
Rate Mitigation Options for Non-Regulated Price Plan Class B Consumers

Working Draft

March 2018

Purpose

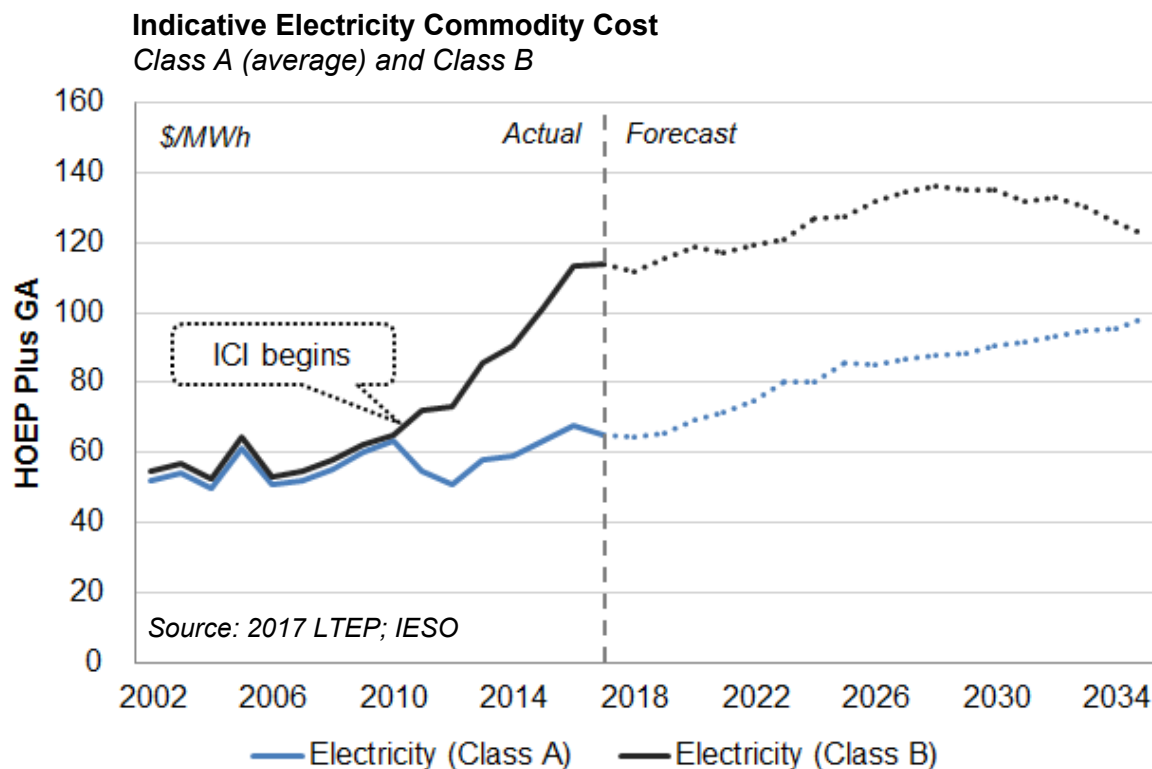
- Describe the pricing environment facing non-Regulated Price Plan (RPP) Class B electricity consumers and how it compares to RPP and Class A electricity consumers.
- Provide an overview of current and planned activities to help non-RPP Class B consumers address their electricity prices.
- Outline options and consideration for additional rate mitigation for non-RPP Class B consumers.

Context

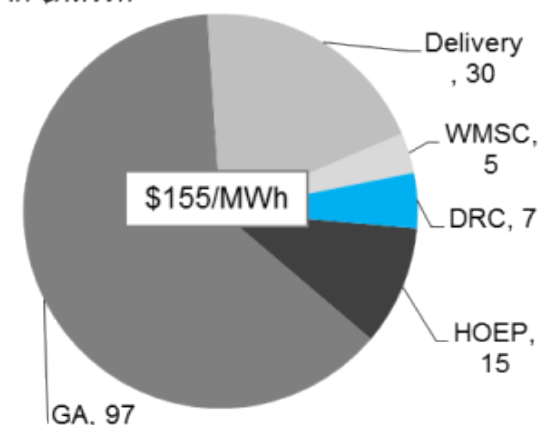
- Residential electricity consumers in Ontario, along with as many as 500,000 small businesses and farms, are receiving substantial benefits from Ontario's Fair Hydro Plan (OFHP), particularly due to Global Adjustment (GA) refinancing.
 - Non-Regulated Price Plan (RPP) Class B and Class A consumers are not eligible for GA refinancing.
- There are about 50,000 non-RPP Class B consumers (e.g., small manufacturers, restaurants, smaller grocery stores, municipal buildings) compared to the 1,100 Class A consumers (i.e., mainly large manufacturers and mines).
 - Class A consumers generally pay the lowest electricity prices in Ontario. They are charged GA based on their contribution to peak demand and pay, on average, 33% less than consumers that do not participate in the Industrial Conservation Initiative program.
 - The cost of electricity for non-RPP Class B consumers has risen faster than CPI since 2008. Their electricity commodity cost reflects the sum of the wholesale market price (i.e., Hourly Ontario Energy Price) and volumetric GA.
- Generally, non-RPP Class B consumers are too large for the RPP, unable to benefit from GA refinancing and not eligible for the expanded ICI (i.e., not manufacturing and/or below 500 kW).

Context

- Electricity commodity cost varies between consumer class. Non-RPP Class B consumers pay higher commodity prices primarily due to the allocation of Global Adjustment (GA) costs amongst classes of consumers.



Typical Non-RPP Class B Price
in \$/MWh



Current and Planned Rate Mitigation Activities – Overview

- To date, several initiatives have already been undertaken to reduce costs for non-RRP Class B consumers, such as:
 - Ongoing conservation programs offered under SaveONenergy for Business Programs (i.e., offer financial incentives to help with the costs of installing energy-efficient equipment and improving the energy efficiency of their buildings). These programs are offered by LDCs, with the support of IESO.
 - Expanding of eligibility for ICI to 1 MW for consumers in all sectors and to 500 kW for manufacturers and greenhouses; and
 - Shifting the cost of electricity support programs from the rate-base to the tax-base, representing a reduction of approximately \$3/MWh or about 2%.
- In addition, the Debt Retirement Charge (DRC) is scheduled to be removed from all bills, effective April 1, 2018.
 - This will save all non-residential consumers \$7/MWh (or about 5% of a typical non-RPP Class B consumer bill).
 - The all-in price for Class B consumers will be reduced from about \$155 to \$148/MWh. Note: The shifting of support programs and DRC removal represent about 6.5% of a typical non-RPP Class B electricity bill.
- In Fall 2017, Ontario partnered with the Ontario Chamber of Commerce (OCC) to deliver targeted outreach to the business community to enhance energy literacy and awareness (e.g., energy programs to lower electricity prices).
 - Further initiatives are planned with the OCC and the Canadian Manufacturers and Exporters (CME) through 2018.

Current and Planned Rate Mitigation Activities – Overview (cont'd)

- Under the Conservation First Framework (CFF), LDCs may apply to the Innovation Fund to fund pilots for Class B customers.
 - The Fund has a budget of \$29 million (2015-2020) to support LDC pilot design and market testing of new program ideas that have high potential to scale up into full programs under the CFF. Note: LDCs may request \$1 million per pilot.
 - Class B customers could also apply to IESO's Conservation Fund, which considers applications for projects to develop or pilot innovative conservation programs, practices and technologies. The Fund is focused on transforming the market and stimulating large-scale change, so proposed projects must be designed to deliver specific outcomes. Note: \$9.5 million per year is available through the Fund.
- As announced in the 2017 Long-Term Energy Plan (2017 LTEP), the Ontario Energy Board (OEB) is currently analyzing Class B rate design, including the potential for a GA charge that would vary with time-of-use for non-RPP Class B consumers, similar to the on and off-peak rates paid by residential consumers.
- The GreenON will continue to deliver programs and rebates to help reduce energy costs for businesses, with proceeds from the province's carbon market. GreenON programs for businesses are expected to be introduced this year.

Additional Rate Mitigation Options for Consideration

- The proposed options could either reduce prices for all non-RPP Class B consumers (i.e., industrial and commercial) or a targeted subset of Class B consumers.
 - Proposed option could focus on supporting economic development in Ontario by offering an electricity cost rebate and/or assisting with the reduction of greenhouse gas (GHG) emissions.
 - Consideration could be given to combining some of the options below to provide both broad and targeted relief.
 - Note: Proposed options assume that funding would come from the tax-base and not the rate-base.
- Options for consideration include:
 1. Ontario Rebate for Electricity Consumers (OREC) style rebate program;
 2. MEDG's program to assist mid-size manufacturers; and
 3. Provide tax-based assistance package for Non-RPP Class B consumers.
- Additional Northern Industrial Electricity Rate Program (NIERP) funding is an option being examined by MNM. Note: MNM have submitted NIERP expansion options to Treasury Board/Management of Cabinet.

1. OREC-Style Rebate Program

- The Ontario Rebate for Electricity Consumers (OREC) has been successful at providing relief for residential and small business consumers. OREC is a permanent, tax-based program that provides an 8% on-bill rebate on pre-tax electricity consumption.
- An OREC style program could be developed for non-RPP Class B consumers. The proposed program could focus on supporting economic development in Ontario by offering an electricity cost rebate.

Considerations

- Depending on the value of the rebate, an OREC style program would likely represent a significant expenditure for government. If eligibility of such a program applied to all non-RPP Class B consumers, regardless of size, costs could increase as some Class A consumers may opt out of ICI to take advantage of the certainty associated with a rebate program.
- An OREC style program would likely be relatively straightforward to administer, since LDCs have experience administering OREC and OCEB; however, implementation of an OREC style program would require legislative and/or regulatory changes. The program could be directed at export-oriented industries (i.e., manufacturing) which would reduce cost, but increase administrative complexity.
- Savings for consumers associated with an OREC style rebate could be viewed as a package along with the savings associated with the shifting of support programs and removal of DRC. Note: The shifting of support programs and DRC removal represent about 6.5% of a typical non-RPP Class B electricity bill.
- The table below shows three possible total percentage reductions and the rebate that would accompany each:

Total Price Reduction <i>(Incl. Social Programs and DRC removal)</i>	Rebate	Estimated Cost of Rebate (\$M)
10%	3.5%	185
15%	8.5%	450
20%	13.5%	710

Note: Distribution and transmission costs are estimated and included for all consumers. Estimates are for the 2018 calendar year and would increase over time. There are about 50,000 non-Regulated Price Plan (RPP) Class B consumers, including many smaller industrial facilities

2. MEDG's Program to Assist Mid-Size Manufacturers

- MEDG has proposed the development of a program to assist mid-sized manufacturers. The purpose of the program is to help mid-sized manufacturers reduce greenhouse gas (GHG) emissions by making funding available to reduce the capital costs of retrofits, process changes and facility expansions.
- The program would be launch in fiscal year 2018-19 and be funded through GreenON.

Considerations

- MEDG's proposed budget is \$370 million total funding for the proposal over four years and between \$0.5 and \$2.5 million per participant. Note: For reference, the annual all-in electricity bill of a typical 500 kW manufacturer ranges between \$360,000 and \$550,000 at current rates.
- Significant resources would be required to administer the application and ongoing delivery of the program, and most non-RPP Class B consumers would receive no assistance, as the commercial and institutional sectors would not be eligible.
- Further work is also needed to further refine the proposal (e.g., develop eligibility criteria, identify a potential delivery agent, avoid duplication of support across existing ENERGY conservation and demand-side management programs).
 - MEDG staff are still studying eligibility criteria – consideration is being given towards a focus on project types, rather than narrowly defining eligibility by employee counts, revenue limits or GHG emission thresholds.
- Cost estimates of MEDG's Program to Assist Mid-Size Manufacturers:

Price Reduction (\$M per participant)	Cost of Program (\$M)	Number of Participants
0.5	370	740
2.5	370	148

3. Tax-Based Assistance Package for Class B Consumers (i.e., SMEs)

- Consideration could be given to provide a comprehensive package of tax-based measures to reduce prices for Class B consumers, including:
 - Lowering corporate taxes for SMEs;
 - Tax credits; and
 - Tax-based incentives.

Considerations

- Tax-based incentives are offered in a number of jurisdictions such as New York, Minnesota, Iowa and South Carolina to reduce the cost of electricity that retain jobs or are considered electricity intensive.
- Fiscal impacts would vary depending on the design of the strategy. Further analysis would be required on the potential impacts for consumers and the fiscal plan.
- Ministry of Energy will work with MEDG, TBS and MOF as necessary.

Considerations / Next Steps

- Electricity costs in Ontario have increased over the last decade, following necessary investments in electricity generation, transmission and distribution.
 - Non-RPP Class B consumers continue to raise concerns that the cost of electricity is impacting their competitiveness. Note: Class A consumers have also raised similar concerns.
- Non-RPP Class B electricity consumers have benefited from shifting the cost of electricity support programs from the rate-base to the tax-base (i.e., approximately \$3/MWh). In addition, removal of the DRC from all bills, effective as of April 1, 2018 that will also benefit Class B consumers (i.e., approximately \$7/MWh).
 - The shifting of support programs and DRC removal represent about 6.5% of a typical non-RPP Class B electricity bill. Note: The all-in price for Class B consumers will be reduced from about \$155 to \$148/MWh.
- Ministry of Energy staff will continue to work with other ministries, agencies and stakeholders to address the rate mitigation concerns non-RPP Class B Consumers.

Appendix

“Power for Jobs” Program to Lower SME Electricity Rates

- The Ministry of Energy and MEDG have developed a “power for jobs” type program proposal to support economic development in Ontario by offering an electricity cost rebate.
- Indicative costs of providing such a program to 10% of non-RPP Class B consumption base are shown below.
- Program would be funded through the tax-base and delivered by MEDG.

Considerations

- Further program scoping is required to inform the development of a cost estimate for the program.
- Because the program would be application based, significant resources would be required to administer the application and ongoing delivery of the program.
- Cost estimates of an application-based rebate (with 10% participation):

Price Reduction	Estimated Cost of Rebate in 2018 (\$M)	Average Unit Price Reduction (\$/MWh)
5%	30	7.44
10%	60	14.88
15%	90	22.32

Note: Distribution and transmission costs are estimated and included for all consumers. Estimates are for the 2018 calendar year and would increase over time. There are about 50,000 non-Regulated Price Plan (RPP) Class B consumers, including many smaller industrial facilities

Additional NIERP Funding – Overview

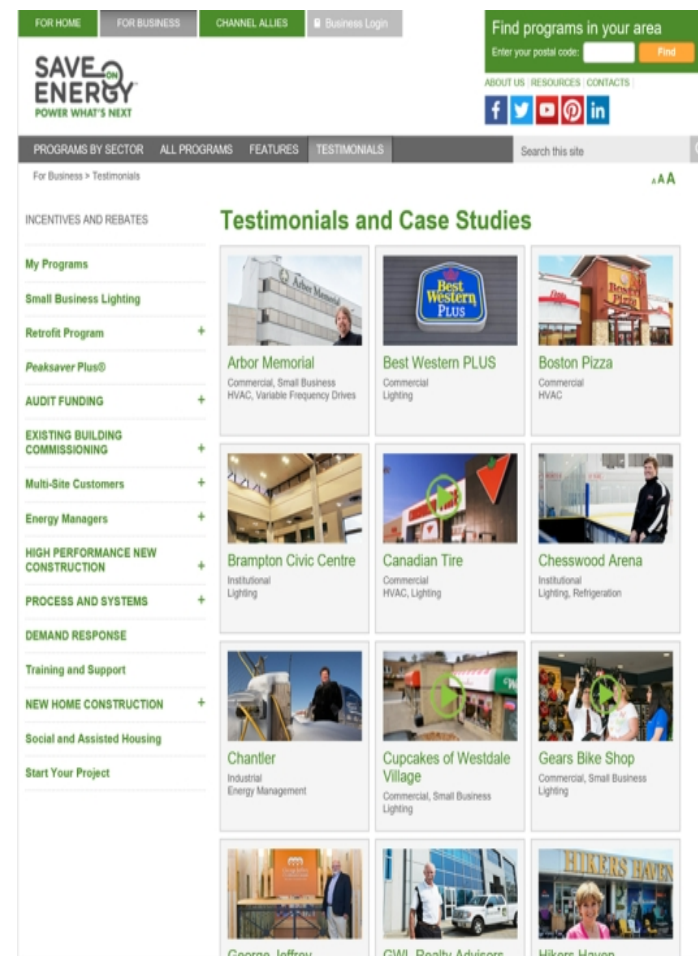
- The Ministry of Northern Development and Mines (MNDM) is seeking to amend NIERP to introduce a new investor stream that would be open to existing and new participants that are intending to make major capital investments in their operations in Northern Ontario.
- Enhancements to program parameters would include minimum capital investment thresholds and minimum job retention / creation targets in order to be eligible for the stream.
- The expansion would require an increase of up to \$50 million to the current allocation of \$120 million beginning in 2019/20.

Considerations

- Large mining companies have indicated the need to make significant investments in their facilities in order to expand operations and to avoid any loss of jobs over the next few years (i.e., Glencore – Sudbury \$1.5 billion; Vale – Sudbury \$3.5 billion; Goldcorp – Timmins \$1 billion).
- MNDM would report back to Cabinet and Treasury Board/Management Board of Cabinet with parameters developed for the investor stream category in fiscal 2018-19. MNDM will also seek legal input (i.e., trade law risk).
- If additional assistance is provided to one sector (i.e., mining), companies in other sectors will seek similar treatment, further increasing the cost to government/taxpayers.

SaveONEnergy – Overview

- Through saveONEnergy, many non-RPP Class B consumers have already taken advantage of energy efficiency programs to reduce electricity bills.
- Although saveONEnergy programs like Process and Systems Upgrade Incentive (PSUI) exist, these programs generally require significant investment on behalf of the customer in addition to the incentives.
- For Class B manufacturers whose electricity consumption is primarily based on process activities (e.g., injection moulding, welding, etc.), traditional conservation measures like lighting and ventilation upgrades have limited benefit.



Source: IESO; OEB; Ministry of Energy