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

Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers

Minister's Briefing

Confidential

January 18, 2017

The Minister's Request to the OEB

On June 27, 2016, the Minister requested that the OEB examine options for developing a First Nations Rate, including:

- Identify eligible on-reserve First Nations consumers, including those living on reserves not connected to the IESO grid and those served by power systems not regulated by the OEB
- Consider impacts on existing electricity consumers, as well as distribution and transmission utilities and other stakeholders
- Consider program funding and administration
- Engage with First Nations communities and organizations
- Consider interactions with existing programs such as the Ontario Electricity Support Program (OESP)
- Report back by January 1, 2017

Guiding Principles for First Nations Rate

To assist in developing options for a First Nations Rate, the OEB established the following set of guiding principles:

1. Maximizing benefits for on-reserve First Nations customers at the lowest cost to other ratepayers
2. Ease of program implementation for First Nations customers and utilities
3. Fairness for all customers
4. Demonstrating that First Nations views were heard and considered

The OEB's Process

- The OEB established an Advisory Committee with the Chiefs Committee on Energy Grievances to provide assistance with scoping the initiative, developing engagement plans, and identification of issues
  - The Advisory Committee facilitated the OEB's outreach efforts by setting up a series of meetings with First Nations communities across the province
- The OEB also engaged with distributors serving First Nations communities and consumer groups
- The OEB considered a number of options for a First Nations Rate and assessed them having regard for the Minister's letter, the guiding principles, and feedback from stakeholders

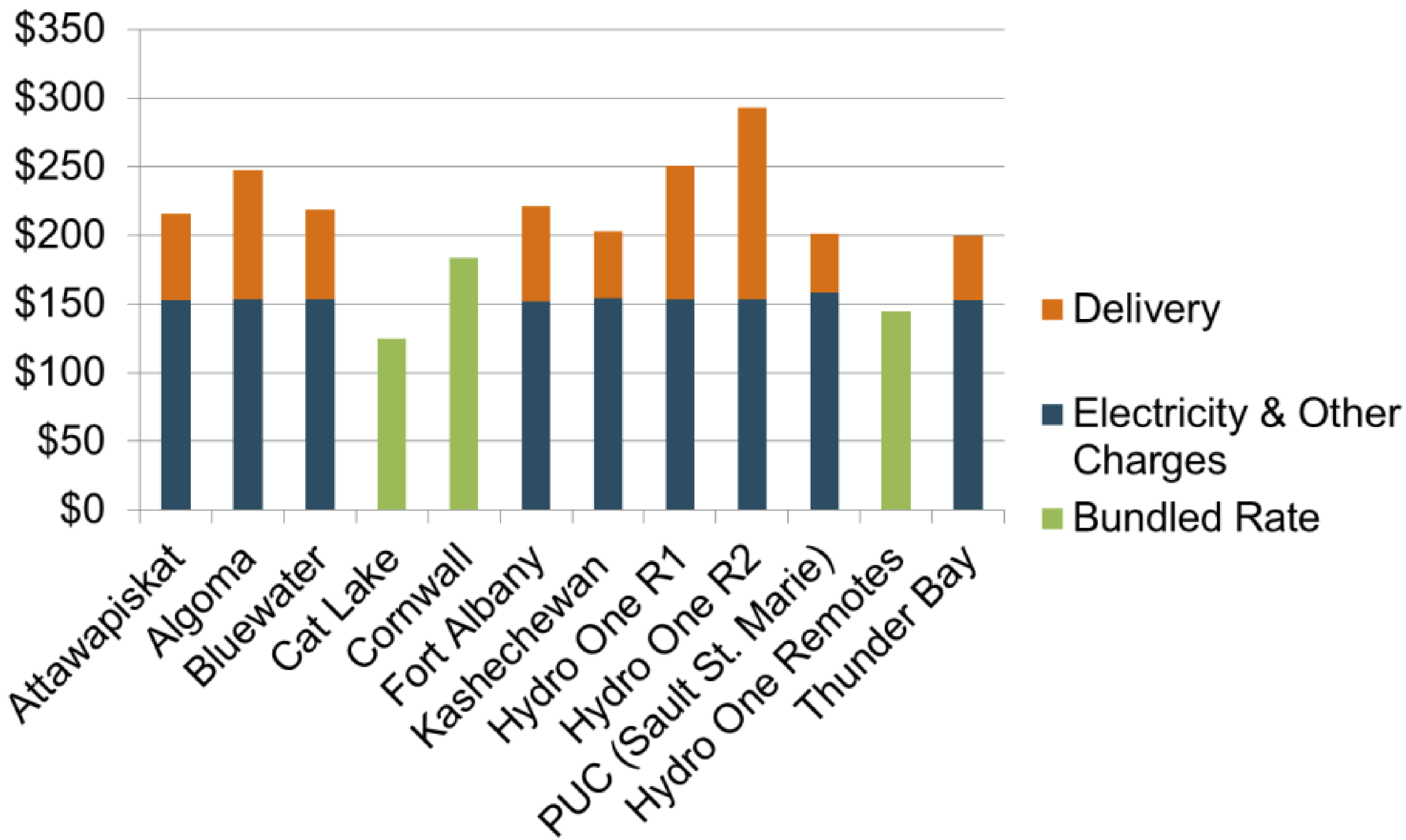
Background on First Nations Electricity Customers

- Licenced distributors serving on-reserve First Nations customers:

Distributors	
Algoma Power	Kashechewan Power
Attawapiskat Power	Hydro One
Bluewater Power	Hydro One Remotes
Cat Lake Power	PUC Distribution (Sault St. Marie)
Cornwall Electric	Thunder Bay
Fort Albany Power	

- Estimated 24,000 on-reserve electricity customers
  - 21,500 are residential
- Average residential monthly consumption 1,300 kWh
- Average monthly residential bill $300
  - Average winter bill (Nov 1 – Apr 30) $350
  - Average summer bill (May 1 – Oct 31) $250
- Delivery charges represent 35% of the average bill.

Residential Bills Vary by Distributor



*Reflects 2016 rates and charges.

Input from First Nations Communities

- The OEB conducted engagement sessions in London, Couchiching, Sudbury, Toronto and Thunder Bay

- 2 primary concerns emerged: (1) High cost of electricity and (2) use of First Nations traditional territories to distribute and transmit power without permission or compensation

What We Heard

- This is about compensation for First Nations' contribution to the electricity system in the province, not affordability
- A First Nations Rate should take care of all First Nations customers equally
- It should provide a tangible benefit
- A First Nations Rate should be easy to implement in order to realize benefits quickly
- First Nations want assurance they will not have to pay for the program directly or indirectly
- Consensus that a First Nations Rate should not be application based

Input from Communities served by Hydro One Remotes

- OEB staff met with 7 remote communities at a Hydro One Remotes' workshop held in Sioux Lookout
- Hydro One Remotes residential customers receive a RRRP benefit of approximately $880 per month

What We Heard

- First Nations' issues in Northern Ontario are very different from the rest of the Province
- A First Nations Rate should focus on assistance to band councils
  - Residential customers rates are already heavily subsidized through RRRP
  - Electricity costs are too high for band councils to manage because they are classified as Standard A customers (receive direct or indirect funding from the federal or provincial government). They pay rates that can reach $1 per kilowatt-hour
  - Band councils employ 70% of the community; assistance will promote economic development
- Local capacity issues and grid connection
  - Lack of available generation capacity to connect new homes and the lack of capital to fund system upgrades
  - Many remote communities are in early planning discussions with Wataynikaneyap Power LP to connect to the grid
- Relying on diesel fuel creates environmental risks for these communities

Input from Customers Served by IPAs

- Ten Ontario communities are served by Independent Power Authorities (IPA).
- IPAs are neither licensed nor rate regulated by the OEB. Similar to Hydro One Remotes, IPAs are reliant on diesel generation.
- A representative from Wunnumin Lake First Nation was present at the OEB's engagement session in Thunder Bay
- OEB staff also met with leaders from Muskrat Dam First Nation

What We Heard

- Many IPA communities are interested in being served by Hydro One Remotes and have written to the Minister of Energy stating this intention
- A priority for these communities is being eligible to receive rate protection through the province's RRRP, commensurate with the levels being provided to subsidize the cost of electricity service in areas served by Hydro One Remotes

Evaluation Criteria

Based on the input received, the OEB developed the following criteria to assist in our assessment of options:

1. Recognition of First Nations contribution to Ontario's electricity system
2. Equality of outcome
3. Visibility of compensation
4. Cost and fairness for those who bear it
5. Ease of implementation

Overview of Options

Option	How It Works	Benefits	Drawbacks
First Nations Specific Rate Class	A dedicated rate class for on-reserve First Nations customers is created. A credit could then be applied to reduce costs recovered from customers in this class	• First Nations customers would have their own separate and distinct rate class	• Lengthy implementation process • Requires in-depth study due to lack of historical data; • Underlying cost may not differ from what is currently charged – may still need subsidy to reduce rate.
Seasonal Fixed Credit	A fixed credit amount is applied to the bill; varies by season ($50 summer/$100 winter)	• Accounts for price fluctuations during colder months • Easy to forecast total program costs • Least costly of all options • Relatively easy to implement • Provides a tangible benefit	• Won't benefit all customers equally • Could be administratively complex if credit exceeds bill for low-volume consumers.
50% Total Bill Reduction	The total bill is reduced by a fixed percentage amount, such as 50%	• Provides an equitable level of benefit to all customers • Easy to administer • Provides a tangible benefit	• Difficult to forecast total program costs as they will vary based on usage • Most costly of all options
100% Delivery Charge Percentage Credit	The delivery charge is reduced by a fixed percentage amount (i.e. 100%) applied through a monthly on-bill credit	• Preferred option by First Nations • Easy to implement • Provides a tangible benefit • Substantially addresses the issue of rate variability	• Program costs would be highly sensitive to changes in distribution, transmission and commodity costs

Options & Cost Projections*

Options

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*Cost ranges reflect the uncertainty regarding the status of on-reserve cusomers. Lower bound reflects the number of customers confirmed to be First Nations; upper bound reflects the total number of on-reserve residential accounts

**The costs shown for the 100% Delivery Charge Credit reflect the waiver of the fixed service charge for any customer paying bundled rates. Discussed at slide 14 & 15.

Evaluation of Options

The 100% Delivery Charge Credit is the only approach that scores high or moderate on each measure

Approaches for First Nations Paying Bundled Rates

- Cat Lake Power, Cornwall Electric and Hydro One Remotes charge a bundled electricity rate which includes the cost of supplied electricity

- Bundled rates are compatible with seasonal and total bill reduction options, but not with delivery charge credit, since the exact amount charged for delivery is not broken out on bills

Alternatives considered that could be paired if Delivery Charge Credit approach used for other distributors:

Option 1: A Credit Based on the Actual Cost of Delivery
- Distributor could disaggregate costs to quantify the amount associated with delivering power
- For Hydro One Remotes, distribution costs are smaller relative to the overall cost of service; elimination of delivery costs may not yield an appreciable reduction to the rates paid by customers
- OEB has no responsibility for reviewing costs in Cornwall Electric's service area

Option 2: A Credit Proportional to the Estimated Delivery Charge Bill Reduction
- The delivery charge represents approx. 35% of the bill for a typical on-reserve First Nations customer served elsewhere in the province
- Using this percentage as a proxy, Cat Lake, Cornwall Electric and Hydro One Remotes could reduce customers' electricity bills by a similar amount to achieve an equitable level of compensation
- Lacks any empirical linkage to the actual costs of delivery service in these areas

Option 3: Eliminate the Monthly Fixed Service Charge
- Known monthly charge between $8 and $20
- May fall short of providing an equitable level of benefit for all
- Quick and straightforward to implement

An Approach for Customers of IPAs

- We had limited engagement with IPA communities
- If IPAs become served by Hydro One remotes as they desire, it is expected that their residential customers would subsequently receive the RRRP benefit, lowering costs substantially
- IPAs also identified RRRP as an approach to providing assistance to IPA communities in the short term, while waiting connection to Hydro One Remotes; would level playing field from a cost perspective
- However, provision of RRRP may raise a number of issues, including:
    - Departure from agreements between Ontario and the federal government with respect to funding of on-reserve activities
    - Requirements for audit and other verification practices regarding RRRP provision
    - Ramifications to the calculation of income by INAC, which could result in clawing back of other federal funding for the community
- Many of these considerations are beyond the purview of the OEB to investigate and resolve

Funding a First Nations Rate

- The objectives of a First Nations Rate can properly be considered interests that should be funded from the tax base, as it is targeted to a particular segment of the provincial population
- If the Minister proceeds with a First Nations Rate funded from the electricity bill, the OEB suggests that it be funded through a provincial charge. Hydro One, Remotes, Algoma & Cornwall supported a provincial charge
- There are 2 options to recover costs on a provincial basis. The OEB expects legislative changes would be required in either case
- Hydro One estimates it will take 6 months to implement a First Nations Rate at a cost of $1.3M

Option	How it Works	Benefits	Drawbacks
Use of an Existing Charge such as Rural or Remote Rate Protection (RRRP)	Program costs would be recovered through the existing RRRP charge that is paid for by all ratepayers	• Infrastructure to collect funds is already in place • Efficient and cost effective to implement • Supported by Hydro One and Remotes as the most efficient and least costly approach	• Under current RRRP framework, on-Reserve First Nations customers would be charged for the program – but payment based on typical consumption is estimated to be less than $0.20 per month (only 0.2% of the typical benefit)
Separate Regulatory Charge	Creation of a new regulatory charge that is paid for by those ratepayers who are not recipients of the First Nations Rate	• On-reserve First Nations customers would not pay for the First Nations Rate, consistent with preference expressed	• More complex to create a new rate – time and cost – with potential for implementation delays

Conclusion

- Preferred option: Eliminate the delivery charge for all on-reserve First Nations residential customers; eliminate the monthly service charge for residential customers of licensed distributors which charge a bundled rate

- Supporting features:
  - Automatically qualify on-reserve First Nations customers
  - Enable information sharing between distributors and band councils to identify all on-reserve First Nations customers
  - If costs are to be recovered through the electricity system, use a province-wide charge to collect the costs from all ratepayers
  - Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers

- This approach would provide an average benefit of $85 monthly, up to 21,500 on-reserve First Nations residential customers, at an estimated monthly cost of 11 cents for a typical residential electricity consumer