Ontario

MINISTRY OF
ENERGY

Electricity Rate Mitigation Update

October 2016

Status Overview

- Bill 13, the *Ontario Rebate for Electricity Consumers Act, 2016*, was introduced on September 15th. It is currently at Committee Stage – public hearings were held on October 3rd and clause-by-clause considerations is scheduled for October 17th.
- In parallel with the legislative process, the Ministry is moving forward in preparation of a regulatory package to support implementation of the RRRP enhancement, ICI expansion, and the 8% rebate (if Bill 13 is passed).
  - The Regulatory Registry posting went public on September 28th, and will close on November 12th.
  - The Ministry hosted an LDC Working Group session on October 6th. Nearly 40 LDCs representatives attended in person or by phone.
  - Tracking direct to Cabinet for November 16th.
- Hydro One has filed its draft 2017 rate order with OEB, and is proposing to increase the RRRP subsidy to consumers by $27.40, in line with the proposal to increase the RRRP funding pool by $110M. This would only proceed if the regulatory amendment was passed.
- This deck provides details on the above processes and flags remaining decision points necessary to meet the targeted Cabinet date.

Background: Bill 13 – Public Hearings

- The following organizations made presentation to legislative committee on October 3rd:
    - **Ontario Chamber of Commerce:** Expressed support for ICI expansion.
    - **Canadian Federation of Independent Business:** Supported the initiatives but requested additional relief, including removal of Debt Retirement Charge and a specific electricity rate for business.
    - **Seamless Auto Care:** Noted higher bills as a result of being a Hydro One consumer as opposed to the neighbouring Hydro Ottawa territory.
    - **Ontario Federation of Agriculture:** Supported all measures and noted many of their members are Hydro One R2 customers.
    - **United Way Bruce Grey:** Supported the measures as a means to reduce the amount they provide to assist customers with their bills. Also supported the Burden Reduction Bill provisions to limit disconnection.
- The Ministry will support the Committee's consideration of the Bill during the clause-by-clause stage.

Decision Point Summary

Implementation Consideration	Issue	Recommendation
Bill Presentment	• LDCs require notification of invoice requirements by end of October in order to meet Jan 1 timeframe.	• Confirm requirements as recommended in this deck.
DRC Messaging	• LDCs request removal of DRC messaging so as to free space on invoices for 8% messaging.	• Consider and provide direction ASAP so regulatory amendments can be finalized.
Envelope Compliance Timeline	• LDCs note that due to established paper stocks they may require up to 6 months to comply with on-envelope messaging requirements.	• Provide a flexible phase-in (ex: March) in line with legislative authority.
IPA Implementation	• Only four of 10 IPAs participated in OCEB despite significant efforts to enrol all of them. The four can likely be quickly enrolled in the new rebate, but the others would take several months, if they choose to participate. Other energy interests may be higher priority (e.g. transition to provincially regulated service).	• Proceed with enrolling the four IPA communities that participated in OCEB, and consider whether to engage remaining six IPA communities.
RRRP Adjustment Mechanism	• Options to adjust the amount of RRRP funding available year-to-year vary in terms of complexity and impact to funding level.	• Consider options more in-depth next year in advance of Jan 1 2018 implementation. • If not desired, proceed with linking to Consumer Price Index.

LDC Working Group Feedback

- The Working Group provided important feedback for the Ministry to consider in the development of the Regulatory package.
- In general, LDCs indicated that implementation of the 8% rebate is possible in time for January 1, 2017, so long as bill presentment requirements are provided in the near term (ideally end of October).
- LDCs also provided information on their billing system limitations that can be incorporated into bill presentment requirements so as to limit the number of exemption requests.
- All LDCs have been directed to provide any additional remarks to the Regulatory Registry posting.

Key LDC Requests

- **DRC Messaging:** LDCs have requested that required DRC messaging be removed from bills starting January 1 so as to free up space on invoice for the new rebate messaging. Removing DRC messaging could allow for more prominent display of rebate message.

- **Customer Identification:** LDCs request that for those eligible customers that were not eligible for OCEB (ex: Long-Term Care Homes), the obligation be placed on those customers to self-identify. The rebate is an entitlement program and LDCs must develop internal controls to identify eligible customers.

- **Envelope Compliance Timeline:** Current paper stocks may not allow for compliance with on-envelope messaging requirements; potential delay of up to 6 months. The regulation would allow for certain period of time to phase messaging in (e.g. messaging in place by March)

- LDCs provided mixed feedback on applying the benefit pre- or post-application of OESP benefits. The Ministry intends to apply the benefit on post-OESP charges in order to align with HST treatment.

Bill Presentment – 8%

8% On-Invoice Messaging

- After discussion with Ministry of Finance, the Ministry is proposing "**8% Provincial Rebate**" as the required line item phrasing.
  - At the Working Group, some LDCs flagged their billing systems have a 30 character limit. The above phrasing complies and should result in fewer exemption requests.
- Suggested call-out messaging is "**Ontario is providing a rebate on your electricity costs equal to the Provincial portion of HST.**"
- LDCs can comply, but request the removal of DRC messaging to simplify bills.

8% On-Envelope & Bill Inserts

- See next slide for proposed on-envelope design. In addition to the noted timing considerations, LDCs expressed a significant cost difference between colour and black & white printing.
- See following slide for proposed bill insert messaging. LDCs have expressed a preference to include their branding and to have flexibility to explain any timing/lump sum payment requirements, while complying with broader provincial messaging.

Envelope Design and Bill Insert Mock-Up

Anytown Hydro Logo

J. Smith
1134 Fifth Street
Anytown, Ontario
A1B 1C1

Ontario is helping reduce electricity costs for families, businesses and farms

On January 1, 2017 your hydro bill got 8% lighter

Ontario's government is taking action to reduce electricity costs and will rebate an amount equal to the provincial portion of the HST on your monthly bills. That's an 8% rebate for Ontario families, and on average this will mean $130 more in your pocket each year.

This is all part of Ontario's balanced plan to build the province up and help people in their everyday lives. Across Ontario, about five million residential consumers, farms and small businesses, along with more than one thousand industrial customers will be positively impacted by expanding programs to help businesses grow and compete.

[***LDC name***] will implement these savings onto your bill by July 1, 2017. Applicable savings will be retroactive to January 1, 2017.

To learn more visit Ontario.ca/energy

Bill Mock-Up

SAMPLE MONTHLY BILL STATEMENT

Anytown Hydro-Electric Limited

Account Number:
000 000 000 000 0000

Meter Number:
00000000

Your Electricity Charges	
Electricity	
Off-Peak @ 8.700 ¢/kWh	41.20
Mid-Peak @ 13.200 ¢/kWh	16.35
On-Peak @ 18.00 ¢/kWh	23.60
Delivery	53.07
Regulatory Charges	4.79
Debt Retirement Charge	0.00
Total Electricity Charges	**$139.00**
HST	18.07
8% Provincial Rebate	(11.12)
Total Amount	**$145.95**

Bill Presentment - RRRP

- The proposed on-invoice messaging for RRRP is "**Your bill has been reduced by Rural or Remote Rate Protection by the amount of $X**." Hydro One has indicated it can comply with this phrasing.
- Hydro One has indicated it is not possible to place this messaging in-between the Delivery and Regulatory lines of the bill. The line item portion of the bill is reserved for calculations.
- However Hydro One has proposed inserting an asterisk(*) following the word "Delivery" on the Delivery line, connected to a new line of messaging below the calculations. Hydro One is seeking Ministry comfort with this approach. LSB is confirming same with Office of Legislative Counsel.
- As discussed previously, Hydro One cannot target any specific on-envelope messaging to R2 customers due to a lack of control over its envelope inventory. However it can provide specific bill insert messaging as may be required by Regulation.
- The Ministry is proposing the language on the next slide as the required bill insert messaging.

Proposed RRRP Bill Insert Messaging

On January 1, 2017 your hydro bill got lighter

Ontario’s government is taking action to reduce electricity costs and will rebate an amount equal to the provincial portion of the HST on your monthly bills. Additional changes are providing eligible rural ratepayers with additional relief, increasing RRRP by $27.40/month for 2017, for a total support of $58.90/month.

This is all part of Ontario’s balanced plan to build the province up and help people in their everyday lives. Across Ontario, about five million residential consumers, farms and small businesses, along with more than one thousand industrial customers will be positively impacted by expanding programs to help businesses grow and compete.

[***LDC name***] will implement the rebate onto your bill by July 1, 2017. Applicable savings will be retroactive to January 1, 2017. RRRP enhancement is effective January 1, 2017.

To learn more visit Ontario.ca/energy

Regulatory Package Update

- The regulatory package is tracking for November 16 Cabinet:
  - **8% Rebate General Regulation:** Draft received from Legislative Counsel; awaiting confirmation on approach to LDC requests to finalize.
  - **Minister's Regulation on 8% Bill Presentment:** Draft received form Legislative Counsel; awaiting confirmation on preferred language and level of prescription in order to finalize.
  - **ICI Amendment (429/04):** Draft received from Legislative Counsel; currently considering LDC input to determine if further adjustment is required.
  - **RRRP Amendment (442/01):** Draft received from Legislative Counsel; awaiting confirmation on adjustment mechanism preference. Need to share with OEB to ensure drafting is clear.
  - **Additional Consequential Amendments (161/99; 429/04):** These are minor amendments to ensure the regulatory framework fully complies with the requirements of the General Regulation and the Minister's Regulation.

Operational Requirement Update

- **MOUs:** there were MOUs put in place when OCEB was created to ensure that work activities with the different entities was clear.
  - MOU with OFA: provides clarity on initiatives that OFA would be responsible for (e.g. settling the IESO invoice and paying IESO)
    - OFA provided a draft of the revised MOU, Ministry staff are reviewing
  - MOU with IESO: provides roles for the IESO, reporting requirements, payment process
    - Ministry has provided a revised draft for IESO review
  - MOU with MOF: outlines the responsibilities of MOF with respect to administering sections of the Bill for which MoF is responsible, and states the deliverables that each ministry would complete (e.g. audits, spot checks of the program)
    - MOU can be place early next year (no requirement to have in place Jan 1)
- **Ministry Portal:** staff working with Government Services to create new portal for rebate program
  - IT Drafting Letter of Agreement to initiate work
  - Portal will be largely similar to the current OCEB Portal
- **IESO Portal:** IESO will need to create a new portal (similar to OCEB) to process LDC payments and to receive LDC data.
  - IESO aiming to have portal operational before end of year

IPA Implementation Update

- When the OCEB was created, a parallel program for IPAs was created to ensure IPAs had the opportunity to participate so their customers could receive the rebate.
- The new rebate program will create a structure similar as before to allow for IPAs to participate so their customers receive the 8% rebate.
- Four of the 10 IPA communities participated in the OCEB. Since the regulatory framework mimics that under OCEBA, the transition to the new rebate should be straightforward for these communities.
    - These communities can be contacted immediately to discuss implementation.
- Significant efforts were made by the Ministry to enroll the remaining six communities. For the new rebate, there are several considerations:
    - Based on previous experience, the enrolment process would take several months. It is highly unlikely arrangements could be in place for January 1, 2017.
    - IPAs are not provincially regulated. They are federally funded, and there is no requirement for customer billing. Whether these communities bill customers remains unknown.
    - Several IPA communities have expressed interest in transitioning to provincially-regulated service from Hydro One Remote Communities Inc. This would result in access to RRRP and other provincial programs (e.g. OESP).

Decision Points & Next Steps

1. Confirm approach on LDC requests and bill presentment.
2. Finalize regulatory language. Confer with stakeholders on drafting language (OEB, IESO, LDCs) as necessary.
3. Provide LDCs with bill presentment requirements so preparations can begin.
4. Prepare Cabinet package and submit for approval.

Rate Mitigation Package Timeline

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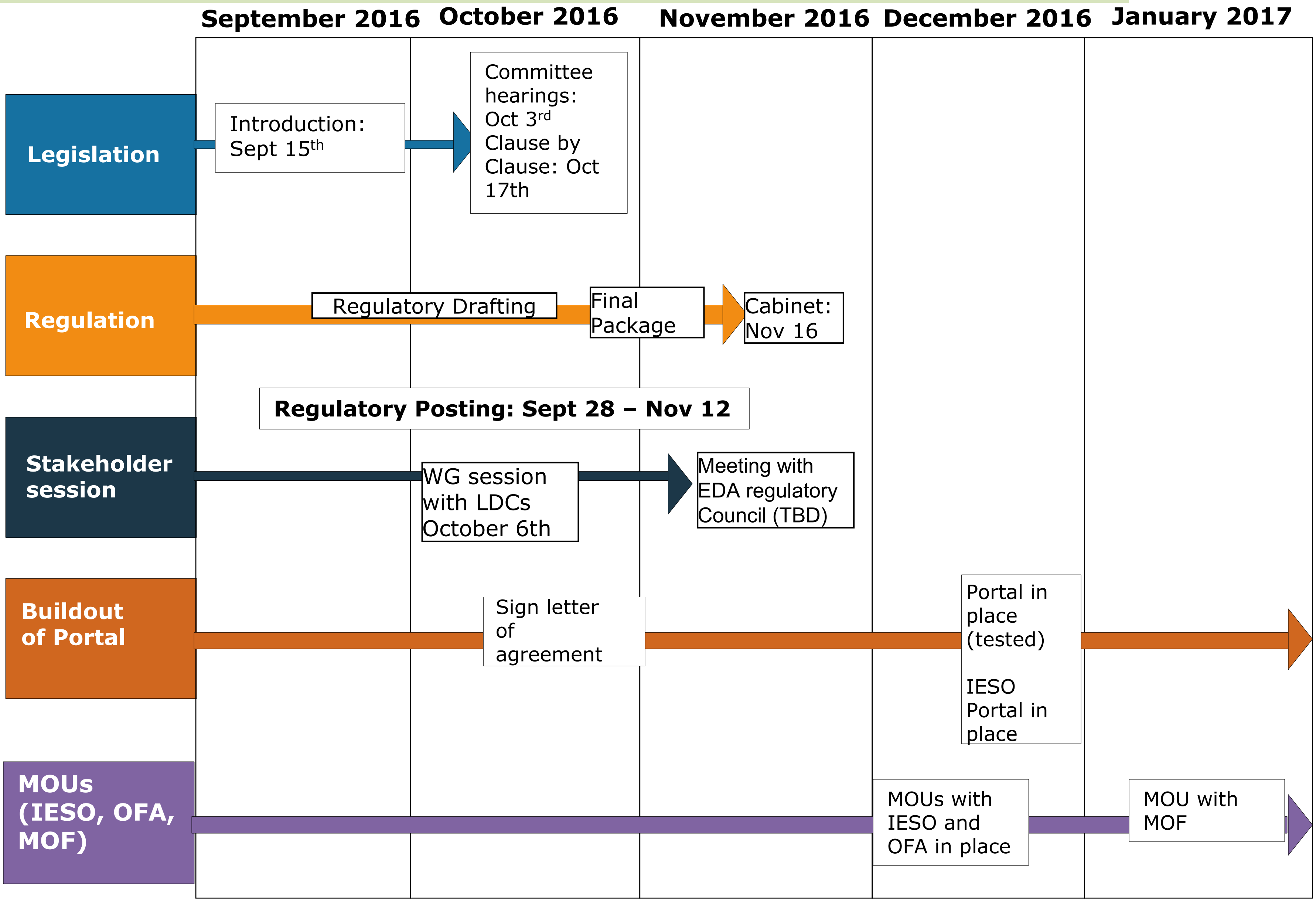

Appendix

Background – RRRP Adjustment Mechanism

- In an effort to mitigate electricity bills for low-density Hydro One residential R2 class customers, Cabinet directed that RRRP available to these customers be increased by $110 million, effective January 1, 2017.
- This will increase the amount of RRRP funding available to Hydro One low-density customers, effective January 1, 2017, to $235.5 million from the previous $125.5 million.
    - Note that the Regulatory Amendment will bring the total to $237M, as the Regulation includes $1.5M in RRRP for the James Bay communities.
- As part of its direction to increase the amount of subsidy, Cabinet also directed to consider an adjustment mechanism.
- This deck examines and considers options for adjustment of RRRP amounts available for Hydro One R2 customers on and after January 1, 2018.

Options

- Potential options for consideration are:
  1. Increase funding amount annually by the average residential distribution rate increase approved by the OEB for the previous year.
  2. Increase funding amount annually by the average distribution rate increase (including non-residential classes) used by the OEB for Algoma Power in its rate applications.
  3. Increase funding amount annually by the Ontario Consumer Price Index-All Items (CPI) for the previous year.
- In addition, if no mechanism is chosen, O. Reg 442/01 can be amended as needed to keep the amount of funding available current and appropriate.

Option 1 – Tie to Average Residential Dx Rate Increase

- OEB to determine the average distribution rate change for all LDCs in a previous period and use this to adjust the base $237M available to R2 customers. For example, for January 1, 2018, the average rate increase for 2016 could be used.

- The following table shows the average residential distribution rate increase for all LDCs at a consumption level of 750 kWh/month[1].

Annual Increase in Residential Distribution (@750 kWh/month)				
2016	2015	2014	2013	Average
3.3%	5.1%	1.4%	10.9%	5.2%

- The following table shows the increases in funding based on an average annual distribution increase of 5.2% per year (4 year average). Note: past increases do not necessarily represent future increases.

Funding Growth at 5.2% Per Year ($M)				
Year 0	Year 1	Year 3	Year 5	Year 10
2017	2018	2020	2022	2027
$237.0	$249.3	$275.9	$305.4	$393.5

Considerations

- OEB would calculate what the post 2017 amounts would be. The resulting amount would change without Cabinet approval.
- Note potential change to individual customer subsidy cannot be calculated, as it would depend on number of eligible R2 customers at the time Hydro One proposes the subsidy level to the OEB.
- There are potential complications with defining what constitutes an "average residential distribution rate" increase:
  - a) Does distribution rate include all rate riders (e.g., smart meter entity charge, disposition of variance accounts, ICM riders) or only base fixed and variable charges?
  - b) Since distribution charges are a split fixed/variable charge design (until all rates have moved to fixed), the assumption of average customer usage (750, 800, 1000, 1300 kWh/month) will affect the average distribution rate increase.
- These technical issues would likely need to be determined by the OEB.

[1] Excludes seasonal classes. 2016 excludes recent Powerstream rate order and a few LDCs with late 2016 rates. Includes all rate riders and adders. Calculated by ENERGY staff from OEB data.

Option 2 – Tie to Average Base Distribution Increase for All Classes

- This option is similar to Option 1 except that all distribution classes (i.e., GS<50 and GS>50 in addition to Residential) are used to adjust the base amount. In addition, any rate riders or rate adders are excluded. This is the methodology currently used to determine Algoma Power's distribution rate increase for customer classes that receive RRRP.

- Historical figures for this measure are below:

Annual Increase in Total Distribution (@750 kWh/month)					
2016	2015	2014	2013	2012	Average
1.80%	0.79%	3.76%	3.75%	2.81%	2.6%

- The following table shows the increases in funding based on an average Algoma adjustment factor increase of 2.6% per year (5 year average). Note: past increases do not necessarily represent future increases.

Funding Growth at 5.2% Per Year ($M)				
Year 0	Year 1	Year 3	Year 5	Year 10
2017	2018	2020	2022	2027
$237.0	$243.2	$256.0	$269.5	$306.4

Considerations

- This OEB already has a process for determining what this adjustment factor is, as it is used for Algoma Power.
- OEB would calculate what the post 2017 amounts would be. The resulting amount would change without Cabinet approval.
- The calculation for this adjustment factor includes non-residential rate classes (GS<50 kW, GS>50 kW). R2 customers are only residential.
- The calculation for this adjustment factor excludes rate riders and rate adders and only takes into account the base distribution rate fixed charge and variable charge. This may not represent the change on an actual distribution bill.
- The calculation for this adjustment factor is based on an 800 kWh per month average consumption, which may not represent what an average R2 customer uses.
- Note potential change to individual customer subsidy cannot be calculated, as it would depend on number of eligible R2 customers at the time Hydro One proposes the subsidy level to the OEB.

Option 3 – Tie to CPI (Consumer Price Index)

- This option is similar to Option 1 and 2 except that it uses the CPI as the adjustment factor, rather than changes in distribution rates. The Ontario CPI measures the change in price of a basket of consumer goods. This includes items such as gasoline, heating oil, electricity, vegetables, clothing and consumer electronics.

- Historical figures for this measure are below:

Annual Increase in Ontario CPI					
2015	**2014**	**2013**	**2012**	**2011**	**Average**
1.2%	**2.4%**	**1.0%**	**1.4%**	**3.1%**	**1.8%**

- The following table shows the increases in funding based on an average CPI of 1.8% per year (5 year average). Note: past increases do not necessarily represent future increases.

Funding Growth at 1.8% Per Year ($M)				
Year 0	**Year 1**	**Year 3**	**Year 5**	**Year 10**
2017	**2018**	**2020**	**2022**	**2027**
$237.0	**$241.3**	**$250.0**	**$259.1**	**$283.3**

Considerations

- The CPI number is publicly available from Statistics Canada and is easily understood by the public.
- In poor economic conditions, inflation has the potential to increase significantly.
- The OEB would calculate what the post 2017 amounts, based on the Statistics Canada CPI figure. The resulting amount would change without Cabinet approval.
- The CPI may not necessarily reflect what distribution cost increases are.
- Note potential change to individual customer subsidy cannot be calculated, as it would depend on number of eligible R2 customers at the time Hydro One proposes the subsidy level to the OEB.

Alternate – Amend Regulation as Necessary

- An alternate approach could be to amend the RRRP regulation as needed. Government could commit to having OEB analyze rural R2 rates annually to advise if R2 bills exceed a target (e.g., 15% in excess of average of residential bills in Ontario).

Considerations

- Administratively easy - requires no new language in the regulation other than amending the amount as needed.
- Government retains complete control of any adjustment. No outside party (e.g., OEB or Statistics Canada) would influence what the amount is.
- Need to determine review target.
  - Is target distribution bill or total bill?
  - What is the appropriate consumption level to use?
  - Is this a “base rate” approach, or including all “rate riders and adders”?
- Level of guidance given to OEB could be set out in Regulation or through a request for a report under s. 35 of the *Ontario Energy Board Act, 1998*.

Cost Impact to Consumers

- The following chart illustrates the monthly cost of the RRRP subsidy for a customer consuming 750 kWh per month, depending upon the rate of escalation.

Monthly Cost to Customers using 750 kWh/month 2017 Base: $1.60				
	2%	3%	4%	6%
2018	$1.60	$1.61	$1.63	$1.65
2020	$1.66	$1.70	$1.74	$1.83
2022	$1.71	$1.78	$1.86	$2.02
2027	$1.86	$2.03	$2.20	$2.61

- The projections do not include any increases to the RRRP charge as a result of any increases in the amount of RRRP available to Algoma Power or Hydro One Remotes.
- The chart also assumes total kWh sold at 2016 forecast level (135.7 TWh), which is how the OEB determined the RRRP per kWh charge for 2016. Should the forecast decrease, the charge would increase.