<u>Tough QAs: Main Issues</u>

<u>Ontario's Fair Hydro Plan – Global Adjustment (GA) Refinancing</u>

Q1. The figure of 25 per cent savings is for a typical residential consumer. How much money are households actually saving?

Ontario's Fair Hydro Plan (OFHP) has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs from electricity bills to provincial revenues and the 8 per cent rebate introduced in January 2017.

Consistent with the proxy consumer used in the 2010 Long-Term Energy Plan, 2013 Long-Term Energy Plan and the 2016 Ontario Planning Outlook, the impacts of GA refinancing are calculated based on a typical residential consumer connected to Toronto Hydro. It is assumed that the consumer uses 750 kWh of electricity per month – the average household consumption used by the Ontario Energy Board (OEB).

Actual impacts will be slightly above or below the level determined for the proxy, depending on how much electricity is used and the rates charged by specific local distribution company (LDC).

Q2. Some electricity consumers did not see 25 per cent in savings on their July bills compared to their May bills. Why not?

Ontario's Fair Hydro Plan (OFHP) has put forth new measures to lower electricity bills by 25 per cent on average for households and hold increases to the rate of inflation for four years, as well as initiatives to reduce costs for businesses.

The plan includes the 8 per cent rebate introduced in January 2017. On May 1, 2017, new, lower Regulated Price Plan (RPP) prices took effect, bringing the total reduction to 17 per cent.

In determining the May 2017 RPP prices, the Ontario Energy Board (OEB) made its own independent determination to partially reflect the measures that were proposed under OFHP, pending the passage of enabling legislation.

As a result of the *Fair Hydro Act, 2017* achieving Royal Assent on June 1, 2017, the OEB updated the RPP prices again to reflect the full benefit of GA refinancing, increasing the savings from 17 to 25 per cent on average for residential consumers.

The new prices are effective as of July 1st. This means that the new prices apply to electricity consumption that occurs on July 1st and thereafter. RPP customers should see the full reduction on their bill for the July 2017 billing period.

Q3. What changes have you made to the Global Adjustment (GA)?

The government has been making important investments in the electricity system, but these investments have led to higher electricity bills. We have heard from Ontarians across the province that the price of electricity has risen too quickly, which is why we introduced Ontario's Fair Hydro Plan. A plan that ensures costs are shared more evenly over the years ahead.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

If asked for more detail:

The majority of the province's electricity generators are under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing a portion of GA is providing significant and immediate ratepayer relief by spreading the costs of our investments in the electricity system over a longer period of time. In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from those consumers.

Q4. How much debt are you borrowing?

Refinancing a portion of GA is providing significant and immediate ratepayer relief by spreading the costs of our investments in the electricity system over a longer period of time. In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from those consumers.

Under current forecasts, the immediate reduction in the GA will be about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Initial analysis indicates that the accumulated debt will not exceed $28 billion, including interest.

Commented [AL1]: We have updated figures in the LTEP, but estimates is set to occur on Oct 2 or 3 prior to LTEP publication

Note: These numbers were used in the OFHP technical briefing in March 2017

The government is continuing to conduct internal analysis and monitor actual costs related to GA refinancing as the implementation Ontario's Fair Hydro Plan proceeds.

Q4. What will be the total interest paid on the accumulated debt?

Initial analysis indicates that total interest will not exceed $25 billion.

Q5. The Financial Accountability Office (FAO) estimates that Ontario's Fair Hydro Plan (OFHP) will cost the Province approximately $45 billion over 29 years, while providing overall savings to electricity ratepayers of $24 billion. You have said total accumulated debt will not exceed $28 billion. Why is there a discrepancy?

These figures were estimates made by the FAO based on a number of variables, including the cost of borrowing. The report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties … Fiscal impact may differ significantly from the FAO's estimates."

There is a good deal of uncertainty related to the costs and composition of the electricity sector. Over time, uncertainty grows as supply mix, commodity prices and demand levels become more challenging to forecast. The government conducts risk analysis to understand the impacts of these uncertainties.

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Q6. You say you want to ensure fairness for this generation – how can you ensure fairness for our kids and grandkids if you're borrowing billions?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Ontario's Fair Hydro Plan acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long-term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q7. What do you expect to happen after 4 years? Won't spreading these costs over more years lead to big rate hikes down the road?

Based on initial analysis, we project that borrowing will continue for about 10 years. It is anticipated that consumers will begin to repay the borrowed amount in the mid-to-late 2020s. The exact timing will depend on actual electricity consumption and financial market conditions as we strive to balance costs and benefits in the fairest way possible.

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Q8. Ontario's Fair Hydro Plan promises to hold residential electricity bill increases to the rate of inflation for four years. Is it possible the Ontario Energy Board (OEB) can approve a transmission and/or distribution rate that will raise bills beyond that?

Effective July 1, 2017, the Ontario Energy Board (OEB) set new, lower Regulated Price Plan (RPP) prices that build on the reduction in RPP prices that came into effect on May 1.

Under the new RPP prices, the total bill for a proxy customer is about $121, $41 or 25 per cent lower than it would have been without the initiatives that are part of Ontario's Fair Hydro Plan. The total bill includes transmission and distribution.

The "proxy customer" reflects a residential consumer connected to Toronto Hydro, consuming 750 kWh per month. The use of Toronto Hydro as a proxy for a typical residential consumer is consistent with the 2010 Long-Term Energy Plan, 2013 Long-Term Energy Plan and the 2016 Ontario Planning Outlook.

The OEB will adjust RPP prices over four years in such a manner that the total bill for the proxy customer will increase by the rate of inflation. This applies despite any increases to transmission or distribution rates that the OEB may approve. Actual impacts on consumer bills over the inflationary period will vary depending on consumption levels and the local distribution company to which the consumer is connected.

Q9. Why isn't the 4-year inflation part of the plan in the legislation? Why can't you commit to this promise via legislation?

The Fair Hydro Plan Act, 2017, allows future increases to electricity bills to be set by regulation. This enables the government's commitment to hold increases to the rate of inflation for four years.

By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

CLASS B ELECTRICITY CONSUMERS

Q10. Who is eligible for Global Adjustment refinancing? Are businesses eligible?

Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting.

The reduction reflects a number of initiatives, including the refinancing of a portion of the GA, the shifting of cost recovery for electricity support programs from electricity bills to provincial revenues and the 8 per cent rebate introduced in January, 2017.

The government has aligned eligibility for GA refinancing with the *Ontario Rebate for Electricity Act, 2016* (ORECA). This means that electricity consumers that are eligible for the 8 per cent rebate are also eligible for GA refinancing, including residential consumers, farms, most small businesses, long-term care homes and condominiums.

All Regulated Price Plan (RPP) paying consumers are receiving GA refinancing through the Ontario Energy Board's (OEB) RPP rate setting process. Eligible consumers who are non-RPP are receiving GA refinancing through an adjustment determined by the OEB. These consumers include those that have opted-out of RPP to sign contracts with electricity retailers or become wholesale consumers and those who are eligible for the 8 per cent rebate but not RPP, such as long-term care homes. Electricity vendors are expected to ensure the adjustment is reflected on their customers' bills.

Q11. Why are mid-sized consumers left out of Ontario's Fair Hydro Plan?

Ontario's Fair Hydro Plan includes initiatives to help consumers of all sizes.

Ontario's Fair Hydro Plan includes expanding the Industrial Conservation Initiative (ICI) to include smaller manufacturers and greenhouses between 500 kW and 1 MW, in addition to the large consumers over 1 MW who are already eligible. ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. Reducing demand during peak hours benefits companies financially and benefits the electricity system by deferring the need for new peaking generation. ICI participants can reduce electricity costs by one third on average.

Consumers of all sizes are benefitting from the shifting of cost recovery for the Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) from electricity bills to provincial revenues. This action has lowered regulatory charges for everyone by approximately $3/MWh.

Q12. What else is the government doing to help Class B consumers?

Our government recognizes the importance of electricity costs to businesses. Helping businesses manage their electricity costs is part of our plan to create jobs, grow our economy and help people in their everyday lives.

On January 1, 2017, the ICI program was expanded to include all consumers with peak demand greater than 1 MW, down from 3 MW. Sector restrictions were removed and smaller industrial, institutional and commercial businesses became eligible to participate. Previously only consumers in the manufacturing, mining, refrigerated warehousing, greenhouses and data processing sectors were eligible.

Existing initiatives available to small and medium-sized businesses to help them manage their electricity costs include the saveONenergy for Business conservation program, which offers financial incentives for audits, retrofits and process and systems improvements to help businesses better manage their electricity use.

Commented [AL2]: For CRED review/additions

Further, to help ease pressure on commercial ratepayers, the government introduced legislation that provides a legislated date of April 1, 2018 to remove the Debt Retirement Charge (DRC) for all non-residential consumers – nine months earlier than previously estimated.

We are also working with the Ontario Energy Board (OEB) to investigate the potential for a change to the way the Global Adjustment (GA) is charged to Class B consumers. For these consumers, the GA is a fixed charge that is the same regardless of the time that they consume electricity. A GA charge that varies with the time of use could lower prices for some Class B consumers, while incenting more efficient consumption patterns. The government will ensure that consultations take place before any changes are made.

Commented [AL3]: Source: Industrial Estimates Note

Moving forward, Ontario is developing its 2017 Long-Term Energy Plan (2017 LTEP) which will focus on continuing to put downward pressure on electricity bills over the long-term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

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