Ontario's Electricity System: Addressing Affordability

Hydro One Networks Inc.
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Why Now?

- As Hydro One transitions from a crown corporation to a publically traded company it will focus on continuous improvement for all aspects of its business.

- These improvements include driving further efficiencies in the utilization of transmission and distribution assets, reducing costs and improving reliability and customer service.

- The affordability challenge resides with those who manage and participate in the electricity sector, as their perspectives, expertise and decisions will ultimately determine how this problem will be solved.

- In recognition of the Government of Ontario's intention to consider additional measures to bring rate relief to electricity consumers, Hydro One makes the following recommendations.

Reducing the Global Adjustment

- The decision to transition Ontario's electricity generation to more environmentally-friendly alternatives has benefited all Ontarians but the cost is funded by ratepayers. These costs are socialized through the price of electricity through the Global Adjustment.

- Since 2008, the market for electricity has declined because of a drop in demand, but also an increase in supply.

- This has resulted in a dramatic increase of Global Adjustment which is now the dominant and fastest-growing component of electricity rates across customer classes in Ontario.

- In 2010, residential customers paid 39% of the total Global Adjustment; today the same customers are paying 46% of the total Global Adjustment. This is equivalent to an $800 million increase to residential customers.

Reducing the Global Adjustment

Reducing the Global Adjustment

Recommendation: The Government of Ontario should reduce the Global Adjustment by:

- Appropriating GA costs to the tax base that are funding broader social initiatives, such as off coal costs, and economic development incentives.
- Consider increasing the amortization of generation contract payments and Conservation and Demand Management (CDM) programs.
- Set limits on the transfer of GA costs from industrial customers to residential customers, via the Industrial Conservation Initiative.

Estimated Savings: **$9.45** to **$63.37/month** for residential customers.

System Costs

- There is little flexibility for the electricity to reduce overall system costs, as the majority of system costs are fixed by way of power purchase agreements, or the costs are regulated by the Ontario Energy Board.

- Distribution system savings were identified by both the Ontario Distribution Sector Review Panel and the Commission on the Reform of Public Services . Each of these panels recommended the consolidation of Local Distribution Companies (LDCs) to remove between $1.3 billion and 1.7 billion dollars of system costs.

- While four years of voluntary consolidation has produces a hand full of transactions, it has not tapped into the majority of the savings that were identified.

System Costs

- One of the biggest barriers to LDC consolidation, from a customer perspective, is considerably higher Hydro One delivery charges.

- These higher charges are a direct consequence of the cost allocation model, which allows for some customers to pay minimal distribution costs, as low as $15, while neighbouring Hydro One customers must pay upwards of $117.

- Introducing a single distribution rate would acknowledge the geographic and economic diversity of province and ensure all Ontarians have equal access and fair rate allocation.

System Costs

Recommendation: The Government of Ontario should mandate consolidation of LDCs to remove $1.7 billion costs from the distribution sector. Consideration should be given to the benefits a single distribution rate across the province to provide equitable access to electricity.

Estimated Savings:

- **$6/month** by the end of the tenth year of consolidation.
- The single distribution rate for all residential customers would be approximately **$38/month**.

Helping Struggling Customers

- Electricity bills for low-density customers can represent up to 18% of household net income. Similar to other LDCs, Hydro One is limited in its ability to offer relief to customers who cannot not afford to pay their electricity bills.

- The Ontario Electricity Support Program is undersubscribed with approximately 30% of eligible families participating; changes are recommended to allow more consumers to apply.

- The Low-Income Energy Assistance Program requires that customers apply via a local social agency instead of working with their LDC which would be far more efficient.

- LDCs have to follow special rules when dealing with customers with limited finances; Hydro One is able to waive security deposits and allow longer payment times however cannot forgive overdue accounts.

Helping Struggling Customers

Recommendation: The Government of Ontario should increase the economic thresholds, so that the Ontario Electricity Support Program and Low-Income Energy Assistance Program are more broadly available to struggling consumers.

In addition Hydro One, should have greater autonomy to assist struggling consumers by providing the company with the funds to offer low-income programs, and debt relief on an individual basis.

Benefit: Greater autonomy and flexibility to broadly extend services to struggling customers has benefits that directly impact the **reputation** of the Government of Ontario and the electricity sector.

Stacking the Benefits

A Hydro One customer located in a Low Density Rate Class could save between **$88.97-142.89/monthly** in the near-term and in the tenth year of LDC consolidation, savings between **$94.97-148.89/monthly**.