Ontario

BACKGROUNDER

Ministry of Energy

Ontario's Fair Hydro Act, 2017

The Fair Hydro Act, 2017 would lower electricity bills by 25 per cent on average for all residential consumers and hold increases to the rate of inflation for four years. As many as half a million small businesses and farms will also benefit. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

The 25 Per Cent Average Reduction

Measures that make up the 25 per cent average reduction include:

- Refinancing a portion of the Global Adjustment (GA) – this will provide significant and immediate rate relief by spreading the cost of Ontario's electricity investments over the expected lifecycle of the infrastructure that has been built.
- Shifting the cost of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP) program from ratepayers to provincial revenues.
- The eight per cent rebate equal to the provincial portion of the HST that took effect on January 1, 2017.

In crafting the Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies
- Experts across government
- External accounting experts
- External legal advisors
- Financial Advisors
- Local Distribution Companies (LDCs)

The legislation delivers on the government's commitment to fairness, and electricity rates will come down and make life more affordable for families and businesses across the province.

Refinancing the Global Adjustment

Recent investments in electricity infrastructure will create benefits for years to come. For example, the majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA would be refinanced. Refinancing the GA will provide significant and immediate rate relief by spreading the cost of electricity investments over time.

Initial analysis indicates that the accumulated debt will not exceed $28 billion, including interest.

Increases Held To Inflation

The Fair Hydro Act, 2017, will allow future increases to hydro bills to be set by regulation. This enables the government's commitment to hold increases, for four years, to the rate of inflation. By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

Clean Energy Adjustment

In the early years, it is intended that a portion of the costs covered by the GA will be refinanced to lower hydro bills for today's electricity ratepayers. In later years, the cost of refinancing would be recovered through adjustments to consumer hydro bills called a Clean Energy Adjustment. Clean Energy Adjustments will appear on bills when consumers start to repay the borrowed amount. Initial analysis indicates that this is currently anticipated to occur in the mid-to-late 2020s.

Provincial Guarantees

The legislation will enable the Province to provide guarantees to investors to protect investors from risks that cannot otherwise be mitigated. For example, guarantees will address the risk to investors that future governments may undermine their investment by impairing the recovery of Clean Energy Adjustments.

The Ontario Energy Board (OEB) will continue its role as regulator for the electricity sector. In particular, it will continue to set commodity rates for Regulated Price Plan (RPP) consumers, including any cost reductions under the Fair Hydro Act, 2017. The Independent Electricity System Operator (IESO) will calculate and record shortfalls in recovery of GA in the near term. In the later years of the plan, IESO will manage the recovery of Clean Energy Adjustments from consumers and LDCs. Ontario Power Generation (OPG) will provide industry and financial expertise, through its role in managing the refinancing of the GA.

New and Enhanced Social Programs

In addition, the Fair Hydro Act, 2017 will shift the costs of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection program (RRRP) from ratepayers to provincial revenues. These programs, along with the creation of the First Nations On-Reserve Delivery Credit and Affordability Fund, will cost the Province $2.5 billion over the next three years.

Broadening Distribution Rate Protection

- RRRP program provides a rate subsidy to rural and remote residential customers who face higher distribution costs.

- About 800,000 customers will benefit from the new broadened distribution rate protection program. Customers of LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Power (Parry Sound), Chapleau Public Utilities Commission, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

Expanding the OESP

- The OESP is an income-tested, application based program that lowers electricity costs for the most vulnerable consumers, providing a rebate directly on bills. There are two scales: one with basic credits, and an enhanced credit for Indigenous people or those who use electric heat or certain electrically intensive medical devices.

- Effective May 1, 2017, Ontario increased the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount will get an increase from $30 to $45 per month ($540 per year, an increase of $180), and single, low-income consumers who qualify for the enhanced scale will see an increase from $45 to $68 ($816 per year, an increase of $276).

Providing a First Nations On-Reserve Delivery Credit

- In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network to develop and recommend options for a First Nations electricity rate.

- As a result of recommendations from the OEB, the government plans to eliminate the delivery charge for all on-reserve First Nations residential customers and remove the monthly service charge for customers of licensed distributors which charge a bundled rate.

The Fair Hydro Act, 2017 will enable the above initiatives. In addition, an Affordability Fund has been established. No legislative amendments were required for this fund.

Establishing an Affordability Fund

- Ontario has established an Affordability Fund that will 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.

- The Affordability Fund will be administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors. It is expected that distributors will be able to begin applying to the Fund in summer 2017. Electricity distributors are best positioned to identify their customers who are in need of assistance.

- The Province is paying for the Affordability Fund through provincial revenues.

Energy Sector Efficiencies

- The Ontario government has commenced work on the next Long-Term Energy Plan (LTEP).

- Ontario is in a strong electricity supply situation and well-positioned to meet demand at this time. The LTEP process is designed to be iterative and flexible and only commit resources as demand needs become clearer. The Province is committed to continuing to put conservation first in its energy planning decisions, where cost-effective.

- When new electricity supply is needed, the next LTEP would ensure that future procurements are focused on outcomes, rather than contracting with specific technologies. This technology-neutral approach will foster innovation and create competition. This approach is expected to lower the cost of electricity supply.

- The OEB will identify opportunities for cost efficiencies by:
    - Encouraging shared partnerships on services between utilities, which would help reduce costs and encourage further innovation for small to medium-sized utilities.
    - Reviewing business cases behind its regulatory requirements to reduce red tape and eliminate costs that LDCs indicate are creating pressures on operating expenses.
    - Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

- Continuing to move forward with IESO Market Renewal initiatives, to enhance the efficiency and performance of the wholesale electricity market.

- The Market Renewal project is expected to deliver net benefits of $2.2 billion to $5.2 billion over the period from 2021 to 2030.

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