



## TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

|                                 |                                                     |
|---------------------------------|-----------------------------------------------------|
| <b>Ministry:</b>                | Energy                                              |
| <b>Meeting Date:</b>            | September 12, 2016                                  |
| <b>Agenda Class:</b>            | Major                                               |
| <b>Last reviewed by:</b><br>N/A | <b>Tracking to:</b><br>Cabinet - September 12, 2016 |

**SUBMISSION TITLE:** Electricity Price Mitigation

### I. DECISION BEFORE THE BOARD

The Ministry of Energy is requesting approval of a suite of initiatives providing relief to various electricity consumer classes.

### II. RECOMMENDATIONS:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| <ul style="list-style-type: none"> <li>Approve a suite of initiatives to provide relief to various electricity consumer classes (pending Cabinet policy approval): <ul style="list-style-type: none"> <li>Providing an 8% rebate to Regulated Price Plan eligible consumers;</li> <li>Expanding the Industrial Conservation Initiative;</li> <li>Updating the Rural or Remote Rate Protection program; and,</li> <li>Using \$270M in cap and trade proceeds to ensure industrial and commercial consumers are not negatively impacted by cap and trade by providing a modest reduction in rates. Balance of proceeds intended for electricity relief through the Climate Change Action Plan (\$60M), could provide some fiscal offsets.</li> </ul> </li> <li>Approve \$300M in 2016-17 in Supplementary Estimates for electricity price mitigation.</li> <li>Direct the Ministry to report back to TB/MBC through the annual planning process with updated future year impacts, and obtain any required TB/MBC approvals to implement the initiatives.</li> <li>Recommend proceeding to Cabinet with the proposed legislation and amendments to existing regulations to implement the initiatives.</li> </ul> | <i>Board Judgment</i> |
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### III. FINANCIAL SUMMARY

| \$ Millions                                                                            | 2016-17 | 2017-18 | 2018-19 |
|----------------------------------------------------------------------------------------|---------|---------|---------|
| Initiative cost requested                                                              | 300.0   | 1006.0  | 1004.0  |
| Initiative cost recommended                                                            | 300.0   | 1006.0  | 1004.0  |
| Recommended program base                                                               | 300.0   | 1006.0  | 1004.0  |
| Offset Recommended – Applies if cap and trade proceeds diverted to in-plan initiatives | 0.0     | (60.0)  | (60.0)  |
| Total Fiscal Impact                                                                    | 300.0   | 946.0   | 944.0   |

## IV. KEY COMMENTS AND CONSIDERATIONS

### Context

Electricity costs have increased as the province has made investments in clean energy generation and modernized electricity infrastructure. Electricity bills are expected to continue to increase as more renewable energy projects come online. Since 2010, average bills for residential consumers (i.e., using 750 kWh/month) have increased by over 50%. Rates paid by commercial and industrial electricity consumers have increased by 56% and 6% respectively over the same period. Appendix C provides supporting background information.

As part of the 2016 Budget, the government committed to offset the impact of cap and trade in Ontario for commercial and industrial electricity consumers, while also providing a benefit of up to \$2 per month for residential electricity consumers. The Climate Change Action Plan (CCAP) included up to \$1.32B over 4 years to help keep electricity rates affordable.

The Ontario Clean Energy Benefit (OCEB) expired December 31, 2015, as part of the originally planned, 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. With the end of OCEB, the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, as of January 1, 2016, and also put in place the low-income targeted Ontario Electricity Support Program (OESP).

In order to achieve the Budget commitment and additional price mitigation, while delivering on the Province's climate change objectives, the Ministry of Energy has developed price mitigation initiatives that consider tax-based levers, cap and trade proceeds, and shifting costs within the rate-base.

### Proposal

The Ministry is proposing the following to mitigate electricity prices for consumers (Appendix D provides more information on each item below):

- Provide an 8% rebate on the pre-tax cost of electricity to consumers eligible for the Regulated Price Plan (i.e., residential, small business and farms), equivalent to the provincial portion of HST.
- Expand Industrial Conservation Initiative (ICI) eligibility by lowering the threshold to 1 MW, to provide support to additional commercial, institutional and small industrial consumers.
- Update the Rural or Remote Rate Protection (RRRP) program, to provide relief to rural customers.
- Use cap and trade proceeds to provide a modest rate reduction for commercial and industrial electricity consumers.

Public high-profile communications would coincide with introduction of legislation (September 2016). Currently, the 8% rebate would be available starting January 1, 2017, along with updating the RRRP. Expanding ICI won't be added to bills until 2018 due to the time required to implement the expansion and for billing changes. The impact of cap and trade would not be added to electricity bills until 2017.

The following tables provide an overview of the four initiatives, recipients, projected financial impact, grouping them based on whether taxpayers or ratepayers cover the costs:

| Measure                                                                           |                                                                                                                                                                                                                                                                                   | Annual Impact                                                                                           | Targeted Recipients                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Taxpayers cover the costs (Potential to impact the Province's Fiscal Plan)</b> |                                                                                                                                                                                                                                                                                   |                                                                                                         |                                                                                                                                                                                                        |
| 1.                                                                                | 8% Rebate to Regulated Price Plan                                                                                                                                                                                                                                                 | Fiscal<br>About \$1.0B                                                                                  | Residential, small business and farms, and other small users                                                                                                                                           |
| 2a.                                                                               | Use cap and trade proceeds to provide a modest reduction in rates for commercial and industrial electricity consumers. (Implementation details under development).                                                                                                                | (\$270M) in cap and trade proceeds to offset \$270M in costs for reducing rates<br><br>No Fiscal Impact | The CCAP allocated up to \$330M/year in cap and trade proceeds for electricity price mitigation.<br><br>See item 2b. regarding the residual amount of cap and trade proceeds (\$330M - \$270M = \$60M) |
| 2b.                                                                               | While CCAP anticipated \$330M/year was required to keep electricity affordable, the residential portion of this commitment is met by the 8% rebate. As such, some of the CCAP allocated proceeds can be redirected to other GHG reduction initiatives already in the fiscal plan. | Fiscal<br>(\$60M)                                                                                       | Provides fiscal plan flexibility of \$60M/year if these proceeds are diverted to offset costs of other existing in-plan initiatives that reduce GHG emissions.                                         |
| <b>Total Fiscal Impact</b>                                                        |                                                                                                                                                                                                                                                                                   | \$946M                                                                                                  | Matches Financial Summary on page 1 for 2017-18                                                                                                                                                        |

| Measure                                                                     |                                                                 | Annual Impact                | Targeted Recipients                                                                                      |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>Ratepayers cover the costs (No impact to the Province's Fiscal Plan)</b> |                                                                 |                              |                                                                                                          |
| 3                                                                           | Expanding ICI eligibility to customers above 1MW in all sectors | Rate base<br>(\$47M/\$82M)** | Intermediate and large-sized industrial, commercial and institutional consumers above 1MW in all sectors |
| 4.                                                                          | Updating Rural or Remote Rate Protection                        | Rate base<br>(\$110M)        | Residents in rural or remote locations: Hydro One's lowest-density R2 customers.                         |

\*\* Short-term/Long-term rate base impact, where short term is one year after expanded eligibility takes place and long-term is expected impact once new customers have time to change behavior.

Due to the nature of the ICI Global Adjustment mechanism and cost recovery of RRRP, the rate base proposals (#3 and #4) above benefit the targeted recipients, but come at a cost to all other electricity ratepayers in Ontario.

The following table from the Ministry highlights the benefits by electricity consumer class.

|                                                                                                                                                                                | Average Annual Fiscal Impact | Average Annual Greenhouse Gas Reduction Account (GGRA) Proceeds Impact                                                 | Regulated Price Plan (Residential) Benefit |                           | Class B (Commercial) Benefit | Class A (Industrial) Benefit |                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------|------------------------------|------------------------------|-------------------------------|
|                                                                                                                                                                                |                              |                                                                                                                        | Average (750 kWh/month)                    | Rural (1000 kWh/month)    |                              | Existing                     | New                           |
| <ul style="list-style-type: none"> <li>8% rebate to Regulated Price Plan eligible consumers</li> <li>ICI Expansion</li> <li>RRRP Update</li> <li>Proceeds Recycling</li> </ul> | \$1.0 billion annually       | \$0.27 billion annually<br><br>(Reduction of \$0.06 billion annually or \$0.24 billion total from the CCAP commitment) | -\$11/month<br><br>(-8%)                   | -\$45/month<br><br>(-20%) | -\$3/MWh<br><br>(-2%)        | -\$3/MWh<br><br>(-3%)        | Up to -\$52/MWh<br><br>(-34%) |

**Notes:** \* The above benefits do not include the cost of ICI expansion and the RRRP update (total impact of \$1.74/MWh). Proceeds recycling is net of the cost of carbon and represents an estimated average of the proceeds required over the first compliance period (2017-2020).

See Appendix E for more illustrative bill impacts. See Appendix F for an electricity bill mock-up.

### Fiscal Impact

The Ministry estimates proceeding with an 8% Regulated Price Plan (RPP) rebate without a cap would cost an estimated \$1.0 billion per year. The Ministry's estimate of \$300M needed for 2016-17 (to cover the first three months of 2017 when the 8% rebate applies) will be addressed through Supplementary Estimates. The Ministry will use the annual planning process to update future year impacts.

The Ministry also indicates the current proposal would use cap and trade proceeds to eliminate carbon price impacts/ grid emission reductions to ratepayers, as was established through the CCAP. This proposal does not require the full \$330M/year notionally allocated through the CCAP, which could provide fiscal plan flexibility of about \$60M per year to commit to other GHG reduction initiatives in the fiscal plan.

### Cap and Trade Proceeds

The 2016 Budget committed to offset the impact of cap and trade for commercial and industrial consumers, while also providing a benefit of up to \$2 per month for residential consumers (on average). While residential and other consumers would benefit from the 8% pre-tax rebate, this does not apply to non-Regulated Price Plan eligible consumers (larger industrial, commercial, and other consumers). As such, the Ministry is proposing to direct a portion of cap and trade auction proceeds to industrial and commercial consumers not in the RPP to provide a modest rate reduction. This proposal fulfills the policy objective established in the Climate Change Action Plan to eliminate carbon price impacts/ grid emission reductions to electricity ratepayers.

To be characterized as a regulatory charge under the cap and trade program, auction proceeds need to be spent on programs that are reasonably likely to reduce or support the reduction of greenhouse gases. The Ministry has indicated that their proposal would use proceeds to offset the costs of committed investments that reduce greenhouse gases (e.g., non-emitting generation and conservation programs) and incent fuel-switching away from fossil fuels.

### Considerations – Implementation

At this point, the Ministry has presented a high level overview of major implementation pieces:

- New legislation would be required to enable the 8% rebate proposal. Legislation would closely mirror the Ontario Clean Energy Benefit Act, 2010. If passed, the legislation would require a general regulation. Amendments would also be required to various regulations to expand ICI and RRRP.
- On-bill rebate delivery would likely require adjustments to LDC billing systems, which could impact delivery costs and timelines. The Ministry indicates it will consult with LDCs (possibly through the Ontario Energy Board) to accurately assess these impacts once the program has been announced. In the past, LDCs have asked for at least six months' notice when implementing billing system changes. Timing concerns may be alleviated by allowing LDCs to provide retroactive payments rebates if their systems cannot be updated in time for January 1, 2017. This was done with the OCEB.
- Detailed messaging on bills could be implemented. The rebate would not be directly linked to HST. With electricity invoices containing multiple line items and LDC bill presentment varying widely, direction on rebate presentment will need to be flexible to allow LDCs to incorporate easily while ensuring government-preferred branding and messaging is conveyed.
- The Ministry will need to continue to consult with the Independent Electricity System Operator (IESO), Ontario Energy Board (OEB) and LDCs regarding implementation of proceeds recycling.

### Legal Considerations

8% Rebate (shift costs from rate-base to tax base by providing a rebate equal to the provincial portion of HST):

- Providing the contemplated rebate under the proposed Bill does not, in and of itself, give rise to legal issues. As policy direction is given on the specifics of supporting regulations, any associated legal risks can be identified.

ICI Expansion (shift costs within rate-base by expanding eligibility for the ICI program to consumers of >1 MW):

- 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.

RRRP Update (shift costs within the rate-base by increasing the RRRP benefit paid to rural or remote customers):

- Increasing the amount of revenue devoted to the RRRP or expanding the scope of consumers eligible for the program does not raise new legal risk. There is a good argument that the RRRP is a regulatory charge, as it socializes some of the costs of distributing electricity to rural consumers. Overall the risk that the RRRP would be characterized as a tax is assessed as moderate (meaning equally good arguments on both sides).

Cap and Trade Proceeds Recycling (reduce impact on rate base and tax base by directing cap and trade auction proceeds to industrial consumers):

- To be characterized as regulatory charges under the cap and trade program, auction revenues should be spent on programs that reduce GHGs.

#### Other Considerations

- This request does not align with the 2016 Budget fiscal plan and there are no proposed offsets for the 8% rebate.
- The 8% rebate would provide a typical residential consumer about an \$11 per month benefit on average, exceeding the Budget 2016 \$2 per month on average cap and trade commitment. The proposal to offer a modest rate reduction for industrial and commercial consumers also exceeds the Budget commitment to simply offset the impact of cap and trade on these consumers.
- Reductions in electricity prices that do not consider consumption amounts (e.g., without the cap in the previous OCEB program) do not promote electricity conservation and may be seen as unaligned with climate change objectives.
- Other price mitigation measures introduced following the implementation of the HST, as well as the end of OCEB, would continue.
  - Both the energy portion of the Ontario Energy and Property Tax Credit (OEPTC) and NOEC were introduced/ enhanced following the introduction of the HST and have a significant annual fiscal cost (totalling about \$500 million annually).
  - The DRC on residential consumers was ended early, as of January 1, 2016 (about a \$340 million impact in 2016-17).
  - OESP is a low-income targeted program funded by electricity consumers through the electricity rate base.

|                           |                                                                                                                                        |                      |              |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------|
| <b>Name of analyst:</b>   | James Strang<br>With input from TPD and<br>OFA                                                                                         | <b>Phone number:</b> | 416-327-2071 |
| <b>Date:</b>              | September 12, 2016                                                                                                                     | <b>Log number:</b>   |              |
| <b>Branch / Division:</b> | GGPR/ PEMD/ Treasury Board Secretariat<br>Tax Policy Division/ Ministry of Finance<br>Ontario Financing Authority/ Ministry of Finance |                      |              |

## **APPENDIX A: PROPOSED MINUTE**

Approve electricity price mitigation for residential, commercial and industrial consumers.

In this regard:

- i) Approve a suite of initiatives to provide relief to various electricity consumer classes:
  - a) 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 (RPP); and any other consumers who would be eligible for RPP if their electricity account was with a licensed distributor, starting January 1, 2017.
  - b) 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 2003.
  - c) 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.
  - d) 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.
  - e) Provide a modest rate reduction to commercial and industrial electricity consumers using cap and trade auction proceeds to offset the cost.
- ii) Recommend to Cabinet the proposed Ontario Rebate for Electricity Consumers Act, 2016 and that the Ministry proceed to Legislation and Regulations Committee before the end of 2016 with supporting regulations under the proposed Ontario Rebate for Electricity Consumers Act, 2016.
- iii) Approve the implementation details associated with the suite of initiatives:
  - a) Approve:
    - 1. The creation of a new item entitled "Ontario Rebate for Electricity Consumers" in the Electricity Price Mitigation Program (Vote/Item 2905-3).
    - 2. The creation of a new Transfer Payment entitled "Ontario Rebate for Electricity Consumers" in Rebate for Electricity Consumers (Vote/Item 2905-3).
    - 3. An expenditure increase in the amount of \$300,000,000 in 2016-17 in the Transfer Payment entitled "Rebate for Electricity Consumers"<sup>1</sup> in Rebate for Electricity Consumers (Vote/Item 2905-3). Direct the Ministry to return any under-spending to the Treasury Board Contingency Fund.

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<sup>1</sup> Pending approval of the proposed Ontario Rebate for Electricity Consumers Act, 2016

b) Note:

1. Funding for 2016-17 will be implemented through Supplementary Estimates in the Fall of 2016.
  2. Future year impacts of \$1,006,000,000 in 2017-18 and \$1,004,000,000 in 2018-19, and \$1,004,000,000 in 2019-20 and ongoing.
- c) Direct the Ministry to report back to Treasury Board/Management Board of Cabinet in the 2017-18 Program Review, Renewal, and Transformation process on updated future year impacts, and a potential offset strategy for resource requirements to support program implementation
- iv) Further to the Cabinet Minute of May 11, 2016 and the Treasury Board Minute of May 19, 2016, note the reallocation of cap and trade auction proceeds from the up to \$1,320,000,000 that was previously allocated through the Climate Change Action Plan for electricity price mitigation, as follows:
- a) The Ministry of Energy to work with the Ministry of the Environment and Climate Change, Treasury Board Secretariat, Ministry of Finance, Cabinet Office and Office of the Premier, to allocate up to \$1,080,000,000, from 2017-18 to 2020-21, of Cap and Trade auction 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, subject to the evaluation by the Minister of the Environment and Climate Change.

In this regard:

- 1) Direct the Ministry of Energy to work with the Ministry of the Environment and Climate Change and report back to Cabinet by the end of 2016 with options on the appropriate mechanism.
- b) The remaining up to \$240,000,000, from 2017-18 to 2020-21, which was previously allocated in the Climate Change Action Plan to eliminate carbon price impacts/ grid emission reductions to ratepayers, to 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 by the Minister of the Environment and Climate Change.

In this regard:

- 1) Direct the Ministry of the Environment and Climate Change to work with Treasury Board Secretariat and Ministry of Finance to identify other existing initiatives within the fiscal plan and the Climate Change Action Plan that reduce greenhouse gas emissions that can be funded with the remaining up to \$240,000,000, from 2017-18 to 2020-21.
- v) To support implementation of electricity price mitigation, the Ministry is proceeding with the following amendments to existing regulations:



- a) 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.
  - b) 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 Rural or Remote Rate Protection Plan to R2 low density electricity customers and provide for a periodic adjustment mechanism.
- vi) Direct the Ministry to work with Office of the Premier and Cabinet Office on the development and implementation of an integrated communications strategy.

## APPENDIX B: FINANCIAL TABLES

| Financial Impacts: Changes to Expense and Revenue                     |                                                                     |                   |           |           | Table B1             |
|-----------------------------------------------------------------------|---------------------------------------------------------------------|-------------------|-----------|-----------|----------------------|
|                                                                       |                                                                     | Fiscal Plan Basis |           |           | Appropriations Basis |
| \$ Millions                                                           |                                                                     | 2016-17           | 2017-18   | 2018-19   | 2016-17              |
| Initiative cost recommended                                           |                                                                     | 0.0000            | 0.0000    | 0.0000    |                      |
| Expense changes:                                                      |                                                                     |                   |           |           |                      |
| Operating item (Supplementary Estimates inclusion for 2016-17 amount) | Oper                                                                | 300.0000          | 1006.0000 | 1004.0000 | 0.0000               |
| Operating Offset                                                      | Oper                                                                | 0.0000            | 0.0000    | 0.0000    | 0.0000               |
| Revenue changes:                                                      |                                                                     |                   |           |           |                      |
| Revenue Increase/ Offset                                              | - Applies if cap and trade proceeds diverted to in-plan initiatives | 0.0000            | (60.0000) | (60.0000) |                      |
| Revenue decrease                                                      |                                                                     | 0.0000            | 0.0000    | 0.0000    |                      |
| Total Fiscal Impact (draw from c-funds)                               |                                                                     | 300.0000          | 946.0000  | 940.0000  | 0.0000               |

## APPENDIX C: ELECTRICITY SECTOR BACKGROUND

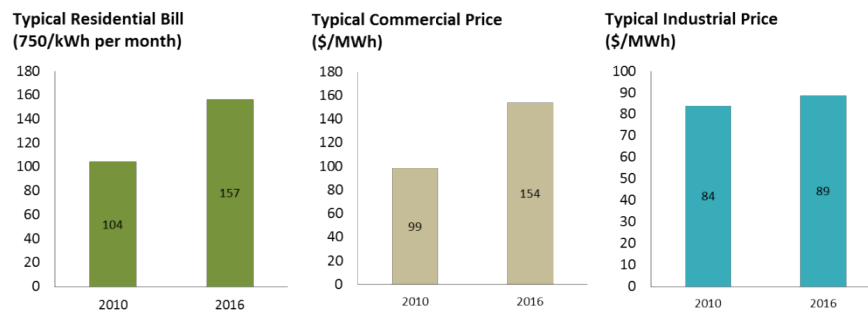
The Ministry has provided the following information to provide electricity sector context this item.

There are three classes of electricity consumers:

|                      | Regulated Price Plan                                                                                 | Class B                                                                                                       | Class A                                                                                      |
|----------------------|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Consumer Types       | <ul style="list-style-type: none"> <li>Residential</li> <li>Small Business</li> <li>Farms</li> </ul> | <ul style="list-style-type: none"> <li>Commercial</li> <li>Institutional</li> <li>Small industrial</li> </ul> | <ul style="list-style-type: none"> <li>Large commercial</li> <li>Large industrial</li> </ul> |
| Load Size            | Below 0.05 MW                                                                                        | Between 0.05 MW and 3 MW                                                                                      | Above 3 MW*                                                                                  |
| Total Consumption    | 58 TWh                                                                                               | 57 TWh                                                                                                        | 26 TWh                                                                                       |
| Share of Consumption | 41.1%                                                                                                | 40.4%                                                                                                         | 18.4%                                                                                        |

\* **Note:** Consumers with peak demand between 3-5 MW in the manufacturing, mining, refrigerated warehousing, greenhouses and data-processing industries are currently eligible for Class A. All other 3-5MW consumers are Class B.

Since 2010, average bills for residential consumers (i.e., using 750 kWh/month) have increased by over 50%. Rates paid by commercial and industrial electricity consumers have increased by 56% and 6% respectively over the same period.



**Note:** 2016 represents May 2016 for residential and YTD June 2016 for commercial and industrial.

Existing Rate Mitigation efforts are on-going:

- Ontario currently provides rate mitigation to various electricity consumer classes through a combination of tax-based and rate-based programs.
  - For example, Northern Ontario residential electricity consumers receive tax credits in recognition of higher electricity costs in the north and rural consumers receive a subsidy funded through the rate-base due to the higher cost of delivering power to rural areas.
  - As of 2016, the government removed the Debt Retirement Charge (DRC) from residential electricity bills. While this saves a typical residential electricity ratepayer about \$60 per year, it is less than the benefit previously provided through the Ontario Clean Energy Benefit (OCEB).
  - The Ontario Electricity Support Program (OESP) provides ongoing assistance directly on the bills of eligible low-income electricity consumers.

- The Industrial Conservation Initiative (ICI) encourages Ontario's largest consumers to reduce consumption during peak periods while reducing system costs.
  - The Rural or Remote Rate Protection (RRRP) program is provided to rural or remote residential and farm customers because the cost of distributing power to remote areas is much higher than for urban areas.
- Because electricity costs must be fully recovered from electricity consumers, rate mitigation funded through the rate-base often represents a shifting of costs from one consumer group to another (i.e., industrial to residential and commercial consumers).
    - Rate-based initiatives are generally associated with incenting changes in behaviour that provide electricity system benefits (i.e., shifting electricity consumption from on-peak to off-peak periods).

The table below shows the estimated cost shifts in the province's electricity system that result from three existing government programs (i.e., ICI, RRRP and OESP):

| Cost Shift Impact                          | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   |
|--------------------------------------------|--------|--------|--------|--------|--------|--------|
| Residential Bill<br>(\$/month for 750 kWh) | 3.55   | 4.07   | 3.85   | 4.46   | 5.68   | 6.55   |
| Commercial – Class B<br>(\$/MWh)           | 4.74   | 5.43   | 5.14   | 5.94   | 7.57   | 8.73   |
| Industrial – Class A<br>(\$/MWh)           | -20.97 | -25.26 | -22.38 | -24.68 | -32.56 | -31.55 |

**Note:** Negative values indicate a benefit; positive values denote an incremental charge.

Since 2013, a number of actions have and are being taken to reduce overall electricity system costs. Despite these actions to reduce system costs, electricity rates continue to increase for consumers:

- Renegotiating the Green Energy Investment Agreement, reducing contract costs by \$3.7 billion;
- Deferring the construction of two new nuclear reactors at Ontario Power Generation's Darlington facility, avoiding an estimated \$15 billion in new construction costs;
- Approving Ontario Power Generation's plans to enable the ongoing operation of Pickering up to 2024, which is expected to save ratepayers as much as \$600 million.
- Reducing Feed-In-Tariff (FIT) prices through annual price reviews, saving ratepayers at least \$1.9 billion relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast; and
- Removing an expected \$3.3 billion in Large Renewable Procurement (LRP) costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast, based on the results of the first phase of the LRP.

## APPENDIX D: FURTHER INFORMATION SUPPORTING PROPOSED INITIATIVES

The following information has been provided by the Ministry.

### 1. Provide an 8% rebate to consumers eligible for the Regulated Price Plan\* (i.e., residential, small business and farms), equivalent to the provincial portion of HST

The Ministry is proposing to introduce legislation/regulation to provide a rebate of 8% to consumers eligible for the Regulated Price Plan. The below table indicates which consumers would or would not receive the benefit. This would be equivalent to the provincial portion of the HST.

- Those ineligible to receive the 8% rebate will benefit from one or more of the other initiatives under this proposal (e.g., ICI expansion, proceeds recycling, etc).
- An HST exemption would require federal approval. Engaging in discussions with the federal government would take time and would likely result in not meeting the targeted implementation date.

| Eligible for the 8% rebate<br>(< 50 kW or < 250,000 kWh/year)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Not eligible for the 8% rebate<br>(> 50 kW or > 250,000 kWh/year)                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Residential Regulated Price Plan consumers</li><li>• Residential retail consumers</li><li>• Multi-unit residential buildings and other facilities used as residential rental units</li><li>• Long-term care homes and school residences</li><li>• Farms eligible for Regulated Price Plan (Including Class B farms that opted out of the Regulated Price Plan)</li><li>• Small businesses<ul style="list-style-type: none"><li>– Coffee / snack retailer</li><li>– Convenience store</li><li>– Apparel store</li><li>– Hair salon</li><li>– Small insurance office</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Class A consumers<ul style="list-style-type: none"><li>– Manufacturer</li><li>– Large grocery store</li><li>– Mines</li><li>– Auto assembly plants</li></ul></li><li>• Class B consumers<ul style="list-style-type: none"><li>– Commercial offices (low rise)</li><li>– Hotel</li><li>– General warehousing</li></ul></li></ul> |

### 2. Expand ICI eligibility by lowering the threshold to 1 MW, to provide support to Class B electricity consumers (i.e., commercial, institutional and small industrial)

Currently, electricity consumers over 5 MW and consumers from 3-5 MW in certain energy intensive sectors are eligible for ICI (i.e., approximately 300 Class A consumers). Consumers participating in ICI include the following sectors: pulp and paper, auto, manufacturing, chemicals and mines.

ICI would be expanded so that all consumers over 1 MW are eligible for the program, which would (the benefit would be seen by consumers starting in 2018):

- 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.

|            | Benefit to New ICI Participants | System Benefit             | Financial Impact            | Residential Bill Impact  |
|------------|---------------------------------|----------------------------|-----------------------------|--------------------------|
|            | Bill Savings                    | Peak Demand Reduction (MW) | GA shifted to Class B (\$M) |                          |
| Short-term | Up to 21%                       | 80                         | 47                          | Increase of \$0.42/month |
| Long-term  | Up to 34%                       | 165                        | 82                          | Increase of \$0.74/month |

The different impacts refer to the amount of time it takes for new Class A consumers to respond to the expanded ICI eligibility. The bill impacts assume a 25% uptake, which would increase Class A consumption by roughly 3 TWh, leaving an estimated 54 TWh in Class B that are either between 0.05-1 MW or choose not to opt in to ICI. This would represent an estimated 300 additional consumers in ICI, though they would represent a much smaller share of the consumption than the 300 consumers currently participating. Newly eligible consumers in the program would mostly fall into the small industrial, institutional and commercial category, including: automotive supply chain companies, office tower, large shopping mall, greenhouses and others.

### 3. Update the Rural or Remote Rate Protection (RRRP) program, to provide relief to rural customers

The Ministry is proposing to provide an additional \$110M in rate protection to eligible rural or remote electricity consumers, and consider options to periodically adjust the amount of rate protection available to these consumers going forward.

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.

- Today, RRRP is a \$175M 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 (\$127M) 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
- RRRP funding supporting R2 customers has been capped at the current level since 2003. As a result, the impact of its assistance has diluted over time as electricity costs have risen.

An additional \$110M in program funding would see an increased benefit of ~\$28 /month. This would bring R2 bills in line with Hydro One R1 (medium density) bills at 1000kWh.

- This would increase the R2 portion of the RRRP to \$237 million with a monthly impact on an average residential consumer of ~\$0.60.
- The RRRP could be indexed at inflation or "trued up" on a regular basis to ensure the benefit remains constant.

#### **4. Recycle cap and trade proceeds to commercial and industrial electricity consumers to provide a modest reduction in rates**

The 2016 Budget committed to offset the impact of cap and trade for commercial and industrial consumers, while also providing a benefit of up to \$2 per month for residential consumers.

- To meet the 2016 Budget commitment, the Climate Change Action Plan (CCAP), committed \$1.3 billion from the GGRA over the first compliance period (2017-2020).
- However, providing an 8% rebate to Regulated Price Plan consumers would allow for GGRA proceeds previously committed to residential consumers to be redirected to other GHG reduction initiatives in the fiscal plan.

The rate reduction proposal would provide additional benefit to commercial and industrial consumers, while requiring an estimated \$60 million less per year (i.e., a reduction of \$240M over the first four year compliance period).

## APPENDIX E: ILLUSTRATIVE BILL IMPACTS

The Ministry has provided the following illustrative bill impacts:

|                                                     | Current Bill (before tax) | Current Rate mitigation initiatives* | New Rate Mitigation initiatives          | New Bill (before tax) |
|-----------------------------------------------------|---------------------------|--------------------------------------|------------------------------------------|-----------------------|
| Average Residential (Toronto – 750 kWh/month)       | \$139 /month              | N/A                                  | 8% pre-tax rebate: - \$11                | \$128 /month          |
| Rural Residential (Hydro One R2 – 1000 kWh/month)   | \$229 /month              | RRRP: -\$32                          | 8% pre-tax rebate + Updated RRRP: - \$45 | \$184 /month          |
| Low-income Residential ** (Toronto – 750 kWh/month) | \$101 /month              | OESP: -\$38                          | 8% pre-tax rebate: - \$8                 | \$93 /month           |
| Small Business (Toronto – 403,200 kWh/month)        | \$149 /MWh                | N/A                                  | 8% pre-tax rebate: - \$12/MWh            | \$137 /MWh            |
| Small Farm (Hydro One R1 – 4,000 kWh/month)         | \$203 /MWh                | N/A                                  | 8% pre-tax rebate: - \$16/MWh            | \$187 /MWh            |

**Notes:**

\* Some residential consumers can also receive tax credits based on income, age and geography (Northern Ontario Energy Credit and Ontario Energy and Property Tax Credit). These credits are delivered through the Trillium Tax Credit and can be as high as \$1,332 per year for a family.

\*\* Income of less than \$28,000, family of 4.

The above benefits do not include the cost of ICI expansion and the RRRP update (total impact of \$1.74/MWh). Totals may not add due to rounding.

|                                                               | Current Rate | Current Rate mitigation initiatives* | New Rate Mitigation initiatives                     | New Rate   |
|---------------------------------------------------------------|--------------|--------------------------------------|-----------------------------------------------------|------------|
| Large Institutional (Toronto – distribution-connected, 10 MW) | \$108 /MWh   | ICI: -\$49/MWh                       | Proceeds Recycling: -\$2.60/MWh (2017-2020 average) | \$105 /MWh |
| Large Industrial (Timmins – transmission-connected, 10 MW)    | \$69 /MWh    | ICI + NIERP: -\$69/MWh               | Proceeds Recycling: -\$2.60/MWh                     | \$66 /MWh  |
| Small Industrial – opt-in to ICI (Toronto – 2 MW)             | \$152 /MWh   | N/A                                  | Proceeds Recycling + ICI: Up to -\$52/MWh           | \$100 /MWh |
| Large Commercial – does not opt-in to ICI (Toronto – 2 MW)    | \$152 /MWh   | N/A                                  | Proceeds Recycling: -\$2.60/MWh                     | \$149 /MWh |
| Small Institutional (Toronto – 500 kw)                        | \$154 /MWh   | N/A                                  | Proceeds Recycling: -\$2.60/MWh                     | \$151 /MWh |

**Notes:**

The above benefits do not include the cost of ICI expansion and the RRRP update (total impact of \$1.74/MWh). Proceeds recycling is net of the cost of carbon and represents an estimated average of the proceeds required over the first compliance period (2017-2020).



## APPENDIX F: ILLUSTRATIVE BILL MOCK-UP

| SAMPLE MONTHLY BILL STATEMENT<br>Toronto Hydro-Electric System Limited<br>- Main |                 |
|----------------------------------------------------------------------------------|-----------------|
| Account Number:<br>000 000 000 000 0000                                          |                 |
| Meter Number:<br>00000000                                                        |                 |
| <b>Your Electricity Charges</b>                                                  |                 |
| <b>Electricity</b>                                                               |                 |
| Off-Peak @ 8.700 ¢/kWh                                                           | 41.20           |
| Mid-Peak @ 13.200 ¢/kWh                                                          | 16.35           |
| On-Peak @ 18.00 ¢/kWh                                                            | 23.60           |
| <b>Delivery</b>                                                                  | 53.07           |
| <b>Regulatory Charges</b>                                                        | 4.79            |
| <b>Debt Retirement Charge</b>                                                    | 0.00            |
| <b>Total Electricity Charges</b>                                                 | <b>\$139.00</b> |
| <b>Rebate of Ontario portion of HST(8%)</b>                                      | <b>(11.12)</b>  |
| HST                                                                              | 18.07           |
| <b>Total Amount</b>                                                              | <b>\$145.95</b> |

**Note:** Final bill presentment pending submission to LRC.

## APPENDIX G: BACKGROUND CONTEXT

### **Budget commitment** (2016 Ontario Budget - Chapter I: Building Prosperity and Creating Jobs):

The government will also take steps to 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.

### **CCAP public document** (under Action Area – Buildings and Homes: Reduce emissions from fossil-fuel use in buildings):

Keep Electricity Rates Affordable: 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.

### **CCAP policy minute** (May 11, 2016):

ENERGY develop additional options to addressing rate-impacts on electricity consumers and work with MOECC, the Premier's Office and Cabinet Office regarding the selected option for inclusion in the action plan

### **CCAP TB/MBC minute** (May 19, 2016):

- i) Approve-in-principle the following estimated ranges to guide potential investment of cap and trade proceeds over four years, from 2017-18 to 2020-21, should proceeds be available:

| CCAP Action                                                                                              | Initiative                                                              | Potential Funding range from proceeds over 4-year period | Estimated GHG reduction in 2020 associated with potential funding |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------------|
| Moving toward a lower-carbon energy supply with adequate capacity and affordable low-carbon electricity. | Eliminate Carbon Price Impacts / Grid Emission Reductions to Ratepayers | Range - \$1,000,000,000 to \$1,320,000,000               | 3,000,000 Tonnes (Energy Planning)                                |