

Ontario's Fair Hydro Plan – Providing Relief for Consumers

Technical Briefing
Ontario Ministry of Energy

March 1, 2017

Working Draft

Outline of Technical Briefing

1. Introduction
2. Overview of Ontario's Electricity Market
3. Ontario's Fair Hydro Plan – Providing Relief for Consumers
4. Questions

Ontario's Fair Hydro Plan

Introduction

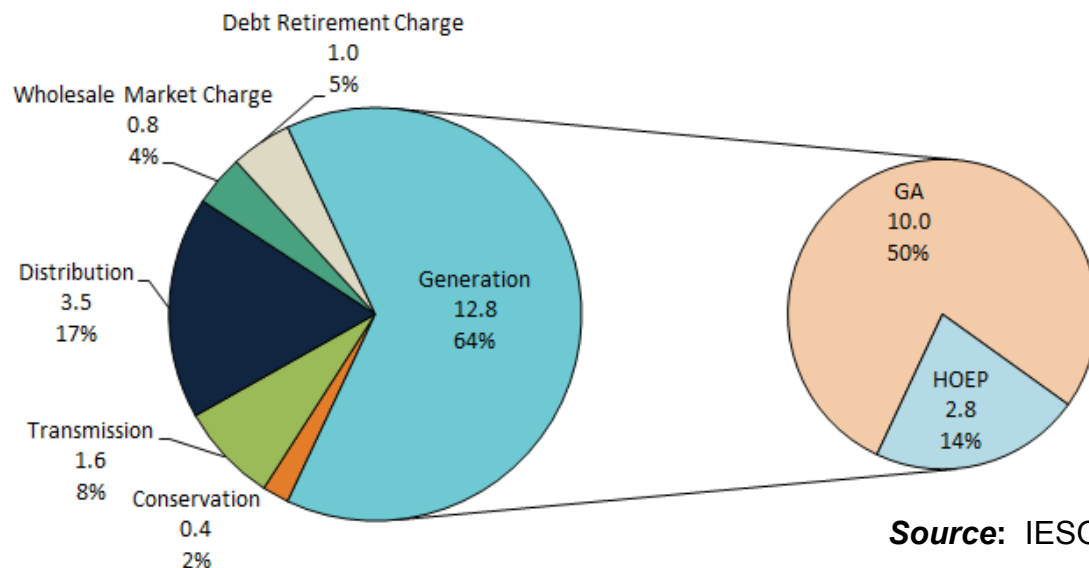
- Ontario's Fair Hydro Plan would lower electricity rates by 25% for a typical residential consumer, and for the next four years, keep increases limited to the rate of inflation only. This would be accomplished by:
 1. Funding some support programs from provincial revenues instead of from electricity consumers.
 2. Refinancing investments in generation to ensure that system costs are more equitably distributed over time.

1. Refinancing Global Adjustment

Ontario's Electricity Market

- In 2015, generation accounted for 64% of total electricity system costs. Total system costs in 2015 were \$20 billion.
- Electricity generators in Ontario received contracted or regulated rates, which are designed to recover the cost of building and operating generation facilities.
 - The Hourly Ontario Energy Price (HOEP) is the hour-by-hour market clearing price that reflects the short-term cost of producing power.
 - The Global Adjustment (GA) recovers the long-term fixed costs of operating the province's generation fleet, including capital costs, as well as the cost of conservation programs.

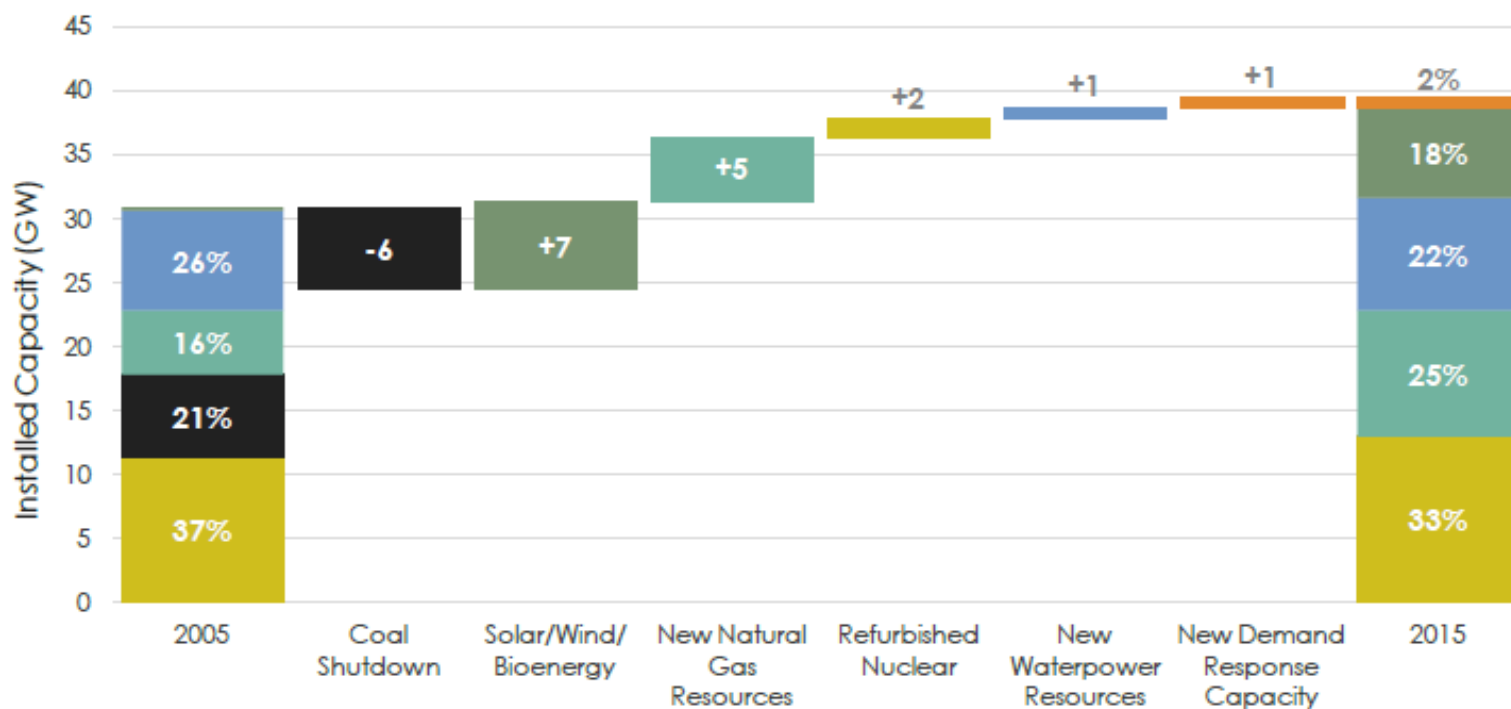
2015 Electricity System Cost \$ billion



Source: IESO

Significant Change in Supply Mix

- Between 2005 and 2015, government invested more than \$50 billion in the electricity system, including \$35 billion in electricity generation to restore reliability, replace coal and meet environmental objectives.
 - Electricity costs are increasing as necessary investments are made to decarbonize and modernize the province's electricity infrastructure.



Source: IESO

Policy Rationale

- The majority of the province's electricity generators are under 20-year contracts. Many of these generators will be able to operate past their contract term.
- By recognizing that generation assets are expected to continue to provide benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.
- In the early years, a portion of the costs covered by the GA would be financed to reduce pressure on electricity ratepayers.
- In the later years, when some system costs are expected to be reduced due to continued operation of existing assets under 20-year contracts, the cost of financing would be recovered from ratepayers.

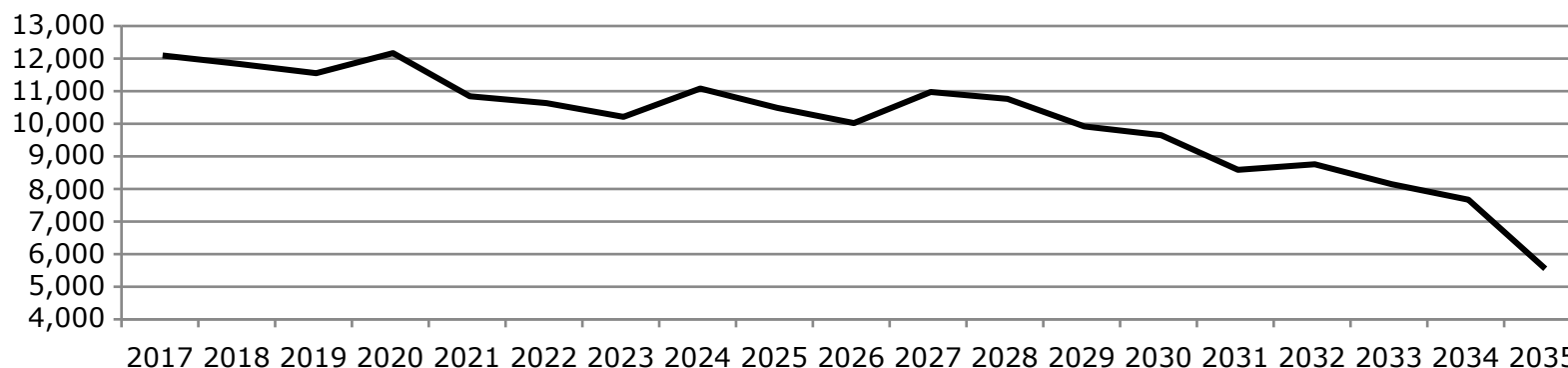
"The amount consumers pay today could be reduced by stretching capital amortization periods to match the expected productive lives of the assets. In this way, the costs of generation charged to households would more closely reflect the true economic costs of the assets."

Globe and Mail Op-Ed (February 28, 2017) – Ivey Business School

Refinancing the Global Adjustment

- Refinancing the Global Adjustment (GA) would provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period of time.
 - A typical Toronto Hydro consumer, using 750 kWh per month, would see an immediate savings of 25% when combined with other rate mitigation measures. Rates would follow inflation for 4 years, before increasing to repay financed GA costs.
- Under current forecasts, the immediate reduction (i.e., the financed portion) in the GA would be about \$2.5 billion per year on average over the first ten years, for a total accumulated debt of about \$28 billion on a forecast basis.
- This measure would share the associated costs more fairly. The chart below shows how Global Adjustment (GA) cost is forecast to decline over time.

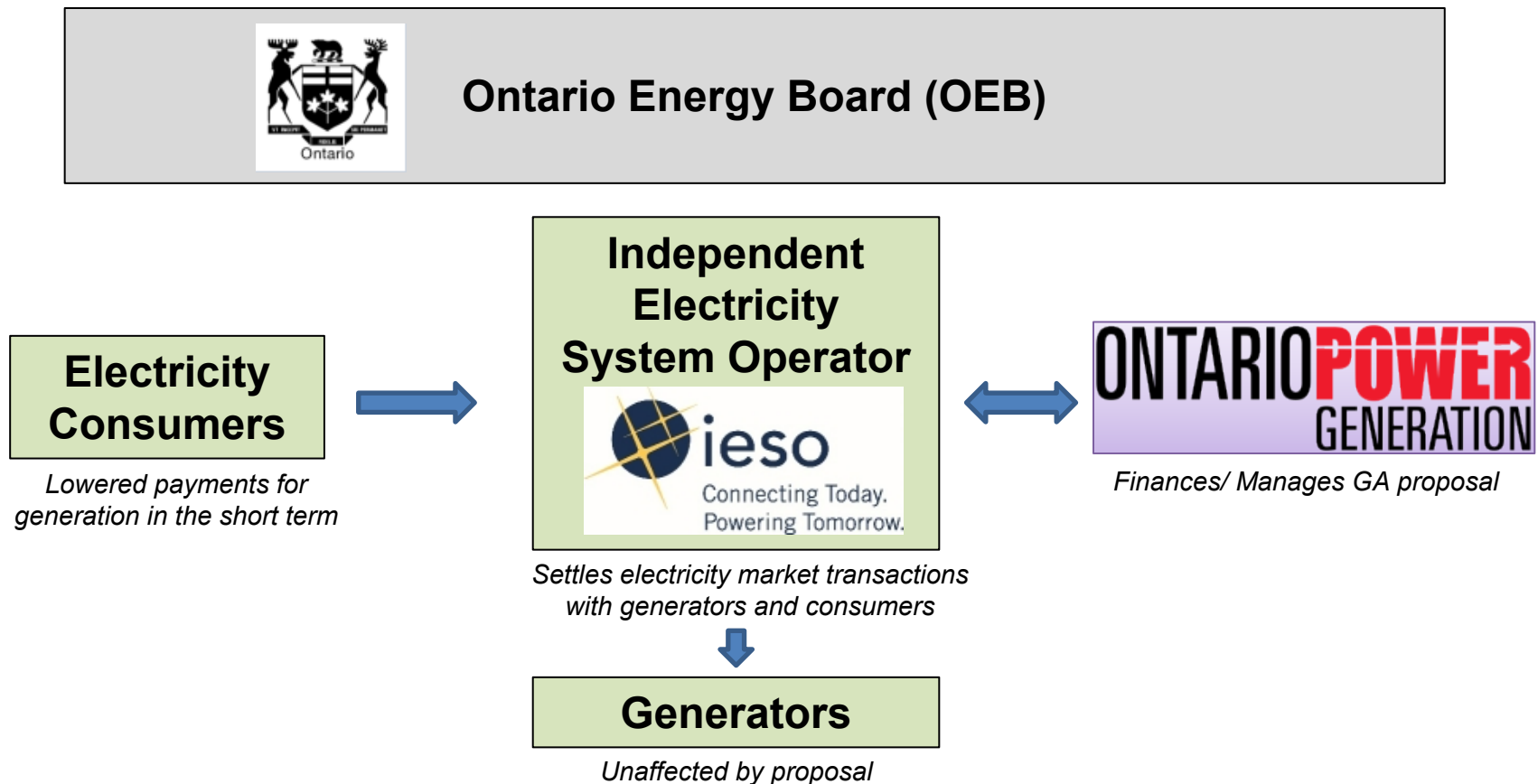
Forecast Global Adjustment Cost (nominal \$ million)



Source: IESO

Implementation

- The following entities would implement the proposed Global Adjustment (GA) refinancing mechanism.
 - The government intends to introduce legislation that would, if passed, enable IESO and OPG to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the OEB, as it relates to the financing proposal.



2. Helping Vulnerable Consumers

Helping Vulnerable Electricity Consumers

- Initiatives to help vulnerable consumers:
 - Broadening Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief for the customers of the costliest local distribution companies (LDCs).
 - Enhancing the Ontario Electricity Support Program (OESP) and working to ensure the program uptake is as close as possible to 100%.
 - Establishing a new First Nations On-Reserve Delivery Credit.
 - Establishing a new Affordability Fund which would support Ontarians who have difficulty paying their electricity bills to be able to access energy efficiency improvements.

Impacts of New Initiatives

RRRP

- The new benefits would vary from LDC to LDC. For example:
 - A Hydro One R2 customer consuming 2,500kWh a month would see distribution cost reductions of around \$75 a month.
 - A Hydro One R1 customer consuming 1,000kWh a month would see distribution cost reductions of around \$18 a month.
 - An InnPower customer consuming 1,000kWh a month would see distribution cost reductions of around \$12 a month.

OESP

- The OESP would be enhanced by increasing credits by 50%, expanded to cover more low-income Ontarians, and increasing uptake to as close to 100% as possible.

First Nations On-Reserve Delivery Credit

- The delivery charge would be eliminated for all on-reserve First Nations households. The OEB estimates this would provide residential customers an average monthly benefit of \$85.

Affordability Fund

- The Affordability Fund would provide LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to low income customers for energy efficiency improvements to help reduce their future electricity bills.

3. Enhancing Competitiveness for Small Manufacturers and Industrials

Enhancing Competitiveness for Small Manufacturers and Industrials

- Expanding the eligibility threshold for Industrial Conservation Initiative (ICI) would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand. The expanded ICI would include
 - Extending eligibility to small manufacturers and industrials with average monthly peak demand over 500 kilowatts; and
 - Targeting eligibility to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).
- Under the expanded ICI, small manufacturers and industrials whose electricity demand is currently too low to qualify for ICI, would now be eligible for the expanded ICI if they wish to participate.
- Small manufacturers would also benefit from funding social programs through provincial revenues.
- In addition, the Ministry would assist small manufacturers and industrials' participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

4. Market Efficiencies / Bending the Cost Curve

Improving Electricity Sector Efficiency

The Ontario Energy Board (OEB)

- The OEB would identify opportunities for cost efficiencies by:
 - Encouraging shared partnerships on services between utilities, which will help reduce costs and encourage further innovation for small to medium sized utilities;
 - Reviewing regulatory requirements to reduce “red tape” and eliminate unnecessary costs on LDCs; and
 - Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

Independent Electricity System Operator

- The IESO and stakeholders have begun a Market Renewal Project that is intended to enhance the efficiency and performance of the wholesale electricity market.
- Changes related to IESO’s Market Renewal initiatives are estimated to save at least \$200 million per year, starting in 2021.

2017 Long-Term Energy Plan

- The Ministry of Energy is developing the next Long-Term Energy Plan (LTEP) after receiving feedback from the public, stakeholders and indigenous communities during the engagement process that took place from October to January 2017.
- The LTEP process is designed to be iterative and flexible and only commit resources as demand needs become clearer.
- The Ministry of Energy anticipates that the next LTEP will be published in spring 2017.

