Ontario

MINISTRY OF
ENERGY

# Proposed Initiatives to Transform Ontario's Electricity Sector – Update

Working Draft

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CONFIDENTIAL DRAFT

# Context

- Electricity costs are increasing as the necessary investments are made to decarbonize and modernize the province's electricity infrastructure (i.e., $35 billion+ investment in cleaner generation and $15.5 billion investment in Hydro One transmission and distribution systems).

- Ontario has taken a number of actions to lower electricity cost for all consumers by:
  - Deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., GEIA renegotiation, decreasing FIT prices).
  - Increasing cost effectiveness and improving efficiency by adopting new electricity market approaches (e.g., competitive LRP, no new NUG contracting).

- Following the 2016 Throne Speech, actions were announced to further reduce electricity costs by:
  - Providing an 8% per cent rebate ($11/month savings), updating RRRP ($45/month savings), expanding ICI (up to one-third savings for participants), suspending the LRP II and the EFWSOP (up to $3.8 billion in cost savings) and recycling proceeds to industrial/ commercial consumers.

- On November 28, 2016, the Minister of Energy announced the need for changes in how electricity resources are procured, the need for wholesale market renewal and greater electricity consumer choice.

- The Ministry of Energy is currently updating its Long-Term Energy Plan (LTEP), which provides an opportunity to consider a range of policy changes to how the Ontario energy sector operates.

# Broad Policy Themes / Rationale

- No longer use rate-base to pay for social programs by shifting cost of OESP and RRRP to tax-base.
- Provide greater support for lower income Ontarians by enhancing the OESP
- Fund conservation programs through the tax-base for the remaining term of the existing CDM framework and transition costs to the new “green bank entity” over time. Costs would be shifted in recognition of the burden borne by ratepayers in phasing out coal generation.
- Expand the scope of the “Trillium Trust” to make investments in energy infrastructure eligible for funding, such as remote electrification, large transmission projects, new or expanded interties, and expansion of natural gas to rural areas, etc.
- Empowering energy agencies to increase cost effectiveness and improve efficiency by having – IESO modernize Ontario’s electricity market through electricity market renewal initiatives, the OEB identify opportunities for future LDC cost reductions/efficiencies and the OPG reduce it borrowing costs and pass on savings to ratepayers.
- Give consumers more choice by allowing households to “opt into” a single rate plan as an interim measure as the Ontario Energy Board (OEB) develops more pricing options over time
- Help small business manage their electricity costs and provide relief for cap and trade until proceeds recycling is fully operational by ending the Debt Retirement Charge (DRC) early for commercial and small industrial Class B electricity consumers.

# Proposed Initiatives – Potential Savings for Typical Residential Electricity Consumers

| *$/750kWh* | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Timing of Benefit |
|---|---|---|---|---|---|---|---|
| **Recommended Initiatives** | | | | | | | |
| 1. No Longer Fund Social Programs Through the Rate-Base (i.e., OESP, RRRP, First Nations Delivery rate) | 2.16 | 2.31 | 2.41 | 2.49 | 2.54 | 2.58 | Immediate |
| 2. Expand the OESP (i.e., 50% increase) | - | - | - | - | - | - | n/a |
| 3. Fund Conservation Programs Through The Tax-Base | 3.40 | 3.68 | 2.98 | 3.09 | 2.58 | 2.58 | Immediate |
| 4. Expand the Scope of Trillium Trust to Make Investments in Energy Infrastructure (e.g., Transmission upgrade, etc) | 2.15 | 2.15 | 2.16 | 2.16 | 2.16 | 2.17 | Immediate |
| 5. Empower Energy Agencies to Increase Cost Effectiveness and Improve efficiency* | | | | | | | |
| a. IESO – Market Renewal | - | - | - | - | 1.00 | 1.03 | Long-Term |
| b. OEB – LDC efficiencies | TBD | TBD | TBD | TBD | TBD | TBD | Medium-Term |
| c. OPG – Borrowing | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | Medium-Term |
| 6. Give Residential Consumers More Rate Choices | - | - | - | - | - | - | n/a |
| 7. Help Small Business Manage Their Electricity Costs (i.e., End DRC early for Class B electricity consumers)** | - | - | - | - | - | - | n/a |
| 8. Cancel / Adjust FIT | - | - | 0.13 | 0.13 | 0.14 | 0.14 | Long-Term |
| 9. Dedicate Departure Tax | TBD | TBD | TBD | TBD | TBD | TBD | Immediate |
| **Considered but not Recommended** | | | | | | | |
| 1. Eliminate the Industrial Conservation Initiative (ICI) | 4.40 | 4.24 | 4.10 | 4.24 | 3.73 | 3.58 | Immediate |
| 2. Cancel LRP I | - | - | TBD | TBD | TBD | TBD | Medium-Term |

**Note:** The above initiatives will provide similar benefits for non-RPP Class B electricity consumers. Proposal 1 assumes OESP participation of 50% and 5-year maturity . *Assessing the range of ratepayer impacts will be done through the LTEP development and implementation process in conjunction with the OEB. **Class B includes small-medium enterprises (SMEs).

# Proposed Initiatives – Potential Savings for Average Industrial Electricity Consumers

| *$/MWh* | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Timing of Benefit |
|---|---|---|---|---|---|---|---|
| **Recommended Initiatives** | | | | | | | |
| 1. No Longer Fund Social Programs Through the Rate-Base (i.e., OESP, RRRP, First Nations Delivery rate) | 2.88 | 3.08 | 3.21 | 3.33 | 3.39 | 3.44 | Immediate |
| 2. Expand the OESP (i.e., 50% increase) | - | - | - | - | - | - | n/a |
| 3. Fund Conservation Programs Through The Tax-Base | 2.82 | 3.05 | 2.47 | 2.56 | 2.13 | 2.14 | Immediate |
| 4. Expand the Scope of Trillium Trust to Make Investments in Energy Infrastructure (e.g., Transmission upgrade, etc) | 1.78 | 1.78 | 1.79 | 1.79 | 1.79 | 1.79 | Immediate |
| 5. Empower Energy Agencies to Increase Cost Effectiveness and Improve efficiency* | | | | | | | |
| a. IESO – Market Renewal | - | - | - | - | 1.34 | 1.38 | Long-Term |
| b. OEB – LDC efficiencies | TBD | TBD | TBD | TBD | TBD | TBD | Medium-Term |
| c. OPG – Borrowing | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | Medium-Term |
| 6. Give Residential Consumers More Rate Choices | - | - | - | - | - | - | n/a |
| 7. Help Small Business Manage Their Electricity Costs (i.e., End DRC early for Class B electricity consumers)** | - | - | - | - | - | - | n/a |
| 8. Cancel / Adjust FIT | - | - | 0.10 | 0.10 | 0.11 | 0.11 | Long-Term |
| 9. Dedicate Departure Tax | TBD | TBD | TBD | TBD | TBD | TBD | Immediate |
| **Considered but not Recommended** | | | | | | | |
| 1. Eliminate the Industrial Conservation Initiative (ICI) | (24.12) | (23.21) | (22.45) | (23.23) | (20.42) | (19.61) | Immediate |
| 2. Cancel LRP I | - | - | TBD | TBD | TBD | TBD | Medium-Term |

**Note:** The above initiatives will provide similar benefits for non-RPP Class B electricity consumers. Proposal 1 assumes OESP participation of 50% and 5-year maturity . *Assessing the range of ratepayer impacts will be done through the LTEP development and implementation process in conjunction with the OEB. **Class B includes small-medium enterprises (SMEs).

# Proposed Taxpayer Funded Electricity Price Mitigation

| *($M)* | 2016-17[1] | 2017-18[1] | 2018-19[1] | 2019-20[1] | 2020-21[1] |
|---|---|---|---|---|---|
| **Recommended Initiatives** | | | | | |
| 1. No Longer Fund Social Programs Through the Rate-Base (i.e., OESP, RRRP, First Nations Delivery rate) | | 398 | 419 | 433 | 447 |
| 2. Expand the OESP (i.e., 50% increase) | TBD | TBD | TBD | TBD | TBD |
| 3. Fund Conservation Programs Through The Tax-Base | TBD | TBD | TBD | TBD | TBE |
| 4. Expand the Scope of Trillium Trust to Make Investments in Energy Infrastructure (e.g., Transmission upgrade, etc) | 100 | 390 | 390 | 390 | 390 |
| 5. Empower Energy Agencies to Increase Cost Effectiveness and Improve efficiency* | | | | | |
| a. IESO – Market Renewal | - | - | - | - | - |
| b. OEB – LDC efficiencies | - | - | - | - | - |
| c. OPG – Borrowing | - | - | - | - | - |
| 6. Give Residential Consumers More Rate Choices | - | - | - | - | - |
| 7. Help Small Business Manage Their Electricity Costs (i.e., End DRC early for Class B electricity consumers)** | 110 | 450 | - | - | - |
| 8. Cancel / Adjust FIT | - | - | - | - | - |
| 9. Dedicate Departure Tax | TBD | TBD | TBD | TBD | TBD |
| **Considered but not Recommended** | | | | | |
| 1. Eliminate the Industrial Conservation Initiative (ICI) | - | - | - | - | - |
| 2. Cancel LRP I | - | - | - | - | - |

**Source:** Ministry of Finance, Energy

# Considerations / Outcomes

- The proposed initiatives provide the following opportunities to:
  - Lower the cost of electricity for all consumers;
  - Re-set how electricity programs and energy infrastructure is funded (i.e., shifting costs to the tax-base from rate-base);
  - Provide electricity consumers with greater choices (i.e., signal rate plan);
  - Provide system benefits (e.g., market renewal); and
  - Increase cost effectiveness and improve efficiency.

- The timing of the impact of these rate mitigation initiatives varies.
  - Immediate and near-term impacts can be achieved by shifting costs to the tax-base or changing how certain costs are recovered from consumers or eliminating certain programs.
  - Over the longer term, changes to the electricity supply mix and achieving efficiencies in the electricity market could yield system savings.

- Pursuing the initiatives would require regulatory amendments and working with the electricity sector agencies, LDCs and other stakeholders to implement the initiatives.