Ontario

LEGISLATION AND REGULATIONS COMMITTEE: PRELIMINARY REGULATORY IMPACT ASSESSMENT FORM

Date:	November 9, 2017
Ministry:	ENERGY
Name of Act:	• *Ontario Fair Hydro Plan Act, 2017* (OFHPA), Schedule 1 of the *Fair Hydro Act, 2017* • *Electricity Act, 1998* (EA)
Name of Regulation:	• Ontario Regulation 206/17 • Ontario Regulation 429/04

Section 1: Proposal and Context

Supporting the Further Implementation of Ontario's Fair Hydro Plan under the OFHPA

- On May 11, 2017, the government introduced Bill 132, the *Fair Hydro Act, 2017* (FHA) which is comprised of two Schedules:
  - Schedule 1 is the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and related amendments to the *Electricity Act, 1998* (EA) and the *Ontario Energy Board Act, 1998* (OEBA); and
  - Schedule 2 includes the electricity social program-related amendments to the OEBA, 1998.
- On May 31, 2017, the *Fair Hydro Act, 2017* passed third reading and received Royal Assent on June 1, 2017.
- Under the OFHPA, a portion of the Global Adjustment (GA) is being refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).
- Under the OFHPA, which enables GA Refinancing, electricity bills of a typical residential consumer have been reduced by 25 per cent effective July 1, 2017, compared to what they would have been without the initiatives included in Ontario's Fair Hydro Plan. In addition, Schedule 1 provides the authority under which further increases to electricity bills for a typical consumer are to be held to the rate of inflation. Up to 500,000 small businesses and farms are also benefitting from GA Refinancing.
- Under the OFHPA, the Independent Electricity System Operator (IESO) records the GA deferral in a variance account as a "regulatory asset," which represents a right to recover the balance in the variance account from specified consumers as set out in the Act. The regulatory asset is then purchased by a financing entity established by Ontario Power Generation (OPG), as the Financial Services Manager (FSM).

- OPG, as FSM, will finance these purchases through a combination of an equity investment by the Province and external private sector financing.
- The Ministry of Energy is proposing amendments to Ontario Regulation 206/17 (General), under the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and Ontario Regulation 429/04 (Global Adjustment), under the *Electricity Act 1998* (EA) that are required to address accounting and commercial/financing requirements that would allow GA refinancing to proceed as planned.

Section 2: Approach and Intended Outcomes

A. Proposed Amendments to O. Reg. 206/17 (General)

- The Ministry of Energy is proposing amendments to O. Reg. 206/17 (General) that would, if approved, set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including impacts on Clean Energy Adjustments (CEAs) payable by specified consumers as defined in the OFHPA.
- Additional proposed amendments would clarify the operation of O. Reg. 206/17, including the recovery of financing entity carrying costs during the period after May 1, 2021, in which the Fair Allocation Amount (FAA), as defined under the OFHPA, is less than the amount of such carrying costs.

B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)

- In order for OPG to market the debt, a security arrangement is required to backstop smaller Local Distribution Companies (LDCs) without any or a sufficiently sound credit ratings during the years in which CEAs are collected from consumers. A mechanism is required to enable IESO to recover both carrying costs and any default costs associated with the security arrangement.
- Proposed amendments to O. Reg. 429/04 would, if approved, enable the recovery of such costs from consumers through the Global Adjustment (GA).
- In the event of an LDC default – resulting in CEAs not being recovered from the relevant LDC – the amounts related to uncollected CEAs would be recovered from consumers through the GA.
- Note: The risk of LDC default is considered to be low. However, regulatory amendments are necessary to provide security to the market should such a default occur.

The purpose of Section 3 is to identify stakeholders that will be affected by the regulatory proposal, and briefly describe the anticipated impact (whether a cost or a benefit). These factors will be considered in the determination of whether a full RIA is required.

<table>
<tr><th>Section 3: Affected Stakeholders</th><th>Yes</th><th>No</th></tr>
<tr><td>Individuals (specific groups or consumers)</td><td>✓</td><td>❑</td></tr>
<tr><td>A. Proposed Amendments to O. Reg. 206/17 (General)

Schedule 1 of the Fair Hydro Act, 2017, has enabled the reduction of electricity bills by 25 per cent for a typical residential consumer (taking into account the 8% rebate previously provided for under the Ontario Rebate for Consumers Act, 2016) as of July 1, 2017, relative to what they would have been without the initiatives that are part of Ontario’s Fair Hydro Plan.
The proposed amendments to O. Reg. 206/17 (General) are needed to ensure GA refinancing is able to proceed as planned (i.e., address accounting and commercial/financing requirements).
These amendments would clarify the authority for both OPG as FSM and IESO to undertake the activities contemplated under the OFHPA.

B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)

Proposed amendments to O. Reg. 429/04 would enable amounts associated with the security arrangement to be recoverable from OFHP-eligible consumers through the GA.
The risk of LDC default is considered to be low.
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<tr><td>Businesses</td><td>✓</td><td>❑</td></tr>
<tr><td>A. Proposed Amendments to O. Reg. 206/17 (General)

Schedule 1 of the Fair Hydro Act, 2017, has enabled the reduction of electricity bills by 25 per cent for a typical residential consumer (taking into account the 8% rebate previously provided for under the Ontario Rebate for Consumers Act, 2016) as of July 1, 2017, relative to what they would have been without the initiatives that are part of Ontario’s Fair Hydro Plan.
As many as half a million small businesses and farms are also eligible for the reduction.
The proposed amendments to O. Reg. 206/17 (General) are needed to ensure GA refinancing is able to proceed as planned.
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B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) • Proposed amendments to O. Reg. 429/04 will enable amounts associated with the security arrangement to be recoverable from OFHP-consumers through the GA. • Note: The risk of LDC default is considered to be low.		
Non-profit Groups	✓	❑
A. Proposed Amendments to O. Reg. 206/17 (General) • Schedule 1 of the *Fair Hydro Act, 2017*, has enabled the reduction of electricity bills by 25 per cent for a typical residential consumer (taking into account the 8% rebate previously provided for under the *Ontario Rebate for Consumers Act, 2016*) as of July 1, 2017, relative to what they would have been without the initiatives that are part of Ontario's Fair Hydro Plan. • Some non-profit facilities may be eligible for the reduction (if for instance, if they already qualify for the Ontario Energy Board's Regulated Price plan (RPP). • The proposed amendments to O. Reg. 206/17 (General) are needed to ensure GA refinancing is able to proceed as planned. **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • Proposed amendments to O. Reg. 429/04 would enable amounts associated with the security arrangement to be recoverable from OFHP-eligible consumers through the GA. • Note: The risk of LDC default is considered to be low.		
Communities	✓	❑
A. Proposed Amendments to O. Reg. 206/17 (General) • Schedule 1 of the *Fair Hydro Act, 2017*, has enabled the reduction of electricity bills by 25 per cent for a typical residential consumer (taking into account the 8% rebate previously provided for under the *Ontario Rebate for Consumers Act, 2016*) as of July 1, 2017, relative to what they would have been without the initiatives that are part of Ontario's Fair Hydro Plan.		

• Some municipal facilities would be eligible for the reduction. • The proposed amendments to O. Reg. 206/17 (General) are needed to ensure GA refinancing is able to proceed as planned. **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • Proposed amendments to O. Reg. 429/04 will enable amounts associated with the security arrangement to be recoverable from OFHP-eligible consumers through the GA. • Note: The risk of LDC default is considered to be low.		
Governments	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • No fiscal impact is expected to be recognized by governments as a result of the proposed amendments to O. Reg. 206/17 made under the OFHPA. **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • No fiscal impact recognized by governments as a result of the proposed amendments to O. Reg. 429/04 made under the OFHPA.		

The purpose of Section 4 is to identify and describe the types of impacts anticipated as a result of the regulatory proposal. These factors will be considered in the determination of whether a full RIA is required.

Section 4: Type of Impact	Yes	No
Health and Safety	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)**		

• N/A		
Environment	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • N/A		
Social Impacts	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • N/A		
Trade	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • N/A		
Economy	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A		

B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) • N/A		
Other	❑	✓
A. Proposed Amendments to O. Reg. 206/17 (General) • N/A **B. Proposed Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act)** • N/A		

The purpose of Section 5 is to estimate the direct costs for external stakeholders to comply with the regulatory proposal. If direct compliance costs are expected to exceed $2 million per year, a full regulatory impact analysis will be required. Other factors (as described in Sections 3 and 4 above) will also be reviewed in the determination of whether a full RIA is required.

Section 5: Costs	Yes	No
Are direct compliance costs likely to exceed $2 million per year?	❑	✓
Is a full RIA required?	❑	✓

Contacts

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