LEGISLATION AND REGULATIONS COMMITTEE
BRIEFING NOTE

Energy

DRAFT based on draft materials- OESP Transition to Government Funding

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	LRC/Cabinet April 10, 2017	TB/MBC May 9, 2017
Cabinet May 10, 2017	Introduction May 11, 2017	Royal Assent June 1, 2017	Cabinet June 27, 2017	LRC Feb. 6, 2018
Cabinet Feb. 6, 2018	Effective Date Feb. 15, 2018			

Summary of Proposal

The proposal is consistent with government direction.

Context for Decision:

The Ontario Electricity Support Program (OESP) is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers by providing a credit directly on bills. The program, established under section 79.2 of the Ontario Energy Board Act, 1998 (OEBA), is delivered by the Ontario Energy Board (OEB) and has been in place since January 1, 2016.

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which would lower bills by 25% for a typical residential consumer, starting in the summer of 2017. OFHP includes some benefits for all consumer classes as well as targeted benefits to those identified as having the greatest need, including a 50% expansion of the benefits under OESP.

The *Fair Hydro Act, 2017,* was introduced on May 11, 2017 and received Royal Assent June 1, 2017. The act included amendments to the Ontario Energy Board Act, 1998 (OEBA) to allow for the OESP to transition from the rate base to the government funding, and create the appropriate oversight authorities for the use of funds. These amendments were not proclaimed at the time, as there was a significant variance account that was built up through the OESP regulatory charge, which allowed the program to be funded through this account until depletion.

Proposal

In order to complete the transition of OESP to government funding, the ministry is proposing a proclamation Order In-Council (OIC) to bring into force subsection 79.2 of the OEBA as of January 1, 2018. The ministry is also replacing the existing regulation governing the OESP (O.Reg. 314/15) to ensure alignment with the OEBA amendments and introduce the appropriate reporting relationships and controls for government funding. If approved, the legislative and regulatory changes would take effect on February 15, 2018 [TBC].

Why does Ontario need these changes? Why now?

As part of OFHP, several electricity support programs, including OESP, were to transition from the rate base to government funding in order to eliminate the electricity rate impacts of these programs. OESP was not immediately transitioned as there was a significant variance account that was built up through the OESP regulatory charge, which allowed the OEB to continue program administration while not impacting rates.

Energy reports that, as of December 31, 2017, the variance account balance was $24.9M and depletion to zero is anticipated in March when utilities and unit sub-meter providers seek compensation for February 2018 program costs. The ministry proposal would ensure that the appropriate mechanisms are in place for the ministry to begin financing the OESP through government funds and to oversee the use of those funds. Transitional provisions in the proposed regulation will ensure that the variance account is fully utilized if there is any remaining balance after the effective date of the proposal.

How will this proposal impact Ontario?

The transition of the OESP program to government funding decreased average electricity bills by about $1 per month. Unlike some other OFHP initiatives, the transition provides rate relief for all electricity consumers, since every customer in Ontario was supporting the program through a volumetric OESP charge of $0.0011 per kWh of power consumed.

What is the expected cost to government?

The cost of the OESP is heavily dependent on program uptake because the credits are fixed amounts. To ensure the program receives an appropriate amount of funding to support its ongoing implementation, ENERGY submitted revised program forecasts through the 2018-19 PRRT Submission:

Ontario Electricity Support Program ($M)	2018-19	2019-20	2020-21
Preliminary Allocation	261.0	325.0	375.0
Revised Forecast *(based on 60% uptake)*	230.0	264.0	288.0

The revised forecast assumes that the program will only reach 60% by 2020-21 and will grow at a slower rate compared to what was originally estimated. Forecast revisions for 2017-18 will be addressed through PRRT quarterly reports.

Under the requirements of the Reducing Regulatory Costs for Business Act, 2017 the ministry projects that this proposal will not have any new administrative costs on businesses [TBC]. If approved, the ministry will publish this estimate along with the posting of the regulation [TBC].

What are the key steps to deliver this proposal?

On February 15, 2018, the amended ss. 79.2 of the OEBA and the new OESP regulation will come into effect.

Funding for the OESP will continue to be drawn from the variance account until it is depleted, which is anticipated in March 2018.

How will the changes be communicated?

OEB is finalizing an OESP marketing buy for Q1 2018 (ending March 31), which will be consistent with previous campaigns undertaken by the OEB.

Terms you need to know

- **Ontario Energy Board (OEB) –** A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Local Distribution Companies (LDCs) –** Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa and Toronto Hydro).
- **Unit sub-meter providers (USMPs) –** Privately owned companies that provide metering services to multi-unit residential buildings so that individual unit residents can be billed for electricity based on their individual consumption levels.
- **Independent Electricity System Operator (IESO) –** An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply and demand of electricity in Ontario, and then directs its flow across the province's transmission lines, including interties with other jurisdictions.

Cabinet Office Analysis

This proposal is consistent with government direction.

Introduction:

The Ontario Electricity Support Program (OESP) is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched on January 1, 2016, and to date has an estimated participation rate of over 30%. Under OFHP the program was expanded to increase the existing benefit credit amounts by 50% and expand program eligibility to include more households. Under the expanded program the basic OESP benefit scale increased from $30-$50 to $35-$75 a month and the enhanced OESP benefit scale would increase from $45-$75 to $52-$113 a month for eligible consumers.

Proposal:

The proposed proclamation OIC would bring into force a revised ss. 79.2 of the Ontario Energy Board Act, 1998 to enable the OESP to transition from the electricity rate base to government funding to reduce pressure on electricity rates.

The ministry is also proposing to replace the existing regulation governing the OESP (O.Reg. 314/15) to ensure alignment with the OEBA amendments and introduce the appropriate reporting relationships and controls for government funding. Key changes to the regulation include:

- Administrative changes such as clarifying and updating definitions;
- Ensure that the Independent Electricity System Operator (IESO)-administered variance account is depleted, at which point program costs will be compensated using government funds;
- Outline the information reporting requirements from electricity providers in order to be compensated by the IESO for program costs;
- Introduce reporting requirements for the IESO to enable reimbursement for program and administrative costs by the Ministry; and
- Introduce reporting requirements for the Ontario Energy Board (OEB) on program metrics and projected program costs for approval by the Ministry.

The ministry advises that there will be no interruption with the program and that program recipients should not notice that any change has taken place.

Linkages:

2017 Long-Term Energy Plan (LTEP) – Ontario released the 2017 LTEP on October 26, 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP is intended to balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Ontario's Fair Hydro Plan – On June 1, 2017, the *Ontario Fair Hydro Plan Act, 2017* became law, reducing electricity bills for all residential consumers across the province. As many as half a million small businesses and farms are also benefiting. The OFHP also helps electricity consumers by enhancing a number of electricity support programs. The OFHP initiatives featured prominently in the province's 2017 LTEP and will have an impact on the province's energy planning activities for decades.

Protecting Vulnerable Energy Consumers Act, 2017 – On February 22, 2017, the government passed the Protecting Vulnerable Energy Consumers Act, 2017, which grants the OEB power in preventing electricity consumers from being disconnected during the winter months.

Low-Income Energy Assistance Program (LEAP) – Low-income electricity consumers that qualify for the OESP could qualify for other energy relief programs, including one-time grants from the OEB's LEAP as well as credits from the Ontarian Trillium Benefit's Ontario Energy and Property Tax Credit and Northern Ontario Energy Credit programs. Under LEAP, low-income electricity consumers receive emergency financial assistance, and also benefit from special rules, such as having security deposits waived, longer payment times on arrears payment plans, and longer grace periods if facing disconnection.

Automatic enrolment and interim proactive manual enrolment – In July 2017, the Ministry of Community and Social Services (MCSS) and the Ministry received TB/MBC approval to create an automatic enrolment system to enrol individuals on social assistance (SA) in the OESP: the objective being to increase overall program participation amongst this group by removing potential barriers. This automated enrolment system is expected to be operational by summer 2018. In the interim, and to capture existing individuals on SA that will not be automatically enrolled through the new system, in October 2017 MCSS established a temporary team to proactively reach out to applicable individuals on SA (i.e., with utility expenses) across the province to enrol them in OESP, take inbound calls from those wishing to enrol, and accept referrals from local SA offices. These efforts were enabled by other amendments to the OEBA that provided authority to MCSS to align OESP with social assistance programs, and by changes to the OESP regulation to ensure that anyone deemed financially eligible for social assistance would automatically be eligible for the OESP. (Note: A separate strategy is being determined to support the enrolment of First Nations social assistance clients living on-reserve, where implementation of the automated solution will not be possible.)

Stakeholder response:

The ministry is not anticipating the proposal will generate any communications issues and that the response, if any, will be largely neutral.

Risks:

Costs

The cost of the OESP is heavily dependent on program uptake because the credits are fixed amounts, and the program represents an ongoing and increasing pressure on government revenues. If participation rates end up being higher than anticipated this would increase the costs of the program to government from the projected figures. However, increased participation rates would overall be positive as the program would be reaching more of the individuals that are intended to receive its support.