

Ministry of Energy

Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754

Ministère de l'Énergie

Bureau du ministre

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Téléc. : 416 327-6754



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His Worship Alan Spacek
President
Federation of Northern Ontario Municipalities (FONOM)
88 Riverside Drive
Kapuskasing ON P5N 1B3

Dear Mayor Spacek:

I would like to thank the Federation of Northern Ontario Municipalities delegation for meeting with me at this year's Rural Ontario Municipal Association (ROMA) Annual Conference in Toronto.

Every year, the ROMA conference provides an important opportunity to meet with rural municipal leaders and learn about the energy issues in their communities. I appreciated hearing your concerns about electricity prices, impacts on households and the industrial sector, as well as the effects of cap and trade on natural gas and fuel costs.

Cap and Trade Impact on Natural Gas and Fuel Costs

I understand your concern with the financial impact cap and trade will have on the cost of natural gas and other fuels. Ontario is moving forward with its cap and trade program that sets a limit on greenhouse gas emissions.

On November 24, 2106, the Ontario Energy Board (OEB) released its Decision on changes to natural gas rates effective January 1, 2017. In that Decision the OEB set interim rates for each of the natural gas utilities with cap and trade impacts ranging from \$6 to \$7 on average per month on typical residential customers' natural gas bills.

Transportation fuels will have an estimated cap and trade cost impact of 4.3 cents per litre for gasoline and 5 cents per litre for diesel.

I have asked the OEB to review and report on the province's retail transportation fuels market, including gasoline and diesel, to provide more transparency for consumers about how prices are set.

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Natural Gas Expansion

Given our discussion about natural gas expansion I am pleased to reconfirm the government's launch on January 30, 2017 of its new \$100 million Natural Gas Grant Program at the 2017 ROMA conference.

The intent of this initiative is to help facilitate the expansion of natural gas service into areas of the province which currently do not have access to natural gas including those in rural and northern Ontario and First Nations communities. Ensuring affordable sources of energy are available to more rural and northern communities is a key part of Ontario's energy plan.

The Natural Gas Grant Program is part of the province's Moving Ontario Forward plan and will be led by the Ministry of Infrastructure, with support from my ministry and the Ministry of Agriculture, Food and Rural Affairs. It is expected that the Grant Program will begin accepting applications this spring.

Ontario's Fair Hydro Plan

I appreciated hearing your concerns about electricity prices. We have listened to the concerns of many Ontario ratepayers and taken action to help them reduce their electricity bills.

With the recent announcement of Ontario's Fair Hydro Plan, starting this summer, residential consumers in the province would receive a reduction of 25 per cent on average on their electricity bills with increases over the next four years held to the rate of inflation. These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

Many small businesses and farms would also benefit, with additional relief for people with low incomes and those living in eligible rural communities.

Recently, electricity prices have increased because of much needed investments to modernize the system to ensure it is clean and reliable. Ontario's Fair Hydro Plan would help relieve the burden of financing these system improvements on today's ratepayers by significantly restructuring the system to address long-standing policy challenges and ensure greater fairness.

Building on previously announced initiatives to deliver broad-based rate relief, these measures would deliver the single-largest reduction to electricity rates in Ontario history.

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Ontario's Fair Hydro Plan includes a number of initiatives, including refinancing a portion of the Global Adjustment; broadening the Rural or Remote Rate Protection (RRRP) plan; expanding the Ontario Electricity Support Program (OESP); creating a new Affordability Fund; establishing an On-Reserve First Nations Delivery Rate; and expanding the Industrial Conservation Initiative (ICI).

Refinancing the Global Adjustment

The Global Adjustment (GA) accounts for the fixed costs of running Ontario's generation fleet, as well as the cost of conservation programs. It is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

As we invested in renewing our electricity system, many new generating facilities were constructed, most of which operate under 20-year contracts. The GA has increased in the near term to recover these costs, however it is forecast to stabilize and then decline in the future. We have heard from Ontarians that the costs associated with the GA are putting too much pressure on their electricity bills. Ontario's Fair Hydro Plan recognizes that because many generators will continue to provide value to the electricity system beyond their contract lives, there is an opportunity to recognize the long-term benefit of these assets and "bring forward" that benefit for ratepayers today.

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance a portion of the GA, spreading the cost of electricity investments over a longer period. The initiative would provide significant and immediate rate relief to consumers who are eligible for the Regulated Price Plan (RPP), including residential consumers and many small businesses and farms.

Broadening the RRRP

The delivery charge on consumer bills includes the cost of delivering electricity from generating stations across the province to homes and businesses via the high voltage (transmission) and low voltage (distribution) electricity systems and also includes the cost of distribution system losses.

The cost of distributing power to lower-density rural and remote areas is much higher than for urban and higher density areas. As a government, we've been focused on ensuring that our electricity system has been fairer for families living in rural areas or remote areas who struggle to pay some of the highest delivery charges in the province.

Currently, about 350,000 eligible rural or remote ratepayers get relief on delivery charges via the Rural or Remote Rate Protection (RRRP) framework. Ontario's Fair Hydro Plan would broaden the RRRP to provide delivery charge relief for the customers of the local distribution companies (LDC's) with the highest delivery charges.

In addition to RRRP, which mitigates the specific costs related to low-density distribution service, delivery charge relief will be broadened to harmonize distribution costs at the lowest rate amongst the eligible LDCs – eliminating some of the inequities caused by variation in distribution rates across the province.

About 800,000 customers in total will benefit from the enhanced RRRP program.

RRRP funding is currently collected from all Ontario electricity customers through a regulated charge. We recognize that programs, such as the RRRP and the Ontario Electricity Support Program (OESP), are for the common good and that these programs should be delivered to Ontarians through government funding and not through electricity ratepayers. We are moving to have the RRRP funded by the tax base instead of on electricity bills. This will reduce regulatory charges for everyone and ensure these programs continue to serve those in need.

OESP

Through the Fair Hydro Plan, we are providing additional relief for those who are most in need of support.

This includes expanding the OESP, which lowers electricity costs for the most vulnerable customers by providing a rebate directly on their bills. This program — which is income-tested and application-based — uses two scales: basic credits; and an enhanced credit for Indigenous people and for people who use electric heat or certain electrically intensive medical devices.

The eligibility for OESP will be expanded so that more Ontarians can receive the credit. We will also increase OESP credits by 50 per cent.

To ensure that people receive the support they need and are eligible for, we are also exploring automatic qualifications for customers who are enrolled in other low-income support programs.

Affordability Fund

Currently, the Save on Energy Home Assistance Program assists qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes at no cost.

Our government heard that there was a need for an additional tool for electricity distributors to provide relief to customers who are in acute hardship with their electricity bills. To address this need, on March 2, 2017, we announced the establishment of an Affordability Fund, part of Ontario's Fair Hydro Plan.

The Affordability Fund will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills to make energy efficiency improvements. Conservation and energy efficiency measures can help customers reduce their electricity costs and get on a more sustainable path with their bills. It is expected that the Affordability Fund will be made available to eligible electricity customers through their local electricity distributors starting in summer 2017.

On-Reserve First Nations Delivery Rate

The Fair Hydro Plan would provide additional support for people who live on First Nations reserves. Acting on recommendations made by the Ontario Energy Board, we will:

- Eliminate the delivery charge for all on-reserve First Nations residential customers and remove the monthly service charge for customers of licensed distributors that charge a bundled rate.
- Automatically qualify on-reserve First Nations residential customers — about 21,500 in total.
- Enable greater information sharing between distributors and band councils to identify all on-reserve First Nations customers.

We are moving to have the First Nations On-Reserve Rate funded through the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers.

Industrial Electricity Prices

I appreciate your concern regarding the importance of electricity prices to the industrial sector in particular. Creating the conditions for businesses to thrive is part of our plan to create jobs, grow the economy and help people in their everyday lives. That is why Ontario's Fair Hydro Plan proposes the expansion of ICI.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. Reducing demand during peak hours benefits companies financially and benefits the electricity system by deferring the need for new peaking generation. Effective January 1st, 2017, we lowered the participation threshold from 3 MW to 1 MW and removed sector restrictions, allowing approximately 1,000 additional consumers to benefit from the program. As part of the Fair Hydro Plan, we are proposing to go a step further to allow small manufacturers between 500 kW and 1 MW to participate.

The expansion of ICI through the Fair Hydro Plan would augment a suite of programs that are already in place to support the industrial sector in managing energy costs. These measures include the Northern Industrial Electricity Rate Program (NIERP), under which businesses can reduce their electricity costs by more than 20 percent, the Industrial Accelerator Program (IAP), which provides financial incentives for energy-saving process changes and equipment retrofits, and Save on Energy for Business, which helps companies save through efficiency and conservation. The IESO also holds annual demand response auctions, which provides income to successful participants that commit to reducing their consumption when called upon to do so.

Long-Term Energy Plan

As you know, Ontario is developing its next Long-Term Energy Plan (LTEP), a roadmap for Ontario's energy future.

As required by the *Electricity Act*, LTEP will balance the principles of cost-effectiveness, reliability, clean energy, community and Indigenous engagement, and an emphasis on conservation and demand management. The Ministry of Energy intends for the next LTEP to take a broader focus that considers different energy sources - including electricity, heating, and transportation fuels.

To support development of the next LTEP, the Ministry of Energy held a comprehensive engagement process from October to January 2017. There were stakeholder sessions and public open houses in 17 communities as well as 17 engagement sessions with Indigenous communities and organizations. The Ministry of Energy also received over 1500 written submissions containing feedback and recommendations.

The ministry is working diligently to review the feedback it received and develop the updated plan, to be released in 2017. More information, and resources related to the development of the next LTEP are available at www.energy.gov.on.ca/en/ltep.

Once again, thank you for meeting with me at ROMA 2017. I look forward to working with you and your colleagues in the months ahead. In the meantime, please accept my best wishes.

Sincerely,

Glenn Thibeault
Minister