Diesel Charges for IPA Remote FN Communities

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Hi Adam!

Follow-up to our conversation earlier this week, below is some background on the issue.

It has been a frequent discussion matter between our ministries, often appearing on the agenda between the joint DM-CoS meetings (see attached), and at division level.

Ultimately we need a solution for 2017. And then the ongoing solution for future years.

Thanks so much for looking into this! I'm away next week, but cc'ing Matt in case you have any questions while I'm away.

Talk soon,
Meaghan

Relief from Diesel Charges for IPA Remote First Nation Communities

- MOECC has been directed to consider exempting certain fuels delivered to reserves for use by First Nations from the program.

- This was proposed later in 2016 to complement the *Climate Change Mitigation and Low-carbon Economy Act, 2016,* but is not a minuted CCAP action.

- Communities serviced by Hydro One Remote Communities Inc. (HORCI) are not expected to be impacted in the short-term by cap and trade, however, communities served by Independent Power Authorities (IPAs) are expected to experience a moderate impact due increased fuel costs.

__Current Status:__

- **ENERGY recognizes the importance of managing the impact of cap and trade on diesel-dependent communities, and I am interested in keeping informed of MOECC's progress on this initiative.**

- **ENERGY staff have been working with MOECC staff to explore alternatives, but at this time ENERGY does not have an appropriate vehicle or source of funds to support short-term funding to the IPA communities to fulfil this commitment.**

- **ENERGY would support MOECC in seeking Treasury Board authority for a short-term fund if that is required to ensure that the impact of cap and trade does not fall to IPA communities in**

the interim before regulatory amendments coming into place. ENERGY is happy to continue sharing our knowledge and experience of legal and / or implementation issues with MOECC as you develop a plan for providing relief to remote communities in the face of increasing costs as a result of Cap and Trade.

Background :

- The Environmental Bill of Rights Registry for the final greenhouse gas cap and trade regulation proposed a complementary regulation under the *Climate Change Mitigation and Low-carbon Economy Act, 2016*. The proposed regulation would provide for First Nations impact mitigation, by excluding certain fuels delivered to reserves for use by First Nations from the cap and trade program. MOECC is currently working on recommendations for how to fulfil this direction, with a focus on the remote diesel-reliant First Nations.
    - In the long term, ENERGY's work to reduce diesel use in remote communities (both through grid connection and through a microgrid program for un-connectable communities) will serve to offset the impact of cap and trade; however, in the interim, MOECC would like to establish an alternative way of assisting First Nations with the impacts of elevated diesel prices due to cap and trade.
- There are no measures in place for 2017 to mitigate costs for diesel dependent communities, and while HORCI served communities are not expected to be impacted in the short-term (since rates for 2017 have already been set by the OEB), communities served by Independent Power Authorities (IPAs) are expected to experience a moderate (MOECC estimates $600K across the 10 communities) impact due increased fuel costs.
- MOECC has reached out to INAC at the staff level to discuss funding pressures in IPA communities, and are working to draft an official letter from the MOECC to Minister McKenna, from the federal Department of the Environment and Climate Change highlighting this issue and seeking their support.
- They have also been actively engaging with ENERGY staff to determine whether any existing Ministry programs or new programming being developed under the Fair Hydro Plan could be used to offset price increases in the short-term for IPA communities. ENERGY has indicated to MOECC that our current suite of programs is not suitable for meeting the objectives of this initiative (including options such as relying on RRRP, or expanding the Ontario Rebate for Electricity Consumers program)
- ENERGY anticipates that MOECC will want to communicate to HORCI serviced communities that their rates in the short term will not be impacted due to the RRRP mechanism and expected rate filing dates for HORCI. ENERGY staff understands that to properly address this issue, MOECC is considering regulatory amendments to compliance obligations (effectively exempting fuel distributors from buying credits for fuel that will be delivered to First Nations). However, MOECC still needs to consult with industry stakeholders to understand how such an amendment would be administered (this could be challenging given that the fuel changes hands several times between producer and final destination in the First Nation). Any mitigation measures would need to be in place by fall to apply in 2018.

- MOECC staff have informed ENERGY staff that they are in the process of developing materials to use to consult with petroleum producers and distributors on a potential exemption.

- ENERGY is not responsible for establishing the interim plan to protect remote First Nations from the impacts of cap and trade, but staff have been offering support and recommendations to support MOECC's work, including:

    - Helping MOECC to understand how fuels are distributed to the communities;
    - Explaining the funding structures for energy costs in remote communities (in both IPAs and HORCI-serviced communities), and helping them to understand how remote customers might or might not experience the impacts of higher cost for diesel under the different models;
    - Explaining ENERGY's approach to applying the 8% rebate in IPA communities; and
    - Explaining ENERGY's current approach to mitigating rates in First Nations, including explaining the recommendations from the OEB regarding First Nation rates.

- ENERGY has encouraged MOECC to pursue an exemption; however, there are significant complexities associated with applying such a policy.

- MOECC has indicated that they may instead wish to provide a reimbursement to HORCI and IPAs at a value in line with the anticipated impact on diesel costs (approximately $.05/L), which could be refunded to the LDCs on the basis of fuel receipts remitted, however this reimbursement would not be eligible for funding under the GGRA.