MINISTRY OF **ENERGY**

Ontario's Fair Hydro Plan

An overview of the Ontario Government's New Rate Mitigation Measures

March 2, 2017

Ontario’s Rate Relief Plan

Goal & Objective:

- Address electricity affordability by lowering bills by an average of 25% for all Ontario families, farms and small-businesses and limiting increases to 2% for four years
- Address affordability challenges with targeted assistance for vulnerable customers, rural and remote customers, On-Reserve First Nations customers, and energy-intensive businesses
- Modernize Ontario’s electricity system to lower costs in the long-term

Contents:

Overview of Electricity Pricing in Ontario

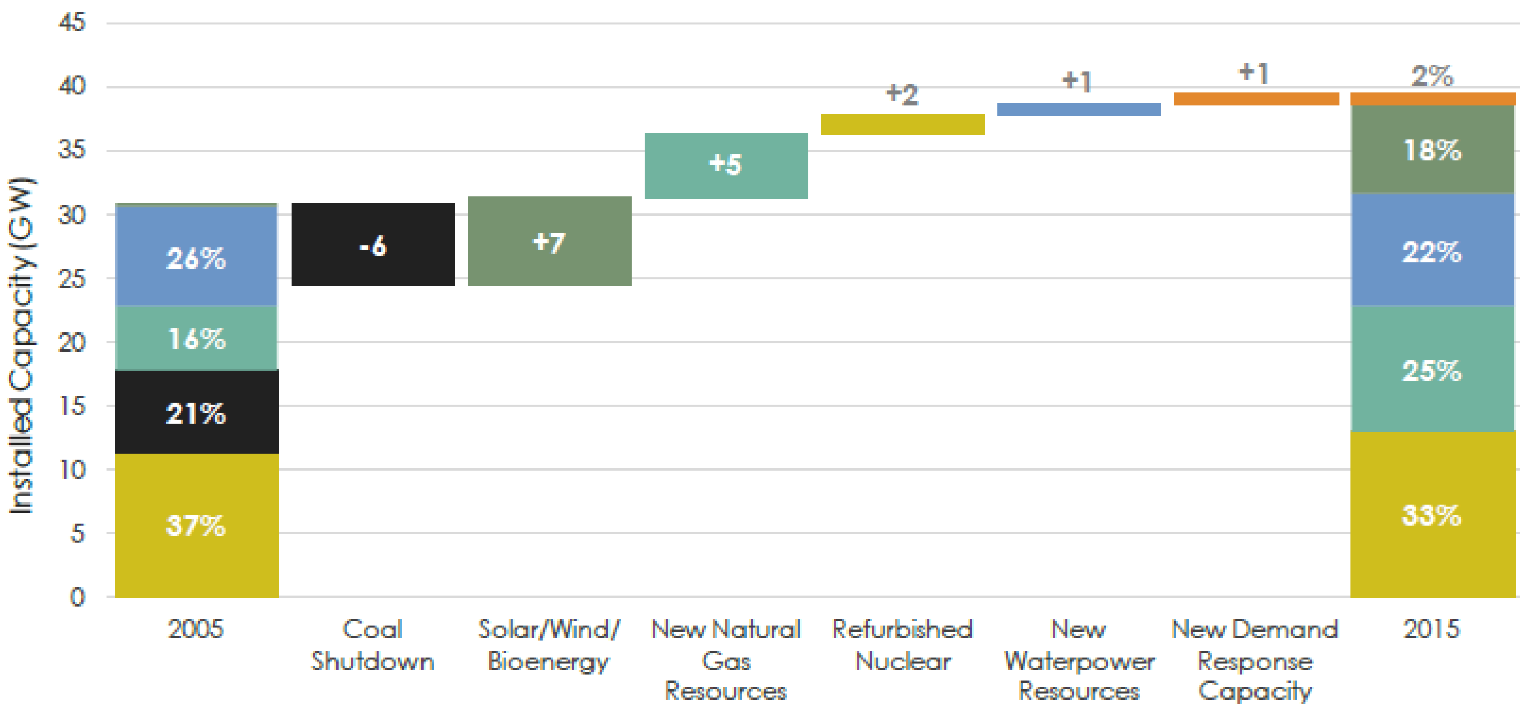
- Electricity pricing is generally based on the principle of full cost recovery. Payments to the province’s generation fleet are recovered as they are incurred.

- Current bills break out the costs for generation, delivery, and regulatory charges. Prices reflect the cost to produce and deliver electricity.

- For the past several years, electricity prices have increased at a faster pace than the consumer price index as significant costs have been incurred to update generation, transmission and distribution infrastructure.

Electricity System Investments

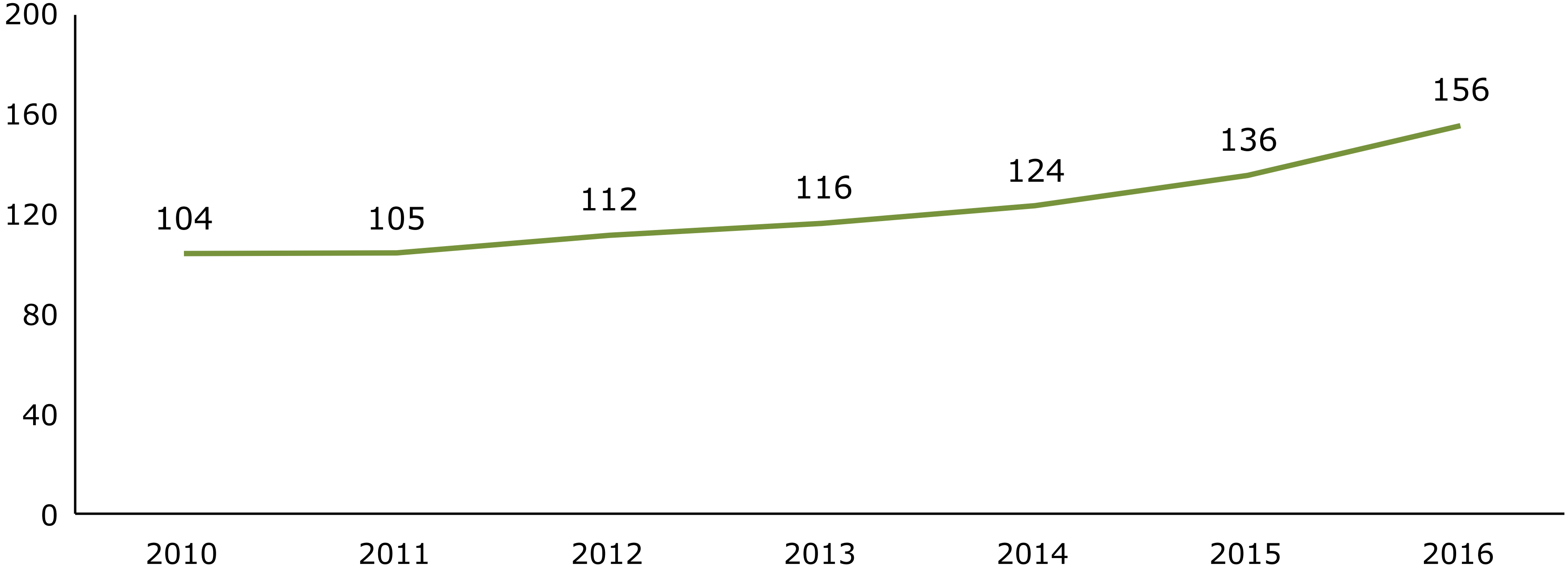
- Between 2005 and 2015, government invested more than $35 billion in electricity generation to restore reliability, replace coal and meet environmental objectives.
  - Electricity costs are increasing as necessary investments are made to decarbonize and modernize the province's electricity infrastructure.



Historical Electricity Prices

- Since 2010, electricity prices have increased at a rate higher than the Consumer Price Index.

Typical Residential Electricity Bills
in $ per month, 750 kWh consumption

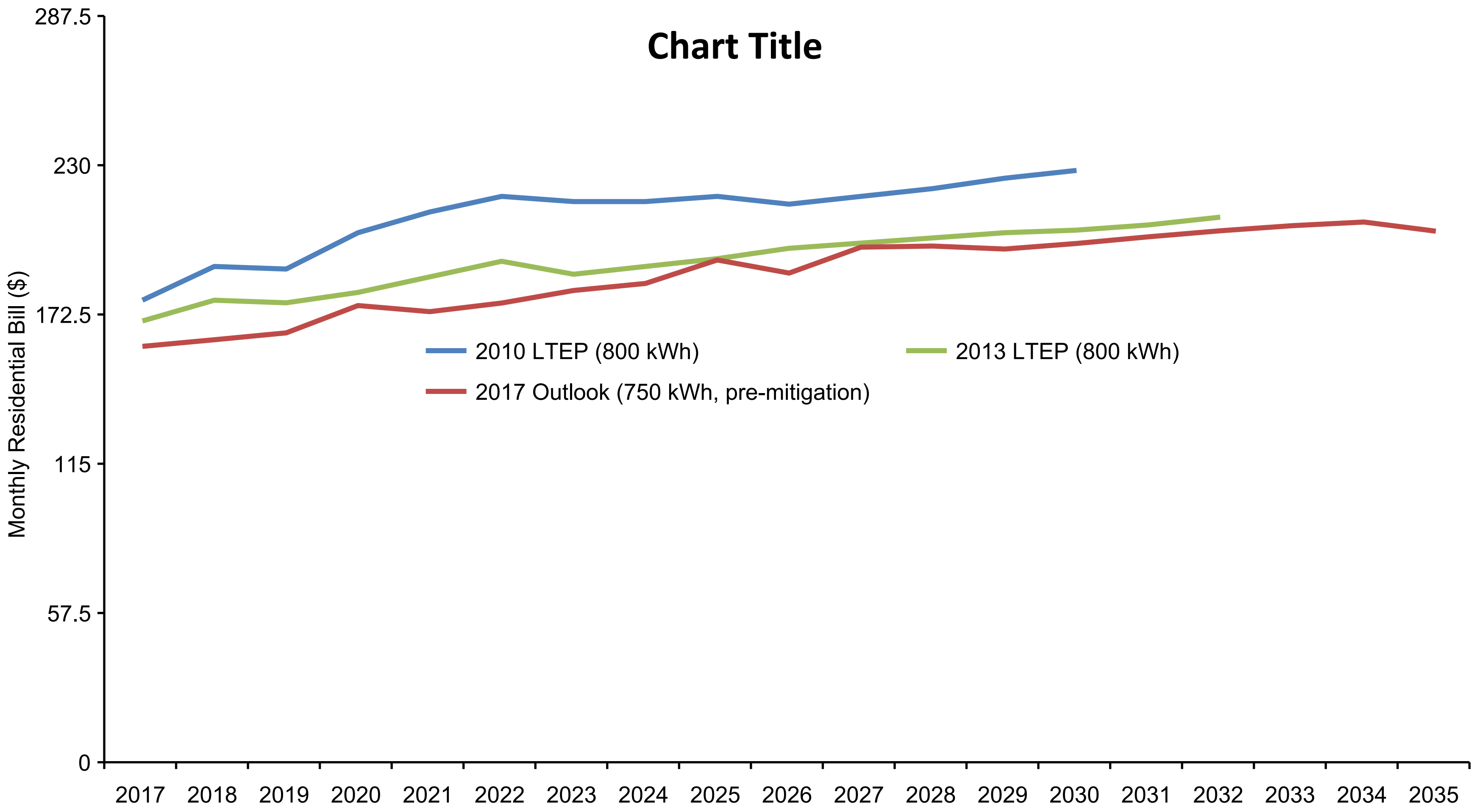


Actions To Bend The Cost Curve

Since 2013, this government has taken a number of actions to reduce electricity ratepayer costs, including:

- Renegotiating the Samsung Agreement - $3.9 billion in savings
- Reducing FIT (solar & wind) prices saving ratepayers at least $1.9 billion.
- Introducing a competitive procurements for large solar & wind - $1.5 billion in savings
- Suspending the second round of the Large Renewable Procurement; avoiding $3.8 billion in costs
- Deferring the construction of two new nuclear reactors, saving up to $15 billion
- Maximizing the value of our existing nuclear resources; Pickering ongoing operation & Bruce Power contracting / risk transfer - $2.3 billion saved

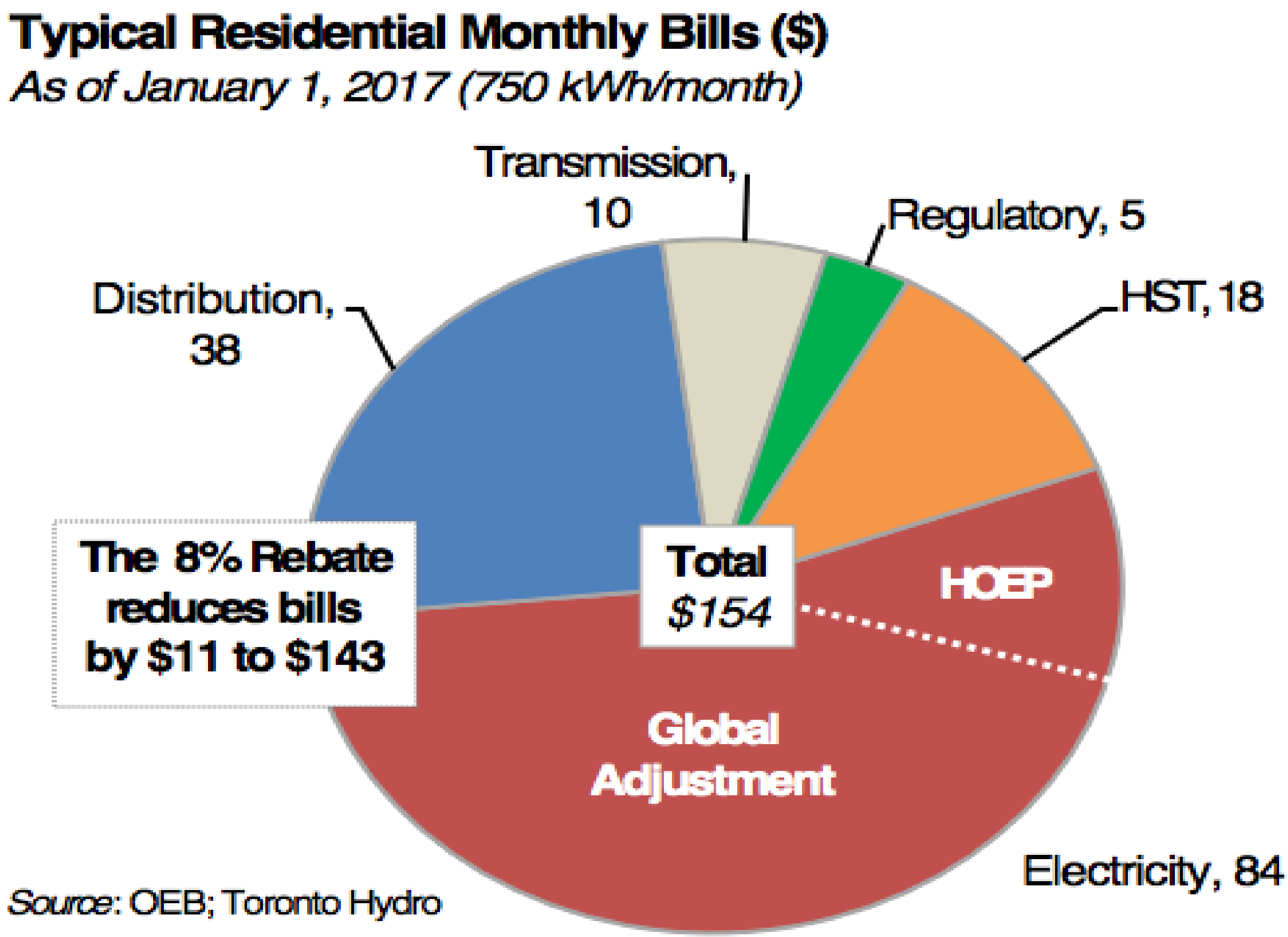
Long Term Energy Plan Cost Projections



Recent Actions Taken To Mitigate Electricity Rates

- Following the 2016 Throne Speech, several actions were announced to further reduce electricity costs.
  - As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8%.
  - Expanded support available to eligible rural ratepayers by updating Rural or Remote Rate Protection (RRRP) with additional relief, decreasing total electricity bills by an average of $45 each month when combined with the 8% rebate.
  - Expanding the Industrial Conservation Initiative (ICI) to consumers with 1MW peak demand or greater – up to one-third savings for participants.

Residential Electricity Prices

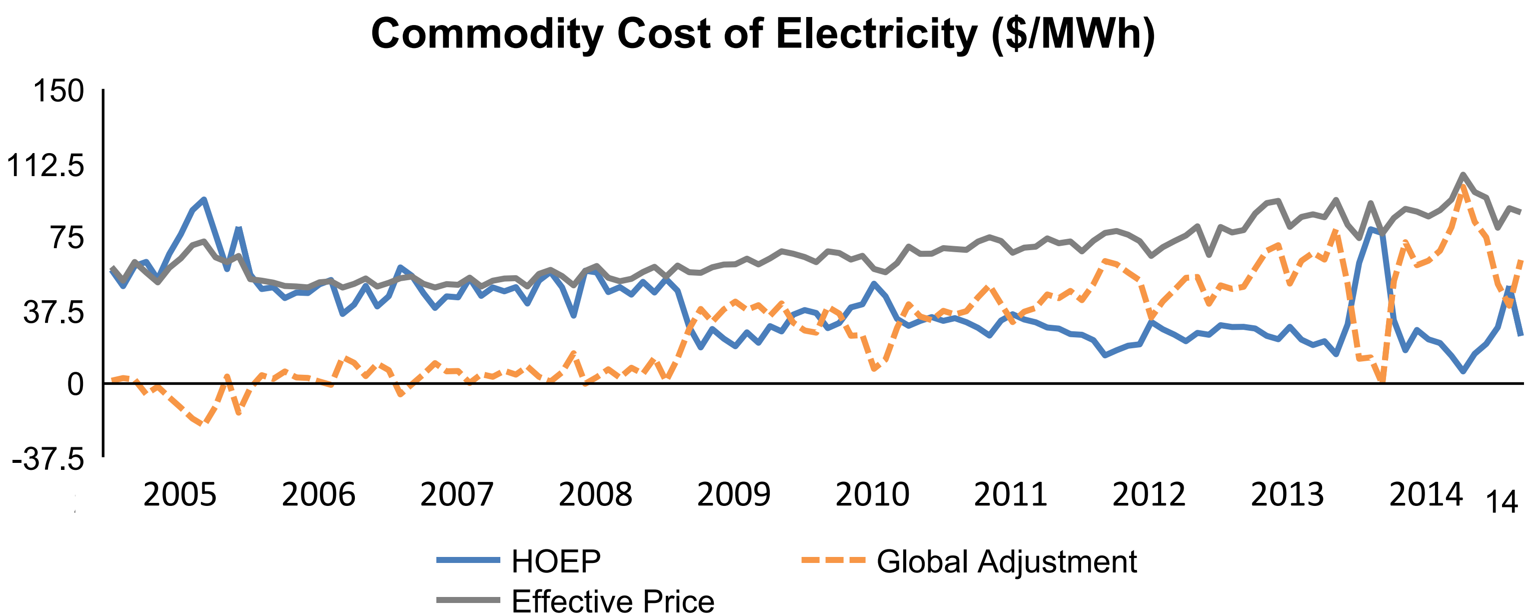


Refinancing the Global Adjustment

Paying for Electricity System Assets Over Their Full Useful Lifetime

Refinancing the Global Adjustment

- Electricity generators in Ontario receive contracted or regulated rates, which are designed to recover the cost of building and operating generation facilities.
  - The Global Adjustment (GA) recovers the fixed costs of running the province's generation fleet, including capital costs, as well as the cost of conservation programs.



Refinancing the Global Adjustment

- The majority of the province’s electricity generators are under 20-year contracts. Many of these generators will be able to operate past their contract life.

- There is an opportunity to recognize the long-term benefit of these assets to the electricity system and “bring forward” that benefit for ratepayers today by deferring some of the current costs.

- Re-financing the Global Adjustment can be thought of as similar to re-mortgaging your home. In this case, it would be like extending the mortgage on your home from 20 to 30 years. You will pay less mortgage costs now, by spreading those costs out over a longer period of time.

- Refinancing the Global Adjustment (GA) will provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period of time.
  - **A typical Toronto Hydro consumer, using 750 kWh per month, would see an immediate savings of about $26/month.** Rate increases will be held to the rate of inflation (2%) for four years.

Additional Relief: Targeted Support Programs

- Rural & Remote Ratepayer Protection Plan: *Expanding and Enhancing* Assistance for Ontarians with the Highest Distribution Costs

- Ontario Electricity Support Program: *Expanding and Enhancing* Support for Low-Income Ontarians

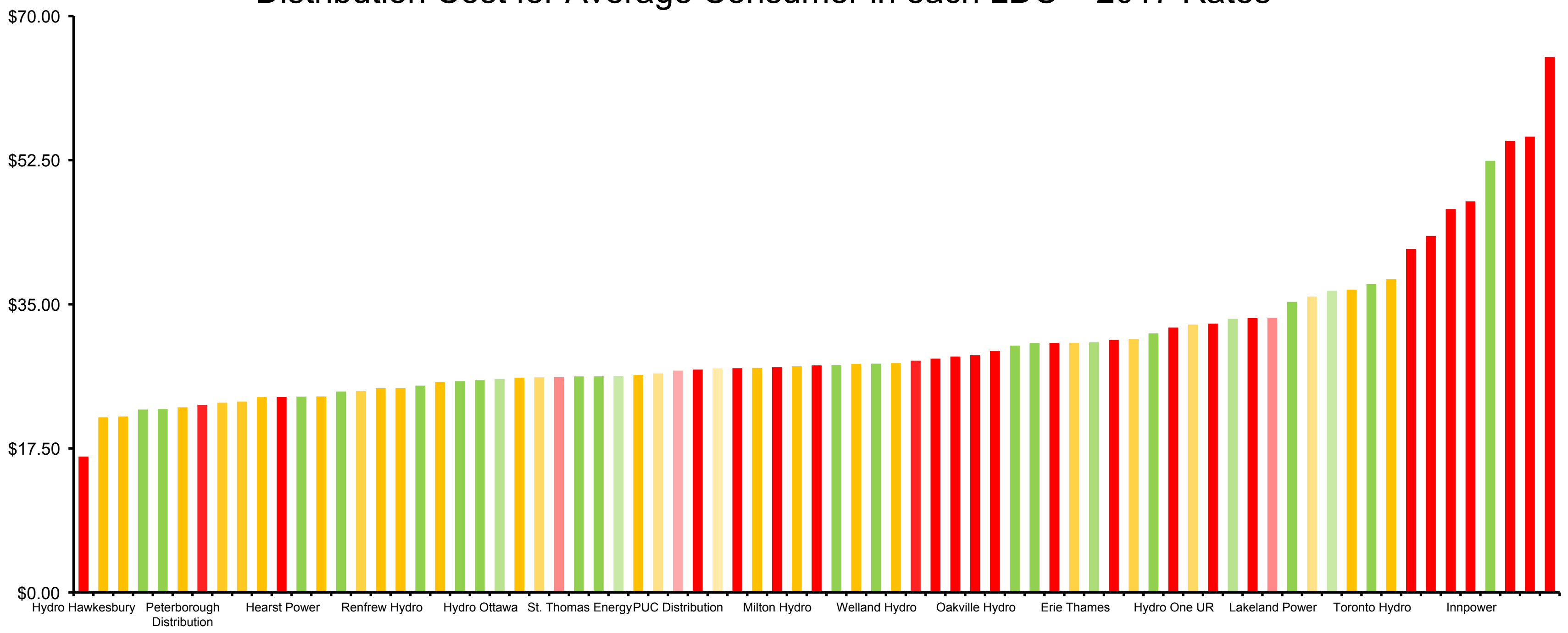
- Ontario Affordability Fund: *Increasing* Access to Conservation Programs

- On-Reserve Distribution Rate: Supporting for On-Reserve First Nations Households

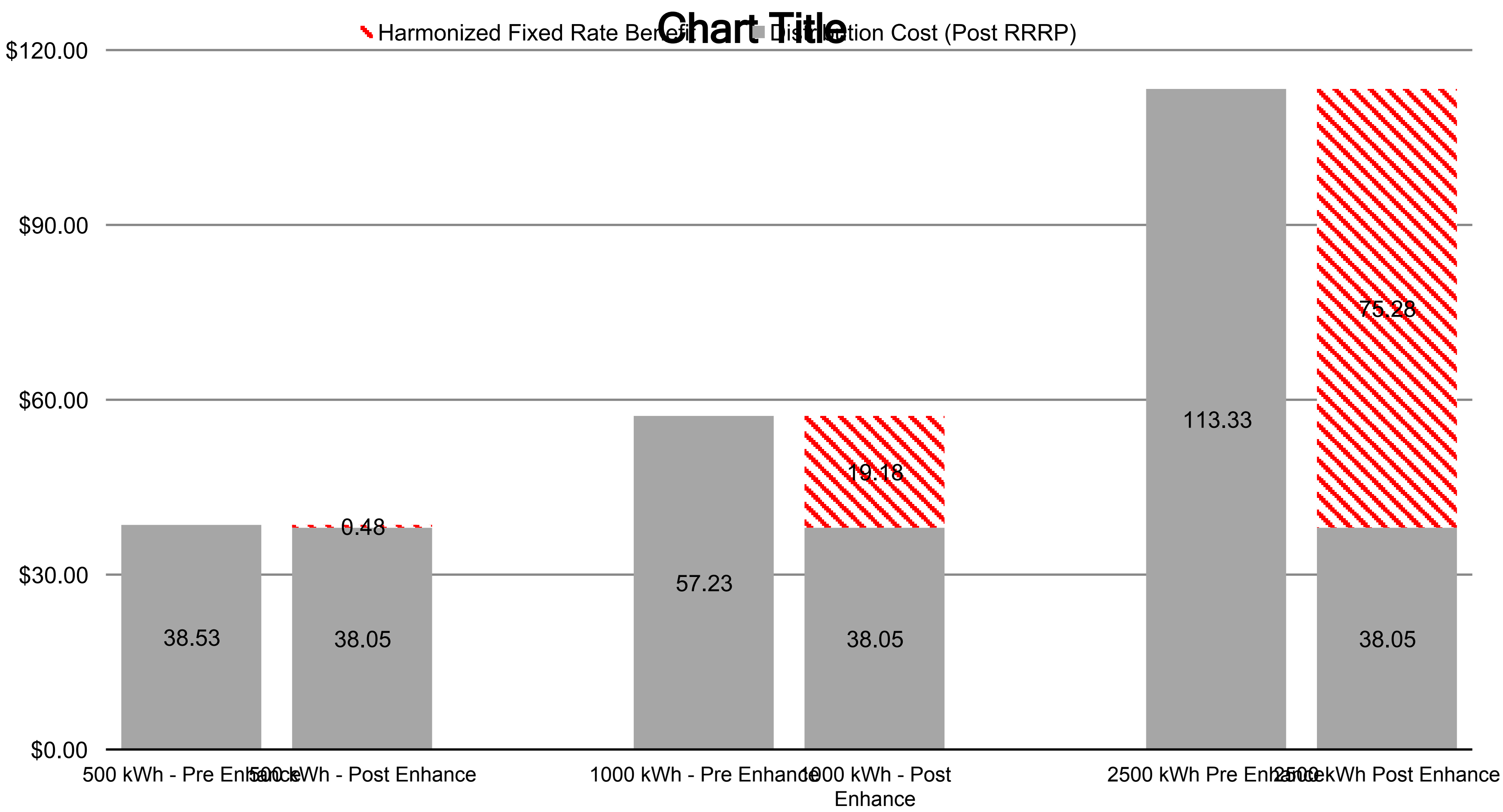
Accelerating & Harmonizing the Fixed Rate Benefit

- The charts on the following slides demonstrate what the benefits could be with harmonizing distribution costs for customers of the LDCs in the top ~1/8th of rate classes at $38/month.
- This enhancement would include Hydro One R1 (medium density), Hydro One R2 (low density), as well as: Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma.

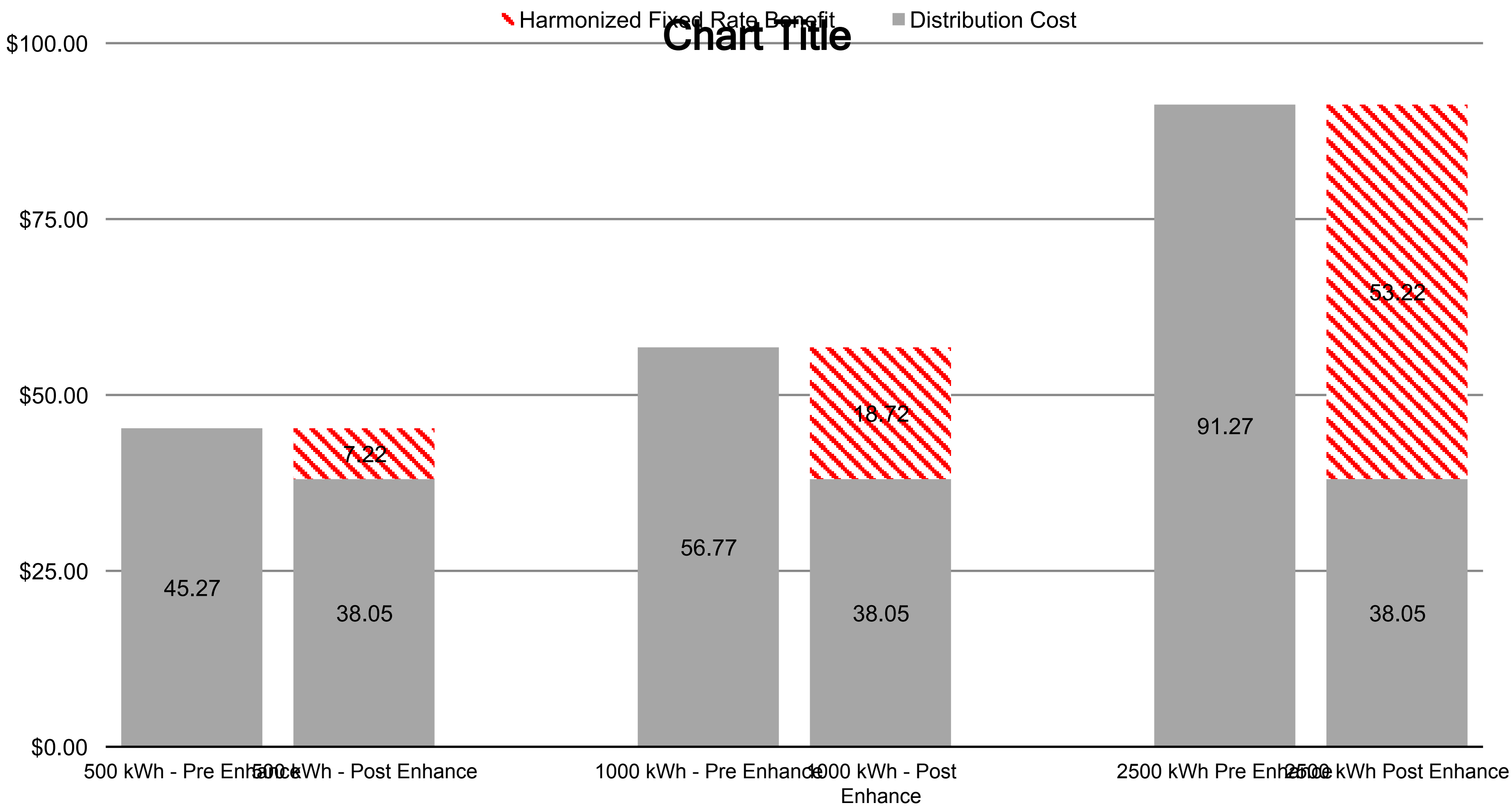
Distribution Cost for Average Consumer in each LDC – 2017 Rates*



Accelerating & Harmonizing the Fixed Rate Benefit - Hydro One R2 (Low Density Customer)



Accelerating & Harmonizing the Fixed Rate Benefit - Hydro One R1 (Medium Density Customer)



Expanding the Ontario Electricity Support Program (OESP)

- The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by a rebate directly on bills. The OESP is currently funded by the rate base.
- OESP credits vary by income level and family size, and there are two credit scales that include:
  - The basic program credit ranges from $30/month to $50/month.
  - An enhanced credit that ranges from $45/month to $75/month for consumers that are either Indigenous, use electric heat or have certain medical devices.
- To drive this uptake, the OEB has engaged in extensive outreach, including advertising in multiple languages, and continuing to work with partner agencies to develop a model for "application clinics" across the province to increase program awareness and uptake across the province.

Expanding the Ontario Electricity Support Program (OESP)

- Increasing the OESP credits by 50% would mean that single, low-income consumers who receive the lowest credit amount would get an increase from $30 to $45 per month ($540 per year, an increase of $180), and the lowest credit for the enhanced scale would increase from $45 to $68 ($816 per year, an increase of $276).

- The Province is expanding the OESP to ensure the program uptake is as close as possible to 100% by:
  - Streamlining the application process to make it easier and quicker to get approval;
  - Increasing awareness of the program to eligible recipients;
  - Exploring automatic qualifications for customers that are enrolled in other low-income support programs; and
  - Expanding eligibility for more low-income Ontarians.

Existing OESP Credit Scales

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$30	$30	$34	$38	$42	$50	$50
	$28,001 - $39,000			$30	$34	$38	$42	$50
	$39,001 - $48,000					$30	$34	$38
	$48,001 - $52,000							$30

Proposed +50% OESP Credit Increase*

Sliding Scale #1		Household Size						
		1	2	3	4	5	6	7 +
Income Bracket	< $28,000	$45	$45	$51	$57	$63	$75	$75
	$28,001 - $39,000		$40	$45	$51	$57	$63	$75
	$39,001 - $48,000			$35	$40	$45	$51	$57
	$48,001 - $52,000					$35	$40	$45

Establishing a New Affordability Fund

- The Affordability Fund would be established to assist electricity customers who cannot qualify for low-income conservation programs.

- The Affordability Fund would provide LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills and avoid future disconnections.

- Recipients could receive measures similar to those available in existing conservation programs, e.g., weatherization, energy efficient appliances and lighting controls ranging from $3,500 to $5,000 per customer, at no or minimal cost.

Establishing a First Nations On-Reserve Rate

- 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.

- Based on the OEB recommendations, the government plan will:

  - Eliminate the delivery charge for all on-reserve First Nations residential customers and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of $85.

  - Automatically qualify on-reserve First Nations residential customers (~21,500 customers).

  - Enable greater information sharing between distributors and band councils to identify all on-reserve First Nations customers.

Enhancing Competitiveness for Class B Electricity Consumers

- Expanding the eligibility threshold for Industrial Conservation Initiative (ICI) will provide small and medium energy-intensive consumers the opportunity to save up to one-third off their electricity costs. The expanded ICI would include:

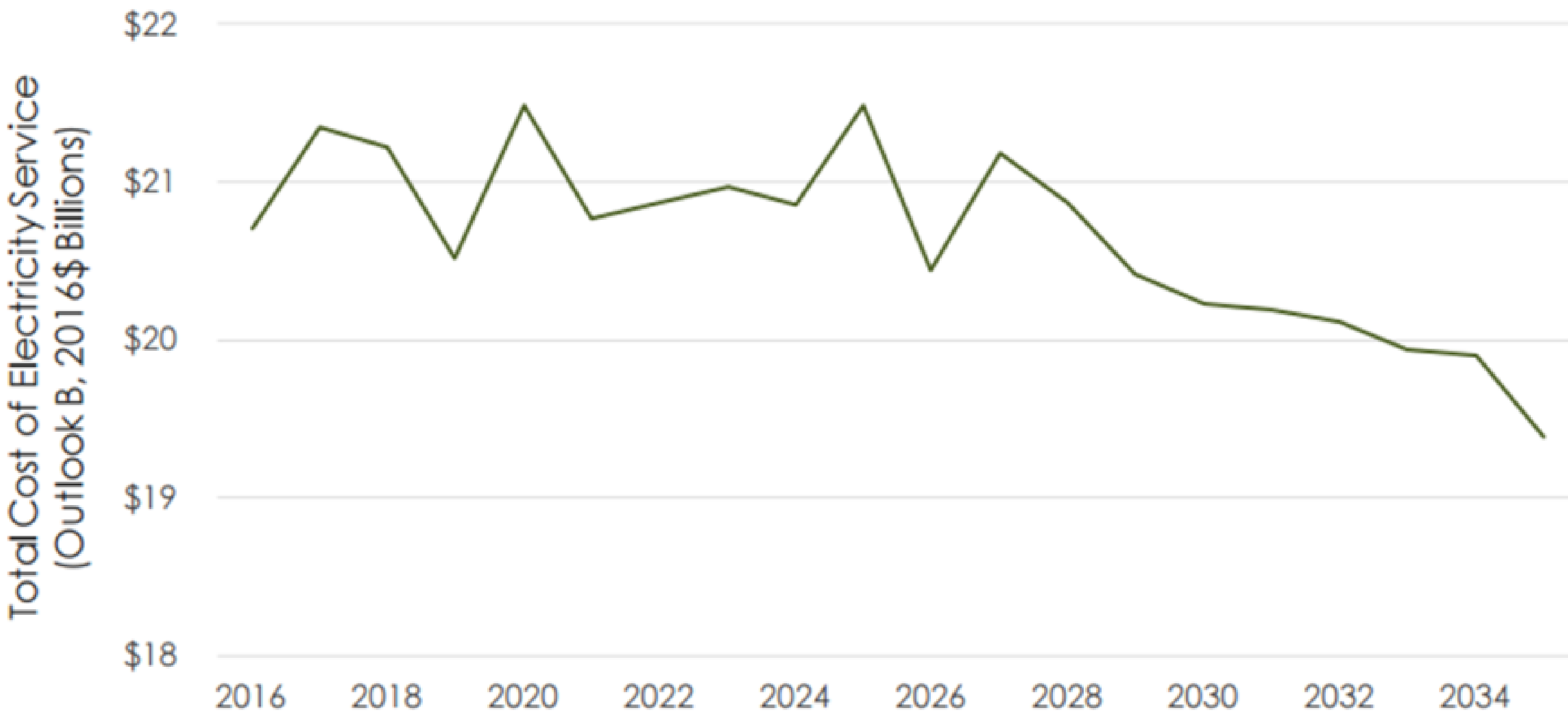
  - Lowering the eligibility threshold from 1MW to 500kW for manufacturers; and

  - Maintaining eligibility for all consumers with monthly peak demand greater than 1MW, with additional outreach to educate consumers on the program.

- The Ministry will assist Class B participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Fixing the Foundation of Ontario’s Electricity System

Total System Cost of Electricity (2016-2034)



Improving Electricity Sector Efficiency

- Ontario's commitment to lowering energy costs for ratepayers will include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements while delivering meaningful rate mitigation strategies for ratepayers.

Ontario Energy Board

- OEB regulates and licences more than 70 Local Distribution Companies (LDCs) in the province and will identify opportunities for cost efficiencies by:
  - Encouraging shared partnerships on services between utilities, which will help reduce costs and encourage further innovation
  - Reviewing business cases behind its regulatory requirements to reduce "red tape" and eliminate unnecessary costs
  - Looking at opportunities to further drive efficiencies and innovation in transmission and distribution companies.

Ontario Power Generation

- OPG's current rate application would have resulted in an average $1.05 per month impact on customer bills, on an annual basis for the 2017-2021 application period, if accepted by the OEB.

- A proposed government regulatory change would reduce average bill impacts to $0.62 per month on an annual basis; a 40% reduction relative to OPG's current application.