

Energy

Electricity Price Mitigation

TB/MBC Sept. 12, 2017	Cabinet Sept. 12, 2016	Effective Date Jan 1, 2017 (8% rebate)	TB/MBC Feb XX, 2017	Cabinet Feb 15, 2017	Announcement Feb 16, 2017	Effective Date July 1, 2017
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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

This note contains the final proposed minute.

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 residential **[and other]** electricity consumer classes:

- Provide an X% rebate to [describe consumer class] by XX GA smoothing mechanism would be delivered by XXX;
- Update programs to provide further relief to the most vulnerable customers by funding electricity support programs through the tax-base:
 - 1) Delivery Charge Relief / Rural or Remote Electricity Rate Protection (RRRP) Enhancement;
 - 2) Ontario Electricity Support Program (OESP) Expansion; and
 - 3) Low-Income Conservation.

[Other possibilities from deck]

- [Ontario Energy Board (OEB) – Identify opportunities for OEB red-tape reduction and future LDC efficiencies and rates.]
- [Ontario Power Generation (OPG) – Find further efficiencies in operations and pass on savings to ratepayers.]
- [Independent Electricity System Operator (IESO) – Modernize Ontario's electricity market through electricity Market Renewal initiatives.]

The Ministry proposes to make amendments to the *XXX legislation* / introduce new legislation in order XXX.

Provide an X% rebate to [describe consumer class] by XX GA smoothing mechanism would be delivered by XXX

Under the proposal, ENERGY would introduce the *XXX Act, 2017* in XX date to provide XX rate relief, effective July 1, 2017. [include information about which consumers would be impacted].

Those ineligible to receive the rate relief will benefit from one or more of the other initiatives under this proposal (e.g., [list others]).

Update programs to provide further relief to the most vulnerable customers by funding electricity support programs through the tax-base

RRRP is a rate-based funded 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) is provided to Hydro One's lowest-density customers – classified as R2 customers. There are approximately 329,000 R2 customers. The current program provides a rebate of \$31.50. The proposed update to the program would increase the benefit to \$60/month.

The proposal includes an additional \$110 million in program funding that would see an increased benefit of approximately \$29/month. This would bring R2 bills in line with Hydro One R1 (medium density) bills at 1000 kWh and would increase the R2 portion of the RRRP to \$235 million. The additional monthly cost for an average residential consumer would be approximately \$0.60. ENERGY is also proposing that RRRP could be indexed at inflation or “trued up” on a regular basis to ensure the benefit 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 peaking generation. Electricity consumers over 5 MW and consumers from 3-5 MW in certain energy intensive sectors (e.g., pulp and paper, auto, manufacturing, steel, chemicals and mines) are eligible for ICI (i.e., approximately 300 Class A consumers). For an average residential customer, the cost of supporting ICI was roughly \$5/month in 2015.

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 and electricity system costs 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 smaller industrial, institutional and commercial category, including: automotive supply chain companies, office towers, large shopping malls, greenhouses and others. The base setting period for the expanded program would begin in 2017, with the benefit seen by consumers starting in 2018.

What is the expected cost to government?

The proposal would cost an estimated \$XX billion per year. This is not in the government's fiscal plan and so represents an additional pressure on the plan.

\$M	2016-17	2017-18	2018-19	2019-20	2020-21
1. Global Adjustment (GA) Smoothing Financing (Moderate)	TBC	TBC	TBC	TBC	TBC
2. Electricity Support Programs Funded Through the Tax-base to Help the Most Vulnerable*					
a. Delivery Charge Relief	-	64-90	52-72	38-54	26-36
RRRP Enhancement		306-332	300-320	293-309	287-297
b. OESP Expansion	-	178	239	290	334
c. Low-Income Conservation	-	30	30	30	30
3. OEB – OEB – Red-Tape Reduction / LDC Efficiencies and Rates	-	-	-	-	-
4. OPG – Operational Efficiencies**	-	-	-	-	-
5. IESO – Market Renewal Initiatives	-	-	-	-	-

The impact of moving program funding from the electricity rate base to the tax base is that XXX.

How will the changes be communicated?

Public high-profile announcement and communications would occur in February 2017. This would be followed by the introduction of legislation at XX date. Stakeholder outreach/technical briefings will be held with [all tbc - LDCs, Ontario Chamber of Commerce, Association of Major Power Consumers of Ontario, Ontario Energy Board low-income table, Association of Municipalities of Ontario], and others.

The changes will be positioned as:

- Building on the January 2017 8% HST rebate.
- Fiscally prudent plan to benefit all ratepayers in a meaningful way.
- The most vulnerable will receive significant rate relief.

- 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 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Class B Consumer** – commercial, institutional and small industrial consumers, typically with load size between 0.05 – 3 MW. Class B consumers pay GA as a flat rate applied to electricity consumption. Class B consumers include those that choose not to become Class A.
- **Class A Consumer** – large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year.

CABINET OFFICE ANALYSIS

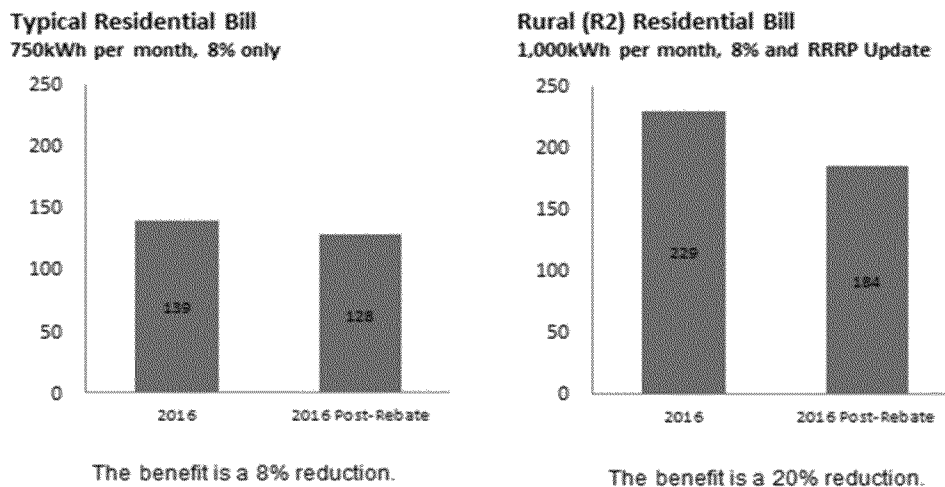
The proposal aims to provide rate relief to Ontario electricity ratepayers. The proposal would meet and exceed the 2016 Budget commitment to “offset the impact of cap and trade on electricity rates in Ontario for commercial and industrial electricity consumers, while also providing a modest benefit of up to \$2 per month for residential electricity consumers”. The proposal builds on earlier electricity rate mitigation 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 families 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.

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 eligible for the RPP will be eligible for the 8% rebate. In addition, rural residential consumers classified as low-density customers (i.e., R2 customers) will be eligible for the RRRP benefit increase.

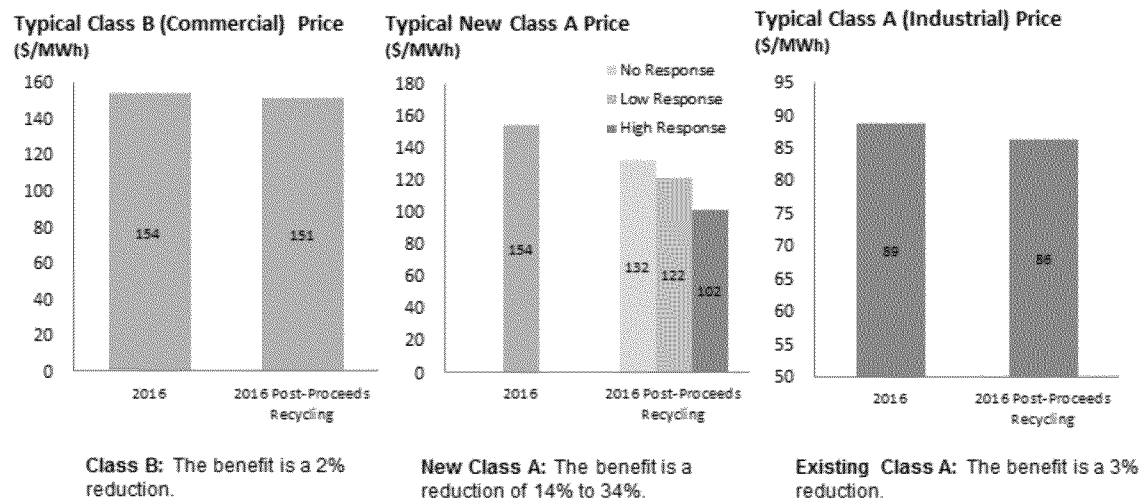


The actual amount of the 8% rebate will fluctuate with consumer consumption (i.e., the higher the pre-tax bill, the higher the rebate will be).

Industrial and Commercial Consumers

The ministry is recommending lowering the Class A threshold to include consumers with monthly peak demand greater than 1 MW (approximately 1,000 consumers would be eligible under the new rules). This is expected to add about 300 new commercial, institutional and small industrial consumers to the existing pool. It is estimated that these new Class A consumer could see their electricity bills reduced by 34% in the long-term. Non-ICI consumers (i.e., residential and Class B consumers) would see an increase in their bills of approximately \$0.74/month as a result of this change.

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



Under this proposal, non-RPP Class B consumers and Class A consumers would receive volumetric recycling of proceeds totalling \$270 million per year, on average, over the first compliance period (2017-2020). These consumers would see a benefit of about \$3/MWh on average in addition to offsetting the cost of carbon.

Risks and Considerations:

Electricity Rates

The 8% rebate would be structured and delivered in a similar fashion to the former OCEB. There is a risk that the government could be criticized for replacing the OCEB with a smaller rate relief package, just one year after the OCEB ended.

The proposal may also create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Many other factors, including nuclear refurbishment and new renewable energy generation, will contribute to forecasted electricity rate increases. In addition, the impact of cap and trade would be added to electricity bills as of January 2017, while the offsetting effect of proceeds recycling may not occur immediately, due to implementation considerations and alignment with the first cap and trade auction expected in March 2017.

Fiscal Pressures

This proposal does not align with the 2016 Budget fiscal plan and there are no proposed offsets identified. In 2017-18 the proposal would result in a fiscal pressure of \$XXM, growing to \$XX in 2018-19 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 (i.e., the expansion of ICI and RRRP) the result is an increase in costs for ratepayers not included in those programs (i.e., primarily residential, small business and farms). Shifting costs to some electricity 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 and proceeds recycling), 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 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.

Energy and the Ministry of the Environment and Climate Change (MOECC) will need to work together to support the Minister of Environment and Climate Change's review and evaluation to assess the environmental implications of this proposal in more detail, and ensure that GHG emission reductions are being achieved, consistent with the requirements of the *Climate Change Mitigation and Low-Carbon Economy Act, 2016*.

Under the proposal, Energy has identified that GHG emission reductions would be achieved by:

- Reducing the cost of electricity to make it more competitive against fossil fuels, which could potentially lead to fuel switching; and
- Maintaining the incentive for recipients of proceeds to shift consumption to off-peak periods.

Alternative Options Considered

- 1) 8% rebate across all consumer classes – providing an 8% rebate to all consumers would ensure that residential, small business, commercial and industrial consumers would receive the benefit. The projected cost of an 8% rebate to all consumers would be approximately \$1.8B/year.
 - a. Cap of 3,000 kWh - limiting the calculation of the 8% rebate to the amount of fixed and volumetric charges calculated using only the first 3,000 kWh per month of consumption. Charges related to consumption over 3,000 kWh would not receive the 8% rebate. Implementation of a cap would be administratively burdensome for LDCs and likely to incur additional costs that would be passed on to ratepayers.
- 2) Federally administered point-of-sale rebate – under the HST agreement with the federal government, Ontario can designate items as eligible for a point-of-sale (POS) rebate of the eight per cent provincial portion of the HST in certain circumstances and within a

certain envelope of rebate “room”. At \$735M and growing, a POS rebate on electricity would likely exceed the amount of rebate room available (approx. \$500M). This option would require successful negotiation with the federal government on amending the HST agreement.

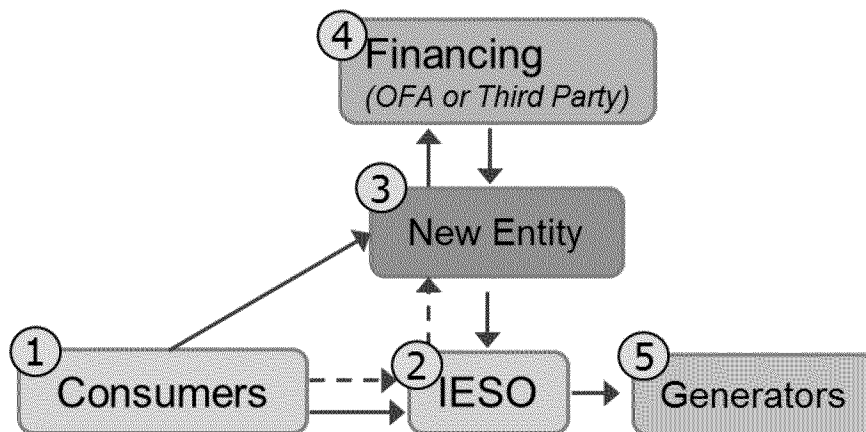
- 3) Mitigation through tax credits – Ontario could make changes to tax credits and benefits it provides through the Personal Income Tax system to help lower-income Ontarians with their electricity costs. Options include increasing the OEPTC energy amount, creating a new electricity tax credit, or increasing the NOEC amount. OEPTC and NOEC are notional and not based on usage. In most cases, home energy receipts are not required.

Delivery

The price mitigation measures would be effective July 1, 2017.

Provide an X% rebate to [describe consumer class] by XX GA smoothing mechanism would lower the GA payment from ratepayers in the short term to keep residential bills relatively flat, then increases payments at 3% each year – up to a maximum of XX above the true cost of GA – until the borrowed money is paid back over a 25 and 30 year financing period respectively.

A new entity that the province does not govern would be needed to meet the accounting control for the GA smoothing mechanism.



Electricity Consumers pay IESO a portion of the GA in early years. In the future, consumers would pay all in-year GA costs and repay the New Entity. Customers will not see a change in the structure of their bills (costs should diminish in early years).

The IESO pays generators (in early years), partially from consumers and partially financed by the New Entity. (c) The IESO would provide collection services to New Entity under a service contract.

The New Entity would fund part of the GA and (a) would have a legislative right to recover the principle, interest and administrative costs from customers (settled via service agreement with IESO).

The OFA or a 3rd party lender would fund the GA shortfall in early years and receive payments from the New Entity as debt is repaid (b) the debt would be subject to a contract between the New Entity and the lender.

Generators continue to receive payments from IESO according to existing contract / regulatory structures;

[Governance, financing, recovery and contractual/legislative considerations]

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- 3) Low-Income Conservation.

[Other possibilities from deck]

Linkages:

Long Term Energy Plan

Ontario's Climate Change Action Plan (CCAP)

The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to \$2 per month, on average, to residential consumers.

Specifically, the CCAP committed to “use cap and trade proceeds to offset the cost of greenhouse gas pollution reduction initiatives that are currently funded by residential and industrial consumers through their bills.” Redirecting cap and trade auction proceeds to lower the cost of electricity would offset committed investments/initiatives which reduce GHG emissions (e.g., non-emitting generation and conservation programs). By using the proceeds to lower the cost of electricity, there is potential to incent fuel-switching away from fossil fuels toward much cleaner grid-connected electricity and support CCAP goals of electrification.

At the time, it was estimated that redirecting cap and trade auction proceeds to lower the cost of electricity would 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>

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.

Other Jurisdictions

PROPOSED CABINET MINUTE

[tbd]

September 2016 ORECA minute:

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 seek necessary Treasury Board /Management Board of Cabinet approvals in fall 2016.

3. ENERGY, working with Ministry of Finance (MOF), seek approvals for:

- i) the proposed *Ontario Rebate for Electricity Consumers Act, 2016* which would, subject to the Legislature's approval of the Act, include the following elements:
 - a. The rebate would be available starting January 1, 2017;
 - b. 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;
 - c. The legislation would address invoicing requirements, including authority to prescribe how the rebate is to appear on consumers electricity bills;
 - d. 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;
 - e. The legislation would include record-keeping requirements for electricity vendors and other prescribed persons;

- f. The legislation would include inspection powers for inspectors appointed by the minister of Finance, including powers related to the recovery of overpayments;
 - g. The legislation would include consequential amendments to the *Ontario Energy Board Act, 1998* and the *Ontario Clean Energy Benefit Act, 2010*,
 - h. 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 to report back to LRC and Cabinet for approval of any supporting regulations under the proposed *Ontario Rebate for Electricity Consumers Act, 2016*, and with other complementary regulatory amendments.
- 5. 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 allow 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 electricity customers.
- 6. Further to the Minute approved at Cabinet May 11, 2016, with respect to the Climate Change Action Plan (#91), ENERGY work with Ministry of Environment and Climate Change (MOECC), Treasury Board Secretariat, the Premier's Office and the Cabinet Office, to allocate proceeds to address rate-impacts on non-Regulated Price Plan electricity consumers (e.g., industrial, commercial and institutional) related to cap and trade and the expansion of other rate-based programs. ENERGY, working with MOECC, report back to Cabinet in 2016 with options on the appropriate mechanism.
 - i) Any proceeds no longer required, based on the intended funding approved at Treasury Board on May 19, 2016, be used for other existing initiatives within the fiscal plan and the Climate Change Action Plan that reduce greenhouse gas emissions, subject to the evaluation of the Minister of the Environment and Climate Change.
- 7. ENERGY and MOF work with the Premier's Office and the Cabinet Office on the development and implementation of an integrated communications strategy.

Cabinet approved version [number] of the proposed *Ontario Rebate for Electricity Consumers Act, 2016* 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.