Impact of Select Electricity Relief Programs and Tax Credits on Residential Monthly Electricity Bills

Ministry of Finance / Ministry of Energy

October 7, 2016

Overview

- The Financial Accountability Office (FAO) released a commentary on September 27, 2016, that showed average household home energy costs by region and by income. It found:
  - average spending on home energy varies significantly by region - Northern families spend more on average; and,
  - average home energy spending also varies with household income - higher income families spend more on home energy ~~yet have~~though it is a lower percentage of their income.
- MOF, using Statistics Canada publicly-available information, produced similar results on home energy spending by income.
- The FAO did not calculate the cost of home energy net of government support programs, although the report did highlight the key ones available.
- The Ministry of Finance and Ministry of Energy worked together to create case examples that demonstrate the residential monthly electricity costs after taking into account select electricity relief programs and tax credits attributable to electricity usage.
- The cases show that:
  - low-income families are well-supported;
  - Northern and farm families are paying higher costs that reflect higher usage; and,
  - modest income families receive little support.

Enhancing the FAO Analysis

- Attempting to enhance the FAO analysis by including the average benefit from the support programs to show net home energy costs would be unreliable and underestimate their benefit.
    - Trying to determine reasonable average credit and benefit amounts for the income groups used in the FAO report would be, at best, an educated guess. This was a crucial caveat raised by the FAO in their report.
    - MOF has, in the past, linked tax family data to aggregate consumption costs based on some earlier Statistics Canada surveys; however, attempts to categorize these costs into specific spending areas did not yield reliable results. The FAO required Statistics Canada to compile results from a multi-year average of the survey as sample sizes were small, and regional variances were significant.
    - Electricity consumption data from smart metres is not available to the government, thus making it challenging to replicate FAO results using observed consumption. Other energy use is also not available at the household level.
- Case examples of representative families are a good alternative to demonstrate the scenarios where government mitigation efforts have a significant impact.

Approach Used to Build the Cases

- Representative case examples have been prepared to show monthly residential electricity costs faced by select Ontario families, less select government supports to help them with those costs.
  - Costs have been estimated assuming a time-of-usage pattern, total electricity usage for the particular case and using published electricity rates. For 2017, commodity costs and rates were projected by Ministry of Energy officials.
- Electricity relief programs and tax credits that have been considered include:
  - the Ontario Electricity Support Program (2016);
  - a proposed 8% electricity bill rebate reflecting the provincial portion of the Harmonized Sales Tax (HST) and enhanced Rural or Remote Rate Protection (2017);
  - a portion of the Ontario Sales Tax Credit and the federal Goods and Services Tax credit attributable to electricity usage; and
  - the energy component of the Ontario Energy and Property Tax Credit.
- The various conservation programs that are available to families in Ontario to lower their electricity costs have not been included in the analysis.

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Commented [EK1]: Should the cost of the programs also be included?

Methodology, Caveats, and Assumptions

- Each case has been assigned an appropriate electricity service provider, e.g., if the case represents a low-density (R2) area, it is a Hydro One – R2 customer.
- The Ontario Sales Tax Credit and federal Goods and Services Tax credit amounts have been pro-rated based on the total Harmonized Sales Tax revenues attributable to electricity usage.
- The energy component of the Ontario Energy and Property Tax Credit has been allocated to each case; the estimate is based on occupancy cost information of similar families living in similar areas with similar incomes and household sizes.
- To focus the examples on on-bill support, incomes, property taxes and rents are held constant. Tax credits are paid out over a benefit year of July to June based on prior year's income.
- The Debt Retirement Charge is 0.7 cents per kWh of electricity consumed.
- The proposed 8% electricity bill rebate, Ontario Electricity Support Program and Rural or Remote Rate Protection (RRRP) rates have been estimated by Ministry of Energy officials and have been applied pre-tax. The proposed $29 RRRP-enhancement has been reflected in the 2017 scenarios.
- Most of the cases would have received full Ontario Clean Energy Benefit benefits in 2015 as their monthly usage was below 3,000 kWh, except for the dairy farm example.
- For 2016 and 2017, the families with an annual income of more than $52,000 do not get Ontario Electricity Support Program (OESP) payments. Some cases are assumed to be high-intensity users, making them entitled to more generous OESP payments.
- Sensitivity analysis on 'time-of-use' patterns and electricity usage shows minimal differences in monthly costs. And, net electricity cost is calculated as the monthly electricity bill less the benefits received from select electricity relief programs and tax credits.

Moderate and Higher-Income Families ~~get Little~~Receive Modest Support

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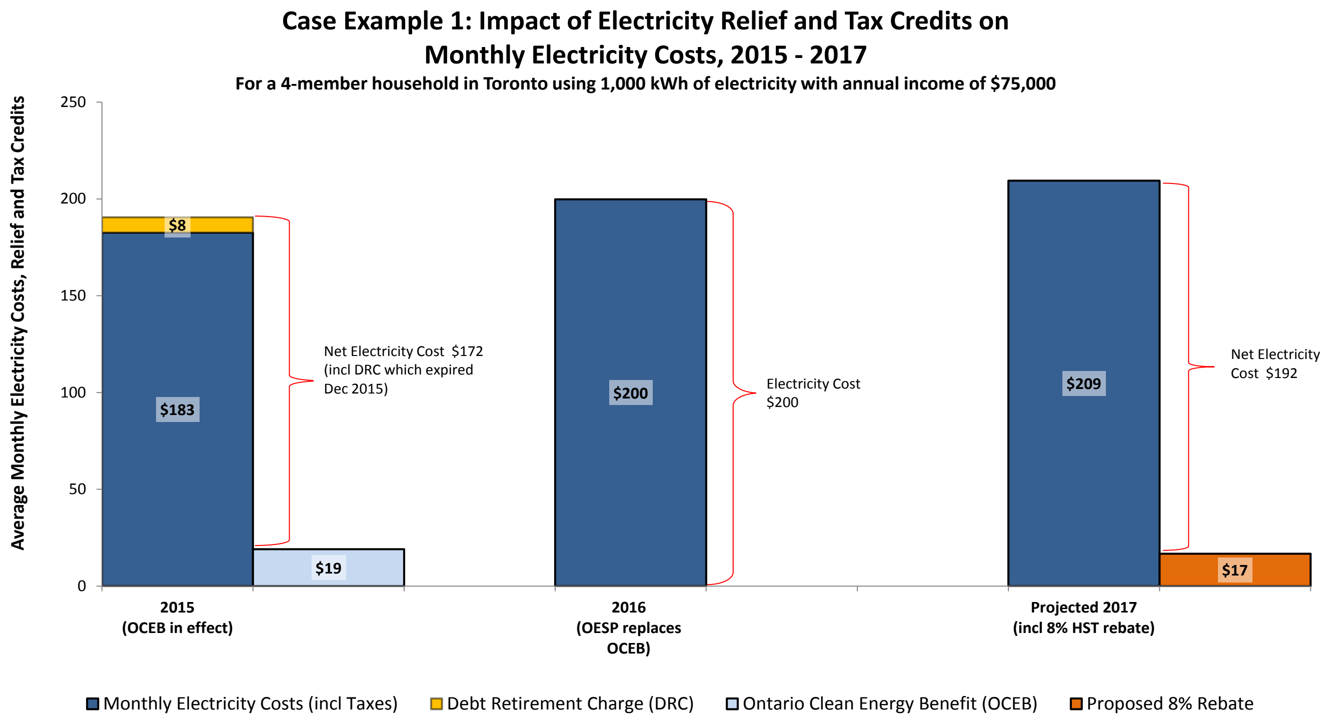
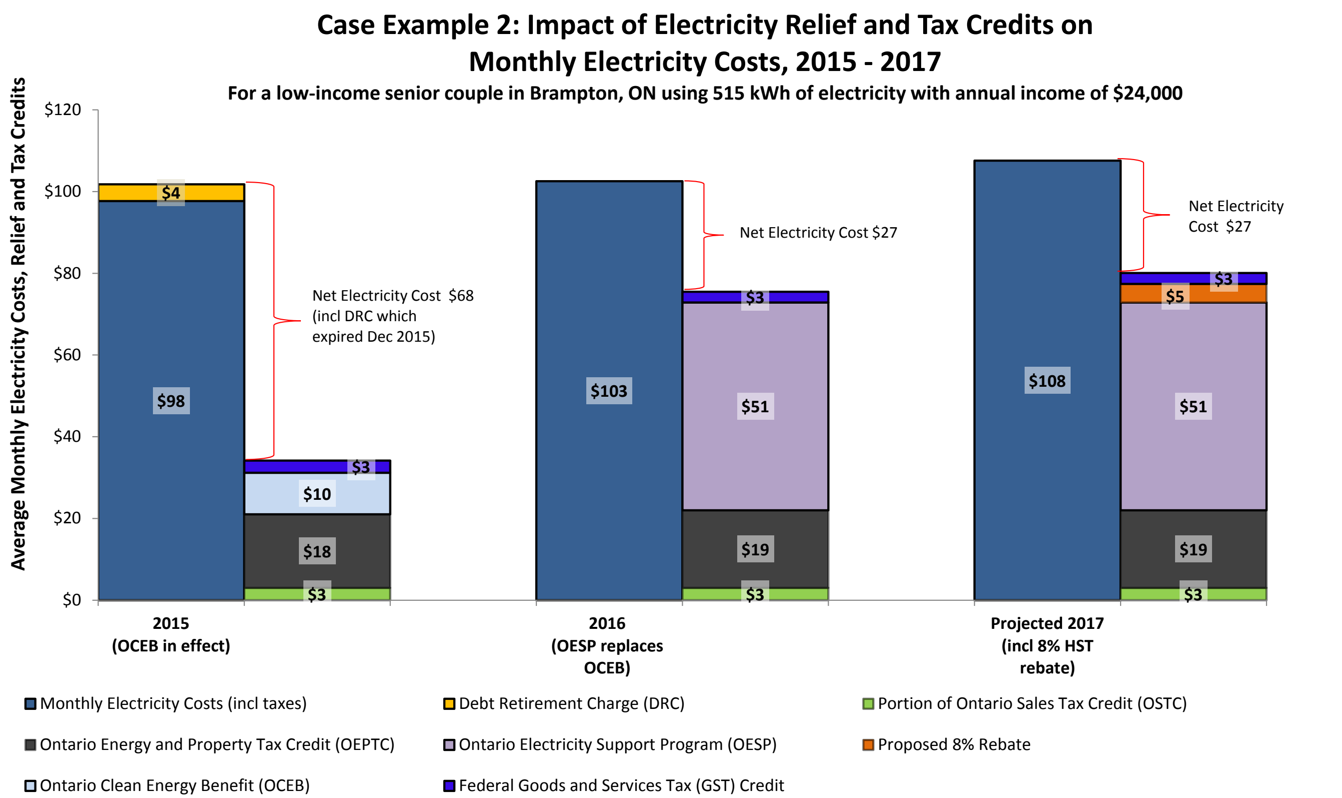


Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the family owns a house in Toronto and pays property taxes of about $3,500.
2. The family has an electricity meter with Toronto Hydro.
3. Monthly electricity costs (including delivery and regulatory charges) were estimated by the Ministry of Energy, assuming a 'time-of-use' pattern (off-peak 62%, mid-peak 23% and on- peak 15%) and total electricity usage of 1,000 kWh a month.
4. For 2016 and 2017, this family is not entitled to any Ontario Electricity Support Program payments. (The OESP cut-off for a 4 member household is $~~52~~39,000).
5. The family at its current income level is not entitled to the Ontario Sales Tax Credit and Ontario Energy and Property Tax Credit.
6. At the current income level, the case example family doesn't receive any federal Goods and Services Tax credit.

Vulnerable Low-Income Seniors are Well Supported

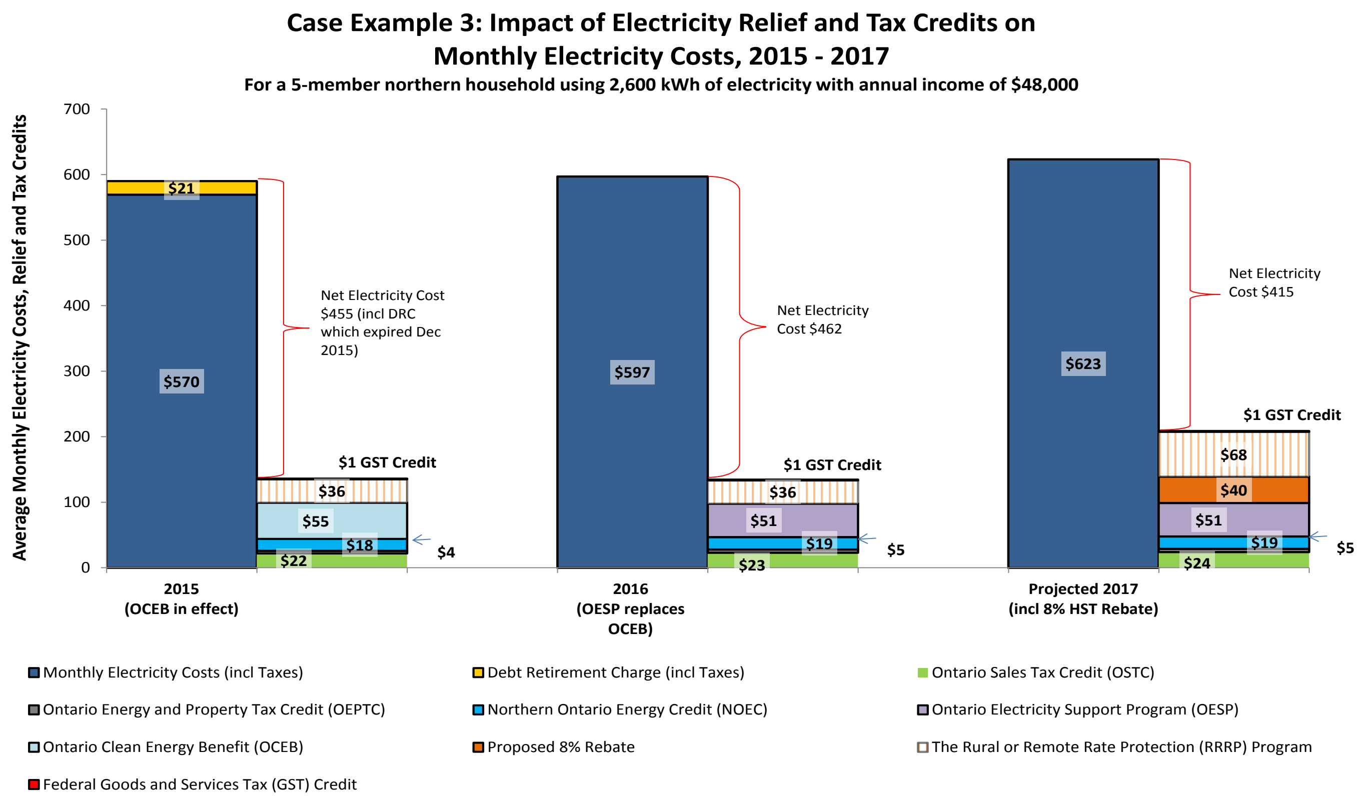


Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the couple rents an apartment in Brampton, ON ($700 a month) with a separate meter with Hydro One Brampton Network Inc.
2. Monthly electricity costs (including delivery and regulatory charges) were estimated by the Ministry of Energy, assuming a 'time-of-use' pattern (off-peak 60%, mid-peak 20% and on-peak 20%) and total electricity usage of 515 kWh a month. ~~Sensitivity analysis on 'time-of-use' patterns and electricity usage shows minimal differences in monthly costs.~~
3. For 2016 and 2017, the case example family is eligible for high-intensity OESP payments, e.g., by having electric heating, or using certain medical equipment.

Families in the North Face Higher Costs Reflecting Higher Usage

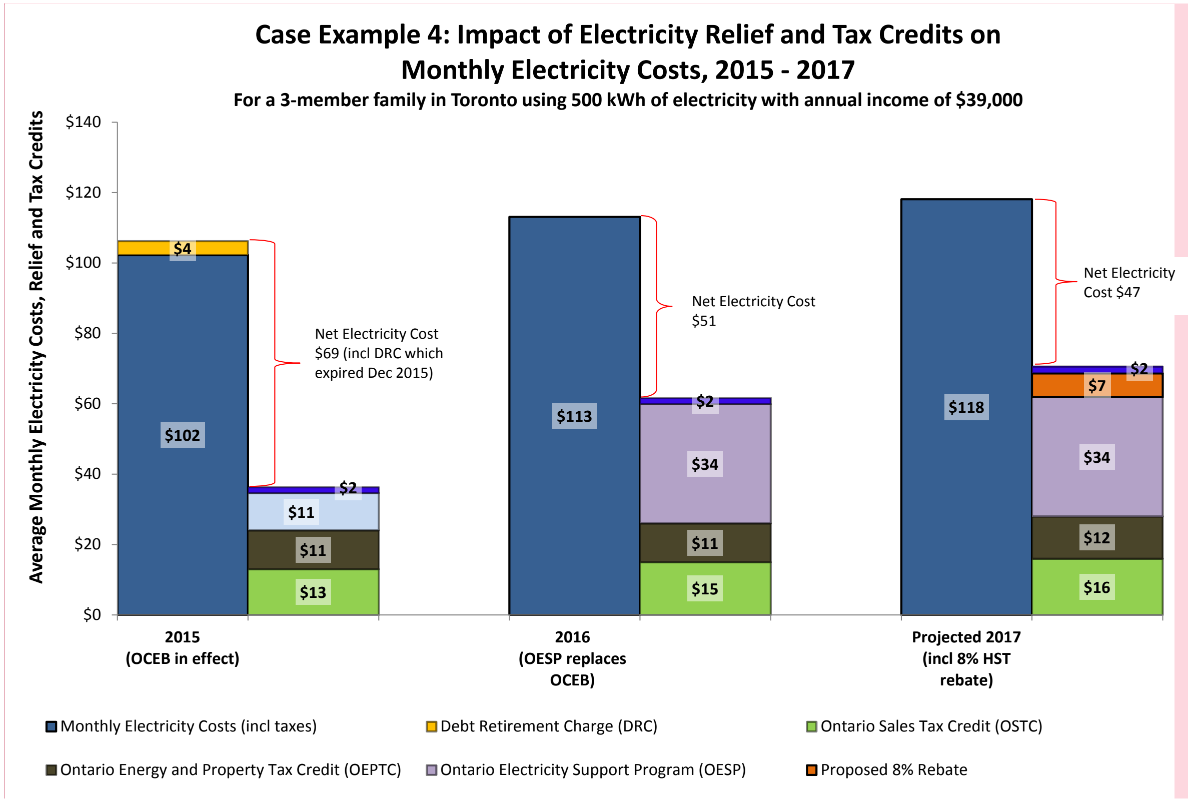


Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the family lives in northern Ontario, owns a house that is heated with electricity. In low-density, rural areas reliance on electricity for home heating is more common. The family pays property taxes of $2,500.
2. The family is a client of the Hydro One Networks Inc. – Low Density (R2).
3. Monthly electricity costs (including delivery and regulatory charges) were estimated by the Ministry of Energy, assuming a 'time-of-use' pattern (off-peak 65%, mid-peak 18% and on-peak 17%) and total electricity usage of 2,600 kWh a month. The time-of-usage pattern used here is close to the average pattern, given that the heating load is relatively flat and information is not available on specific heating profile for this type of home.
4. For 2016 and 2017, the family is entitled to high-intensity OESP payments, due to having electric heating.

Low-Income Families Receive Increased Support for Electricity



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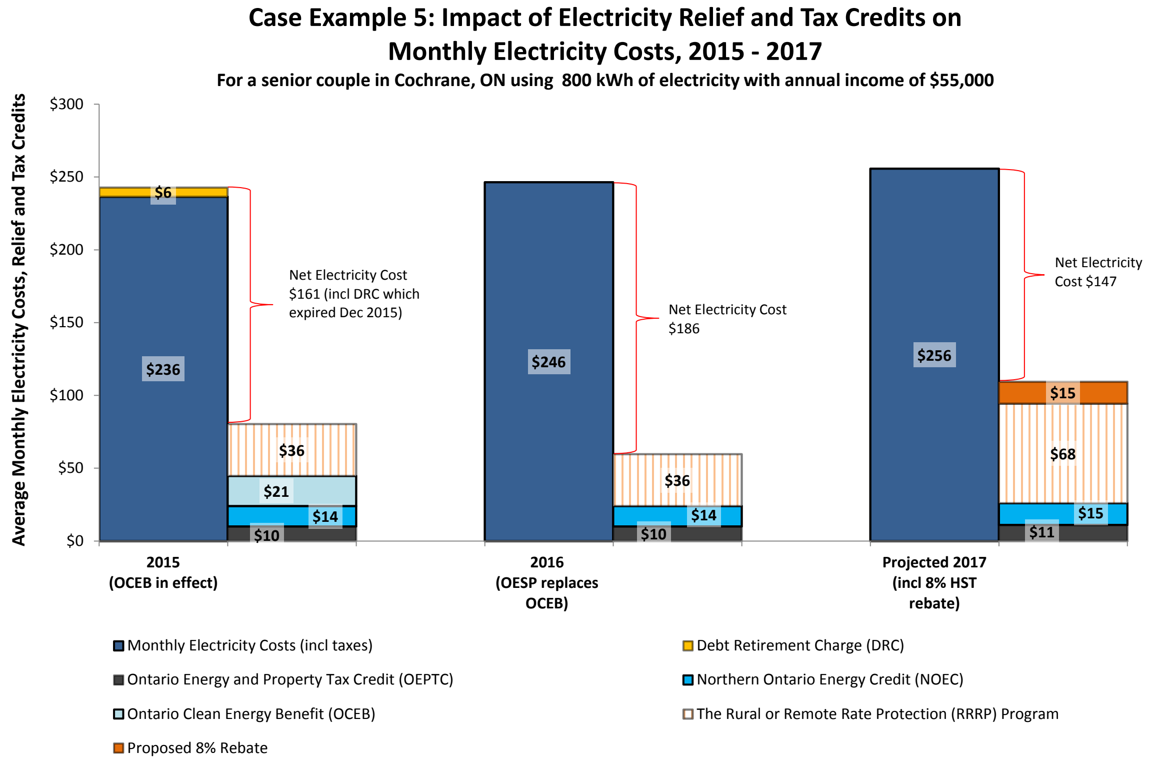
NOTES:

1. This example assumes the family lives in Toronto, owns a house and pays about $2,800 in property taxes.
2. This family is a client of the Toronto Hydro.
3. Monthly electricity costs (including delivery and regulatory charges) were estimated by the Ministry of Energy, assuming a 'time-of-use' pattern (off-peak 65%, mid-peak 18% and on-peak 17%) and total electricity usage of 500 kWh a month.

Commented [EK2]: OCEB doesn't appear in the legend.

Rural and Remote Senior Families will Receive Enhanced Support



Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the family lives in a propane-heated home in the District of Cochrane, North-eastern Ontario; and pays about $2,250 in property taxes.
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3. Monthly electricity costs (including delivery and regulatory charges) were estimated by the Ministry of Energy, assuming a 'time-of-use' pattern (off-peak 60%, mid-peak 20% and on-peak 20%) and total electricity usage of 800 kWh a month.
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Farm Families Face Receive Modest Support for~~Significant~~ Electricity Costs

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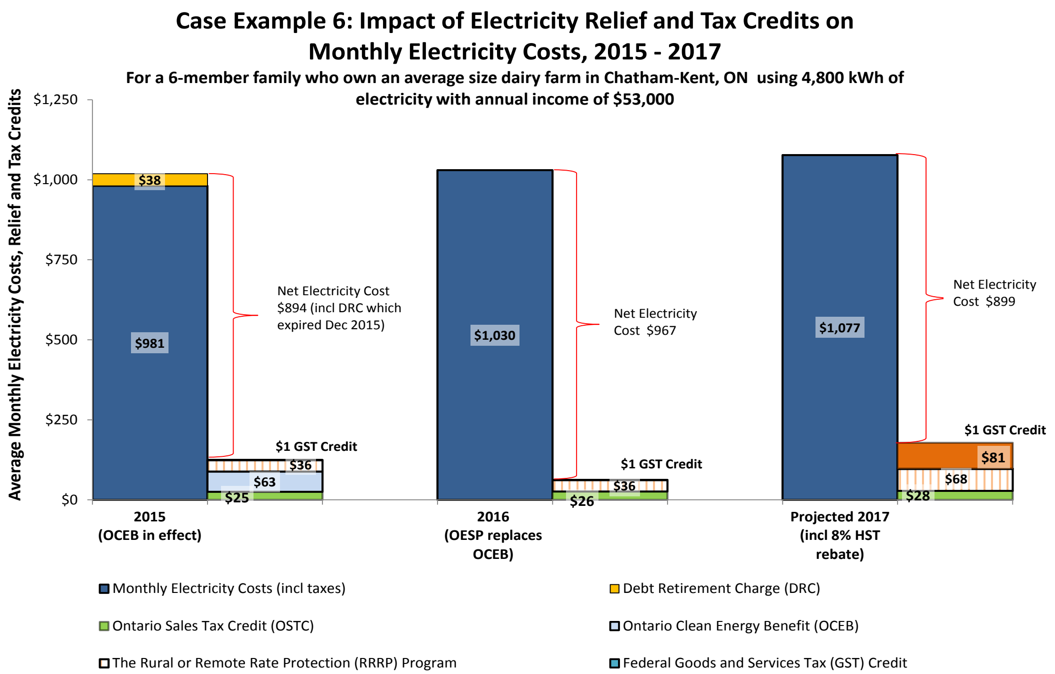

Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the family owns an average-sized dairy farm in Chatham-Kent, South-western Ontario; and pays about $2,000 in property taxes for their residential home.
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4. As the case example family lives on the farm, they pay residential electricity rates for their farm operations, as well.
5. The family receives the Ontario Clean Energy Benefit (OCEB) in 2015 only for the first 3,000 kWh of electricity usage. The OCEB provided 10% rebate only on up to ~~$~~3,000 kWh of electricity usage.

Appendix 1: Background

Commented [EK3]: Should all programs be described in the background? E.g., the tax credits with an electricity component.

- Both the Ontario Clean Energy Benefit (OCEB) and the Debt Retirement Charge (DRC) have ended December 2015.
    - The OCEB provided typical residential consumers[1] relief of about $16 a month, and DRC required consumers pay about $5.60 a month.
- Effective January 2016, the government has introduced the Ontario Electricity Support Program (OESP).
    - The OESP provides ongoing, on-bill relief (up to $75 a month) for low-income electricity ratepayers who apply for the program.
- The government has recently announced to provide further support, including:
    - A proposed 8% electricity bill rebate reflecting the provincial portion of the Harmonized Sales Tax (HST), effective January 1, 2017, if passed by the legislature; and
    - A proposed enhancement of about $29 to the existing Rural or Remote Rate Protection (RRRP) program, also effective January 1, 2017, to be enacted by Regulation.

[1] Utilizing 750 kWh of electricity a month

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  - the Ontario Electricity Support Program (2016),~~;~~
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  - ~~–~~an~~d~~ enhanced Rural or Remote Rate Protection (2017),~~;~~
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Commented [EK1]: Should the cost of the programs also be included?

Commented [RK2]: Is that the case?

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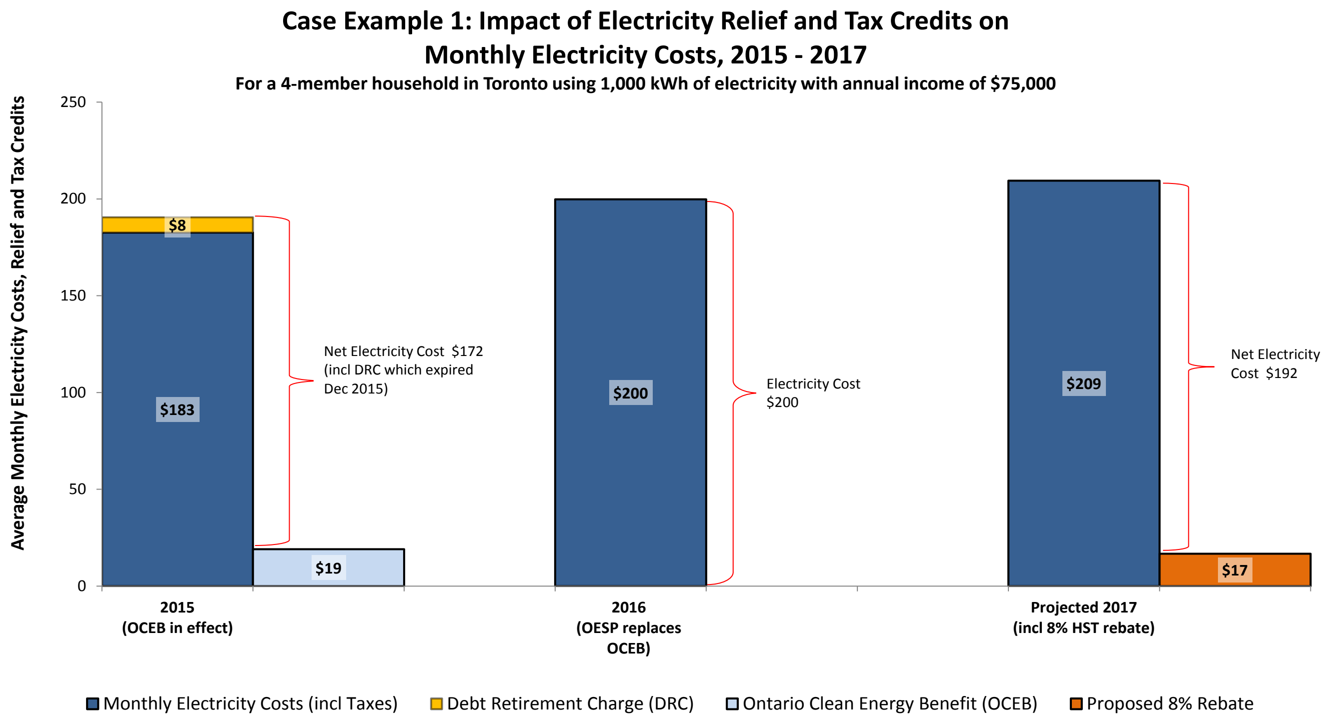

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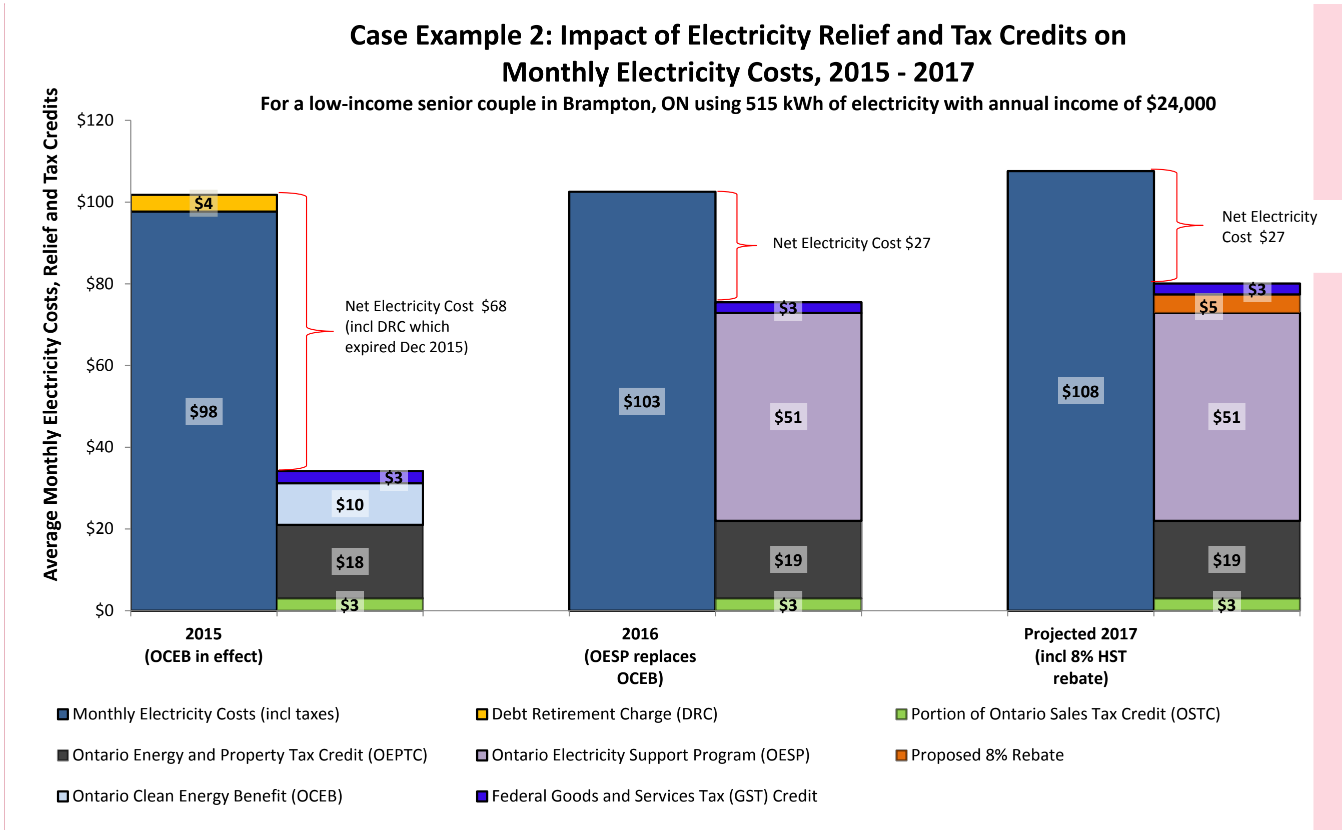
Vulnerable Low-Income Seniors are Well Supported



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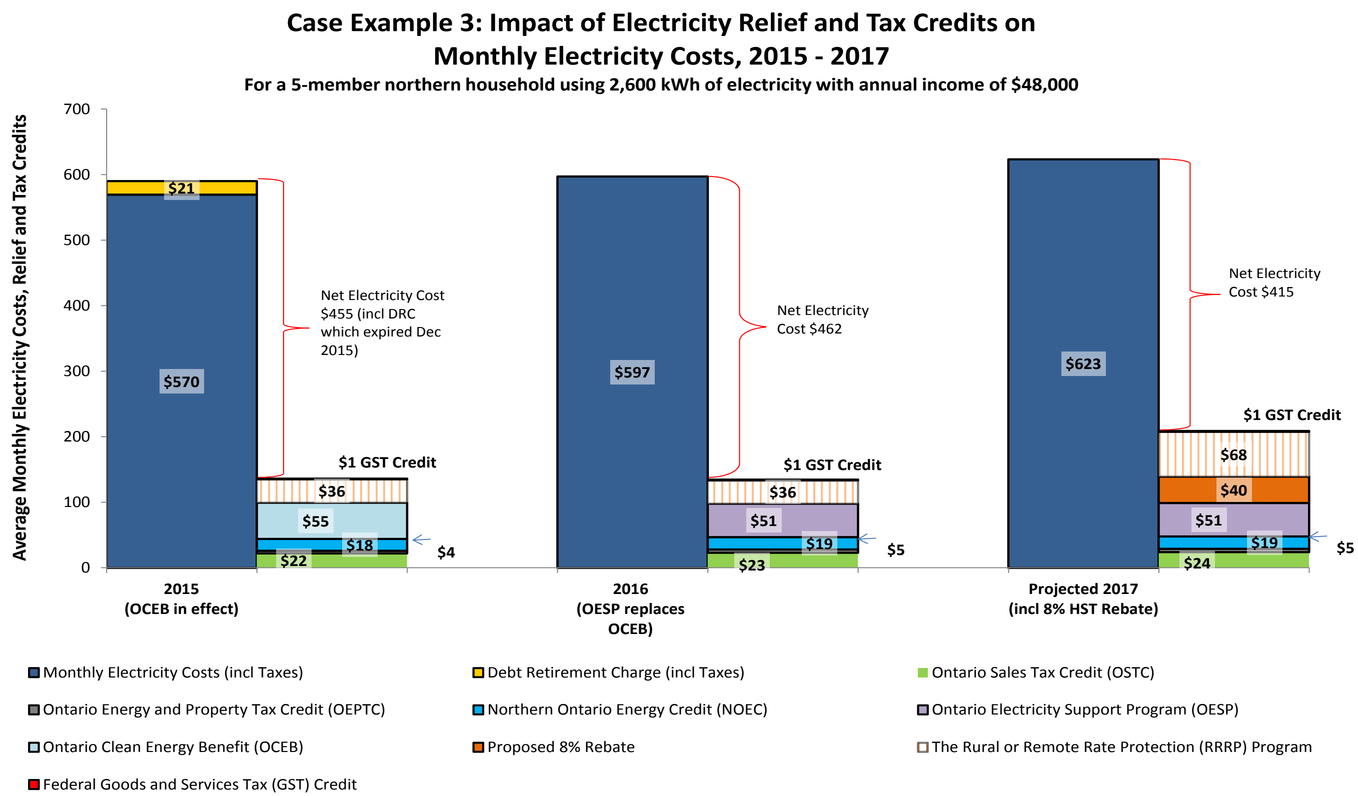
Commented [RK3]: As noted previously, it may be of interest to the reader to know what the on-bill electricity cost is, as some cost offsets such as OEPTC and the tax credits do not affect the bill, but provide notional cost offsets.

Families in the North Face Higher Costs Reflecting Higher Usage



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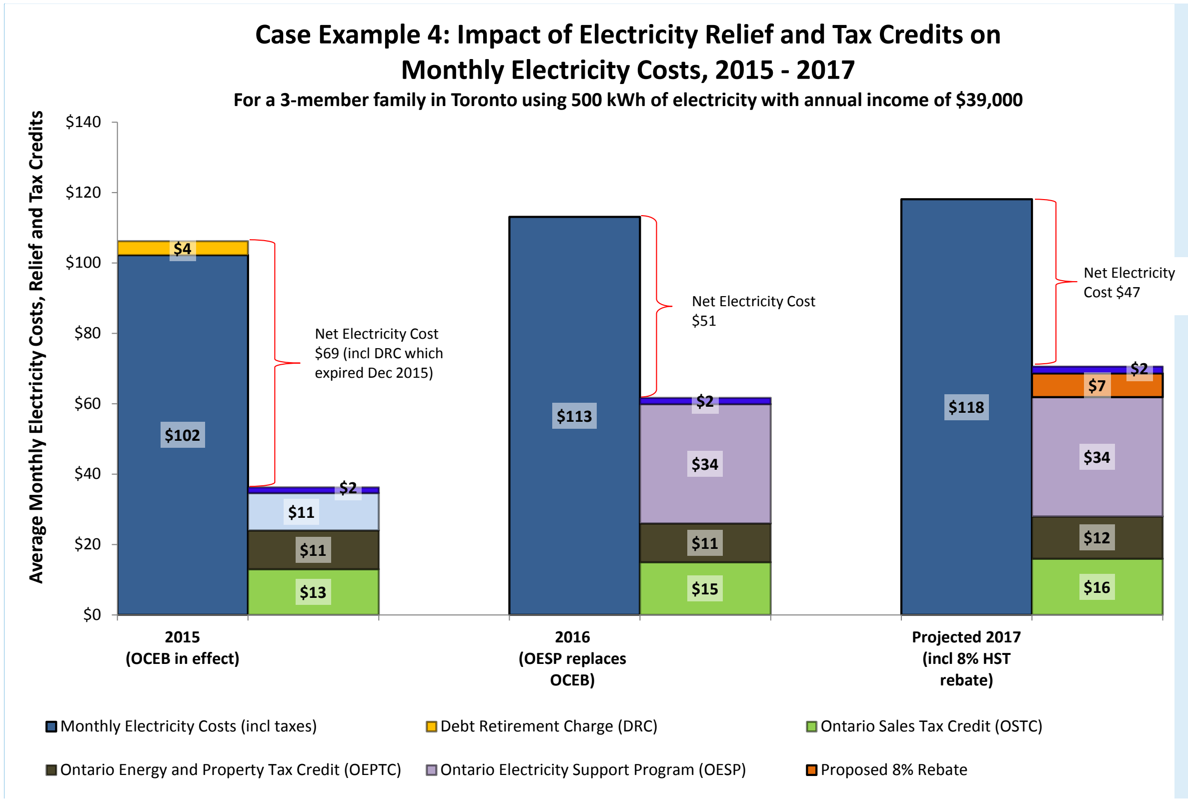
Low-Income Families Receive Increased Support for Electricity



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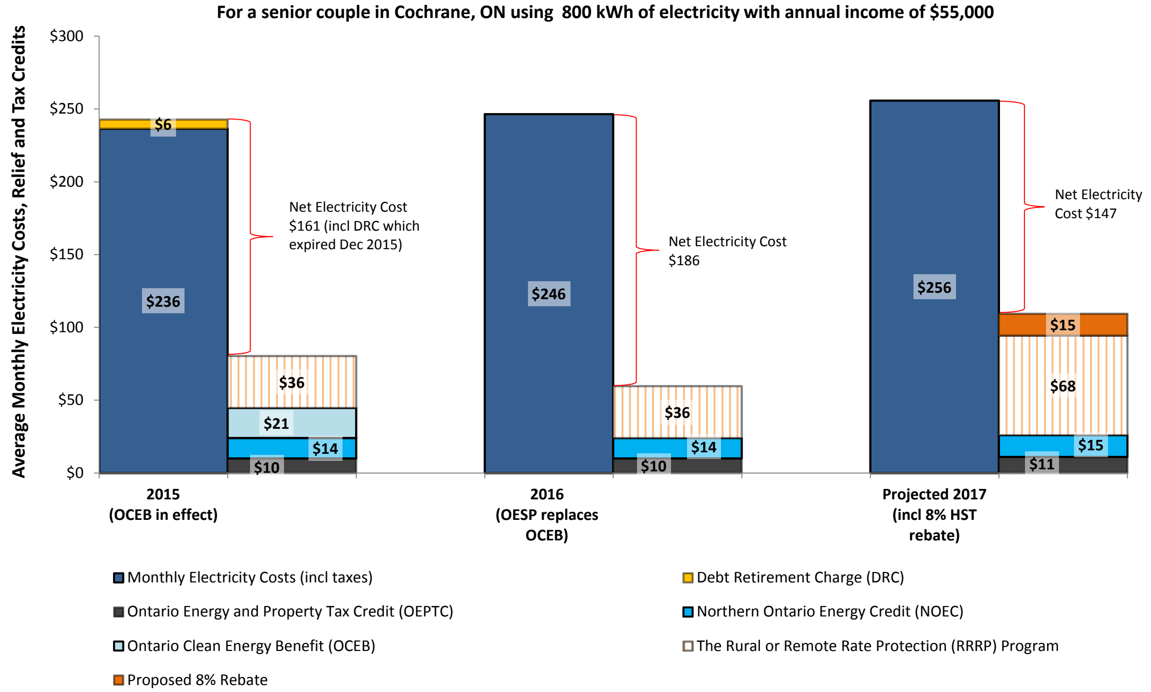
Commented [EK4]: OCEB doesn't appear in the legend.

Rural and Remote Senior Families will Receive Enhanced Support

Case Example 5: Impact of Electricity Relief and Tax Credits on Monthly Electricity Costs, 2015 - 2017

For a senior couple in Cochrane, ON using 800 kWh of electricity with annual income of $55,000



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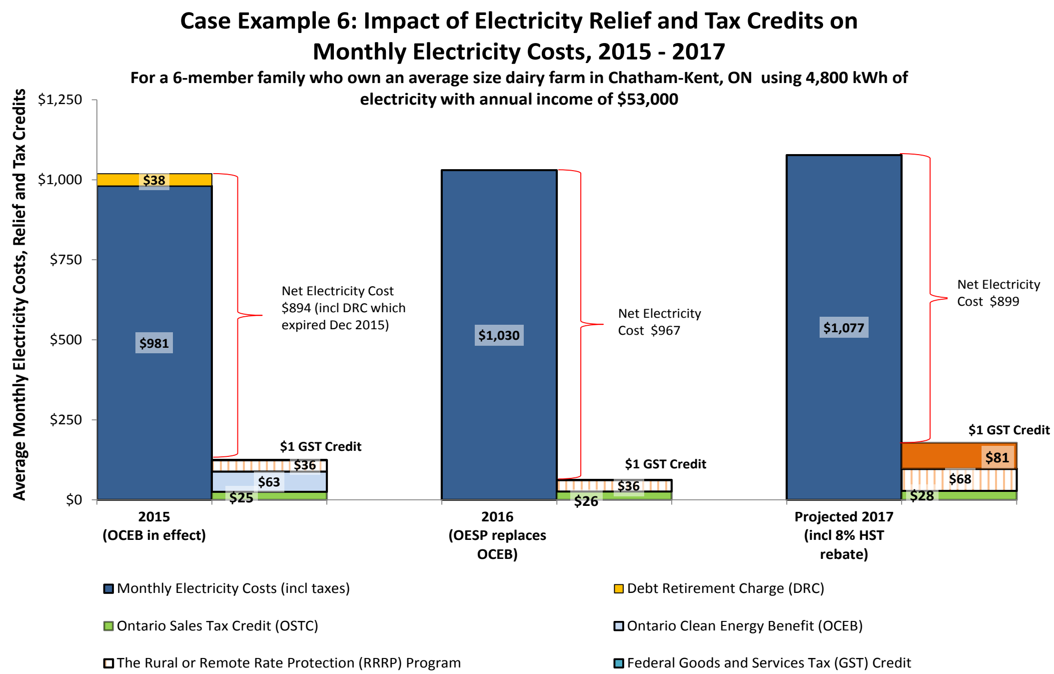

Source: Ministry of Finance / Ministry of Energy

NOTES:

1. This example assumes the family owns an average-sized dairy farm, which is not incorporated and files farm income under personal income taxes, in Chatham-Kent, South-western Ontario~~;~~, and pays about $2,000 in property taxes for their residential home.
2. The family is a client of the Hydro One Networks Inc. – Low Density (R2), making them eligible for Rural Or Remote Rate Protection (RRRP).
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- Effective January 2016, the government has introduced the Ontario Electricity Support Program (OESP).
    - The OESP provides ongoing, on-bill relief (up to $75 a month) for low-income electricity ratepayers who apply for the program.
- The government has recently announced its proposal to provide further support, including:
    - A proposed 8% electricity bill rebate reflecting the provincial portion of the Harmonized Sales Tax (HST), effective January 1, 2017, if passed by the legislature; and
    - A proposed enhancement of about $29 per month to the existing Rural or Remote Rate Protection (RRRP) program, also effective January 1, 2017, to be enacted by Regulation.

[1] Utilizing 750 kWh of electricity a month

Commented [EK5]: Should all programs be described in the background? E.g., the tax credits with an electricity component.

Commented [RK6]: $5.60 was based on the old monthly average consumption of about 800 kWh/month. If the decision is to now use 750, as per the OCEB example, then the DRC amount shown should be consistent.

Fair Hydro Investor Presentation Comments

Slide #	Reference	Comment
Disclaimers	Last par.	How will this presentation be used, and is it in conjunction with the offering memorandum? [MOF LSB]
Slide 4	Images	Consider removing the nuclear and large hydro images as the plan only covers costs fro~~r~~m renewables procurements, gas and conservation.
Slide 6	First bullet	Suggest using "proxy consumer" instead of "average" in this context, which would be more accurate and consistent with legislation as covered later in the presentation.[MOF LSB: Where is Proxy Consumer explained?]
Slide 6	Second bullet	Suggest changing “8% rebate in the provincial portion…” to “ 8% rebate equivalent to the provincial portion…”.
Slide 6	Third bullet	Language suggest that bills will increase back to status quo in 2021 – suggest adding language regarding increases back up to and past the status quo over time.
Slide 7	First bullet	Consider replacing the phrase starting from “in an amount…” with “in such an amount that the total OPG-held subordinated debt does not exceed 49% of all outstanding debt”, for clarity.
Slide 11	First bullet	Suggest rewording to the following: “As part of the restructuring of Ontario’s electricity industry under the Energy Competition Act, 1998, the municipal electricity utilities became municipally-owned business corporations, including local distribution companies (“LDCs”).” – Some LDCs continue to be municipally-owned, while others have been sold to or acquired by Hydro One or private-sector owners.”
Slide 14	Second bullet	Consider replacing “previously established regulated rate” with “regulated rate established in the first year of the Rate Reduction Period”.
Slide 14	Last bullet	Similar to comment on Slide 6 above, suggest referencing increases back up to and beyond status quo beyond the moratorium period~~over time~~.
Slide 15	Third bullet of Moratorium Period section	Consider adding in the words “in favour of the Trust” at the end of the bullet [IESO Security Agreement].
Slide 15	Last bullet	The $2 billion credit facility is provided by the Ontario Financing Authority, not the OEFC. Also, consider rewording so as not to suggest that the $2 billion facility is solely for “carrying costs”. Also, suggest that the last clause on security be a stand-alone bullet, not part of the OFA credit facility bullet, and should come before the other part of this bullet (i.e., become the third bullet of this section).

Slide 16	Second bullet	Consider rephrasing to align better with the offering memorandum and legislation.
Slide 16	Third bullet	Consider adding in the word “mainly” before “in respect of …” [see O.Reg. 206/17 section 5]. [MOF LSB: This is a defined term in the Act.]
Slide 16	Bill image	Consider removing as text description should be sufficient.
Slide 17	Second bullet	Consider replacing the words “dealt with” with “mitigated” to avoid suggesting that the risk is eliminated.
Slide 17	Number 2 in the process chart	Consider adding in the word “amount” at the end [O.Reg. 206/17 section 8(2)].
Slide 17	Number 6 in the process chart	Consider replacing the words “in a trust” with “in trust” [FHPA section 16(3)].
Slide 18	Chart	Consider adding explanation of readjustment amount.
Slide 20	Chart	Should the Province’s indemnity to OPG [& IESO] be referred to here? [MOF LSB] Also consider whether Management Agreement should be included? [MOF LSB]
Slide 20	OEB’s relationship with OPG in the diagram	Consider replacing “review of OPG Fees” with “review and approval of OPG Fees” to better align with the language in O. Reg. 206/17. Consider replacing “Management Agreement” with “Regulation”.
Slide 20	IESO’s relationship with the Fair Hydro Trust	Note that the Acknowledgement and Indemnity Agreement is made to the Indenture Trustee. Consider editing to avoid confusion.
Slide 20	Ontario Caption	Suggest just having “Province of Ontario” (i.e., omit “(Ministry of Energy)”) [MOF LSB: Agree, as MOF is also signatory to some agreements.]
Slide 21	"Suspension Notice"	May wish to consider noting in the sentence that post-suspension refinancing is covered by the guarantee. As this was something Torys made a point of including in the agreement for financeability, suggest including for investors.

Below is a track changes on slides 21 and 22

Change of Law Protection Agreement

Parties	• Province of Ontario ~~as Obligor~~ and (2) Indenture Trustee as trustee of the FHT, on behalf of Specified Creditors, ~~as Beneficiaries~~ and (3) OPG as Financial Services Manager (“FSM”)
Purpose	• Provides assurance to Specified Creditors ~~investors~~ that upon the occurrence of a Protection Event, the Province of Ontario will ~~have an obligation to make~~ pay~~ments~~ Approved Obligations on behalf of the Trust, with [limited rights of acceleration][NTD: Consider how to phrase acceleration issue].
Key Terms	• Term: Continues for as long as any obligations of the Trust that are secured under the

	Master Trust Indenture (MTI) remain outstanding [MOF LSB: Only if such amounts are covered by the Limited Guarantee] • Mandatory Payment: Upon the occurrence of a Protection Event, the Indenture Trustee has the right to require the Province to pay all Approved ~~o~~Obligations when due and payable • Priority of Payments: The priority of payments is governed by the waterfall provision under the MTI • Adherence Conditions: OPG as FSM is required to comply with certain conditions, including the delivery of an Adherence Compliance Certificate, prior to the issuance of debt which is to benefit from C~~c~~hange in ~~l~~Law ~~p~~Protection Agreement from the Province • Suspension Notice: The Province may deliver a suspension notice upon the occurrence of a program breach, a default in performance, or misrepresentation by OPG as FSM, and any new funding ~~after which date~~ funding obligations that are incurred after the date of a suspension notice will not have the benefit of the Change of Law Protection, ~~upon the occurrence of a program breach, a default in performance, or~~ ~~misrepresentation by OPG as FSM~~ [MOF LSB: Should the pre-approved refinancing provisions be referred to here?]
Protection Events	The occurrence of any of the following events: • The Legislature repeals (and does not replace on an equivalent basis) or amends the FHP Act or any portion thereof as in effect on the date hereof • The Legislature enacts or amends any other statute • The Lieutenant Governor in Council repeals (and does not replace on an equivalent basis) the regulations made under the Act or any portion thereof as in effect on the date hereof • The Lieutenant Governor in Council, a minister of the Crown, an official of the government or a board or commission all the members of which are appointed by the Lieutenant Governor in Council makes or amends any "regulation" (as defined in Part III of the Legislation Act, 2006) as in effect on the date hereof • The implementation of a change in the organization or structure of the IESO or Ontario's electricity market undertaken at the initiative of the Province or an entity controlled by the Province • A court of competent jurisdiction determines that all or a portion of the Act or the regulations made under the Act, is ultra vires or invalid in a way that adversely affects the ability of the Trust to adversely affects the ability of the Financing Entity to receive amounts in respect of its Investment Interest so that it can pay Approved Obligations when due and payable~~pay its obligations~~ in each case that adversely affects the ability of the Trust to pay its obligations when due and payable, taking into account any funds available in reserve accounts, any credit enhancement available and any reasonably expected potential effect of a true-up amount

Slide 23	Key Terms – Moratorium Period (bullet 3)	Consider replacing "(until May 1, 2021)" to "(until April 30, 2021) and up to July 31, 2021" [see section 21(4) of FHPA and section 9.1 of O. Reg. 206/17]. Consider removing "which will be offered, as regulatory assets, for transfer to the Trust in a subsequent period", since this is not expressly provided in the MTSA [also see section 16 of O. Reg. 206/17].
Slide 25	"Equity Subscription Agreement" line	Replace "Equity Subscription Agreement" with "Master Share Subscription Agreement" Remove reference to 'subordinated' in this sentence:"….the Province provides equity injections to OPG to purchase ~~subordinated~~ debt issued by the Trust" - Rationale: While the equity injection is expected to be used for subordinated debt, this isn't specified in the Master Share Subscription agreement.
Slide 28	Third bullet	Consider replacing "fit under the fair allocation curve" with "ensure reasonable alignment with fair allocation amounts". [see paragraph 1 of section 21(3) of FHPA].
Slide 31	Chart	The post-FHP bill should not follow the status quo trajectory between 2025 and 2028 – bill should be above status quo including rebates as the FAA is positive for those years (Fair Adjustment would be used to offset the majority of the CEA but the amount of the FAA would remain).
Slide 33	Acceleration Bullet	Should this reference cap in regulation? [MOF LSB]
Slide 36	First bullet	Consider removing references to "statutorily mandated". Remittances from IESO are mandated under s. 9.1 of O. Reg. 206/17.
Slide 36	Guarantor	Should this refer to a limited guarantee to make relationship clear? [MOF LSB]
Slide 38	Political Risk	Consider reviewing the characterization of the risk to align with the risk as described in the Agreements.
Slide 38	Third bullet	Please note reference to ability to disconnect service for non-payment by LDCs isn't fully reflective of the requirement, consider revising to be more reflective of the actual mechanism.