Ontario's Fair Hydro Legislation

Opposition Briefing

Working Draft

May 2017

Context

- The proposed Fair Hydro Act, 2017 is an omnibus bill with 2 schedules:
  - Ontario Fair Hydro Plan Act, 2017; and
  - Amendments to the Ontario Energy Board Act, 1998 and Electricity Act, 1998.

- The actions taken by the Government of Ontario to achieve a clean, modern and reliable electricity system have resulted in significant costs. The burden of financing the electricity system improvements and funding key programs has unfairly fallen on the shoulders of today's consumers.
  - The Government of Ontario is committed to ensuring that the costs of financing these investments are allocated fairly among present and future generations of consumers.

- The proposed legislation broadens also the Rural or Remote Rate Program (RRRP), expands the Ontario Electricity Support Program (OESP) and establishes a new On-Reserve First Nations Delivery Credit. The legislation also allows for these programs to be funded through the tax-base.

Ontario Fair Hydro Plan Act

- On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which will lower bills by 25 per cent for a typical residential consumer, starting in the summer of 2017. Up to half a million small businesses and farms are also expected to benefit.
  - Any rate increases for residential consumers over four years would be held to the rate of inflation.

- These measures include the 8 per cent rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.

- The proposed legislation, supporting regulations and amendments to existing legislation (e.g., Electricity Act and Ontario Energy Board Act) will enable implementation of the following key components of the OFHP.

Overview of the Legislation – GA Refinancing

<u>Refinancing of the Global Adjustment</u>

- Proposed legislation is based on the principle that the costs incurred to create a clean, modern and reliable electricity system create benefits that will be experienced by future generations of Ontario ratepayers and, therefore, in the interest of fairness, those costs should be shared by those future generations.

- The legislation does three things:

  1. Establishes the fundamental elements of the fair allocation program;

  2. Puts the mechanisms in place to permit the financing of periodic shortfalls in revenue that are created by the fair allocation of electricity costs over multiple generations; and

  3. Creates a fair adjustment to reduce prices immediately.

Overview of the Legislation – GA Refinancing

<u>Eligibility</u>

- Specified Consumers – This is the defined group of consumers to whom the program applies, including:
  - Electricity consumers with demand less than 50 kW;
  - Electricity consumers with annual consumption less than 250,000 kWh;
  - Farms and farming businesses; and
  - Condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

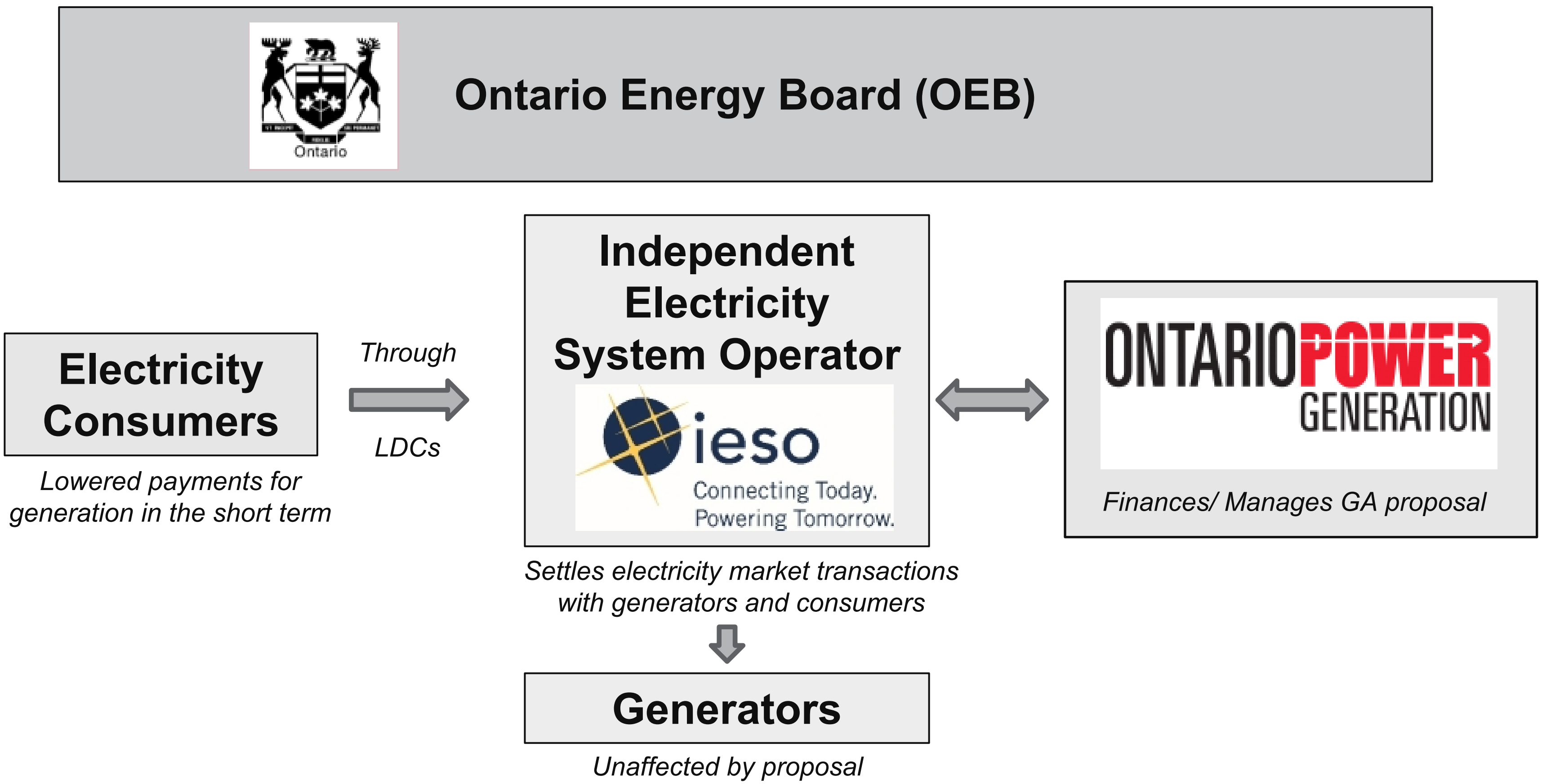
- Under the proposed regulation, “specified consumers” are categorized into two groups – those paying Regulated Price Plan (RPP) rates and those not paying RPP rates.

- All RPP paying consumers would receive GA refinancing through the OEB RPP rate setting process.

- Consumers not paying RPP would also receive GA refinancing if they meet the other conditions defined under “specified consumers”. These include consumers that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those eligible for the 8 per cent rebate but not RPP (i.e., long-term care homes).

Implementation

- Under the legislation, the following entities would implement GA refinancing.
  - IESO and OPG would 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.



Overview of the Legislation – GA Refinancing

Allocation of Costs

- The Government of Ontario's policies ("clean energy initiative") to foster growth and investment in and remove barriers and promote opportunities for clean and renewable energy sources and technologies and promoting conservation and demand management.

- Under the legislation, "clean energy costs" arise from the clean energy initiative and these are costs that are to be more fairly distributed among generations of consumers.

- The legislation identifies what costs ought to be more fairly allocated into the future ("fair allocation"), mechanisms to allocate costs fairly among generations of consumers and the roles of various provincial entities in the program.

Overview of the Legislation – GA Refinancing

Allocation of Costs (cont'd)

- Relief is provided to certain specified consumers during the period from July 1, 2017 to June 30, 2021 (including this program's portion of the 25 per cent reduction).
  - The Lieutenant General in Council is given the authority after April 30, 2018 to make regulations prescribing the rate for electricity (and therefore prescribing the "fair adjustment" until June 30, 2021).

- The legislation outlines the mechanism by which the fair distribution of "clean energy costs" and "clean energy benefits" are calculated and allocated over time through a "fair allocation amount".
  - Clean Energy Benefits are the value of the benefits derived by the "specified consumers" (including the clean energy costs).
  - Clean Energy Adjustments are made to a consumer invoice on a monthly basis to repay principal, interest and other financing.

- **Note:** OEB would set rates to account for fair adjustment and clean energy adjustments.

Overview of the Legislation – GA Refinancing

Finanaceability

- The ability to engage in the fair distribution of clean energy costs among the specified consumers requires financing during periods where the collection of the clean energy costs is, as part of the fair allocation, deferred to later years (thereby creating a revenue shortfall).

- IESO will have a funding deferral resulting from the reduction in amounts collected from specified consumers during the first 4 years because of the fair adjustment. The IESO's funding deferral will be financed indirectly through the debt capital markets by sale of the regulatory asset.

- OPG as Financial Services Manager (FSM) is required to develop a Financing Plan to guide financing through the debt markets.

Overview of the Legislation – GA Refinancing

Finanacibility (cont'd)

- Regulatory Asset – This is IESO's right to recover the revenues that it has deferred collecting because the clean electricity costs are being allocated across generations of ratepayers.

- Investment Asset – This is the asset that results when the regulatory asset is transferred to the (OPG) financing entities. The (OPG) financing entity acquires a right to impose, invoice and collect those regulatory charges (called the "clean energy adjustments").

- **Note:** OEB would set rates to allow IESO to recover funding shortfalls to the extent such amounts are not transferred to the financing entity and financed in the capital markets. Furthermore, OEB would review the administrative costs of OPG in connection with the administration of the program.

- The Province:
  - The Province will undertake not to hinder the charging and remittance of the under-collection of GA refinancing (i.e., through a provincial undertaking and guarantee).
  - May agree to guarantee performance, debts and obligations and backstop its underfunding.

Overview of Legislative Amendments – Social Programs

Helping Vulnerable Electricity Consumers

- As part of the proposed Ontario Fair Hydro Plan, the Ministry of Energy is proposing amendments the *Ontario Energy Board Act, 1998* (OEBA) to enable the following measures:
  - Enhancing and providing tax-based funding for Rural or Remote Electricity Rate Protection (RRRP) through new enhanced rate protection for residential customers with high distribution rates;
  - Enhancing and providing tax-based funding for the Ontario Electricity Support Program (OESP); and
  - Creating a new First Nation On-Reserve Delivery Credit and providing for tax-based funding.

Overview of Legislative Amendments – Social Programs

<u>RRRP and Broadened Distribution Rate Protection</u>

- Section 79 of the *Ontario Energy Board Act* would be amended to provide the Ministry the authority to prescribe, through regulation, classes of consumers whose cost would be transferred from the rate-base to the tax-base.
- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would prescribe Hydro One's R2 customers as receiving RRRP from appropriated funds effective July 1, 2017. This would fulfill the government's intention to transfer the majority of the costs of administering the RRRP program to the tax-base.
- In addition, Energy is proposing legislative amendments that would broaden rate protection by creating a new distribution rate protection program to complement RRRP. This new program would be funded through tax payers.
- Distribution rate protection would be extended to eligible residential customers served by LDCs with the highest distribution costs.
  - Proposed legislative amendments would enable a maximum monthly base distribution charge to established through regulations.
- If the proposed legislative amendments are approved, the government intends to prescribe by regulation both program details and the residential customers eligible for broadened distribution rate protection served by the following LDCs:
  - Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc.

Overview of Legislative Amendments – Social Programs

<u>Ontario Electricity Support Program</u>

- Proposed legislation related to the Ontario Electricity Support Program (OESP) would shift program funding from the rate base to the tax base.
  - Tax-based funding would only kick in once the existing OESP variance account is depleted, which is expected to happen in the fall of 2017.

- To allow for the existing program structure to stay in place until tax-based funding kicks in, proposed new legislation would only come into force via a proclamation Order in Council, on a date to be determined.
  - This would ensure that existing OEB authorities remain in place while ratepayer funding is being used.

- In addition, a new authority to allow the OEB and the Ministry of Community and Social Services (MCSS) to share data on customers to support increased participation in the OESP program among Ontario Works and Ontario Disability and Support Program clients would be put in place.
  - Information Privacy Commissioner (IPC) staff were consulted, and customer consent is reflected.
  - This information sharing component will come into force at Royal Assent, allowing OEB and MCSS to begin this process quickly, and support increasing OESP participation levels.

Overview of Legislative Amendments – Social Programs

On-Reserve First Nations Delivery Credit

- Energy is proposing legislative amendments that would establish a First Nation Delivery Credit for On-Reserve Consumers. This new program would be funded through tax payers.

- The proposed On-Reserve First Nation Delivery Credit would provide:
  - All prescribed on-reserve consumers with a credit for the entirety of their delivery line or with a credit for the monthly service charge.
  - The costs that are covered by the delivery credit are also described in legislation.

- If the proposed legislative amendments are approved, the government intends to propose regulatory amendments that would:
  - Establish the class of customers eligible;
  - Determine what is considered on-reserve; and
  - Determine the method of calculating the delivery credit.