**<u>Discussion Note for TB and SFT - Monday September 12th</u>**

**<u>Reducing Electricity Costs</u>**

The SFT will provide wording on how the government will move to reduce electricity costs by rebating the provincial portion of the HST – an 8% savings. Details have been provided to you in a TB note from Nick which also includes messaging for TB. You have expressed a number of policy concerns as outlined below.

**Concern #1 – Cap the rebate for residential consumers within the Regulated Price Plan (RPP), to offset the fiscal impact**

- "Capping" refers to limiting the calculation of the 8% rebate to the amount of fixed and volumetric charges calculated using only the first 3,000 kWh per month of consumption. Charges related to consumption over 3,000kWh would not receive the 8% rebate. [Similar to 3,000 kWh cap for former Ontario Clean Energy Benefit (OCEB) program]
- Fiscal impact:
    - A cap of 3,000 kWh per month would result in a negligible fiscal impact.
    - A cap of 750 kWh per month would result in approximately $200K of savings (i.e. annual fiscal impact of proposed rate mitigation would be reduced to $800K). This is considered a very tight cap as the average residential consumer uses 750 kWh per month.
- Risks:
    - It is expected that customers who rely on electricity for heating (one of the subgroups of residential consumers most affected by rising electricity costs) would not receive the full 8% rebate.
    - Implementing a cap would require consultation with local distribution companies (LDCs). LDCs would need to upgrade their billing systems to accommodate a more complex program delivery. It is expected that ultimately, the related costs would be passed onto consumers.
    - The OCEB cap created an inequity amongst some multi-unit residential complexes.
        - Savings were not always passed on from property management to consumers who did not receive electricity bills.
        - Suite metred buildings received much less benefit than bulk or unit sub-metred buildings. The larger benefit was dedicated to common area consumption (property management) rather than to individual consumer bills.

**Concern #2 – Update the Rural or Remote Rate Protection program (RRRP) and expand the Industrial Conservation Initiative (ICI) program using a phased approach**

- Phasing in these changes would help mitigate the fiscal impact, while still achieving relief to residential users within the RPP in the near term.

    - The current proposal without any phase in provides average rural consumers with a 20% benefit and average industrial consumers new to ICI with a 34% benefit, far exceeding the 2016 Budget commitment to (merely) offset the impact of cap and trade in Ontario for commercial and industrial electricity consumers.
- While commercial electricity rates have increased by 56% over the last six years, industrial electricity rates have remained relatively flat over the same time period, due primarily to the ICI program.
- Note: The base setting period for the expanded ICI program would begin in 2017, with the benefit seen by consumers starting in 2018. This is because savings are calculated based on the previous year's consumption.

**Concern #3 – Ensure enough prudence is built into the cap and trade proceeds lever (i.e. don't overcommit proceeds)**

- It is estimated that carbon trading in Ontario will generate approximately $1.9 billion in 2017.
    - However, California and Quebec sold only 11 per cent of available emission permits in a May 2016 auction.
    - California sold just over one-third of the carbon permits it offered to cover emissions this year, receiving the minimum price at an auction last month.
- PO confirmed that Ontario would delay rate mitigation for industrial and commercial consumers if the anticipated amount of cap and trade proceeds did not become available.

I have given the PO a heads up that you continue to have serious concerns about the affordability of this item and the need to cap its costs. They are aware that you will be tabling your concerns during the Ministers Only part of the TB discussion.

Following the SFT, you will likely be asked questions about the affordability of reducing electricity costs and whether it jeopardizes the government's plan to balance the budget next year.

<u>Proposed messaging</u>:

- In our last budget, we built in sufficient prudence in order to be able to deal with contingencies such as the need to rebate electricity costs

- We will be able to provide the electricity rebate while still being able to balance our budget on schedule in 2017-18

- Eliminating the deficit next year and taking a balanced and disciplined approach to our fiscal plan over the last three years has given us the fiscal room to now make everyday life easier for Ontarians including finding ways to reduce electricity costs

If pressed on costs

- The initiative to reduce electricity costs as outlined in the SFT will cost approximately $1 billion per year

- This is needed relief that will go into the pocket of every Ontarian who pays electricity in this province and we are proud of this initiative

**Child Care Spaces**

The Speech From the Throne (SFT) will commit to an historic 5 year investment in 100,000 new child care spaces. While the SFT will be silent on the cost of the investment, it is important to note that the initiative will require a mix of operating and capital funding and costing will be developed as the government engages (through Indira's consultations) with families, communities and other partners.

At full maturity, the investment will cost between $600M to $750M in operating alone as well as capital. The operating supports a fee subsidy, wage enhancement, general operating and special needs resourcing expenses assuming 30% of spaces fully subsidized.

Top line messaging:

- We are proposing an historic investment in child care which we will implement over the next five years.
- This investment responds to the needs of Ontario families
- Eliminating the deficit next year and taking a balanced and disciplined approach to our fiscal plan over the last three years has allowed us to arrive at this moment where we can now make meaningful and long term investments in initiatives that Ontarians have told us they care about and want the government to act on such as health care, child care, fighting climate change and reducing electricity costs

If pressed on costs:

- Initial estimates are that this will cost about $750M at maturity to support fee subsidies to qualified families. There will also be associated capital funding

- We will be engaging sector partners in the coming months lead by our Associate Minister of Education and will be carefully undertaking a costing exercise at the Ministry of Finance and at Treasury Board.
- We will provide further costing information as we complete program design
- We are committed to building this historic investment into our fiscal plan over time