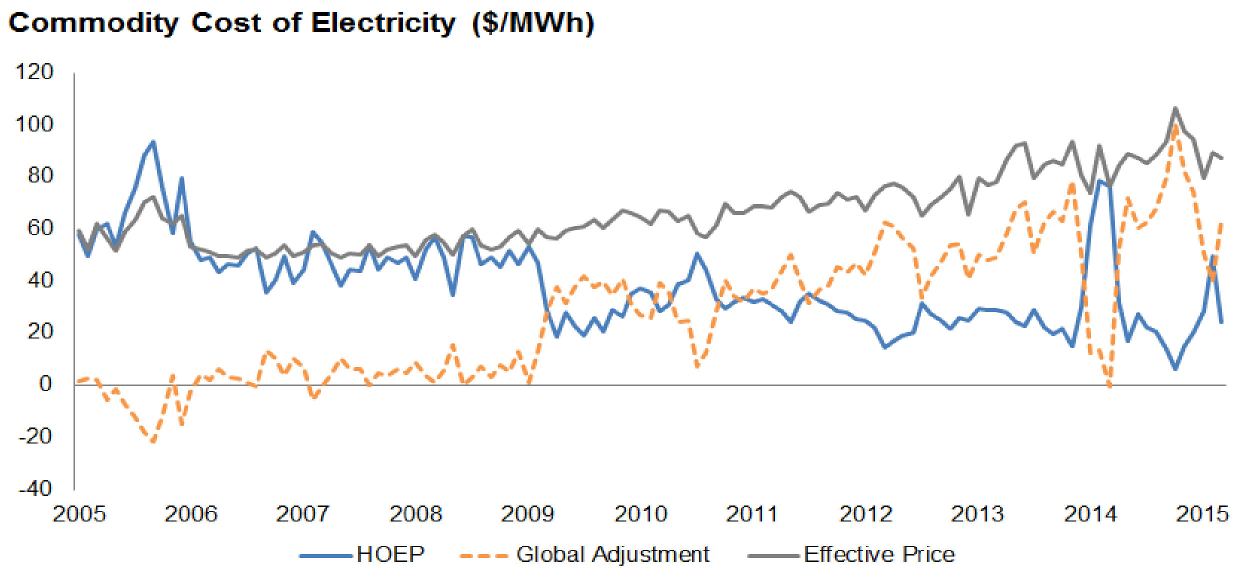
ESTIMATES 2016

DEPUTY MINISTER'S KEY BACKGROUND

GLOBAL ADJUSTMENT

GLOBAL ADJUSTMENT AND ELECTRICITY PRICES

- On average, based on an Ontario Energy Board (OEB) report the monthly **Global Adjustment (GA) for a typical residential electricity consumer is about $68**[1].
- According to Independent Electricity System Operator (IESO) data the average **GA for industrial electriclity consumers (i.e., Class A) is $57.60/MWh[2].**
- For electricity consumers on OEB's Regulated Price Plan (RPP), GA is included in their "Electricity" charge. For all other consumers who purchase directly from the wholesale market, or have signed a contract with an electricity retailer, GA is shown as a "separate" line item on their electricity bill.



Global Adjustment by Component

$M	2011	2012	2013	2014	2015
GA-OEFC-NUG	1,083	1,091	1,133	764	723
GA-OPG	1,347	1,848	1,753	1,392	2,569
GA-IESO	2,880	3,516	4,842	4,879	6,670
Total	**5,310**	**6,456**	**7,727**	**7,035**	**9,963**

ROLE OF GLOBAL ADJUSTMENT

[1] OEB RPP Price Report, May 2016 (p. 3, Table ES-1; $90.86/MWh adjusted for 750 kWh/month usage)

[2] Ontario Energy Report, Q1 2016, p. 1. Data is for the period from January to March 2016.

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- In 2005, the Global Adjustment (GA) mechanism was introduced to support the move to long-term contracting with generators. This was necessary in order to attract much needed investment in Ontario's electricity generation sector.

- GA serves a number of important functions in Ontario's electricity system:

  Provides more stable electricity prices for Ontario's consumers and generators;

  Maintains a reliable energy supply; and

  Recovers costs associated with conservation initiatives and demand management programs that benefit all Ontarians.

- GA is designed to ensure price stability for consumers and greater revenue certainty for electricity generators. GA also recovers costs associated with conservation initiatives and demand management (DM) programs that benefit all Ontarians.

How Is Global Adjustment Determined?

- GA accounts for the difference between wholesale market prices and the regulated and contracted prices paid to electricity generators, plus spending on conservation and DM programs.

- All electricity consumers pay GA. Costs that go into GA include:

  The Independent Electricity System Operator (IESO) contract costs, such as: Clean Energy Supply contracts (i.e., natural gas), Renewable and Feed-In-Tariff (FIT) supply contracts (e.g., wind, solar etc.), Bruce Power contract (i.e., nuclear) and IESO conservation expenditure;

  Regulated payments for Ontario Power Generation (OPG) nuclear and hydro; and

  Other contractual costs such as: Payments to Non-Utility Generators (NUGs) under contract to the Ontario Electricity Financing Corporation (OEFC).

Amendments To Global Adjustment – Ontario Regulation 429/04

- Since January 2011, GA has been allocated to two separate classes of electricity consumers:

  Class A consumers, whose average monthly peak demand exceeds 5 MW, pay global adjustment based on their consumption during the five peak hours of the previous year under the ICI program.
  All other consumers (i.e., Class B) are charged global adjustment on a volumetric basis (i.e., flat rate $/MWh).

- Class A status was extended in 2015 to select electricity-intensive consumer with monthly peak demand that exceeds 3 MW (i.e., refrigerated warehousing, greenhouses and data processing).

INDUSTRIAL CONSERVATION INITIATIVE (ICI)

- The ICI program lowers GA costs for eligible large electricity consumers whose monthly **peak demand exceeds 3 MW**, and are able to reduce their consumption during peak periods. In 2015, the ICI program was expanded to include select electricity-intensive consumers with monthly peak demand that exceeds 3 MW (e.g., refrigerated warehousing, greenhouses and data processing).

- The expansion of ICI allows qualifying commercial and industrial consumers in specific sectors to reduce their electricity costs through reduced demand during peak hours. ICI consumers can reduce their electricity rates by up to one-third on average. This initiative will also reduce total system costs over the long run by deferring the need to build new peaking generation.

- Ontario is proposing to expand **ICI to more than one thousand additional commercial, institutional and industrial customers**. This would help eligible businesses reduce electricity bills by up to one-third and improve their competitiveness, while providing a benefit to the electricity system.

    Under this proposed measure, the current eligibility threshold of three megawatts of monthly peak demand would be lowered to one megawatt. In addition, sector restrictions would be removed and smaller institutional and commercial consumers would be eligible to participate.

Division/Branch: Energy Supply Policy Division
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Date approved: September 23 2016
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