

Ontario's Fair Hydro Plan – Update

Working Draft

June 2017

CONFIDENTIAL DRAFT

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP), which proposes new measures to lower electricity bills by 25 per cent on average for all residential electricity customers, as well as initiatives to reduce costs for low-income consumers, First Nations and small manufacturers.
- The Ministry of Energy worked with a number of ministries (i.e., MOF, TBS/OPCD, MAG and CO), energy agencies (i.e., OPG, OEB and IESO), external advisors and local distribution companies (LDCs) on the development of legislation, regulations and ongoing implementation.
 - On April 10, Ontario expanded the Industrial Conservation Initiative (ICI) to include manufacturers and greenhouses with peak demand from 1 MW to 500 kW.
 - On June 1, the *Fair Hydro Act, 2017* (FHA) received Royal Assent.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - Establishing an Affordability Fund.

1) Global Adjustment (GA) Refinancing

- Ongoing work with energy agencies (i.e., OPG, OEB and IESO), ministries (i.e., MOF and TBS/OPCD) and external advisors.
- Key deliverables include:
 - Supporting regulations such as:
 - A new regulation under Part II of the FHA to set out the methodology that the OEB would use to make determinations related to OFHP;
 - Amendments to O. Reg. 280/14 to provide IESO with the necessary authority related to its OFHP activities including the funding, borrowing and contemplated financial agreements; and
 - A new general regulation under the FHA to provide for the implementation of the roles and responsibilities of OPG and IESO;
 - Financing (e.g., creation of a OFA-IESO line of credit; equity injection structures; OPG Special Purpose Vehicle (SPV)/Trust rating agency review and 3rd party lender market sounding (e.g., cost/term, etc).
 - Accounting opinions from E&Y (OPG) and KPMG (IESO); and
 - Third-party technical report regarding Long Lived Assets.

Status / Next Steps

- Legislation was passed on June 1; regulations have been developed for Treasury Board on June 13 / 27 and Cabinet on June 14 / 27.
- Full reduction related to OFHP for regulated consumers would be determined by the OEB for rates that come into effect on July 1.
- Third-party technical report is expected to be completed in June 2017.
- Continue with implementing necessary financing elements to achieve milestones such as the sale of the Regulatory Asset by IESO to OPG SPV/Trust by mid-September and sale of the Investment Asset by OPG SPV/Trust on the market to investors by the end of October 2017.

2) Social Programs – Regulations

- On June 1, 2017, Bill 132, Fair Hydro Act, 2017, (FHA) received Royal Assent. In order to support the social programs under the FHA The Ministry of Energy is bringing forward proposed amendments and new regulations that are needed to implement the Fair Hydro Plan, as enacted under the FHA.
 1. **Creating a new Regulation (First Nation Delivery Credit)** made under the Ontario Energy Board Act, 1998 to enable the provision of a First Nations Delivery Credit.
 2. **Creating a new Regulation (Distribution Rate Protection)** made under the Ontario Energy Board Act, 1998 to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amending O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the Ontario Energy Board Act, 1998 to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Creating a new Invoicing Regulation** made under the Ontario Fair Hydro Plan Act, 2017 to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amending O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the Ontario Energy Board Act, 1998 to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amending the O. Reg 363/16 (General)** under the Ontario Rebate for Electricity Consumers Act, 2016 (ORECA) to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
- A regulation to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program will track at a later date.

2) First Nations Delivery Credit Regulation – Identification of Eligible Customers

- The central piece of the FNDC regulation surrounds the eligibility criteria.
- The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent.
- The definition of key terms, such as, “reserve”, “member of a band” are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status. All LDCs have indicated that these customers will automatically begin receiving FNDC as of July 1st.
- However, based on information provided to ENERGY, different LDCs rely upon different processes to recognize First Nation’s status, these include;
 - Hydro One, Cat Lake and Hydro One Remotes all require customers to fill out a Declaration Form which includes a requirement to include their status ID number,
 - James Bay First Nations LDCs work with band councils to identify customers who are HST exempt,
 - Algoma, Thunder Bay and PUC all require customers to show their status ID cards in order to receive the HST exemption, and
 - Cornwall automatically enrolls all of their on-reserve customers as HST exempt.

2) First Nations Delivery Credit (Cont'd)

Status / Next Steps

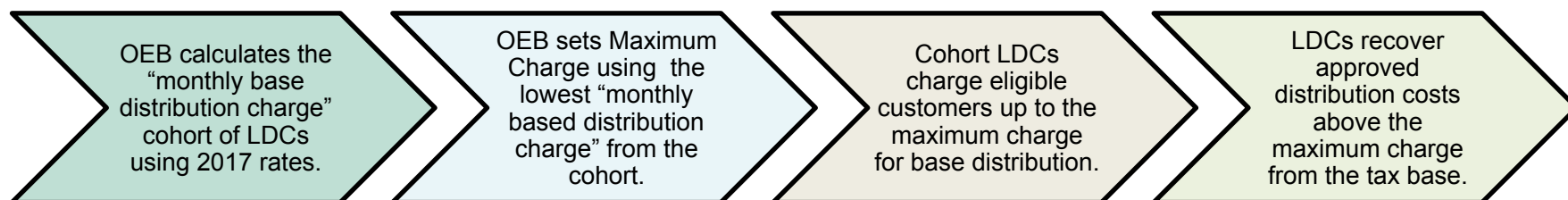
- The Ministry of Energy, in collaboration with the Chiefs of Ontario, have crafted the policy in a manner which best reflects the needs and wishes of Ontario's many varied indigenous communities.

Communications Strategy

- FNDC Postcard
 - COO has reviewed draft Postcard
 - Ministry targeting end of June for production of the Postcard and distribution soon thereafter
- Chiefs of Ontario Communiqué
 - COO has developed a Communiqué to send out to all First Nation Chiefs to encourage them to make sure their members are receiving the HST exemption from their LDC
 - COO will finalize the Communiqué and release in June.
- Hydro One
 - Hydro One is undertaking approaches to inform its First Nation customer base about the FNDC and prepare for the increased activity of signing First Nation customers up for the HST exemption.

2) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they will be in position to begin providing distribution rate protection as of July 1st, 2017 so long as they receive the maximum monthly base distribution charge from the OEB at least a week in advance.
- The OEB determines the maximum monthly base distribution charge using criteria outlined in the new regulation. The current projection for the initial maximum charge is \$36.43/month. Following the approval of the regulation by Cabinet, the OEB would release this decision on June 22, 2017. The maximum charge would be updated at least once annually going forward.



- At the same time, the OEB will revise the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. It is expected that the RRRP charge will drop from ~\$1.60/month for the average customer to ~\$0.30

2) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave MCSS and the OEB authority to share personal information.
- This authority is required to align OESP delivery with other social assistance programs and automate OESP enrolment, in a way that meets privacy requirements under FIPPA.
- Amendments to the OESP regulation are now needed to:
 - Ensure that all persons deemed eligible for social assistance under Ontario Works (OW) or the Ontario Disability Support Program (ODSP) are also eligible for the OESP; and
 - Ensure that the way MCSS determines eligibility is sufficient for OESP.

Status / Next Steps

- ENERGY continues to work with MCSS and OEB to agree on appropriate language. Key dates:
 - LRC – June 27.
 - Regulation Effective Date – July 1.
 - MCSS Implementation Begins – August / September.

3) Affordability Fund

- The new Affordability Fund is intended to provide energy efficiency measures to electricity customers who are not eligible for low-income conservation programs and who otherwise would be unable to make energy efficiency improvements without financial assistance.
- The Fund, established through the tax base, will be administered by an independent Trust and accessible to electricity distributors.
- Eligible customers will be identified by electricity distributors. It is expected that priority will be given to homes primarily heated by electricity.
 - The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake.
 - It is expected that the program will assist eligible electricity customers by providing measures ranging on average from \$3,000 to \$5,000 per customer at no or minimal costs.
- Distributor-led, highly targeted marketing of the Fund is recommended, as opposed to broad-based marketing, to enable distributors to target customers who are in need of assistance.

Status / Next Steps

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement with Computershare, who will act as the Original Trustee, to flow \$100M to the Affordability Fund Trust.
- The Original Trustee will be replaced with a Board of Trustees, who will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria established by the Trust. It is expected that the Trust will include representation from three electricity distributors, two social service agencies and one (non-voting) government representative.
- Through the Declaration of the Trust, an Advisory Committee of senior executives was established to provide recommendations to the Original Trustee on the Board of Trustees. Advisory Committee members include Brian Bentz (Alectra Utilities), Bryce Conrad (Hydro Ottawa), Robert Mace (Thunder Bay Hydro), Ferio Pugliese (Hydro One) and Terry Young (IESO).

3) Affordability Fund (cont'd)

Status / Next Steps

- **June 2017:** Advisory Committee has developed recommendations for the Board of Trustees (awaiting formal confirmation from one Trustee). Advisory Committee to submit recommendations to the Original Trustee; Original Trustee to appoint Board of Trustees. First meeting of the Board of Trustees has been proposed for June 21st.
- **Summer 2017:** Funding criteria and processes to be designed and finalized, including engagement with distributors.
- **Late Summer 2017:** Estimated timeline for electricity distributors to begin applying to the Trust for funds
- **Fall 2017 (TBC):** ENERGY to report back to TB/MBC with final program details and a performance management framework including outcome measures and targets

4) Industrial Conservation Initiative (ICI)

- ICI is currently available to electricity consumers and market participants with an average monthly peak demand greater than 1 MW.
- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow eligible electricity consumers/market participants in the manufacturing sector and greenhouses with an average monthly peak demand of greater than 500 kW and less than 1 MW to participate.

Status / Next Steps

- On March 9, 2017, the Ministry posted the proposal to expand ICI on the Regulatory Registry. Comments were due April 8, 2017.
- The regulatory amendments were approved by LRC on April 10, 2017.
- Newly eligible consumers must opt-in with their LDC by June 15 to participate in ICI for the billing cycle beginning July 1.

5) OFHP Billing Requirements

- The Ministry is proposing to amend existing regulations and introduce new ones related to electricity invoicing to help explain OFHP initiatives and savings to consumers. These amendments and new regulations would:
 - Remove outdated informational messaging from invoices (i.e., 8% provincial rebate, DRC);
 - Introduce new messaging requirements for invoices to help explain OFHP bill impacts (i.e., OFHP on-bill messaging, bill inserts); and
 - In advance of these new requirements, the Ministry has removed outdated “8% provincial rebate” messaging from invoices and envelopes under O. Reg. 364/16, and proposed to remove on-bill DRC messaging under O. Reg. 275/04 as of July 1, 2017.
 - LDCs are in favour of this regulatory “clean-up”, as it will free-up space on invoices to include new messaging related to OFHP and reduce potential confusion amongst consumers.
- The Ministry has also proposed a new invoicing regulation under the Fair Hydro Act, 2017 that would require electricity vendors and USMPs to:
 - Include standardized on-bill OFHP messaging as of July 1, 2017; and
 - Accompany paper invoices with a descriptive bill insert on a quarterly basis for a 12-month period, beginning with the first invoice issued on or after July 1, 2017 until the first invoice issued on or after July 1, 2018.
- The Ministry also plans to exempt Hydro One from current billing requirements under O. Reg. 275/04 as of July 1, 2017. This exemption would allow Hydro One to proceed with its planned bill redesign in late Fall 2017, and share its learnings with the Ministry.
- Some LDCs may make use of provisions to petition the Minister for minor adjustments to these requirements due to technical limitations, however there is not expected to be any delay in the July 1st timeline.

6) Engagement with Legislative Officers

- Both the Financial Accountability Officer (FAO) and the Auditor General (AG) have expressed interest in OFHP.

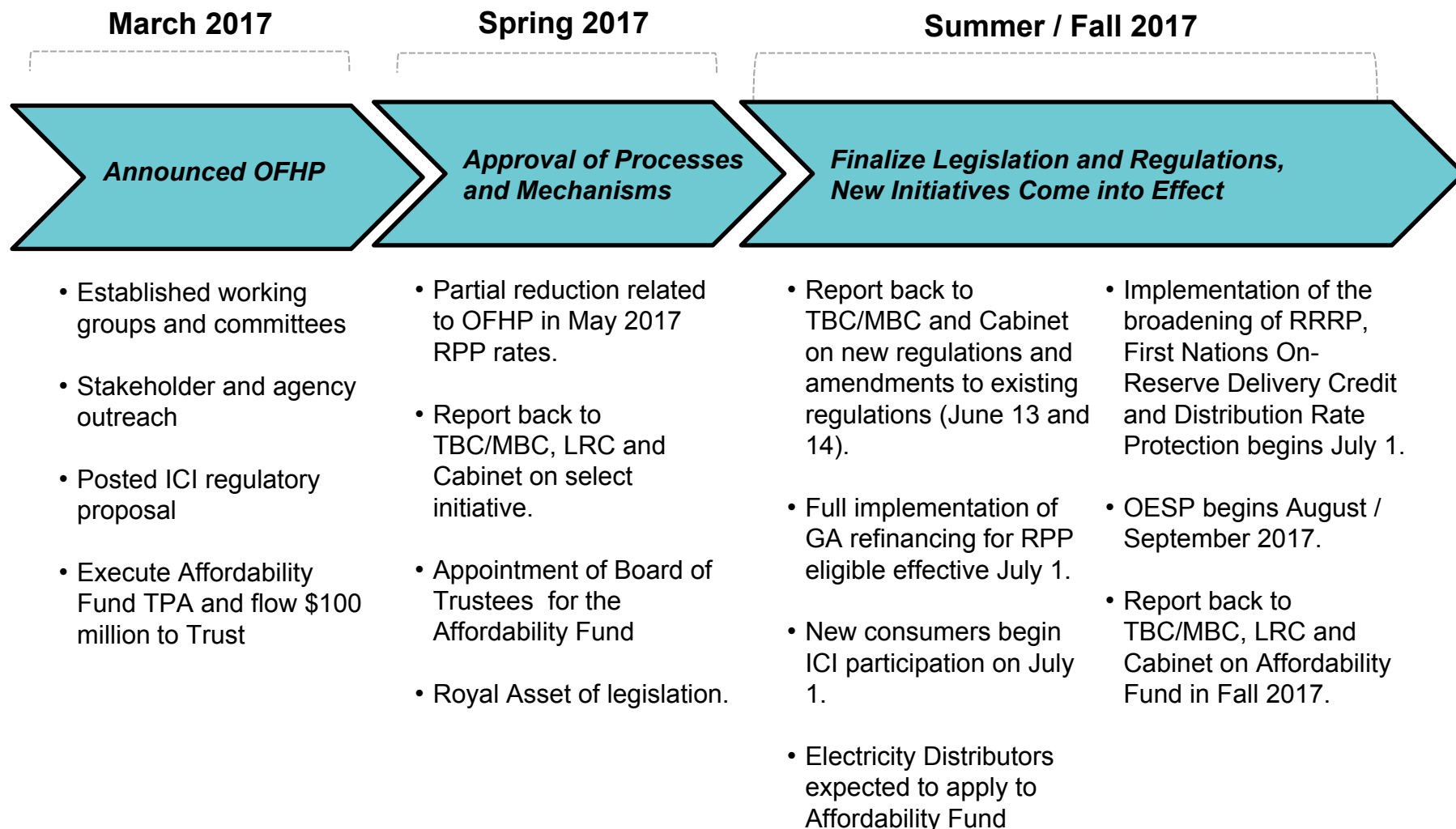
FAO

- On March 9, 2017, ENERGY and MOF provide the FAO staff with a technical briefing.
- On March 14, 2017, ENERGY and MOF received a letter requesting additional information on the OFHP.
- On May 24, 2017, the FAO released “An Assessment of the Fiscal Impact of the Province’s Fair Hydro Plan”.

AG

- On April 19, 2017, ENERGY met with AG staff.
- ENERGY staff to work with AG staff regarding requests for additional information.

Timing and Critical Milestones



Next Steps

- Ongoing work to implement OFHP with ministries, energy agencies, external advisors and LDCs.
- ENERGY to report back to TBC/MBC, LRC and Cabinet on June 13 and June 14.
- OEB is expected to communicate the RPP rates effective July 1 that achieve the full impact of GA refinancing.

Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Affordability Fund Trust - Board of Trustees

- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government

Ontario's Fair Hydro Plan Implementation

