the grid.
- Refinancing a portion of GA would provide 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 would be refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing would be recovered from ratepayers.

- In a March 3, 2017 press release, CanSIA stated that the changes proposed in the OFHP will adversely impact solar PV net metering economics and make it more difficult to incent uptake.
 - The 25% reduction in residential electricity customer bills proposed under Ontario's Fair Hydro Plan will impact several volumetric items on the bill. This portion of the bill is where savings are derived (through bill credits) by customers with net metering systems.
 - By refinancing the GA, the OFHP would reduce the per kWh charge and result in an increased payback period for a net metering customer due to the decrease in annual revenue which is required to recover capital and fixed operating costs associated with system installation.
- A constituent of MPP Chris Ballard (rep. Newmarket-Aurora) has brought forward suggestions to changes to the OFHP which address the concern that introducing measures which impact the variable portion of the bill de-incentivizes net metering installations. These suggestions are as follows:
 - Offer an incentive for net metering uptake through tax relief on the purchase of a net metering system, installation grants, or a system value adder;
 - Liberalize net metering policy;
 - Approve net metered solar as a Conservation and Demand Management; and
 - Provide a subsidy to low-income and rural customers to install net metering systems.