BACKGROUNDER

Ministry of Energy

Ontario's Fair Hydro Act, 2017

The Fair Hydro Act, 2017 would, if passed, lower electricity bills by 25 per cent on average for all residential consumers and as many as half a million small businesses and farms. 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.

The 25 Per Cent Average Reduction

Measures that make up the 25 per cent average reduction include:

- Refinancing a portion of the Global Adjustment (GA) – this would provide significant and immediate rate relief by spreading the cost of Ontario's electricity investments over the expected lifecycle of the generation infrastructure assets.

- Shifting the cost of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP) program from ratepayers to provincial revenues.

- The eight per cent rebate equal to the provincial portion of the HST that took effect on January 1, 2017.

In crafting the Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies
- Experts across government
- External accounting experts
- External legal advisors
- Potential investors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Refinancing the Global Adjustment

Recent investments in electricity infrastructure will create benefits for years to come. For example, the majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA would be refinanced. Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over time.

Initial analysis indicates that the accumulated debt will not exceed $28 billion, including interest.

Commented [TC1]: $28b was the maximum debt figure, which has been used publicly. $25b was the total interest cost, which has also been used publicly. Both figures have since been revised downwards.

Increases Held To Inflation

The Fair Hydro Act, 2017, would allow future increases to hydro bills to be set by regulation. This enables the government's commitment to hold increases, for four years, to the rate of inflation. By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

Clean Energy Adjustment

In the early years, it is intended that a portion of the costs covered by the GA would be refinanced to lower hydro bills for today's electricity ratepayers. In later years, the cost of refinancing would be recovered through adjustments to consumer hydro bills called a Clean Energy Adjustment. Clean Energy Adjustments would appear on bills when consumers start to repay the borrowed amount. Initial analysis indicates that this is currently anticipated to occur in the mid-to-late 2020s.

Provincial Guarantees

The Province would provide guarantees to investors to protect investors from risks that cannot otherwise be mitigated. For example, guarantees will address the risk to investors that future governments may undermine their investment by impairing the recovery of Clean Energy Adjustments.

The Ontario Energy Board (OEB) would continue its role as regulator for the electricity sector. In particular, it would continue to set commodity rates for Regulated Price Plan (RPP) consumers, including any cost reductions under the Fair Hydro Act, 2017.

New and Enhanced Social Programs

In addition, the Fair Hydro Act, 2017 would shift the costs of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection program (RRRP) from ratepayers to provincial revenues. These programs, along with the creation of the First Nations On-Reserve Delivery Credit and Affordability Fund, will cost the province $2.5 billion over the next three years.

Broadening Distribution Rate Protection

- RRRP program provides a rate subsidy to rural and remote residential customers who face higher distribution costs.

- About 800,000 customers would benefit from the new broadened distribution rate protection program. Customers of LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma. The benefits would differ from LDC to LDC.

Expanding the OESP

- The OESP is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers, providing a rebate directly on bills. There are two scales: one with basic credits, and an enhanced credit for Indigenous people or those who use electric heat or certain electrically intensive medical devices.

- Effective May 1, 2017, Ontario increased the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from $30 to $45 per month ($540 per year, an increase of $180), and single, low-income consumers who qualify for the enhanced scale would see an increase from $45 to $68 ($816 per year, an increase of $276).

Providing a First Nations On-Reserve Delivery Credit

- In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network.

- As a result of recommendations from the OEB, the Government plans to eliminate the delivery charge for all on-reserve First Nations residential customers and remove the monthly service charge for customers of licensed distributors which charge a bundled rate.

The Fair Hydro Act, 2017 would, if passed, enable the above initiatives. In addition, an Affordability Fund has been established. No legislative amendments were required for this fund.

Establishing an Affordability Fund

- Ontario has established an Affordability Fund that will provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

- The Province is paying for the Affordability Fund through provincial revenues.

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