Ontario Energy Board
Commission de l'énergie de l'Ontario

Delivering Value to Customers

Briefing - Premier of Ontario

Presented by: Rosemarie Leclair – Chair and CEO, Ontario Energy Board

December 14, 2016

Ontario Energy Board - Who We Are

The OEB's mission is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services that are cost effective.

- Independent, quasi-judicial tribunal whose mandate is set out in legislation
- Regulating electricity since 1999 and natural gas since 1960
- We protect the interests of all energy consumers – current and future
  - Price, reliability and quality of service
- We fulfill our mandate in a way that:
  - Aligns consumer and utility interests
  - Considers the broader public interest and helps achieve government policy objectives
  - Maintains viable electricity and natural gas sectors for tomorrow's consumers
- We perform our mandate in two ways:
  - Adjudication: Hearings where decisions are made on individual applications based on evidence filed in the proceeding
  - Policy development: Consultations aimed at establishing regulatory policy for sector (gas or electricity or both) as a whole
- Our operations are funded by regulated entities through cost assessments

The OEB Vision

- The OEB regulates in a manner that focuses on outcomes that are valued by consumers.
- OEB processes are efficient, effective, are understood and accessible to both industry and consumers
- Ontario regulated entities are among the most efficient in North America
- Consumers have:
  - A reliable energy supply at a reasonable cost
  - The information they need to make choices regarding energy use

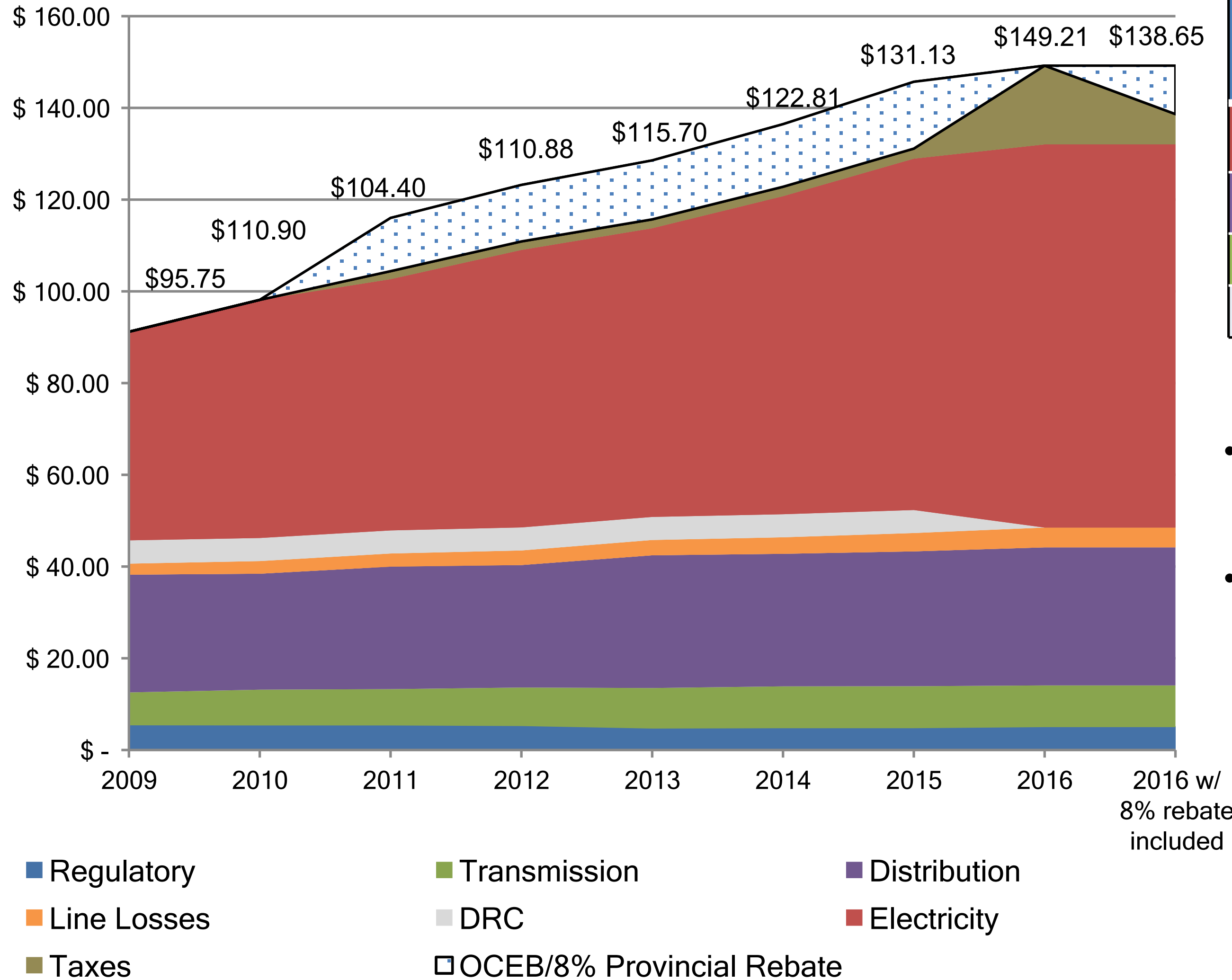
The OEB is delivering this by empowering consumers, enhancing utility performance and enabling access to competitive energy choices

The OEB and the Electricity Bill

There are 3 major components of a Residential bill:

1. **Electricity (56% of the bill) – cost of power**
   - This is made up of OPG, power contracted by the IESO and conservation programs
   - OPG (20%) – OEB sets rates for OPG
   - IESO – OEB does not set or approve IESO contracts
   - OEB sets Time Of Use (TOU) pricing through the RPP but does not control all cost components with in it
2. **Delivery (29% of the bill) – cost of getting power to where it is used**
   - Distribution (20%) – OEB sets rates for 70+ Local Distribution Co's
   - Transmission (6%) – OEB sets transmission rates
3. **Regulatory Charges (3%) – costs of running the system**
   - Includes cost of operating the wholesale market (IESO), the OEB and cost of programs such as OESP and RRRP
   - OEB approves IESO fees

Average Ontario Electricity Bill - Trends



	Total Change 2009-16 ($)	Average Increase (%/Year)
Electricity	$ 38.06	12%
Distribution	$ 4.42	2%
Transmission	$ 1.93	4%
Total Bill Increase	$ 53.46	8%

- Bills shown for a typical electricity customer consuming 750 kWh per month.
- OCEB/8% Provincial Rebate shows amount of credits that were provided to customers during each year.
  - OCEB expired Dec. 31, 2015.
  - 8% Provincial Rebate in effect Jan. 1, 2017

Enhanced Utility Performance – Renewed Regulatory Framework (RRF)

- Introduced for Local Distribution Companies (LDC's) in 2012, OPG in 2015 and in 2016 expanded to electricity transmitters
- Key principles of the RRF include:
  - requirement to demonstrate continuous improvement
  - robust integrated planning and asset management that paces and prioritizes investments
  - strong incentives to enhance utility performance
  - ongoing monitoring of performance against targets (including public scorecards on performance)
  - customer engagement to ensure utility plans are informed by customer expectations
- Results
  - Annual growth of distribution rates from 2009 to 2016 is about 2.4% - close to the rate of inflation during the same period
  - The OEB has reviewed 112 cost of service applications since 2009 and reduced requests for rate increases by an average of 38%

Supporting Innovation and Evolution

Smart Pricing

- Moving from a variable delivery charge to a fixed delivery charge
  - Supports innovation by utilities and consumers through pricing that encourages adoption of distributed energy resources such as storage and solar power systems which leads to supply conservation
  - Reduces delivery charge for higher-demand residential customers (rural or electric heat) will result in higher delivery charge for lower-demand customers (urban condo dwellers)
  - Implementation started in 2014 and being rolled out over several years
- The Regulated Price Plan (RPP) Roadmap:
  - Redesigning electricity pricing to give better consumer choice and incentive
  - Pilot projects planned for rollout in 2017 will test different price plans which will be in place by 2020
    - **OPTION: Flat-Rate Pricing under RPP**
    - Offer flat rate pricing on an opt-in basis for residential TOU customers for a limited time (up to 3 years) until a wider range of price plans are available
    - Price TBD, but will likely require at least a 10% premium to the average RPP cost at the time of implementation and it would need to rise to keep pace with RPP adjustments over time
    - Customer impact of Flat-Rate Pricing:
      - Would benefit any customer whose actual cost of electricity is equal to or greater than the premium as a result of their usage patterns
        - eg. Retirees or shift workers who use more power at more expensive times relative to the typical customer, and consequently face higher costs
        - Would shift costs onto customers who stay on TOU

Supporting Innovation and Evolution

Robust Utilities for the future

- Encouraging consolidations through innovative rate policies and providing guidance to industry
  - Eliminated barriers to consolidation – allowing recovery of transaction and integration costs
  - Established a simplified review process and supporting guidelines
  - Approved 7 consolidations since 2014
- Encouraging appropriate decision-making
  - OEB sets the Return on Equity for <u>ALL</u> utilities. Rate is earned on capital investment, currently 8.8% (down from 9.2%)
  - Utilities rely on profits for the purpose of investing in infrastructure and modernizing their grids
  - North American regulated return on equity currently ranges form 7.2% - 10.3%
  - 1% reduction in RoE equates to approx. $150 million or ≈ $1/month for avg residential
    - $70MM for LDCs (0.5% decrease on total residential bill)
    - $40MM for transmitters (0.1% decrease on total residential bill)
    - $41MM for OPG (0.2% decrease on total residential bill)
  - Any change in ROE <u>will impact</u> the utilities' borrowing costs
  - OEB working to use a utility's RoE to encourage reductions in OM&A expense and greater asset use rather than new infrastructure build
  - OEB working to optimizing investment planning by LDC's (OpEx, CapEx, tying RoE to performance and risk)

Protecting Vulnerable Consumers

- Low Income Emergency Assistance Program (LEAP) – introduced 2012
  - One-time grant per year to qualified electricity and natural gas customers (up to $500 – electricity and $600 – gas)
  - (LEAP) Provided $7.4M in financial assistance in 2014 ($4.8M to 9,600 electricity customers and $2.6M to 6,100 gas customers)
  - Review of program design and funding arrangements in 2017
- Ontario Electricity Support Program – introduced January 1, 2016
  - Monthly credit to qualified electricity customers range from $30 to $75 per month
  - As of December 9th 165,000 households are receiving on bill assistance – 120,549 households received a total of $5,094,174 credits in October 2016
  - Review in late-2017
  - **OPTION: To address concerns from vulnerable electricity consumers and their advocates for improvements to OESP – could be implemented this week for January 1, 2017**
    - Increase credits on the electricity bill by 50%
    - Can be done using current OESP charge including expected increase in participation
- In 2016, RRRP will provide about $176M in rate relief to rural and remote customers
  - Eligible areas are defined in legislation (Hydro One R2 and Remotes, Algoma, First Nations Distributors).
  - Hydro One benefit is fixed by regulation at $127M annually. Credit is currently $31.50/month per customer; benefit is included in distribution charge.
  - To increase by approx. $30/month on January 1, 2017
- Rate Assistance for On-Reserve First Nations Customers
  - Report to Minister January 1, 2017
  - To mitigate the unique challenges On-Reserve First Nations customers often face with electricity affordability
  - Recognizing First Nations' contribution to the electricity system in the province

The way forward

- Giving Consumers A More Effective Voice
  - Consumer Panel composed of a cross-section of 100 residential and business consumers from across Ontario
  - Requirement for utility customer engagement to inform applications
  - Taking hearings into the communities affected by applications to the Board
  - Electricity Distributor Performance Data
    - Scorecard performance, bill calculator, distributor comparison tool, efficiency assessments, system reliability
- Enhancing Utility Performance
  - Regulatory rewards for improved performance
  - Improving governance
- Strengthening Consumer Protection
  - Introducing a Consumer Charter
  - Updating Customer Service Rules
  - New disconnection rules

OEB - Delivering Value