

Ministry of Energy

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Mr. Joe Taylor
Warden
County of Peterborough
470 Water Street
Peterborough ON K9H 3M3

Dear Warden Taylor:

It was a pleasure meeting with you 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, including the impacts of cap and trade. Under the cap and trade program, Ontario's natural gas distributors (i.e., Enbridge Gas and Union Gas) are the "point of regulation" for Ontario's natural gas-fired electricity generators. This means that natural gas distributors will purchase allowances to cover emissions from natural gas-fired electricity generators.

Accordingly, the Ontario Energy Board, the independent regulator responsible for setting Regulated Price Plan (RPP) electricity prices, made provisions in November 2016 for the cap and trade program commencing in January 2017. Given the low greenhouse gas (GHG) emissions in Ontario's electricity system, the impact of cap and trade on electricity prices is expected to be limited.

Ontario's electricity sector is now 90 per cent emissions free, and is well-positioned as the province moves towards a low-carbon economy.

Wind Energy Projects

Ontario is proud to have established itself as a North American leader in clean energy initiatives, with approximately 18,200 megawatts (MW) of renewable generation online or contracted. This clean energy supply is helping to offset our reliance on fossil fuels and reduce Ontario's greenhouse gas emissions.

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With regards to the concerns you raised in the meeting about wind energy development in the region, it is important to note that renewable energy developers need to meet a number of contractual requirements, as well as environmental and permitting approvals, before they can begin construction on their projects. These approvals include additional community engagement requirements and provide further opportunities for communities to express any concerns they may have about the proposed projects.

In particular, large wind energy projects are subject to the Renewable Energy Approval (REA) process, which is administered by the Ministry of the Environment and Climate Change and includes minimum setbacks for wind energy projects, environmental studies, and community consultation requirements.

We remain committed to working with local communities, municipalities and Indigenous communities to ensure there is meaningful involvement in electricity system planning. Our focus is now firmly on the long-term energy planning process and the ways in which we can continue to drive down costs for ratepayers while ensuring a strong supply of clean power.

Ontario's Fair Hydro Plan

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.

Ontario's Fair Hydro Plan includes a number of initiatives, including refinancing a portion of the Global Adjustment (GA); 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).

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Refinancing the GA

The 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.

Expanding the Industrial Conservation Initiative (ICI)

Ontario's Fair Hydro Plan would also benefit the manufacturing sector by expanding ICI.

ICI allows large electricity consumers to lower their electricity costs by reducing consumption during peak hours. This benefits companies financially and benefits the electricity system by deferring the need for new peaking generation. Changes, if passed, would allow small manufacturers between 500 kW and 1 MW to benefit from the program, in addition to the large consumers over 1 MW that are already eligible.

Participants in the ICI program can save up to one-third on their electricity costs.

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.

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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. Please accept my best wishes.

Sincerely,

Glenn Thibeault
Minister