Afternoon Energy Media Summary - June 9, 2017

From: "Halford, Gavin (ENERGY)" <gavin.halford@ontario.ca>
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Date: Fri, 09 Jun 2017 15:06:43 -0400

Good Afternoon,

Here is a roundup of the day's news:

Energy Minister defends Fair Hydro Plan after Hydro One applies for rate boost- Yahoo News

OEB Releases Report on Regulatory Treatment of Pension Costs- Lexology

Canada should build up its biochemical valley- Canadian Biomass

Ross Romano appointed critic role in Ontario PC Caucus- Soo Today

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Today in Twitter

- @Michaelharrispc - I just sent a letter to the Ontario Energy Board telling them to stop the $141 hydro rate hike, will you join me? http://www.stoptheratehike.ca/?recruiter_id=8844
- @energy_insider - Ontario's Financial Accountability Office finds that "Fair Hydro Plan" has a net cost of $21 billion http://bit.ly/2rlMXbl
- @kingstonchamber - Learn what impact the proposed energy act will have on businesses at our Glenn Thibeault minister of energy lunch. http://ow.ly/AyGP30cqA2o

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Energy Minister defends Fair Hydro Plan after Hydro One applies for rate boost

By: Staff Post

For: Yahoo News

On: June 9, 2017

Ontario Energy Minister Glenn Thibeault says Hydro One customers shouldn't be concerned about a rate increase any time soon.

Earlier this week, Hydro One applied to the Ontario Energy Board for an increase in its distribution rates. This could cause customers to pay an increase of $2 per month over the next five years.

But Thibeault says the application does not necessarily mean rates will rise.

"It's an application, it's not a rate increase," says Thibeault.

"It's only a decrease — we passed the Fair Hydro Plan. Especially for Hydro One customers, they're going to see a 40 to 50 per cent reduction."

Thibeault says the application still has to be reviewed by the Ontario Energy Board.

"If you look at the OEB's decisions in the past, they've been very clear that they're always going to keep the interest of rate payers first and foremost, and they've denied applications."

A public hearing on the matter will take place, but a date or location has not been announced. Intervenors have until June 14 to make a request to appear at the hearing.

OEB Releases Report on Regulatory Treatment of Pension Costs

By: Staff Post

For: Lexology

On: June 9, 2017

On May 18, 2017, pursuant to the consultation process initiated two years ago, the Ontario Energy Board (OEB) released its Report on the Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs ("the Report") discussing the method by which rate-regulated Ontario electricity utilities shall recover costs related to the provision of employee pensions and other post-employment benefits ("OPEBs"). In broad strokes, the Report.

Describes the two traditional methods for recovering costs, the cash method and the accrual method;

Rejects additional methods proposed by its consultants KPMG in their report ("the KPMG Report") dated May 2, 2016, on the basis that these methods are "complicated and involve significant judgment on the part of the regulator";

Establishes the accrual method as the method that the OEB, in its capacity as regulator, has determined is most appropriately applied to rate-regulated Ontario utilities;

Mandates the creation of a new "variance tracking account" to record benefits received by the utilities at the ratepayers' expense, in order to facilitate the repayment of these benefits;

Delineates the circumstances in which utilities can depart from the accrual method and recover pension and OPEB costs under the cash method instead; and finally,

Rejects the need for a set-aside mechanism requiring utilities to maintain funds for the specific purpose of covering pension and OPEB related costs.

Background

The Report is part of the ongoing process of consultation initiated by the OEB in its Notice dated May 14, 2015. As we reported last year, the consultation attracted the interest of a wide range of affected parties. The Report is limited in scope – specifically, it does not pass judgment on whether the quantum of benefits provided by utilities is reasonable. That analysis is relegated to a longer term initiative which will benchmark utilities' pension and OPEB costs against similar costs incurred by comparable businesses in order to assess their reasonableness. Instead, the purpose of the Report is to determine the appropriate method by which utilities can recover pension and OPEB-related costs in accordance the OEB's operating principles of fairness, transparency, stability, risk allocation and customer value.

Competing methods of cost recovery: accruals versus cash

The primary methods of measuring pension and OPEB costs to be recovered are the accrual method and the cash method. The accrual method uses the standard accounting treatment of pension and post-employment expenses, whereby pension and OPEB expenses for any given employee are recognized in the period in which the employee helped generate revenue. The cash method, by contrast, reflects the cash outlays relating to pension and OPEB that are actually made in-period.

These methods do not carry any systematic overstatement or understatement of costs. In other words, utilities could face higher or lower costs under either method, depending on a number of historical and economic factors. The OEB has determined that the accrual method is the appropriate method for recovering costs. However, there is a problem of fairness that occurs when the cash method results in a lower cost than the accrual method.

The fairness problem, and the variance tracking account

When the actual cash amount paid out is lower than the amount incurred for accounting purposes (and thus passed onto ratepayers under the accrual method), a utility is effectively borrowing from ratepayers to fund future payments. This over-collection problem conflicts with the OEB's operating principle of fairness.

After consulting the KPMG Report, OEB has determined that this problem can be remedied by requiring utilities to record the difference between what they would pay under each method in a variance tracking account. The purpose of this account would be to track the amount borrowed in order to ensure ratepayers are compensated at the utility's notional borrowing cost. To reiterate, utilities will only be required to compensate ratepayers for the carrying cost of the variance, if any. Additionally, these carrying charges will be asymmetric in favour of ratepayers – that is, the utilities (unlike ratepayers) will not be compensated for variances in their favour.

This variance tracking method was deemed superior to reducing the base rate (an alternative remedy suggested by KPMG) because a reduction in the rate base would compensate ratepayers at the utility's weighted average cost of capital, which may differ from the utility's expected borrowing cost. The tracking account also accords with the OEB's operating principle of transparency.

Caveats and exceptions

It should first be noted that most electricity utilities in Ontario will remain unaffected by the decisions in the Report because they participate in the Ontario Municipal Employees Retirement Scheme (OMERS), which pays into its pension plan at rates calculated under the accrual accounting method. For OMERS-participating utilities, the cash method will therefore always equal the accrual method by design, eliminating the need for the variance tracking account for pensions, if not OPEBs.

Second, the OEB requires that ratepayers be compensated only for the carrying cost of any amount that is notionally borrowed by the utility.

Third, the variance compensation mechanism is asymmetric, in favour of ratepayers. Utilities will not be compensated for variances in their favour, unless the financial viability of the utility is at stake.

Furthermore, smaller utilities that do not incur material pension or OPEB costs are permitted to engage in the cash method where the size of their pension obligations does not warrant the cost of developing an actuarial accounting figure for the accrual method.

Finally, the OEB remains committed to its longer-term goal of assessing the reasonableness of the utilities' overall employee compensation plans (beyond merely pensions and OPEBs) by benchmarking them to comparable businesses.

Next steps

The new variance tracking account came into effect on June 1, 2017. The accounting entries for the account are explained in Appendix D of the Report, available here. Furthermore, all cost-based applications to the OEB must now use the accrual accounting method by default.

The OEB has determined that a second phase of the consultation will not be required. At this time, the OEB is seeking comment on implementation details. Comments should be filed with the OEB by June 22, 2017.

[Canada should build up its biochemical valley]

By: Julia Struyf

For: Canadian Biomass

On: June 9, 2017

June 9, 2017 - For over 70 years the petrochemical industry drove significant global growth and expanded the chemistry industry. But control of greenhouse gas is creating transformation and development of a hybrid chemistry industry, setting a new global standard for the 21st century. This shift puts Canada in a unique position to become a global leader in the world of chemistry. We have the resources to create a sustainable hybrid chemistry industry/

The resources are agriculture, forestry and waste materials. The knowledge is within Canada's universities and industries, or other areas of the globe that need our natural resources.

In Sarnia, Ont., a true hybrid cluster has developed in the areas of green and sustainable chemistry, based on fostering partnerships and on having all the right individuals come together within industry, colleges, universities and governments to help support the cluster.

The cluster is not only providing support to Sarnia's major chemical and refining industries, it is also critical to new industrial bio-sector built in Sarnia-Lambton.

Sarnia-Lambton is becoming a site location for the bio-based chemical industry and green energy (solar) industry. Sarnia is known for playing to its strengths and is characterized as a leader in the bioeconomy.

Bioindustrial Innovation Canada (BIC) has been a key organization in getting the Sarnia cluster established. BIC's focus is to help Ontario and Canada become a globally recognized leader in taking sustainable feedstock, such as agricultural and forestry by-products and wastes, and turning these renewable resources into energy and value-added chemicals for use in applications ranging from construction to automotive parts. BIC in collaboration with partners such as the Sarnia Lambton Economic Partnership, Lambton College Applied Research Centres and the Western Sarnia-Lambton Research Park is aiming to position Sarnia-Lambton region as a world-scale Bio Hybrid and Chemistry Cluster.

The cluster vision has attracted many bio-based SMEs (Small and Medium Enterprises) and large industry to Sarnia-Lambton for their pilot-scale and full-scale operations projects including BioAmber, Suncor Ethanol, Comet Biorefining, Woodland Biofuels, GreenCore Composites and KmX Corporation. Sarnia-Lambton is succeeding in integrating green and sustainable chemistry with its traditional petroleum industries and consequently attracting investment and creating jobs.

Many of these bio companies rely on local SMEs for manufacturing, engineering and environmental services. At BIC we have expanded our current business model to provide a new way of funding for SME's. The Centre for Commercialization of Sustainable Chemistry Innovation (COMM SCI), acts as a hub for commercialization of sustainable chemistry and bio-based innovation, providing business and technical support to participating SMEs. COMM SCI was established with support from the Federal Economic Development Agency of Southern Ontario's Investing in Regional Diversification initiative and the Province of Ontario's Ministry of Research, Innovation and Science.

COMM SCI along with BIC's Sustainable Chemistry Alliance Investment Fund invests in sustainable technology start-ups, which are key to our strategy and to building the Ontario bioeconomy.

BIC has proven that it can create jobs and economic value sustainably for Canada. BIC has created thousands of jobs, leveraged over $150 million in investments for its 16 early stage companies and contributed to the transition towards a low carbon economy.

The hybrid chemistry cluster in Sarnia-Lambton is emerging anchored by BioAmber and is now building out the first cellulosic glucose sugar supply chain in the world. BIC has played an important role in establishing this cluster.

- See more at: https://www.canadianbiomassmagazine.ca/biochemicals/final-thoughts-%E2%80%93-building-biochemical-valley-6321#sthash.ukAOepgX.dpuf

[Ross Romano appointed critic role in Ontario PC Caucus]

By: Staff Post

For: Soo Today

On: June 9, 2017

QUEEN'S PARK - Today, Ontario PC Leader Patrick Brown announced updated critic roles for the Ontario PC Caucus.

"As our newest MPP for Sault Ste. Marie, I'm looking forward to having Ross Romano work hard every day for Northern Ontario families and as part of the PC Caucus," said Brown. "Ross won a riding that the Ontario PCs have not won in over 30 years due to his hard work and commitment. Given his background in serving his community as a City Councillor, I know he will dedicate his efforts at Queen's Park to bring about positive change."

In addition, Brown announced: "I'm also proud to announce an expanded critic role for Norm Miller, MPP for Parry Sound-Muskoka, who has been a key member of the Ontario PC caucus team since 2001."

"The Ontario PC team continues to hold the government to account on failed decisions that have caused a provincial affordability crisis, driven up hydro rates, undermined our competitive edge, caused frontline public service cuts, and chipped away at the accountability and transparency people deserve and expect," added Brown. "We want to see Ontario families pay less and get ahead."

The new critic roles are:

Ross Romano: Critic for Northern Ontario Jobs and the Ring of Fire

Norm Miller: Critic for Northern Development and Mines and Natural Resources and Forestry