Ontario

**LEGISLATION AND REGULATIONS COMMITTEE BRIEFING NOTE**

ENERGY
**Ontario Fair Hydro Plan Regulations**

DRAFT

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| Cabinet (info)<br><br>Feb 15, 2017 | TB/MBC and Cabinet<br>March 1, 2017 | Announcement<br><br>March 2, 2017 | TB/MBC<br><br>May 9, 2017 | Cabinet<br><br>May 10, 2017 | Introduction<br><br>May 11, 2017 |
| Royal Assent June 1, 2017 | TB/MBC June 27, 2017 | Cabinet June 27, 2017 | Program Effective Date July 1, 2017 | | |

## Summary of Proposal

[Placeholder: Consistency with Cabinet direction]

**Context for Decision:**
On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which is expected to 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. One component of the OFHP is refinancing a portion of the Global Adjustment (GA);

The implementing legislation for GA refinancing and social programs, the *Fair Hydro Act, 2017,* was introduced May 11, 2017 and received Royal Assent on June 1, 2017. The OFHP expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) and puts in place mechansisms including appropriate payment settlement and cost-recovery authorites for and through the IESO to manage the deferred GA costs.

The GA refinancing proposal includes policy approval to amend the legislated authority of OPG and IESO to enable appropriate cost recovery and settlement mechanisms, and of the OEB to ensure appropriate regulatory oversight.

In order to avoid the cost of GA refinancing impacting the province's fiscal plan, the proposed mechanism to partially defer the GA costs must meet legal, accounting, and financing requirements. This analysis will not be completed until the proposed legislation is finalized. If these requirements cannot be met, the cost of the GA refinancing would come onto the province's fiscal plan, creating a fiscal exposure of about $2.5 billion in 2017/18 and increasing in subsequent years (see table on p. 4). If GA refinancing is included in an announcement prior to confirmation of these requirements, the government would not be able to comment on the impact on the fiscal plan. Rather, the government could explain its intention to draft legislation to ensure legal, accounting and financial requirements are met so not to have a fiscal impact.

June 14 reg- The ministry is proposing a new regulation under Part II of the OFHPA that would support the required calculations related to the refinancing of GA. More specifically, the proposed regulation would implement the reduction in rates for the typical residential consumer effective July 1, 2017. The ministry also proposes amendments to O. Reg. 280/14 to authorize IESO to borrow to fund the regulatory asset.

On June 27, 2017 a new regulation was created under the OFHPA that details the roles and responsibilities of the Financial Services Manager (FSM, i.e., Ontario Power Generation (OPG)), the Independent Electricity System Operator (IESO) and Ontario Energy Board (OEB) under the OFHPA. The regulation includes criteria related to the development and implementation of the Financing Plan by the FSM, the operation of the FSM, the setting of the Fair Allocation Amount by the Minister of Energy and the recovery of the Clean Energy Adjustment from electricity consumers, as required under the OFHPA.

**Proposal:**
This proposed regulations would outline a methodology for the calculation of Ontario Power Generation management fees and of the role of the Ontario Energy Board in reviewing those fees; and, define a mechanism to recover fees and carrying costs for the period from July 1, 2017 to April 30, 2021

**Why does Ontario need these changes? Why now?**

Addressing rising electricity prices is among the highest priorities for Ontarians. Since the OFHP was announced there has been increased media attention and public pressure for the government to take the necessary steps to enact the commitments made in the plan.

**How will this proposal impact Ontario?**

**What is the expected cost to government?**

**What are the key steps to deliver this proposal?**

**How will the changes be communicated?**

## Cabinet Office Analysis

**Introduction**
The proposed regulations will allow for the implementation of the partial refinancing of the Global Adjustment as part of Ontario's Fair Hydro Plan (OFHP) announced on March 2, 2017.

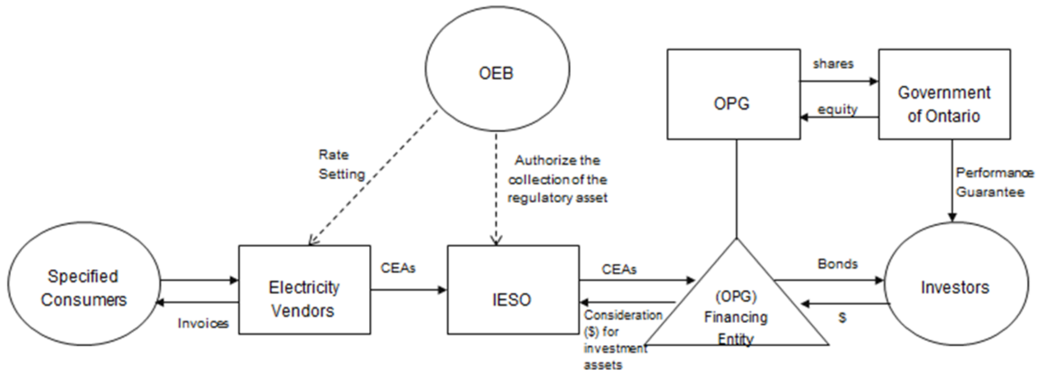
The OFHPA establishes the framework to refinance a portion of the current Global Adjustment (GA) costs. Under the structure the Independent Electricity System Operator (IESO) will record the GA cost recovery deferral as a "regulatory asset". IESO may then sell the regulatory asset, at which time it becomes an "investment asset" under OFHPA. The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister of Energy, following the principles in the bill and regulations, would calculate the "Fair Allocation Amount" to ensure a proper alignment of the allocation of the intergenerational costs and benefits in relation to each of the next 60 six month "reference periods." Based on the Fair Allocation Amount, the Financial Services Manager (OPG), through financing entities, will debt finance the GA costs. The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The clean energy adjustments will track the actual payment obligations incurred by the financing entities when they become due and payable.

**Commented [TR(1]:** Do the proposed regulations set out the "Fair Allocation Amount"?

OPG, in its role as the Financial Services Manager (FSM), will calculate the aggregate clean energy adjustment payable in each month of the reference period, and, to ensure intergenerational fairness, these amounts would be managed to ensure consistency with the fair allocation amounts. OEB would calculate the rates at which the clean energy adjustment would be collected from specified consumers. Consumers would be invoiced the clean energy adjustment on their electricity bills through existing IESO and Local Distribution Companies' (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations. The clean energy adjustments will appear on customer's bills once repayment of the accumulated debt begins.

**Figure 1: Financing Structure**




**Note:** CEAs are “clean energy adjustments”.

The ministry is proposing a new General Regulation under the OFHPA that would support the implementation of the refinancing of the GA, including:

- provide for the implementation of the roles and responsibilities of the FSM (i.e., OPG) and OEB and IESO in relation to the refinancing of GA:
  - methodology for calculating the clean energy adjustment, the finance amount and the true-up amount;
  - required communications by FSM with OEB on clean energy adjustments for each reference period during the recovery period;
  - requiring that OEB use the FSM calculations of clean energy adjustment to determine a kWh amount for the clean energy adjustment for each reference period during the recovery period using IESO demand forecasts;
- require that the clean energy adjustment be a specific line item on bills and that LDCs keep separate records of amounts invoiced to be produced at the request of specified parties (e.g., IESO, FSM);
- provide criteria and detail to support key aspects of the OFHPA, including IESO deferral and the establishment and transfer of portions of the regulatory asset, as well as the establishment of the related variance account;
- provide further criteria related to the development and implementation of the financing plan by the FSM;
  - reasonable assumptions and additional principles and that the FSM must make or take into account, such as seeking to incur funding obligations on the best terms available and flexibility to cope with changes to future fair allocation amounts; and,
- provide for further principles that must be taken into account by the Minister of Energy in the calculation of the fair allocation amount (i.e., electricity prices, interest rates, inflation, electricity consumption and the useful life of specified electricity

generation assets) and a methodology for making adjustments to the fair allocation amount, if required.

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**1. Refinancing Global Adjustment in order to defer ratepayer costs**

The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as nuclear contracts, as well as the cost of conservation programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available. The GA has risen over the past decade as the province has invested in greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, and wholesale market prices have been low due to low demand and natural gas prices.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

The proposal defers some of the current costs to ratepayers by recognizing the longer term benefit of these assets to the electricity system (similar to extending and re-financing a mortgage). The proposal is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets in the future.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge and it being deemed a tax.

The result of the 25% reduction proposal is that costs for typical residential consumers would be lowered by $26/month with total bill increases kept in line with inflation for approximately 4 years, by borrowing money. Costs would increase to above the true cost of GA until the borrowed money, interest accumulated on the debt and the cost of administering the program is repaid fully in 2048 (see chart on page 19).

The projected residential impacts are based on a forecast for a household connected to Toronto Hydro that consumes 750 kWh per month. Actual ratepayer savings would vary due to differences in consumption patterns and LDCs.

Accounting, financial and legal analyses are ongoing and will inform an assessment of the feasibility of this proposal. If these analyses do not support the use of the non-fiscal model described in this submission, and the government proceeds to make the announcement later this week, the government is at risk that the proposed mechanism would impact the provincial deficit by up to $2.5 billion a year. Should this be the case, the ministry will report back to Cabinet with options for achieving a comparable level of electricity rate mitigation in the most cost effective way in order to minimize the impact on the province's fiscal plan.

Those ineligible to receive the GA rate relief can benefit from one or more of the other initiatives under this proposal (e.g., OESP, RRRP proposals).

**2. Mechanism to Defer GA costs**

The intent is to establish a structure in which the GA deferral is recorded as a regulatory asset by the IESO, supported at its foundation by the fact that the legislation to defer the GA is not a reduction in the GA, but rather a deferral of the GA to be collected at a future time. OPG would ultimately take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO. The OPG would finance these purchases through a combination of an equity investment by the Province and external private sector financing. Such a structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that external debt, increased net investment in OPG, and increased earnings of OPG. If structured properly, the underlying regulatory asset would offset the additional debt to not impact the province's net debt.

Until the structure has been fully developed, which includes development of the legislation and assessing its impact on the accounting analyses, it cannot be confirmed that the amounts deferred for ratepayers would not increase the government's annual deficit. It should be noted that one of the requirements of the structure is that the legislation be written to avoid the possibility of being revoked with wording to ensure OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to happen. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time. Based on the current stage of analysis of the accounting, legal and financing risks, there is a high risk that the GA financing will have a fiscal impact on the Province.

OPG is currently exploring creating a Special Purpose Vehicle (SPV) or Trust ("OPG Trust") to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the trust. The variability will likely largely result from the financing of the Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

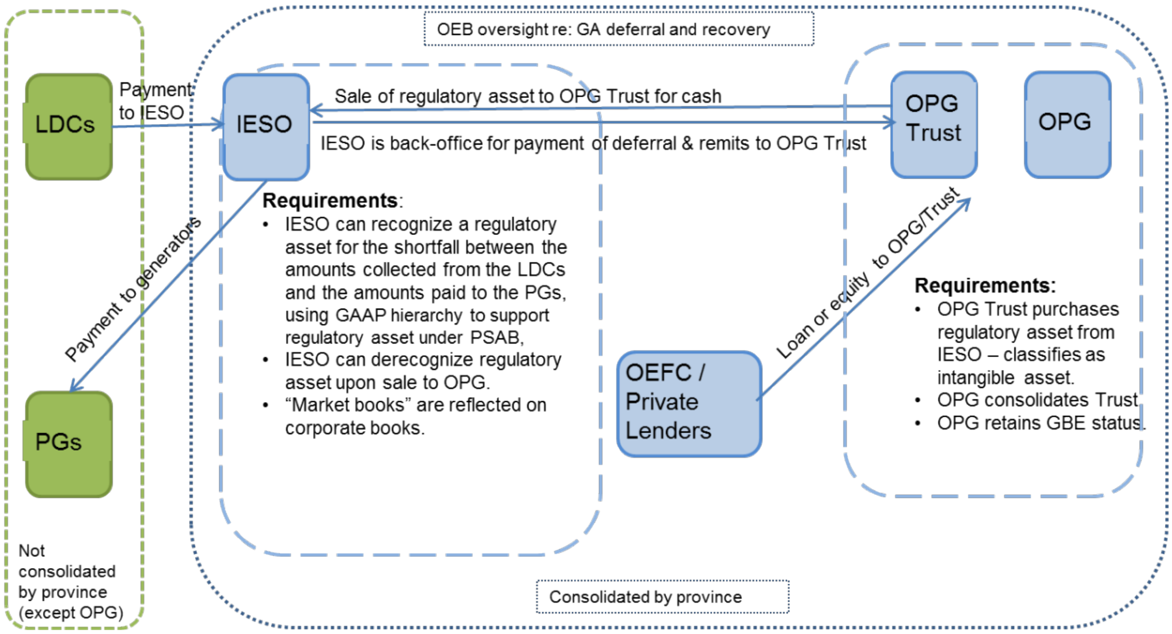
Assuming that all legal, accounting and financial requirements can be met, the proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.

The analysis of the structure with respect to accounting, legal and financial risk is not complete; several key requirements remain outstanding:

- Complexity of the structure and length of deferral/recovery increase risk and decrease transparency
- IESO requirements – IESO Finance, KPMG (Energy advisor and IESO auditor), OPCD and EY (OPCD advisor) are evaluating accounting risks:
    - IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB
    - IESO can derecognize regulatory asset upon sale to OPG; and
    - "Market books" are reflected on corporate books.
    - In addition to these requirements, it will also be necessary to establish who will act as the regulator as in order to have a regulatory asset, a regulator is required. The ministry is working with the OEB about their potential regulatory role.
- OPG requirements – OPG Finance, EY (OPG auditor), PwC (OPG Advisor), and OPCD are evaluating accounting risks:
    - OPG Trust purchases regulatory asset from IESO – classifies as intangible asset;
    - OPG consolidates Trust; and
    - OPG retains GBE status.

If a mechanism can be structured that satisfies these requirements, there remain some fundamental risks that the province would need to accept:

- Government would have no ability to control electricity prices resulting from these changes;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work; and
- Private lenders would likely require a guarantee, break fee or other backstop because government cannot commit to the legislation being irrevocable.




**Note:** Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

The ministry continues to work with TBS, MOF, the IESO, the OPG and their external auditors for IESO and OPG on an appropriate structure and will report back to Cabinet with the proposed structure for approval in winter 2017.

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## 1. Partial Refinancing of the Global Adjustment:

The proposed legislation establishes the framework to refinance a portion of the current GA costs to future ratepayers by recognizing the longer term benefit many of these generating assets to the electricity system. The methodology is based on the assumption that some assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts (typically 20 years), and that future ratepayers are expected to continue to be able to utilize and benefit from these assets in the future. Similarly, conservation costs are currently recovered through the GA in the year they occurred while conservation initiatives can provide benefits to the system over many years.

The proposed *Fair Hydro Act, 2017* attempts to balance several key factors including financeability, accounting treatment and legal considerations by:

- Supporting financeability through a number of features, including a provincial undertaking not to interfere with clean energy adjustments once determined, which will be backstopped by a guarantee, and provisions intended to reduce borrowing costs and attract a wide investor base;

- Addressing the necessary accounting requirements through mechanisms to record funding, interest and the transfer of regulatory assets to avoid a fiscal impact to the province; and
- Mitigating legal risk by developing a methodology that attempts to ensure an alignment of costs with benefits to future rate payers.

In order for the clean energy adjustment to be characterized as a regulatory charge, the amount that could be refinanced would need to reflect the true value of the underlying assets being amortized over a longer period of time. According to a legal opinion by former Supreme Court Justice Binnie, there is a moderately high risk that the proposed change would be characterized as an unconstitutional tax rather than a valid regulatory charge because future consumers are being required to subsidize current consumers (see page 16- Legal Risk).

The bill establishes a structure in which the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a "regulatory asset" (regulated by the Ontario Energy Board (OEB)), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time from "specified consumers" ("the Fair Adjustment" and "IESO deferral"). Specified consumers would receive a reduction in electricity rates from July 1, 2017 to June 30, 2018 as based on a 25% reduction for a prescribed typical residential consumer. IESO may then sell the regulatory asset, at which time it becomes an "investment asset." The investment asset owner (OPG Trust/Special Purpose Vehicle (SPV) or "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

The Minister, following the principles in the bill, would regularly calculate the "Fair Allocation Amount" to ensure a proper match of the allocation of the intergenerational costs and benefits in relation to each on the next 60 six month "reference periods." The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The clean energy adjustments will track the actual payment obligations incurred by the financing entities when they become due and payable.

OPG, in its role as the Financial Services Manager, will calculate the aggregate clean energy adjustment payable in each month of the reference period, and, to ensure intergenerational fairness, these amounts will be managed to align with the fair allocation amounts determined by the Minister. OEB would calculate the rates at which the clean energy adjustment could be collected from specified consumers. To recoup the costs associated with the fair adjustment, consumers would be invoiced the clean energy adjustment on their electricity bills through existing IESO and Local Distribution Companies' (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations. However, electricity rates are projected to remain lower than would have otherwise been until about 2026-27 (pending the development of the fair allocation amount), and the clean energy benefit will appear on customer's bills once repayment of the accumulated debt begins.

OPG is planning to create a SPV or Trust to finance the partial GA refinancing. To maintain the integrity of the structure, OPG must have the ability to appoint and remove the Trustee (or Board of Trustees) of the SPV/Trust, with no veto right by the Province.

No party shall have the ability to remove OPG from its role and authority in the SPV/Trust. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. OPG will have the ability to direct the financing of the SPV/Trust and both benefit from its financing strategy and be at risk as a result of it.

Once the OPG Trust/SPV has purchased the regulatory asset, which it is under no obligation to do, it will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG's debt would be funded through a combination of an equity investment by the Province through the OFA (see page 4: Table 1) and external financing through sale or securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG (to offset the interest on debt).

The legislation also provides that no action or omission by the OEB, the Minister, or the Crown is effective to reduce, impair, postpone or terminate the obligations of specified consumers to pay the clean energy adjustment. Additionally, to support the program, the government will be expected to provide certain performance guarantees, indemnities and bond-purchase covenants. The legislation enables these agreements. The terms of these obligations will be worked out over time in connection with the marketing of financings through OPG. The goal will be to achieve the highest rated securities, although that will depend on issues such as the strength of the undertaking not to adversely affect the program through subsequent legislation.

The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future (see page 14- Risks and Considerations).

Key elements of this schedule of the bill include:

<u>Specified Consumers</u>

- The defined group of consumers to whom the "Fair Adjustment" applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).

<u>Clean Energy Costs</u>

- Clean energy costs are those costs that arise from the "clean energy initiative" and are allocated to the specified consumers for past, present and expected costs.
- The clean energy costs include estimated amounts to be paid by IESO in adjustments made under section 25.33 of the *Electricity Act*, *1998* (basically, the GA) which relate to contracts for:

- Renewable energy generation or capacity, conservation and demand management, energy storage, and energy efficiency;
- Natural gas generation and capacity (excluding certain contracts under section 78.2 of the *Ontario Energy Board Act, 1998* or as prescribed);
- Payments made under section 78.5 of the *Ontario Energy Board Act, 1998*; and,
- Other costs as may be prescribed.

Fair Adjustment

- The adjustment to rates to ensure intergenerational fairness.
- July 1, 2017- April 30, 2018- reduction in rates for "specified consumers" based on a 25% reduction for a prescribed typical consumer.
- May 1, 2018- June 30, 2021- the bill allows for rates to be set by regulation (see page 17- Fiscal Pressure).

Fair Allocation Amount

- Principles established in the bill require proper alignment over time between the costs of providing facilities for clean electricity generation and conservation ("clean energy costs") and the consumers who benefit from these investments.
- The Minister of Energy sets the fair allocation amount, and is required to:
  - Fairly measure and allocate the estimated clean energy costs (and the clean energy benefits) among the "specified consumers" for applicable "reference periods" (typically every 6 months); and,
  - Take into account (in the fair allocation) funding obligations (financing) that have been incurred (see page 16- Legal Risk; page 17- Fiscal Pressure);
  - Align these costs with clean energy benefits expected to be received by rate payers in the future.
- Subsequent calculations may be undertaken by other agents as prescribed.

Clean Energy Adjustment

- Determined by Financial Services Manager (OPG), the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principal, interest, transaction costs and administrative costs associated with the fair adjustment and consistent with the fair allocation amount.
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- July 1, 2017- June 30, 2021- OPG to internally capitalize the costs related to the fair adjustment, which will result in increased financing costs during this time.

- July 1, 2021- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing IESO and LDC processes. Note: it is not certain when the clean energy adjustment will ultimately appear on electricity bills as this will be tied to when repayment of the accumulated debt begins.
- In accordance with the regulations, the OEB to calculate the rate at which specified consumers are invoiced to recover the clean energy adjustment.

Regulatory Asset and Investment Asset

- A regulatory asset is created as IESO defers its right collect a portion of the rates that it would have otherwise received from customers/LDCs if not for the implementation of the Fair Adjustment.
- Subject to OEB approval, IESO records the funding shortfall as a regulatory asset, as IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until July 1, 2021.
- The Financing Plan contemplates the Financial Services Manager (OPG) establishing financing entities (OPG Trust/SPV) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset for the investment asset owner. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 4 years (July 1, 2021) the IESO has the right to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. If the regulatory asset is not sold, the IESO would require an alternative source of financing. IESO has requested a credit facility from the Ontario Financing Authority (OFA) (see page 17- Fiscal Pressure).
- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

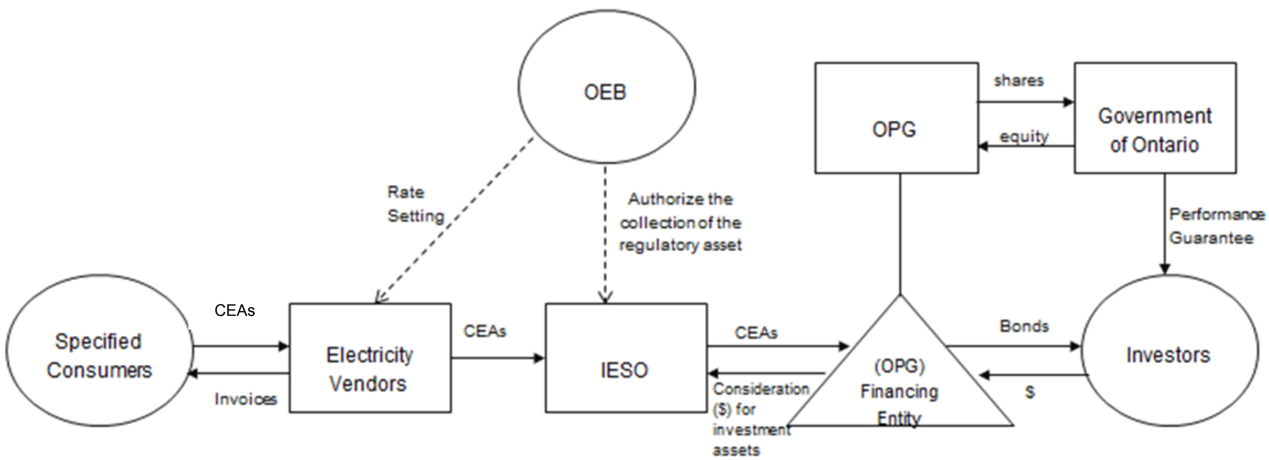
Financing Plan

- In practical terms, the Financing Plan is intended to show how debt (with varying incurrence dates, maturities and interest rates) will be used over time.
- Prepared by the Financial Services Manager (OPG), the Financing Plan is intended to set out when a “funding obligation” (financing) should be incurred so that the (OPG) financing entity can raise money to acquire the “investment interest” from IESO. Plan to be provided to the Minister of Energy.

Crown Undertaking (Guarantee or Backstop)

- The bill provides that no action or omission of the Crown, OEB, or the Minister would be effective to reduce, impair, or postpone or terminate the obligations of specified consumers to pay the clean energy adjustment.
- The Ministers of Energy and Finance together, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill, including regarding the performance of the IESO or electricity vendors under the bill.
- The Ministers of Energy and Finance together, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.

**Figure 1: Financing Structure**




**Note:** CEAs are "clean energy adjustments".

**Linkages:**

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 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 will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity Consumers Act, 2016*, (ORECA) put in place a rebate for an amount equivalent to the 8% provincial portion of the HST for eligible residential, small business customers and farms, beginning January 1, 2017.

Rural and Remote Rate Protection (RRRP) and Delivery Rate Protection (DRP) – RRRP and DRP help to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province. DRP was established under the FHA and regulations approved June 14, 2017. Both the expanded RRRP and DRP will be implemented for July 1, 2017.

The Ontario Clean Energy Benefit (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 program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users, which was earlier than previously estimated.  For all other consumers the DRC will be removed by April 2018, also earlier than previously estimated.

Industrial Conservation Initiative (ICI) – Implemented in January 2011 to help large industrial consumers reduce electricity costs by reducing consumption in peak periods. As part of OFHP, ICI eligibility has been expanded several times, and was most recently expanded to allow for the participation of the manufacturing and, e.g., greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI provides a benefit to all consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

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. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been fully addressed, though the two recent expansions to the ICI provides for significant potential savings. Funding electricity social programs through government funds rather than the rate base will also provide saving to all electricity consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON) – is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing, buildings and the production of goods; and,

- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed that the government consult on and develop options to mitigate the impact of carbon pricing and resulting increased utility costs on residential tenants. The mitigation is proposed because tenants do not usually have the opportunity to make changes to their building envelope (e.g. windows, insulation) or major appliances that would allow them to address utility costs themselves.

**Other Jurisdictions:**
The financing structure is unique to Canada.

**Stakeholder response:**

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) for a typical residential consumer to, but likely to question the longer term implications. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to "keep electricity rate affordable".

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Metis, non-status, First Nations without land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – Likely to support any targeted conservation efforts, may react negatively towards any price relief that is not directly tied to energy conservation.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

**Risks:**

**Terms you need to know**

- **Global Adjustment (GA) –** The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **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.) LDCs recover their costs through distribution rates. LDCs are licensed to serve a specific geographic area by the Ontario Energy Board (OEB). An LDC must receive Ontario Energy Board approval to charge a distribution rate.
- **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.
- **Ontario Power Generation (OPG) –** A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **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.
- **Independent Electricity System Operator (IESO) –** An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **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. On January 1, 2017 the threshold for Class A was lowered

to 1MW for all consumer types.

- **Non-RPP Class B Consumer –** Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a volumetric rate applied to all electricity consumption. Class B consumers include those that choose not to become Class A.