PREMIER'S MEETING WITH ONTARIO ENERGY ASSOCIATION

Purpose
Premier, on February 3, 2017 you will be meeting with the Ontario Energy Association (OEA). This is an opportunity to discuss electricity prices and rate mitigation.

Agenda/Potential Topics for Discussion
1. Electricity Prices/OEA proposal on electricity price mitigation
2. Regulatory Modernization and Streamlining
3. Variable Distribution Charges

Agenda/Topics for Discussion

1. <u>Electricity Prices</u>

Issue: Ontario Energy Association (OEA) is likely to raise concerns about rising electricity prices. The OEA has provided a proposal that includes detail proposals to reduce costs (See appendix).

Key Messages:

- Our government continues to ensure a clean, modern and reliable electricity system for all Ontarians.

- Prices are increasing because our energy system is being transformed – we are making needed investments to modernize our electricity system. We chose to replace coal-fired generation with cleaner sources of energy, which will not only benefit our environment but also the health of Ontarians.

- To help ease pressure on businesses, the government is removing the Debt Retirement Charge (DRC) for all non-residential consumers on April 1, 2018.

- As of January 1, 2017, residential customers are eligible to receive an 8% rebate on their pre-tax bill, equivalent to the provincial portion of HST. As a result, the typical residential user consuming 750 kWh per month will save approximately $130 per year.

- The amount of rate protection available to approximately 330,000 eligible rural customers living in low-density areas has also increased as of January 1, 2017. When combined with the 8% rebate, on average these customers will see savings of approximately $540 per year.

- The Ontario Energy Board (OEB) implemented the Ontario Electricity Support Program (OESP), which provides an ongoing rate reduction directly on the bills of low-income electricity consumers who apply and meet the eligibility requirements. OESP monthly credits range from $30-$50, while customers with unique electricity needs can receive $45 to $75 per month.

  - The OEB has the authority to increase these credit amounts.

- As the Ministry of Energy prepares its update Long-Term Energy Plan (LTEP), our government is assessing the effectiveness of its existing rate mitigation programs, to ensure they support energy affordability for all.

Electricity Rate Mitigation – Overview

- Measures in place to mitigate industrial electricity prices and maintain competitiveness include:

    Industrial Conservation Initiative (ICI);
    Northern Industrial Electricity Rate Program (NIERP);
    Industrial Accelerator Program (IAP);
    SaveONenergy for Business Program; and
    Demand Response.

- Recently, we lowered the Industrial Conservation Initiative (ICI) threshold to 1 MW and removed sector restrictions so that more consumers can benefit.

Background:

Ontario's Price Mitigation Programs (Residential)

Initiative	Key Information	Notes
Rate Mitigation	• $130 – annual savings for average household ($11 per month) via 8% bill reduction • $540 – annual savings for eligible rural customers ($45 per month) via Rural and Remote Rate Protection	Program took effect on January 1, 2017.
Ontario Electricity Support Program	• $30 to $50 – monthly on-bill rebate for eligible customers • $45 to $75 – monthly on-bill rebate for those with unique electricity needs	Program took effect on January 1, 2016.
Debt Retirement Charge	• $65 – average annual savings for removing DRC from residential bills • April 1, 2018 – date DRC will be removed from all other bills	DRC removed from residential and small commercial bills on January 1, 2016.

Low Income Energy Assistance Program	• $500 – one-time annual emergency relief for electricity bills ○ $600 – if home is electrically heated • $500 – one-time annual emergency relief for gas bills	Also provides flexible customer service rules re: utility treatment of LEAP customers.

NOEC	• For 2016 benefit year:
	  ○ $146 – annual credit for eligible individual
	  ○ $224 – annual credit for eligible family
		Part of Ontario Trillium Benefit.

Ontario Energy and Property Tax Credit	• For 2016 benefit year:
	  ○ $1,008 – maximum amount for individuals / families
	  ○ $1,148 – maximum amount for qualifying seniors
		Part of Ontario Trillium Benefit.

Ontario's Price Mitigation Programs (Industrial)

Program	Description
Industrial Conservation Initiative (ICI)	Encourages Ontario's largest consumers to reduce consumption during peak periods to save up to one-third on their electricity bills.
Northern Industrial Electricity Rate Program (NIERP)	Assists Northern Ontario's largest industrial electricity consumers to reduce energy costs, sustain jobs and maintain global competitiveness. On average, industrial electricity prices can be reduced by up to 20 per cent through the program.
Industrial Accelerator Program (IAP)	Provides financial incentives of up to $10 million (for capital projects) to transmission-connected electricity consumers, to invest in energy-efficiency or self-generation projects that reduce the amount of electricity withdrawn from the provincial grid.
SaveONenergy for Business Program	Suite of electricity conservation programs for commercial customers offered by Local Distribution Companies, with support of Independent Electricity System Operator (IESO), offers financial incentives to help businesses with costs of installing energy-efficient equipment and improving energy efficiency of their buildings.
Demand	Annual auction held by IESO, provide availability and utilization payments to successful participants that commit to reducing their

Program	Description
Response	consumption when called upon to do so.

OEA's Proposed Electricity Relief Measures

a. Funding Social Policy Costs
   i. Enhance OESP
   ii. New low income program
   iii. Additional bill relief
      1. e.g. bring back OCEB or similar
   iv. Exempt natural gas generators from Cap & Trade costs

b. Better Customer Choice Architecture
   i. Province wide promotion of e-billing
   ii. Customer choice on pricing: give a flat price option
   iii. Variable distribution charges

c. Regulatory modernization and streamlining
   i. Eliminate SME and associated charges
   ii. Red tape reduction- many opportunities worth exploring
      1. OEB annual Regulator Simplification Plan
      2. Create a "Red Tape Challenge" for the Energy Sector
      3. Mandatory regulatory impact assessments for any new regulation
      4. Eliminate redundant service quality metrics
      5. Review Green Energy Act reporting requirements
      6. Automate OEB reporting process
      7. One-in/two-out policy for regulation
   iii. Energy Sector Efficiency Challenge

2. Regulatory Modernization and Streamlining

Issue:

i. Elimination of the Smart Metering Entity (SME) and associated charges
ii. "Red Tape" reduction opportunities
iii. Energy Sector Efficiency Challenge

Key Messages:

- The Smart Metering Entity and centralized smart meter data processing provides Ontarians with a number of benefits, including reducing duplication in the electricity sector, ensuring consistent treatment of smart meter data, and will soon provide access to data that will drive energy innovation in Ontario.

- We have heard many of these same ideas from parties who made submissions to input into the Government's 2017 LTEP process, including the OEA's submission and that of Toronto Hydro. We are currently working on developing the 2017 LTEP plan and are taking into account the submissions and feedback we have heard from all those we consulted with across the province.
- We are always looking for ways to help minimize price impacts on Ontario families and businesses, and finding efficiencies wherever we can. This includes working with our agencies, including the OEB.
- The OEB is an independent regulator and has a responsibility to ensure LDCs are regulated in the public interest. It is reasonable to expect that all parties in the energy sector work together to streamline processes in a reasonable fashion to provide services customers expect from their utility at a reasonable cost.

Background:

- The province's Meter Data Management and Repository (MDMR) is the central system that stores and processes data for all smart meters in Ontario. The IESO, in keeping with its designation as the Smart Metering Entity (SME), is currently responsible for housing and operating the MDMR.
- Nearly all customers in Ontario pay a monthly, fixed charge of $0.788 per month (the Smart Metering Charge) to support the SME's operations.
- In order to facilitate the roll-out of smart meters, in 2008 certain local distribution companies (LDCs) were granted an exemption from integrating into the Meter Data Management and Repository (MDMR). The MDMR is run by the Smart Metering Entity (SME).
- Every LDC in Ontario has integrated with MDMR except for Toronto Hydro, which will integrate by September 30, 2017.
  - This will enable ENERGY to realize the full value of a centralized system, including reducing the duplication of smart-meter processing costs by centralizing the functionality of the MDMR in one place, as opposed to having each local distribution provider run their own system.
- The MDMR and SME provide a number of other benefits to Ontarians, including:

- The SME exclusive authority conduct “validation, estimating and editing” (VEE) services for smart meter data.

  - By applying a consistent methodology to validate smart meter data across the province, the SME ensures that electricity consumption data is consistently measured and treated the same for all Ontarians.

- The MDMR will drive energy innovation in Ontario, providing information to develop new products and services that will enhance customer choice and control. It will also enable more detailed analysis of consumption across the province, resulting in information that can support rate design, regional electricity planning, and province-wide conservation initiatives.

  - In January 2016, the Ontario Energy Board (OEB) ordered the SME to put in place a plan to collect additional data into the MDMR and create a third-party access platform so that researchers, policy makers, innovators, and other groups could take advantage of the wealth of information the MDMR holds.

  - As of January 1, 2017, the SME began collecting non-personal information into the MDMR, including postal code associated with each smart meter.

  - The SME is working closely with the Office of the Information and Privacy Commissioner of Ontario to develop the framework to create a secure system to share this information, while protecting the privacy of all Ontarians.

  - This system is expected to launch in 2018.

- OEA has identified additionalopportunities worth exploring to reduce red tape such as:
  - Annual simplification plan for the OEB
  - “Red Tape” challenge for the energy sector
  - Mandatory regulatory impact assessments for any new regulation
  - Elimination of redundant service quality metrics
  - Review of Green Energy Act reporting requirements
  - Automation of OEB reporting process
  - One-in/one out policy for regulations
  - Others.

- Many of these agenda items were identified in Toronto Hydro's 2017 LTEP submission:
  - Annual Simplification Plan is a process that the UK energy regulator, OFGEM (Office of Gas and Electricity Markets) uses to review its activities. It is a legal requirement,
  - Mandatory regulatory impact assessments for any new regulation: Toronto Hydro recommended impact assessments be completed for any new or amended energy policies
  - One-in, One-out: Toronto Hydro recommended in cases where new regulations are required that add burden and cost to the sector, that offsetting reductions be made concurrently on a dollar-for-dollar basis.

- In its LTEP submission, the OEA suggested:
  - Red Tape reduction: OEB be required to operate according to provincial Red Tape Reduction requirements, including, removing existing regulatory requirements when introducing new ones, only issuing new regulatory requirements twice per year, and regulating on a less prescriptive basis.

- Some regulatory "red tape" reduction may not be appropriate for an economic regulator, such as the OEB.
  - For example, it may not be feasible to "remove an existing regulatory requirement" that is necessary to protect consumers from monopoly behaviour, or to limit the implementation of a new regulatory requirement to protect consumers.

- While the OEB does not have a simplification plan, the OEB's Business Plan does require approval by the Minister of Energy. This is a mechanism to give scrutiny to OEB processes.

- The Ministry is undertaking a Mandate Review of the OEB (per Treasury Board requirements) which could identify opportunities for OEB operational streamlining.

- The OEB is funded through cost assessments to its regulated entities, the large majority electric and gas LDCs. Some of the OEB's increased costs passed along to LDCs are the result of Government requests to the OEB, for example, the OEB's examination of Energy East.

- The Ministry is considering options for the OEB to improve LDC productivity and cost efficiency. Reviewing regulatory burden could be done in parallel to improve LDC compliance with these efforts.

3. ***Variable distribution charges***

Key Messages:

- The Ontario Energy Board is an independent regulator with a mandate to set just and reasonable rates.

Background:

- In April 2015, the OEB indicated that it intended to eliminate volumetric distribution charges for residential customers and allow LDCs to recover all their distribution costs through a fixed monthly charge.
  - Currently, electricity distributors recover their costs through a combination of a fixed monthly charge and a volumetric charge based on kilowatt hours used.
  - The proportion of fixed vs. variable is unique to each LDC and is approved by the OEB as part of the rate setting process.
- Beginning with 2016 rates, the OEB is phasing in fully-fixed distribution rates, which, when fully implemented, will result in residential customers (served by the same LDC) paying the exact same monthly amount for distribution services, regardless of consumption.
  - As LDCs transition to a single fixed charge to access the system, customers with the lowest consumption will pay more for distribution, while customers with high consumption will pay less in comparison to what the currently pay.

Background on Ontario Energy Association

- The Ontario Energy Association (OEA) represents Ontario's energy leaders that span the full diversity of the energy industry. The OEA considers itself to be an integral and influential part of energy policy development and decision making in Ontario. They represent Ontario's energy leaders that span the full diversity of the energy industry.

- The OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This policy foundation allows OEA to advocate directly with government decision makers to tackle issues of strategic importance to our members.

- The OEA publishes annually, working papers, studies and commissions surveys on energy related topics including electricity prices and cap and trade.

- In 2016, the OEA commissioned a poll about provincial politics and energy rates. The 600-person poll showed a growing distrust in the Ontario government's handling of the energy file, in particular electricity prices.

- In 2016 Vince Brescia expressed concerns with OEB’s decisions to include cap-and-trade related costs with the delivery charges on customer’s natural gas bills. **Note:** He stated that a separate line item on the bill is common practice and is done in other provinces such as Quebec and British Columbia. Incorporating the cost of carbon with other costs is not consistent with the government's stated intention to modify consumer behaviour.

- In 2016, the OEA submitted their feedback for the 2017 Long-Term Energy Plan (2017 LTEP). According to the OEA, the 2017 LTEP should be founded on core principles that ensure the plan strikes an optimal balance of:

    1. Security and reliability of supply;

    2. Attainment of climate change objectives;

    3. Ontario’s economic prosperity; and

    4. Cost effectiveness and affordability of energy products and services for homes and businesses.

- The OEA also identifies four key priorities for the 2017 LTEP:

    1. **2017 LTEP should be a complete energy plan**: 2017 LTEP should fully incorporate and integrate CCAP activities and the implementation of the cap-and-trade system.

    2. **2017 LTEP should be fully costed**: the LTEP should include a full costing of its proposals to facilitate the achievement of the Act’s emissions reduction targets through the CCAP and otherwise.

    3. **2017 LTEP should focus on optimization**: the LTEP chart an optimal path to bring together all of the government’s’ objectives on Cap & Trade, CCAP, security and reliability of supply, energy affordability, customer choice, and economic growth.

    4. **2017 LTEP 2017 should modernize Ontario’s regulatory system**: The regulatory framework should keep pace with the speed and degree of transformation in energy markets and systems to ensure that Ontario homes and businesses have access to energy sources that are aligned with GHG reduction targets, secure and reliable, good for the economy, and are affordable.