

Electricity Price Mitigation

Cabinet Sept. 12, 2016	Announcement tbd
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This government's commitment	“The government will also take steps, through investments in residential energy efficiency, to ensure that the net impact of cap and trade on electricity cost would actually provide a modest benefit of up to \$2 per month, on average, to residential consumers. – <i>Ontario Budget 2016</i>
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SUMMARY OF PROPOSAL

The Ministry of Energy is seeking Cabinet approval to implement the following electricity price mitigation initiatives. The approach identified below would provide relief across all electricity consumer classes:

- Provide an 8% rebate equal to the provincial portion of HST to consumers eligible for the Regulated Price Plan (i.e., residential, small business and farms) and update the Rural and Remote Rate Protection (RRRP) program, to provide relief to rural customers.
- Expand ICI eligibility by lowering the threshold to 1 MW, to provide support to Class B electricity consumers (i.e., commercial, institutional and small industrial) and redirect cap and trade proceeds to commercial and industrial electricity consumers to provide a modest reduction in rates.

8% Rebate to Regulated Price Plan (RPP) Eligible consumers

Under the proposal, ENERGY would introduce legislation in Fall 2016 to provide a rebate of 8% to consumers eligible for the Regulated Price Plan (this would be equivalent to the provincial portion of the HST). The below table indicates which consumers would be eligible for the rebate.

Eligible for the 8% rebate (< 50 kW or $< 250,000$ kWh/year)	Not eligible for the 8% rebate (> 50 kW or $> 250,000$ kWh/year)
• Residential Regulated Price Plan consumers • Residential retail consumers • Multi-unit residential buildings and other facilities used as residential rental units • Long-term care homes and school residences • Regulated Price Plan eligible farms • Small businesses - Coffee / snack retailer - Convenience store - Apparel store - Hair salon - Small insurance office	• Class A consumers - Manufacturer - Large grocery store - Mines - Auto assembly plants • Class B consumers (except farms that have opted out of the Regulated Price Plan) - Commercial offices (low rise) - Hotel - General warehousing

Those ineligible to receive the 8% rebate will benefit from one or more of the other initiatives under this proposal (e.g., ICI expansion, proceeds recycling, etc.).

Rural or Remote Rate Protection Update

RRRP is a rate-based funded subsidy program that helps offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. Currently, RRRP is a \$175-million program. For an average residential customer, the cost of supporting RRRP is roughly \$1 per month. For other customers, the cost can range from \$65 for a greenhouse to \$8,000 for a medium industrial.

The majority of the program funding (\$125.5 million) provides a subsidy to Hydro One's lowest-density customers – classified as R2 customers. There are approximately 329,000 R2 customers. The current program provides a monthly subsidy for R2 customers of \$31.50. RRRP funding supporting R2 customers has been capped at the current level since 2004. As a result, the impact of its assistance has diluted over time as electricity costs have risen.

The proposal includes an additional \$110 million in program funding that would result in an increased subsidy for R2 customers of approximately \$28 / month. This would bring R2 bills in line with Hydro One R1 (medium density) bills at 1000kWh and would increase the R2 portion of the RRRP to \$235 million with a monthly impact on an average residential consumer of approximately \$0.60. ENERGY is also proposing that RRRP could be indexed at inflation or “trued up” on a regular basis to ensure the subsidy remains constant.

Industrial Conservation Initiative (ICI) Expansion

The ICI was implemented in January 2011 to help large industrial power users control their electricity costs while shifting electricity consumption away from peak periods, thus benefiting all electricity consumers by decreasing the need for costly peak generation.

Currently, electricity consumers over 5 MW and consumers from 3-5 MW in certain energy intensive sectors (e.g., pulp and paper, auto, manufacturing, chemicals and mines) are eligible for ICI (i.e., approximately 300 Class A consumers).

Under the proposal, ICI would be expanded so that all consumers over 1 MW are eligible for the program, which would:

- Reduce electricity peak demand by incenting more consumers to lower their electricity demand during peak periods;
- Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods; and
- Increase the electricity bills for non-ICI participants to ensure full cost recovery in the electricity system.

Newly eligible consumers in the program would mostly fall into the small industrial, institutional and commercial category, including: automotive supply chain companies, office tower, large shopping mall, greenhouses and others.

	Benefit to New ICI Participants	System Benefit	Financial Impact	Residential Bill Impact
	Bill Savings	Peak Demand Reduction (MW)	GA shifted to Class B (\$M)	
Short-term	Up to 21%	80	47	Increase of \$0.42/month
Long-term	Up to 34%	165	82	Increase of \$0.74/month

Recycle cap and trade proceeds to commercial and industrial consumers

The 2016 Budget committed to offset the impact of cap and trade for commercial and industrial consumers, while also providing a benefit of up to \$2 per month for residential consumers. To meet this commitment, the Climate Change Action Plan (CCAP) committed \$1.3 billion from the Greenhouse Gas Reduction Account (GGRA) over the first compliance period (2017-2020). However, providing an 8% rebate to RPP consumers would allow for GGRA proceeds previously committed to residential consumers to be redirected to other consumers classes and/or GHG reduction initiatives in the fiscal plan.

The current proposal would provide additional recycling to commercial and industrial consumers, while requiring an estimated \$60 million less proceeds per year (i.e., a reduction of \$0.24 billion over the first compliance period).

What is the expected cost to government?

The proposal would cost an estimated \$1 billion per calendar year (i.e. \$4 billion from 2017-2020), representing an additional pressure on the fiscal plan.

\$ millions	2017	2018	2019	2020
	1,003	1,014	975	1,049
Avg. 2017-20	1,010			

- On a fiscal year basis, the above estimates become:

\$ millions	2016-17	2017-18	2018-19	2019-20
	261	1,006	1,004	994
3-Year Avg.	1,001			

The Ministry also proposes to use \$270M/year of cap and trade proceeds to mitigate electricity prices for commercial and industrial consumers, on a volumetric basis. This would require an estimated \$60 million less per year in proceeds than previously estimated (\$335M), and could provide fiscal plan flexibility of about \$60M per year to commit to other GHG reduction initiatives in the fiscal plan.

If cap and trade proceeds are not available to support this initiative, that portion of the proposal would be abandoned.

How will the changes be communicated?

Public high-profile communications would coincide with introduction of legislation (September 2016). Stakeholder outreach/technical briefings will be held with LDCs, Ontario Chamber of Commerce, AMPCO, OEB low-income table, AMO, and others.

The changes will be positioned as:

- A fiscally prudent plan to benefit all ratepayers in a lasting, meaningful way.
- Rural customers will receive the largest single rate relief ever.
- Businesses across Ontario will have even more opportunity to be competitive and manage their energy costs.

Terms you need to know

- **Global Adjustment (GA)** – Amount that accounts for differences between the market price of electricity and rates paid to regulated and contracted generators and for conservation programs. The GA is collected from all electricity ratepayers in Ontario.
- **Local Distribution Companies (LDCs)** – Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Regulated Price Plan (RPP)** - Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 4.9 million residential and low-volume business consumers are eligible for the RPP.

CABINET OFFICE ANALYSIS

This proposal aims to meet and exceed the 2016 Budget commitment to offset the impact of cap and trade in Ontario for commercial and industrial electricity consumers, while also providing a modest benefit of up to \$2 per month for residential electricity consumers. The proposal builds on earlier initiatives, including the Ontario Clean Energy Benefit (OCEB), ending the electricity Debt Retirement Charge (DRC), and the Ontario Electricity Support Program (OESP) that targets low-income households.

Since 2010, electricity prices have risen considerably in Ontario, particularly for households and small businesses. Prices are forecast to continue to increase as additional renewable energy generation is brought online. Ontario currently provides rate mitigation to various

electricity consumers through a combination of tax-based and rate-based programs. Rate-based programs are funded by shifting costs from one consumer group to another.

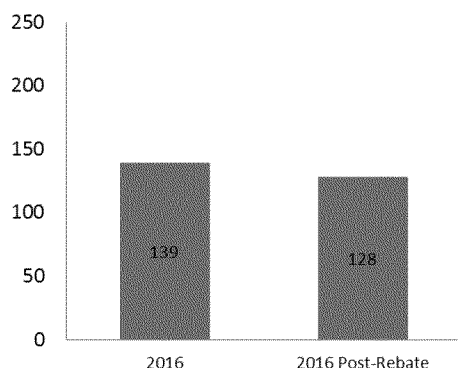
	Regulated Price Plan	Class B	Class A
Consumer Types	• Residential • Small Business • Farms	• Commercial • Institutional • Small industrial	• Large commercial • Large industrial
Load Size	Below 0.05 MW	Between 0.05 MW and 3 MW	Above 3 MW*
Total Consumption	58 TWh	57 TWh	26 TWh
Share of Consumption	41.1%	40.4%	18.4%

Under the proposal, all electricity consumers will benefit from one or more of the proposed electricity price mitigation initiatives.

Residential and Small Business

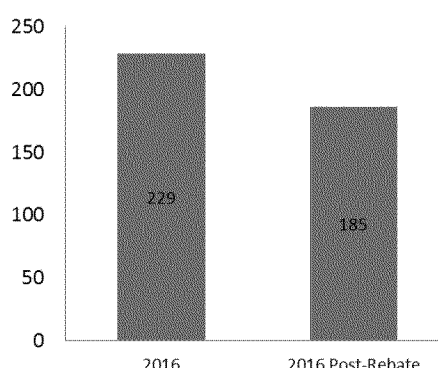
Residential and small businesses (below 50 kW or 250,000 kWh/year), multi-unit residential, and farms will be eligible for the 8% rebate. In addition, rural residential consumers will be eligible for the RRRP subsidy increase.

Typical Residential Bill
750/kWh per month, 8% only



The pre-tax impact of a 8% reduction.

Rural (R2) Residential Bill
1,000/kWh per month, 8% and RRRP update

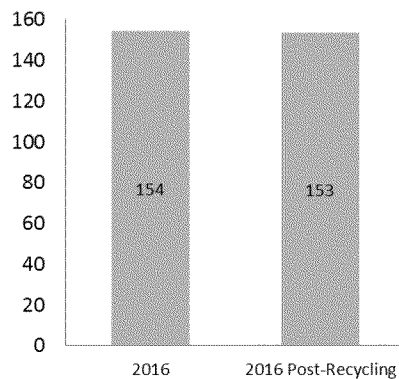


The pre-tax impact of the rate mitigation initiatives is a 19% reduction.

Placeholder – clarification on how the 8% is calculated, i.e., it is based on HST so will \$ value will fluctuate based on actual usage and electricity rates.

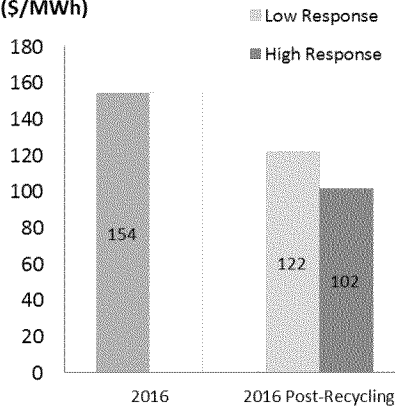
Industrial, institutional and commercial consumers over 1 MW will be eligible for ICI and proceeds recycling. All other consumers (i.e., existing ICI participants and industrial, institutional and commercial consumers below 1 MW or that choose not to participate in ICI) would also be eligible for proceeds recycling.

Typical Class B (Commercial) Price (\$/MWh)



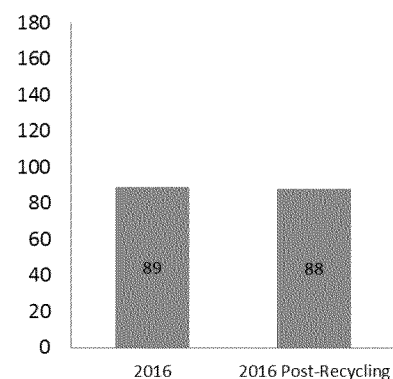
Class B: The net impact of the rate mitigation initiatives is a 1% reduction.

Typical New Class A Price (\$/MWh)



New Class A: The net impact of the rate mitigation initiatives is a reduction of up to 21% and 34% for low and high response respectively.

Typical Class A (Industrial) Price (\$/MWh)



Existing Class A: The net impact of the rate mitigation initiatives is a 1% reduction.

Risks and Considerations:

Electricity Rates

Risk of criticism that the government has replaced the OCEB with a smaller relief package, one year after the OCEB ended.

Other factors will impact rates – nuclear, renewables, etc., this proposal does not control for that. Mitigation: LTEP

Fiscal Pressures

This proposal does not align with the 2016 Budget fiscal plan and there are no proposed offsets identified. In 2016-17 the proposal would result in a fiscal pressure of \$261M, growing to \$1B in 2017-18 and beyond. The proposal does not include a scheduled review period or an end date for the legislated benefit, resulting in an ongoing fiscal pressure that could only be removed by legislative amendment.

Variable Impact across Electricity Consumers

For the rate-based portions of the proposal (the expansion of ICI and RRRP) the result is an increase in costs for (primarily residential) ratepayers not included in those programs. Shifting costs to some consumers to lower rates for others carries the risk that the charge would be characterized as an unconstitutional tax. To establish that the charge is

legitimate, it must be established that the purpose and effect of the charge is to facilitate the maintenance of a financially viable electricity system by way of load management or some other feature under which those who are subsidized provide an overall system benefit enjoyed by those who subsidize them.

Under the proposal, some eligible consumers (e.g., multi-unit residential buildings) may receive multiple benefits (8% rebate, proceeds recycling and ICI), while others would be eligible for only one type of benefit.

Use of Cap and Trade Proceeds

The *Climate Change Mitigation and Low-Carbon Economy Act, 2016* specifies that money gathered from cap and trade auctions (auction proceeds) may be used to fund, directly or indirectly, costs relating to prescribed initiatives *that are reasonably likely to reduce, or support the reduction of, greenhouse gas* and costs relating to any other initiatives that are reasonably likely to do so.

The Climate Change Action Plan released in June 2016 committed up to \$1.32 billion over 4 years to help keep electricity rates affordable for residential and industrial consumers. This initiative was estimated to reduce up to 3,000,000 tonnes of greenhouse gas (GHG) emissions by 2020.

<i>\$ Billions</i>	2017-18	2018-19	2019-20	2020-21	Total
Total Committed in CCAP	\$1.5 – 2.1	\$1.5 – 2.1	\$1.5 – 2.1	\$1.5 – 2.1	\$6.0 – 8.3
<i>Electricity Price Mitigation</i>	<i>Up to 0.3</i>	<i>Up to 0.3</i>	<i>Up to 0.3</i>	<i>Up to 0.3</i>	<i>Up to 1.3</i>

The connection between a new, volumetric rebate to commercial and industrial consumers and GHG emissions reductions has not yet been determined. Energy and MOECC will need to work together to identify these connections and an appropriate mechanism for providing the proposed rebate to consumers.

Placeholder – risk of auction proceeds coming in below forecast

Stakeholder Response

Residential consumers – supportive;

Rural consumers – supportive of RRRP changes

Small businesses –

Industry –

eNGOs -

Alternative Options Considered

- 1) 8% rebate across all consumer classes – estimated cost of \$1.8B; no use of proceeds.
- 2) Federally administered point-of-sale rebate
- 3) Mitigation through tax credits -

Delivery

The 8% rebate and RRRP updates would be effective January 1, 2017. Implementation of the 8% rebate will be done through LDCs, and will require adjustments to LDC billing systems, which could impact delivery costs and timelines.

The Ministry indicates it will consult with LDCs (possibly through Ontario Energy Board) to accurately assess these impacts once the program has been announced. LDCs have asked for at least six months' notice when implementing billing system changes, which can be mitigated by allowing LDCs to provide retroactive rebates if their systems cannot be updated in time for the January 2017 implementation.

The ICI expansion will impact ratepayers in 2018, due to the time required to implement the expansion and for billing changes. Implementation of the change will be done by a Minister's regulation amendment in Fall 2016.

Recycling cap and trade proceeds would commence in 2017, subject to the results of Ontario's first cap and trade auction. Energy and MOECC will report back to TB/MBC in Fall 2016 for final approval on the use of proceeds to support this initiative.

Linkages:

Ontario's Climate Change Action Plan (CCAP)

Placeholder

Electricity Rate Mitigation Initiatives:

The OCEB was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

The government also recently ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, as of January 1, 2016, and put in place the low-income targeted Ontario Electricity Support Program (OESP), effective xx, 2016.

PROPOSED CABINET MINUTE

Cabinet agreed that:

1. ENERGY implement electricity price mitigation for residential, commercial and industrial consumers, as follows:

- i) Provide a rebate of 8% on the pre-tax cost of electricity for all electricity consumers eligible to be billed under the Ontario Energy Board's Regulated Price Plan; and any other consumers who would be eligible if their electricity account was with a licensed distributor;
- ii) Increase the total amount of rate protection available to R2 low density electricity consumers under the Rural or Remote Rate Protection Program (RRRP) by increasing the subsidy by \$110 million from its current level of \$127 million, which has been capped since 2004;
- iii) Implement a mechanism to periodically adjust the total annual amount of rate protection available to R2 low density electricity consumers under the RRRP, effective on or after January 1, 2018; and
- iv) Expand eligibility for participation in the Industrial Conservation Initiative (ICI) to smaller industrial, institutional and commercial customers by lowering the eligibility threshold to 1 MW and removing restrictions on eligible sectors.

2. ENERGY and MOF seek necessary TB/MBC approvals in Fall 2016.

3. ENERGY and MOF seek approvals for:

- i) the proposed *Ontario Rebate for Electricity Consumers Act, 2016* and any supporting regulations under the proposed *Ontario Rebate for Electricity Consumers Act, 2016*, and with other complementary regulatory amendments and consequential legislative amendments to the *Ontario Energy Board Act, 1998* and the *Ontario Clean Energy Benefit Act, 2010*, subject to the Legislature's approval of the Act, including the following elements:
 - i. The rebate would be available starting January 1, 2017;
 - ii. The legislation would specify the types of costs to which the rebate would or would not be applied, with authority to make changes by regulation;
 - iii. The legislation would address invoicing requirements, including authority to prescribe how the rebate is to appear on consumers electricity bills;
 - iv. The legislation would include authority to prescribe the way in which the rebate is to be flowed through to consumers, and the way in which electricity vendors providing the rebate are to be reimbursed;
 - v. The legislation would include record-keeping requirements for electricity vendors and other prescribed persons;

- vi. The legislation would include inspection powers for inspectors appointed by the minister of Finance, including powers related to the recovery of overpayments;
- vii. The legislation would provide for regulation-making authority to establish a limitation period for ceasing payments and reimbursement based on past entitlement. Similar amendments would be provided for the *Ontario Clean Energy Benefit Act, 2010* but would allow the ceasing of all payments and reimbursements after a prescribed date.

4. ENERGY notes the following amendments:

- i) amendments to Ontario Regulation 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* to lower the Industrial Conservation Initiative (ICI) threshold to 1 megawatt and require electricity consumers and market participants between 1 MW and 5 MW to opt in.
- ii) amendments to Ontario Regulation 442/01 (Rural or Remote Electricity Rate Protection) made under the Ontario Energy Board Act, 1998, to increase support through the the Rural and Remote Rate Protection Plan to R2 low density rural electricity customers.

5. ENERGY work with MOECC to recycle an estimated annual average of \$270 million of Cap and Trade auction proceeds from the Greenhouse Gas Reduction Account for non-RPP commercial and industrial electricity consumers over the first compliance period (2017-2020), through a volumetric rebate mechanism.

6. ENERGY and MOF work with the Premier's Office and the Cabinet Office on the development and implementation of an integrated communications strategy.

TB/MBC

[Placeholder – TBS]

LRC

Cabinet approved version [number] of this draft legislation for introduction, subject to the following:

- 1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.