Ontario

CABINET BRIEFING NOTE

Energy

Electricity Price Mitigation

Cabinet DATE, 2016	Announcement tbd

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. – *Ontario Budget* 2016

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 to consumers eligible for the Regulated Price Plan (RPP) (i.e., residential, small business and farms), equivalent to the provincial portion of HST;
- Expand Industrial Conservation Initiative (ICI) eligibility by lowering the threshold to 1 MW, to provide support to Class B electricity consumers (i.e., commercial, institutional and small industrial);
- Update the Rural and Remote Rate Protection (RRRP) program, to provide relief to rural customers; and
- Recycle cap and trade proceeds to commercial and industrial electricity consumers to provide a modest reduction in rates.

Rebate to RPP consumers

ENERGY is proposing to introduce legislation/regulation 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 or would not receive the benefit.

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).

Expanding Industrial Conservation Initiative (ICI)

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.

There are two classes of ICI consumers:

- "Class A" consumers are large power users with a monthly peak demand exceeding 5 MW. These users are charged global adjustment (GA) on the basis of their contribution to system peak demand during the highest 5 system demand hours of the year. There are currently about 200 Class A consumers in Ontario.
- "Class B" consumers are all other consumers, who are charged GA as a flat rate applied to their consumption.

The ministry is recommending lowering the Class A threshold to include customers with monthly peak demand greater than 1 MW. This is expected to add between 300 new Class A customers to the existing pool. It is estimated that these new Class A customers would see their electricity bills reduced by an average of about 21% in the short-term. The remaining pool of smaller (Class B) users would see their bills increase of X% as they would have to cover the share previously borne by the customers shifting to Class A.

The Ministry is recommending that new entrants be required to opt-in to the ICI program in order to become a Class A customer. The reason for this opt-in requirement is that customers in industries that are unable to shift their power use away from times of peak demand (e.g. motor vehicle manufacturing) would actually see their bills increase if they were included in Class A of the ICI program.

Updating RPPP program

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 would bring R2 bills in line with Hydro One R1 (medium density) bills at 1000kWh by an addition to the subsidy. This 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

Recycle cap and trade proceeds to commercial and industrial consumers

[placeholder]

What is the expected cost to government?

The proposal would cost an estimated $1 billion per year. This figure is a 2017 to 2020 calendar year average of cost estimates developed by Ministry of Energy staff, as follows:

$ 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 indicates the current proposal would provide recycling of cap and trade proceeds to commercial and industrial consumers on a volumetric basis. This would require an estimated $60 million less per year in proceeds than previously estimated (i.e., providing fiscal plan flexibility of about $60M per year to commit to other GHG reduction initiatives in the fiscal plan). There are no details as this point if the $261M in 2016-17 would be offset from the Treasury Board Contingency Fund or provided through supplementary estimates.

How will the changes be communicated?

Public high-profile communications would coincide with introduction of legislation (September 2016). Currently, the 8% rebate would be available starting January 1, 2017 (it could be prescribed earlier), along with updating the RRRP. Expanding ICI won't be added to bills until 2018 due to the time required to implement the expansion and for billing changes. Recycling cap and trade proceeds would commence in 2017.

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.)
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CABINET OFFICE ANALYSIS

This proposal aims to meet the 2016 Budget commitment to offset the impact of cap and trade in Ontario for commercial and industrial electricity consumers, while also providing a benefit of up to $2 per month for residential electricity consumers. This included a commitment to provide a modest benefit of up to $2 per month, on average, to residential consumers. The Climate Change Action Plan (CCAP) included up to $1.32B over 4 years to help keep electricity rates affordable for residential and industrial consumers.

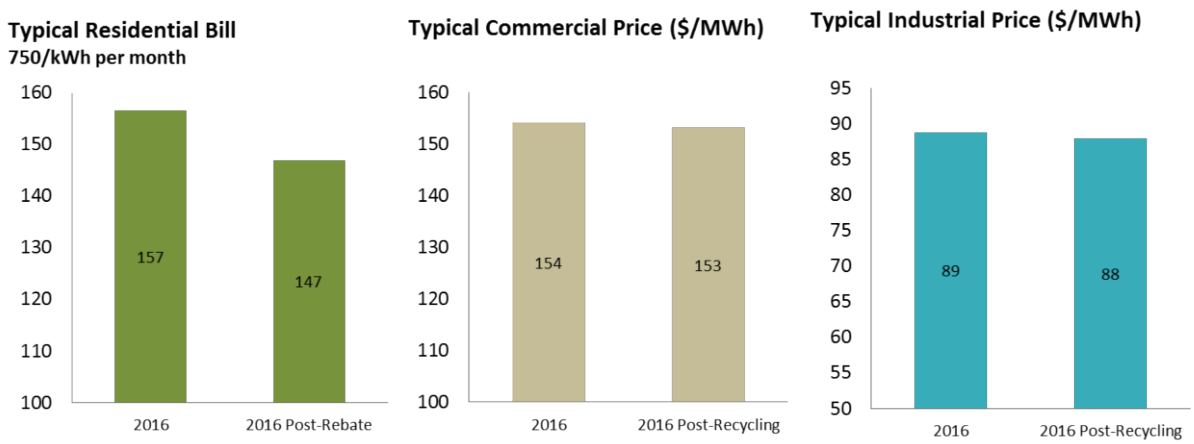
The Ontario Clean Energy Benefit (OCEB) expired December 31, 2015, as part of the originally planned, five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. With the end of OCEB, the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, as of January 1, 2016, and also put in place the low-income targeted Ontario Electricity Support Program (OESP).

Since 2010, electricity prices have risen considerably in Ontario, particularly for households and small businesses. Prices are forecast to continue to increase as additional energy generation is brought online. This proposal is intended to provide rate relief to Ontario electricity consumers.   There are three classes of electricity consumers:

	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%

Ontario currently provides rate mitigation to various electricity consumers through a combination of tax-based and rate-based programs. Electricity costs must be fully recovered through the electricity consumers, so rate mitigation funded through the rate base is often done by shifting costs from one consumer group to another.

The following graphic from the Ministry highlights the proposal impacts by electricity consumer class. Due to the nature of the ICI Global Adjustment mechanism and cost recovery of RRRP, the rate base proposals (#2 and #3) benefit the targeted recipients, but come at a cost to all other electricity rate payers in Ontario.



Residential: The net impact of the 8% rebate is a 6% reduction.

Commercial: The net impact of proceeds recycling is a 1% reduction.

Industrial: The net impact of proceeds recycling is a 1% reduction.

Linkages:

Ontario's Climate Change Action Plan (CCAP) commits $6.0 – 8.3 billion over 4 years to greenhouse gas (GHG) reduction initiatives, funded by Cap and Trade auction proceeds.

The CCAP includes up to $1.32 billion over 4 years to help keep electricity rates affordable for residential and industrial consumers. This initiative is estimated to reduce up to 3,000,000 tonnes of greenhouse gas (GHG) emmissions by 2020

$ Billions	**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**
Electricity Price Mitigation	*Up to 0.3*	*Up to 0.3*	*Up to 0.3*	*Up to 0.3*	*Up to 1.3*

Ontario's Climate Change Mitigation and Low-carbon Economy Act, 2016 requires that all proceeds generated from Cap and Trade be used to help reduce greenhouse gas emissions. Should a portion of CCAP funding currently allocated to Electricity Price Mitigation be used to offset rate increases for certain industrial consumers, the remaining CCAP funding could provide a fiscal plan offset to the overall initiative by funding other existing initiatives that help reduce greenhouse gas emissions

[other linkages – placeholder]

Risks:

- [Proceeds recycling – placeholder]
- This request does not align with the 2016 Budget fiscal plan and there are no proposed offsets.
- This entire proposal would mean that the 8% rebate would be reduced to 6%, when the OCEB provided 10% price relief. Risk of criticism for providing a smaller relief package.
- Providing a rebate equivalent to the cost of HST could lead to pressure to provide similar relief for other fuels and energy sources (Ontarians who heat their homes with natural gas, heating oil, propane, etc would continue to pay 13% HST on those sources)
- Difficult program design - an across the board rebate could be criticized as providing HST relief to those who do not pay HST (Public Service Body rebates, income tax relief), however a complicated program design would result in difficulties and higher cost with implementation
- The proposal allows for consumers classes who would benefit from more than one of the initiatives simultaneously
- On-bill rebate delivery would likely 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 a January implementation
- Detailed messaging on bills could be implemented (A bill mock-up is pending from the Ministry). The rebate would not be directly linked to HST.

Other Jurisdictions:

PROPOSED CABINET MINUTE

Cabinet agreed that:

1. ENERGY implement electricity price mitigation for residential, commercial and industrial consumers through the following:

i) Working with MOF to 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 $110 million.

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.

iv) Expanding eligibility for participation in the Industrial Conservation Initiative (ICI) to small industrial, institutional and commercial customers.

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

3. ENERGY and MOF seek approvals for:

i) the legislation and any supporting regulations under the proposed bill, 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.

4. ENERGY seek approvals for:

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

Commented [MC1]: Use the full name versus a short form

Commented [MC2]: What is the policy change here? Is the amount being doubled, or increased by x%? describe the change by the process versus the amount

Commented [MC3]: What are the differences here from OCEB?

electricity customers.

5. ENERGY and MOF work with MOECC to recycle up to an annual average of $270 million of Cap and Trade auction proceeds from the Greenhouse Gas Reduction Account for commercial and industrial electricity consumers over the first compliance period (2017-2020).

Commented [MC4]: Need more detail about the intended process and recipients for GGRA funds – for discussion versus for adding into the cab sub at this point

6. ENERGY and MOF work with Cabinet Office, Premier's office to develop a communications plan.

TB/MBC

TBC with 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