March 1, 2017

Electricity Price Mitigation

How will the Fair Hydro Plan affect the Province's Fiscal Plan?

SUGGESTED RESPONSE

- **The government remains committed to balancing the Budget in 2017–18, while continuing to make investments in priority areas such as electricity price relief. The government will provide a full update on its fiscal plan in the upcoming Budget.**

Fair Hydro Plan

- **Ontario's Fair Hydro Plan represents a significant system restructuring that will address long-standing policy challenges and will result in the biggest electricity rate reduction in Ontario's history.**

- **The Plan takes actions to lower electricity bills by an estimated 25 per cent on average for a typical residential customer as part of a significant system restructuring that will address long-standing policy challenges and ensure greater fairness.**
  - **This includes the impact of the 8% rebate equivalent to the amount of the Provincial portion of the HST, that was in effect as of January 1, 2017.**

- **The Plan would include financing Global Adjustment costs, which have been incurred to invest in a clean, modern and reliable system, so that the costs would not be put on today's electricity bills alone, but would be spread out over a longer period, recognizing that many of the new generating assets will be able to provide electricity for a longer period than their contract terms, to the benefit of electricity consumers in the future.**

  - **The Global Adjustment model is in the process of being designed. It would include the Independent Electricity System Operator and Ontario Power Generation. This reflects that this is a plan within the electricity sector. The intention is to design it in such a way that it would not have a fiscal impact.**

- **Details on this proposal and other parts of the Plan will be coming from my colleague, the Minister of Energy.**

- **Enhancement of social programs. The enhanced programs, and moving funding off of the electricity rate base to be government-funded, thereby providing savings to ratepayers. This is estimated to be $2.5 billion over the next 3 years.**

  - **As part of these initiatives, people with low incomes and those living in rural communities would benefit from additional reductions to their electricity bills:**

    - **Enhancing the Ontario Electricity Support Program for low-income and vulnerable customers.**

    - **Enhancing the Rural or Remote Rate protection program to provide distribution charge relief to additional customers.**

    - **Establishing an Affordability Fund would provide Local Distribution Companies (LDCs) with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.**

    - **The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.**

- **Expanding the eligibility threshold for the Industrial Conservation Initiative (ICI) would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand.**

<u>Existing Programs (Government-funded)</u>

- **The Fair Hydro Plan is in addition to existing government funded programs that help Ontarians manage their electricity costs:**

  - **Removing the Debt Retirement Charge (DRC) early for all residential customers, saving the typical ratepayer $70 per year.**

- **Helping low- to moderate-income individuals with property taxes and the sales tax on energy through Ontario Energy and Property Tax Credit (OEPTC) program. The credit is part of the Ontario Trillium Benefit.**
- **Helping Northern Ontario residents with the higher energy costs they face living in the north through the Northern Ontario Energy Credit (NOEC) program. The credit is also part of the Ontario Trillium Benefit.**
- **Providing ongoing support to northern industrial facilities beyond March 2016, with continued investment of up to $120 million per year under the Northern Industrial Electricity Rate (NIER) program.**

BACKGROUND

OVERVIEW

Significant investments in generation and conservation, including to support the decision to eliminate Ontario's use of coal, to build clean, renewable supply, are being funded in part through the Global Adjustment (GA).

If approved, the proposal will smooth the impacts of the GA, help the most vulnerable Ontarians through enhancements to electricity support programs through tax-based funding and work to bend the future cost curve of electricity.

GA Smoothing (or Deferring and Financing) Proposal

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

The majority of the province's electricity generators have 20-year contracts.

Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers. Recovering the GA costs over a longer period would provide significant and immediate rate relief to ratepayers by spreading the cost of electricity investments to better reflect the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs recovered through the GA would be deferred, reducing pressure on today's electricity ratepayers. In later years, the deferred costs would be recovered from ratepayers.

Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years, for a total accumulated debt of about $28 billion on a forecast basis.

Enhancing Social and Conservation Programs

To help Ontario's most vulnerable electricity consumers, the government intends to introduce legislation to enhance some existing programs or introduce new initiatives.

Broadening Rural or Remote Electricity Rate Protection (RRRP)

This is projected to cost approximately $460 million in the 2017-18 fiscal year.

The Rural or Remote Rate Protection (RRRP) provides a rate subsidy to rural and remote residential customers who face higher distribution costs compared to urban areas.

The RRRP is currently provided to approximately 350,000 rural residential customers in Ontario.

The Province would expand the RRRP to provide distribution charge relief to additional customers served by LDCs with the highest rates. About 800,000 customers would benefit from the enhanced RRRP program. These would include customers of Hydro One R1, Hydro One R2, Northern Ontario Wires Inc., Lakeland Power, Chapleau PUC, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power. The benefits would differ from LDC to LDC.

The Province will also move to government-funding of RRRP costs, reducing regulatory charges for all Ontario ratepayers.

Expanding the Ontario Electricity Support Program (OESP)

This is projected to cost about $185 million in 2017-18.

The OESP is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers, providing a rebate directly on bills. There are two scales: one with basic credits, and an enhanced credit for Indigenous people or those who use electric heat or certain electrically intensive medical devices.

Ontario is increasing the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from $30 to $45 per month ($540 per year, an increase of $180), and the lowest credit for consumers that are either Indigenous, use electric heat or have certain medical devices would increase from $45 to $68 ($816 per year, an increase of $276).

The Province is also moving forward in having the OESP funded by provincial revenues, reducing electricity charges for all Ontario ratepayers.

Establishing an Affordability Fund

This is projected to cost $200M.

The Affordability Fund would assist electricity customers who cannot qualify for low-income conservation programs.

The Affordability Fund would provide Local Distribution Companies (LDCs) with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.

The Province would pay for the Affordability Fund through provincial revenues. .

Providing a First Nations On-Reserve Delivery Credit

This is projected to cost about $20 million in 2017-18.

In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network.

Following the engagement process the OEB recommended:

- Eliminating the delivery charge for all on-reserve First Nations residential customers and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of $85.
- Automatically qualifying on-reserve First Nations residential customers (approximately 21,500 customers).
- Enabling greater information sharing between distributors and Band Councils to identify all on-reserve First Nations customers.

Government intends to introduce legislation to implement these recommendations.

Expanding the Industrial Conservation Initiative (ICI)

This is a rate base funded program.

- Expanding the eligibility threshold for the ICI would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand.

- Under the expanded ICI, small manufacturers and industrials whose electricity demand is currently too low to qualify for ICI, would now be eligible for the expanded ICI if they wish to participate.

  - Extending eligibility to small manufacturers and industrials with average monthly peak demand over 500 kilowatts; and
  - Targeting eligibility to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).

Existing Programs (Government-funded)

Ontario has a number of existing government-funded programs to help Ontarians reduce energy costs:

- The Ontario Rebate for Electricity Consumers is now reducing electricity costs for about five million residential consumers, farms and small businesses.
  - Electricity bills have been reduced by an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST), an average savings of about $130 annually or $11 each month for a typical residential consumer.
- Removing the Debt Retirement Charge (DRC) early for all residential customers, saving the typical ratepayer $70 per year.
- Helping low- to moderate-income individuals with property taxes and the sales tax on energy through Ontario Energy and Property Tax

Credit (OEPTC) program. The credit is part of the Ontario Trillium Benefit.

- Helping Northern Ontario residents with the higher energy costs they face living in the north through the Northern Ontario Energy Credit (NOEC) program. The credit is also part of the Ontario Trillium Benefit.
- Providing ongoing support to northern industrial facilities beyond March 2016, with continued investment of up to $120 million per year.

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