MEETING NOTE

NAME OF ORGANIZATION: Secretary of the Cabinet

DATE/TIME OF MEETING: Monday, April 24th

LOCATION OF MEETING: SOC Boardroom, Room 6420, Whitney Block

ATTENDEES:

Ministry of Energy
Serge Imbrogno, Deputy Minister

Cabinet Office
Steve Orsini, Secretary of the Cabinet

AGENDA:

1. Ontario's Fair Hydro Plan (OFHP) – Implementation
2. Long-Term Energy Plan (LTEP)
3. Connection of Remote First Nation Communities

NOTES ON AGENDA ITEMS:

1. Ontario's Fair Hydro Plan (OFHP) – Implementation

Suggested Response:

- **The Ministry of Energy is working to implement Ontario's Fair Hydro Plan. This includes refinancing the Global Adjustment (GA), with support from energy agencies.**
- **To implement GA refinancing, multiple working committees have been established, including representatives from ENERGY, MOF, TBS/OPCD, IESO, OEB, OPG and external advisors (see Appendix).**
- **We have now completed the regulatory amendment to expand the Industrial Conservation Initiative (ICI) to include smaller manufacturers and greenhouses with average peak demand greater than 500 kW.**

- **The regulation was filed with the registrar on April 13, 2017 (TBC) and newly eligible consumers can opt in to ICI in June 2017.**

- **ENERGY worked with Hydro One to establish an independent Trust in March 2017 to administer the Affordability Fund. An Advisory Committee has been established to advise on appointment of a Board of Trustees by May 31, 2017.**

  - **Eligible customers for the Affordability Fund will be identified by electricity distributors. It is estimated that distributors will be able to begin applying to the Trust for funds in Summer 2017.**

- **Under the Fair Hydro Plan, the government introduced regulatory amendments to O. Regulation 314/15 of the *Ontario Energy Board Act, 1998* which will increase the Ontario Electricity Support Program (OESP) monthly credit amounts by 50% and enhance program eligibility.**

- **On March 23, 2016, the OEB issued a Decision and Order to LDCs to rescind the OESP regulatory charge of 0.11¢/kWh as of May 1, 2017 as a first step to implement the government's plan to remove the OESP from rate-base.**

- **ENERGY is also working closely with the Ministry of Community and Social Services (MCSS) and the OEB to qualify all social assistance clients to receive OESP. The working group has also developed a two-phased implementation strategy to increase communications of the OESP and increase program uptake.**

Background:

Ontario's Fair Hydro Plan

- On March, 2, 2017, the government announced Ontario's Fair Hydro Plan, which includes:

  - A benefit from the funding of support programs through provincial revenues for all electricity consumers.

  - Increase OESP credit amounts by 50% and expand eligibility of household size and income

  - Electricity consumers eligible for the Regulated Price Plan (RPP) would be eligible for GA refinancing.

  - Small manufacturers and greenhouses would become eligible to participate in the Industrial Conservation Initiative. See below for more information.

- Sector efficiency would be improved and Ontario's electricity market would be modernized, working in collaboration with the Independent Electricity System Operator (IESO) and the OEB.

Shifting Support Programs to Provincial Revenues

- Ontario's Fair Hydro Plan also proposes to shift the cost of the OESP and RRRP program from being paid through electricity bills to being paid for through provincial revenues. This would cost the government up to $2.5 billion over the next three years.

GA Refinancing

- The majority of the province's electricity generators have 20-year contracts. Many of these generators are expected to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future electricity consumers by reducing the need to finance the development of new generating assets.

- Refinancing a portion of GA would provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period.

  - In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity consumers.

  - In later years, the cost of refinancing would be recovered from consumers. Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

- Electricity consumers that are eligible for the RPP would benefit from GA refinancing.

  - In order to be eligible for the RPP, annual consumption must be below 250,000 kWh/year or peak demand must be below 50 kW. This includes residential consumers as well as most small businesses and farms.

  - Consumers who are eligible for RPP, but have opted out to become a retail or wholesale consumer would also receive the benefit.

- Eligible small businesses would include dry cleaners, convenience stores, small restaurants and retail stores, but would exclude businesses such as larger restaurants, welding shops, medium and large office buildings and big box retailers.

Industrial Conservation Initiative (ICI)

- ICI encourages Ontario's largest consumers to reduce consumption during peak periods to reduce their electricity costs by an average of up to one-third. This provides savings to participating consumers and reduces peak demand, deferring the need to build new generation.

- Consumers participating in ICI are charged GA on the basis of their share of the total system demand during the highest five peak hours of the year (i.e., the peak demand factor).

- Customers who qualify as a Class A are expected to be notified of their peak demand factor by their local distribution company (LDC) by May 31. Eligible customers must opt in to the initiative by notifying their LDC by June 15 if they would like to be charged as a Class A for the 12-month period beginning July 1.

- Expanding participation in the ICI program would:

  - Reduce cost pressures on the electricity system by empowering more consumers to lower their electricity demand during peak periods; and

  - Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

- Newly eligible customers will have the opportunity to opt in to the ICI program.

Expansion to Electricity Consumers Greater Than 1 MW

- Since July 2015, Class A includes energy-intensive consumers with an average monthly peak demand greater than 3 MW and less than 5 MW in select industries including manufacturing.

- In the September 2016 Throne Speech the government announced that it was expanding access to ICI to include more than one thousand newly eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW.

  - In addition, sector restrictions have been removed and smaller industrial, institutional and commercial businesses would be eligible to participate.

- Effective July 1, 2017, Class A will include all electricity consumers with peak demand greater than 1 MW without any sector restrictions.

Expansion to Manufacturers and Greenhouses Between 500 kW to 1 MW

- Ontario's Fair Hydro Plan proposes to expand the ICI to include smaller manufacturers and greenhouses (i.e., NAICs codes commencing "31", "32" "33" and "1114") with average peak demand greater than 500 kW and less than 1 MW. The amended regulation was filed with the Registrar on April 13, 2017 (TBC).

- The cost impact across industries and individual facilities would vary.

- Consideration is being given to allowing consumers who were at one time ICI participants to remain eligible for ICI if at any time they drop below the ICI threshold while participating in conservation programs.

- Manufacturers under NAICS codes 31-33 that would be eligible for ICI include:

○ Food Manufacturing (NAICS 311) ○ Beverage and Tobacco Product Manufacturing (NAICS 312) ○ Textile Mills (NAICS 313) ○ Textile Product Mills (NAICS 314) ○ Apparel Manufacturing (NAICS 315) ○ Leather and Allied Product Manufacturing (NAICS 316) ○ Wood Product Manufacturing (NAICS 321) ○ Paper Manufacturing (NAICS 322) ○ Printing and Related Support Activities (NAICS 323) ○ Petroleum and Coal Products Manufacturing (NAICS 324) ○ Chemical Manufacturing (NAICS 325) ○ Plastics and Rubber Products Manufacturing (NAICS 326)	○ Nonmetallic Mineral Product Manufacturing (NAICS 327) ○ Primary Metal Manufacturing (NAICS 331) ○ Fabricated Metal Product Manufacturing (NAICS 332) ○ Machinery Manufacturing (NAICS 333) ○ Computer and Electronic Product Manufacturing (NAICS 334) ○ Electrical Equipment, Appliance and Component Manufacturing (NAICS 335) ○ Transportation Equipment Manufacturing (NAICS 336) ○ Furniture and Related Product Manufacturing (NAICS 337) ○ Miscellaneous Manufacturing (NAICS 339)

Affordability Fund

- Ontario's Fair Hydro Plan includes the establishment a new Affordability Fund, which will provide energy efficiency measures to Ontarians who are not eligible for the Save on Energy Home Assistance Program (HAP), and who are otherwise unable to make energy efficiency improvements without financial assistance.

- HAP, delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).
    - Not all customers who are in need are eligible for HAP
- The Fund, established through the tax base, will be administered by an independent Trust and accessible to electricity distributors.
- Electricity distributors and other stakeholders have indicated to the government that there is an immediate need to help customers in bill arrears and facing service disconnection.
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.
- Eligible customers for the Affordability Fund will be identified by electricity distributors.
    - The program is expected to be entitlement based, i.e. targeting customers who are in bill arrears, facing disconnection, and/or not able to undertake energy efficiency improvements without financial assistance, and are not eligible for the low income Home Assistance Program. Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake.
    - It is expected that the program will assist eligible customers by providing energy efficiency measures ranging on average from $3,000 to $5,000 per customer at no or minimal costs.
    - The measures funded through the Fund would be similar to, or build on those available through the existing low-income conservation program called the Home Assistance Program.
- On March 23, 2017, the Affordability Fund Trust was established with Computershare Trust Company of Canada (Computershare) as its Original (interim) Trustee.

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement (TPA) with Computershare to flow $100 million to the Affordability Fund Trust.

    - Computershare is a trusted partner in some of the largest public and private organizations in Canada and globally and will act as the Original Trustee for the Affordability Fund Trust.

- By May 31, 2017, Computershare will be replaced with a Board of Trustees who will be responsible for distributing funds to electricity distributors across the province at their discretion based on an application process and targeted eligibility criteria. It is expected that the Board of Trustees will include representation from three electricity distributors as well as two social service agencies.

- An Advisory Committee has been established through the Trust Deed which will provide recommendations to Computershare on appointments to the Board of Trustees. Advisory Committee members include:
    - Brian Bentz (CEO, Alectra),
    - Bryce Conrad (CEO, Hydro Ottawa),
    - Robert Mace (CEO, Thunder Bay Hydro),
    - Ferio Pugliese (Vice President Customer Care and Corporate Affairs, Hydro One) and
    - Terry Young (Vice President Conservation and Corporate Relations, IESO).
  - The first meeting of the Advisory Committee took place on April 7, 2017. Following the meeting, Hydro One issued a letter to Advisory Committee members outlining next steps.

    - At the next meeting, Advisory Committee members are expected to discuss potential appointments to the Board of Trustees.

2. Long-Term Energy Plan (LTEP)

<u>Suggested Response:</u>

- **The Ministry of Energy continues to work on developing the next Long-Term Energy Plan (LTEP).**
- **The Ministry is briefing the Minister of Energy and his staff on potential LTEP policy initiatives. Some initiatives include implementation directives to the IESO and OEB.**
- **The IESO is modeling a revised reference case that should be ready for Ministry review in early May 2017.**
- **The Ministry expects to seek Cabinet approval for the LTEP and implementation directives in late May 2017, followed by an LTEP release in mid-2017.**

Background:

- Development of the next LTEP is following the process outlined in the Energy Statute Law Amendment Act, 2015 which came into force on July 1, 2016.
- The LTEP engagement process officially began on October 13 with the release of the LTEP discussion guide, an in-person engagement schedule, and the Environmental Registry Notice. The Environmental Registry notice closed on December 16, 2016.
- The Ministry held stakeholder sessions and public open houses in 17 communities across the province. There were also 17 sessions with Indigenous communities and organizations.
- The Ministry received over 1,500 submissions through the Environmental Registry, emails and other channels.
- Engagement with Indigenous communities continues. The Ministry of Energy plans to report back to Indigenous communities and organizations on what was heard during the LTEP engagements and to discuss potential policy and program initiatives moving forward.
- Both the LTEP engagement and development processes are being supported by an electricity technical report which was released by IESO on September 1, 2016, and a fuels sector technical report which was prepared by Navigant Consulting and released September 30, 2016.
- The Ministry of Energy identified a number of initiatives for the LTEP. The Ministry is identifying which initiatives require implementation directives to the IESO and OEB.
- Implementation directives will be issued to the IESO and OEB when the LTEP is released. Both agencies will develop plans to implement the objectives outlined in the directives.
- The Minister of Energy will review subsequent implementation plans outlining how IESO and OEB intends to implement the objectives laid out in the directives.

3. Connection of Remote First Nations

Suggested Response:

- **The involvement of key financial advisors in the negotiation of a cost-sharing framework for the connection of remote First Nation communities is a positive development.**
- **The Ministry of Energy has been discussing cost-sharing with the federal government for several years and we are working with the Independent**

Electricity System Operator to support the negotiating effort with valuable technical and policy information.

- **Our strategic objectives continue to be that the connection project move forward without delay and that the federal contribution reflect the federal share of current cost responsibilities, accounts for project risks, and does not otherwise offset funding for other Ontario infrastructure commitments.**

Background:

- ENERGY has been engaging with federal counterparts over the past two years to come to a common understanding of the respective parties' costs and potential benefits to grid connection as compared to maintaining the status quo diesel generation in remote First Nation communities.

- As a result of the SoC/Clerk collaboration on Indigenous issues, significant progress was made in late 2016 / early 2017 on the following deliverables:

    - A draft MOU was developed, which outlined the general terms of how costs could be shared under a scenario where the federal government made a significant upfront capital contribution.

    - Along with the existing Independent Electricity System Operator (IESO) business case for the project, the federal government developed and shared a business case that indicated over $1B in savings (on a net present value basis) would be realized by the federal government due to grid-connection over 40 years.

    - Additional documents on the critical path of funding decisions to meet the timelines of Wataynikaneyap Power and a range of options for identifying federal funds were drafted.

- These deliverables were completed to the extent possible until there is more clarity on a federal funding amount and mechanism.

- The 2017 federal budget did not identify specific funding for the remote connection project. However, the federal government indicates that they are interested in exploring alternative options for funding the project.

- The Ministry of Energy has been supporting more detailed discussion on a federal funding mechanism and has emphasized the need for a timely decision.

- Recently, key advisors have been identified to lead discussions – Tim Duncanson for the Federal Government and Alan Hibben for the Province – and an initial bilateral meeting was held on April 13, 2017.

Wataynikaneyap Power Project

- Wataynikaneyap Power (Watay) has planned to submit a Leave to Construct (LTC) application to the Ontario Energy Board in Fall 2017 for its project to connect 16 communities.
- Normally, an application for LTC would need to detail the financial arrangements related to capital funding so that the Board could consider impacts to ratepayers.
- The Minister of Energy recently attended Watay's Board meeting on April 7 in Thunder Bay along with officials from Indigenous and Northern Affairs Canada.
- At this meeting the Minister was provided an update on project development. Concerns around the need for a timely decision on the funding model were reiterated by Watay.

Appendix – Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan