



## CABINET BRIEFING NOTE AND LRC RECOMMENDATION

Energy

### DRAFT Financing Global Adjustment

|                |               |               |               |             |              |              |
|----------------|---------------|---------------|---------------|-------------|--------------|--------------|
| Cabinet (info) | TB/MBC        | Cabinet       | Announcement  | TB/MBC      | Cabinet      | Introduction |
| Feb 15, 2017   | March 1, 2017 | March 1, 2017 | March 2, 2017 | May 9, 2017 | May 10, 2017 | May 11, 2017 |

### Summary of Proposal

The proposed legislation contains a variance from Cabinet direction, which is detailed in the ministry's variance memo and within this note.

#### Context for Decision:

This proposal follows Cabinet direction to the Ministry of Energy to take the necessary steps to implement electricity price mitigation initiatives that would provide additional rate relief to Ontario electricity ratepayers.

The proposed legislation enables approaches to fairly allocate the costs of the Global Adjustment (GA) amongst current and future electricity rate payers, and help the most vulnerable Ontarians through enhancements to electricity support programs through tax-base funding. To fully implement the initiative, the Ministry of Energy will be seeking future approvals for regulations identified in the proposed bill, while working to maintain existing public policy objectives such as: maintaining a reliable electricity system, Ontario's commitment to reducing the impacts of climate change and commitment to achieve greenhouse gas (GHG) reduction targets.

The proposed legislation:

1. Establishes a framework to finance a portion of the GA costs in order to reduce costs for ratepayers in the near term and spread the costs of the GA more fairly across ratepayers between July 1, 2017 and April 30, 2047:
  - July 1, 2017 to April 20, 2018, reduces after-tax electricity costs for specified consumers by 25%.
  - May, 1 2018 to April 31, 2022, electricity rates will be set by Order in Council (OIC) with the intention to keep increases in line with the Consumer Price Index (CPI) (See page 17- Fiscal Pressure)
  - May 1, 2022 to April 30, 2047, electricity rates will increase at a pace that ensures recovery of the accumulated debt, interest costs and

administrative costs, around 10% of total electricity costs. (See page 14- Future Impacts to Electricity Rates)

- Through the bill and subsequent amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, expanding the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO), to provide for appropriate oversight, putting in place appropriate payment, settlement and cost-recovery authorities for and through the IESO (including accommodating payments to and from any appropriate entity) to manage the deferred GA costs. (See page 19- OPG Mechanism)
2. Expands electricity support programs for the most vulnerable consumers and moves program costs from the rate base to the tax base. The bill amends the *Ontario Energy Board Act, 1998* to:
- Move the recently expanded Ontario Electricity Support Program (OESP) to the tax base, transition the program to be administered by the Crown, and to enable information exchange between the Ontario Disability Support Program to potentially allow for automatic enrolment procedures to be established;
  - Amends the Ontario Energy Board Act, 1998 to enable a broadening of the Rural or Remote Electricity Rate Protection (RRRP), including harmonizing distribution costs for customers with the highest distribution rates and moving the program to the tax base; and,
  - Amends the *Ontario Energy Board Act, 1998* to require the establishment of a government funded program to provide a delivery credit to prescribed on reserve customers.

#### Terms you need to know

- **Global Adjustment (GA)** – The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price, helping to recover fixed costs, including capital costs, of putting in place and operating Ontario's generation fleet, fixed generation costs, such as nuclear contracts, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.
- **Local Distribution Companies (LDCs)** – Local electricity utilities, responsible for distributing power from transmission lines to people's homes (e.g., Hydro Ottawa, Toronto Hydro, etc.)
- **Delivery charge** – The costs of getting electricity from generating stations to homes and businesses. Appears as one line on electricity bills, includes three components:
  - Transmission: The costs of moving electricity across high voltage lines from generating stations to the distribution system. This cost is recovered through a

variable charge that is approved by the OEB.

- Distribution: The costs of moving electricity from the transmission system to homes and businesses. Depending on the LDC, distribution costs makes up about 60% to 80% of the Delivery line. This cost is currently recovered through both a variable charge and fixed charge, approved by the OEB. Distribution rates are moving to a fully-fixed charge over next 5 years.\_
- Line Loss: The costs to recover electricity that is lost as heat when it is delivered over a power line.
- **Regulated Price Plan (RPP)** – Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Customer classification for Hydro One** – Customer service types are determined by the kind of electricity service as well as by density – how many customers there are in the area and the number of customers per kilometre of line. The more customers there are in the area, the lower the cost to serve. R1 customers are considered ‘medium density’ customers and R2 are considered ‘low density customers.’
- **Ontario Power Generation (OPG)** – A business corporation owned by the province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario’s electricity.
- **Ontario Energy Board (OEB)** – A Crown Agency that independently regulates Ontario’s electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to comment on various items.
- **Independent Electricity System Operator (IESO)** – An independent corporation and agency of the Ministry of Energy that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province’s transmission lines, including interties with other jurisdictions.
- **Class A Consumer** – Large commercial and large industrial consumers with average peak load size above 3 MW, subject to eligibility. Class A consumers pay GA based on their electricity consumption during the five highest peak demand hours during the year. On January 1, 2017 the threshold for Class A was lowered to 1MW for all consumer types.
- **Non-RPP Class B Consumer** – Commercial, institutional and small industrial consumers, typically with load size under 3 MW. Class B consumers pay GA as a volumetric rate applied to all electricity consumption. Class B consumers include those that choose not to become Class A.
- **Special Purpose Vehicle (SPV)** –
- **Security Interest** –

### Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. There has been increased media attention and public pressure for the government to provide ratepayer relief. On March 2, 2017, the Ontario government announced its electricity rate mitigation package, Ontario's Fair Hydro Plan, which included the initiatives contained in the proposed legislation. The government has committed to implement further rate relief measures by the summer 2017.

### What is the expected cost to government?

The total cost of the proposal is \$4.1B [TBC] in 2017/18, \$1,599M funded through the fiscal plan and \$2.5B to be funded through the electricity rate base.

| <b>TABLE 1: Cost Impact (\$M)</b>                                                 | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> |
|-----------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Moving Social Programs to Government-Funded (details provided in the chart below) | 499            | 753            | 829            | 892            |
| GA Financing                                                                      | 2,534          | 2,668          | 2,942          | 3,420          |
| OPG Loan / Share Purchase (i.e. equity injection)                                 | 1,100          | ?              | ?              | ?              |
| Cumulative Total                                                                  | 4,133          | 3,421          | 3,771          | 4,312          |

The proposed bill identifies OPG as the Financial Services Manager and would therefore take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from the IESO. The OPG would finance these purchases through a combination of an equity investment by the Province (\$1.1 B in 2017-18; See Table 1) and external private sector financing. The structure has been designed to increase gross debt of the Province (to finance the equity injection in OPG), increase interest on debt related to that external debt, increase net investment in OPG, and increase earnings of OPG. The equity investment has been structured so that the underlying regulatory asset will offset the additional debt to not impact the province's net debt.

The estimate for the combined impact of the non-Global Adjustment initiatives that would begin in 2017/18 is expected to be \$499M in 2017/18, growing to \$753M in 2018/19 and rising. This represents an additional pressure on the plan. These estimates are based on variable inputs such as program uptake and future energy consumption of various consumer groups, and are therefore subject to change.

| <b>TABLE 2: Fiscal Impact (\$M)</b>      | <b>17-18</b> | <b>18-19</b> | <b>19-20</b> | <b>20-21</b> |
|------------------------------------------|--------------|--------------|--------------|--------------|
| RRRP Enhancements*                       | 344          | 472          | 484          | 497          |
| OESP Enhancements                        | 140          | 261          | 325          | 375          |
| First Nations On-Reserve Delivery Credit | 15           | 20           | 20           | 20           |
| <b>Total</b>                             | <b>499**</b> | <b>753</b>   | <b>829</b>   | <b>892</b>   |

## DRAFT-WITHOUT MATERIALS

**\*Note:** Current regulatory framework calls for RRRP to increase by average distribution rate increase. Forecast assumes 2.6% annually though is subject to OEB proceedings. Fiscal projection is subject to consumer consumption patterns that may change due to extreme weather or other factors. Does not include Algoma Power or Hydro One Remotes, which would continue to be on the rate base.

**\*\*Note:** Value adjusted from \$665 million to reflect July 2017 implementation.

There is inherent risk in the financial estimates because the calculations are highly dependent on forecasts of the total consumption and bills of customers eligible for the RPP, the cost of borrowing, electricity demand and electricity market conditions and accounting assumptions. In addition, under the proposal, electricity prices would increase around 10% above forecast residential monthly bills from 2028 to 2047. The public may expect that the government is committed to reducing or holding constant the absolute cost of electricity for consumers in the longer term. Under the proposal, the government would not have the ability to direct further changes to the rate of repayment for GA refinancing, which would limit the government's options to address electricity rate concerns in the future. (See page 17- Fiscal Pressure)

### **What are the key steps to deliver this proposal?**

- May 11, 2017 - introduce legislation.
- Spring- Summer 2017- Energy to work with IESO, OEB, OPG, and LDCs on the implementation of the Fair Hydro Plan.
- Information postings of proposed regulations.
- June ?? 2017- Energy to bring regulations to TB/MBC.
- June ??, 2017- Energy to bring regulations to LRC/Cabinet.
- July 1<sup>st</sup>, 2017- the remaining Fair Hydro Plan reductions and programs would take effect. Programs that are not established on this day for technical implementation issues will have benefits that are retroactively applied to customers once program is operational in individual LDCs.

### **How will the changes be communicated?**

On March 2, 2017, the Premier made a high profile announcement of additional relief to reduce electricity costs for Ontarians. Coinciding with this event, there was news releases with backgrounders, a technical briefing of the media, a public education campaign to raise awareness of the rebates and initiatives in place to reduce electricity bills, and an Ontario website that includes all the programs and initiatives that the government is undertaking to reduce electricity costs.

Building on the previous announcements, on May 11, 2017, the Premier is to make a high profile announcement of the plans to introduce the necessary legislation to implement Ontario's Fair Hydro Plan to provide additional relief to reduce electricity costs for Ontarians.

Given the risk identified that the GA financing may have a fiscal impact, communication will need to be clear that the proposed draft legislation meets the legal, accounting and financial requirements to not have a fiscal impact.

## Notes and Recommendation from LRC

LRC item direct to Cabinet.

## Cabinet Office Analysis

The proposed legislation allows for the implementation of the main elements of Ontario's Fair Hydro Plan announced March 2 to provide further rate relief to Ontario electricity ratepayers. The Global Adjustment (GA) smoothing proposal will provide 25% in rate relief in aggregate (including the 8% announced in 2016) for eligible consumers of the Regulated Price Plan (RPP) between July 1, 2017 and April 31, 2018 ("The Fair Adjustment"). Electricity rates would then change by amounts prescribed in the regulations under the bill, with the intention to keep rate increases in line with Consumer Price Index (CPI) between May 1, 2018 and April 30, 2022.

Ontario produces and publishes a Long-Term Energy Plan (LTEP) every three to four years, with the next LTEP scheduled for release in the summer of 2017. LTEP principles that will guide decision-making are affordability, reliability, clean energy, community and Indigenous engagement, and conservation. Through extensive consultation with the public, stakeholders and Indigenous partners through the fall of 2016, the Ministry has identified key priorities, and, Ontario's Fair Hydro Plan combined with new policy or program announcements in the LTEP, will provide the comprehensive future planning perspective for Ontario's energy sector.

### 1. Refinancing the Global Adjustment

The proposed legislation establishes the framework to defer some of the current GA costs to future ratepayers by recognizing the longer term benefit of these assets to the electricity system (similar to extending and re-financing a mortgage). The methodology is based on the assumption that some generation assets are expected to continue to provide benefit to future ratepayers beyond the term of current contracts, and that future ratepayers are expected to continue to be able to utilize and benefit from these assets, and that they will also reduce the need to finance the development of new generation assets in the future.

Many of the contracted generation assets are expected to have useful lives that extend beyond the term of their current financial contracts (typically 20 years). Similarly, conservation costs are recovered through the GA on an annual basis while conservation initiatives can provide benefits to the electricity system over many years.

According to a legal opinion by former Supreme Court Justice Binnie, the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations leaves the process more susceptible to constitutional challenge and could jeopardize the nature of the clean energy adjustment being a regulatory charge, and risk it being deemed an unlawful tax. The bill has been drafted to mitigate this risk and clearly articulates the desire to fairly attribute intergenerational costs and benefits. In

addition the bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. (See page 16- Legal Risk)

Key elements of this component of the bill include:

#### Fair Adjustment

- July 1, 2017- April 30, 2018- the bill outlines an immediate 25% reduction in rates for eligible consumers in recognition of the investment in clean energy initiatives since 2005.
- May 1, 2018- April 30, 2022- the bill allows for rates to be set by regulation, with the intention that rates will increase in line with CPI over this time, consistent with government commitments. (See page 17- Fiscal Pressure)
- Ontario Energy Board (OEB) would calculate appropriate adjustments for “specified consumers”.

#### Clean Energy Adjustment

- Determined by Ontario Power Generation (OPG) as the Financial Services Manager, the clean energy adjustment is the amount that will be recovered from consumers in the future to pay principle, interest, transaction costs and administrative costs associated with the fair adjustment (regulatory/investment asset).
- Will be subject to true-up process that will reconcile actual amounts collected with expected amounts.
- May 1, 2022- April 30, 2047- to be invoiced to consumers and collected as part of the electricity bills through existing Independent Electricity System Operator (IESO) and Local Distribution Companies (LDC) processes.
- In accordance with the regulations, the OEB to set the rate at which “specified consumers” are invoiced to recover the clean energy adjustment.

#### Fair Allocation Amount

- The fair allocation amount is calculated by the Financial Services Manager consistent with the principles of the bill.
- Established for the purposes of allocating the costs of the clean energy initiative to provide inter-generational fairness to rate payers; and aligning funding obligations that may be incurred during each reference period (typically every 6 months).
- Provided to the Minister of Energy who will ensure that the information is made public in an appropriate way.
- Principles established in the bill require proper match over time between the costs of providing facilities for clean electricity generation and conservation and

the consumers who benefit from these investments in the system. (Page 16- Legal Risk; See page 17- Fiscal Pressure)

#### Financing Plan

- Prepared by the Financial Services Manager to determine if potential funding obligations should be incurred to acquire an investment interest in accordance with the bill.
- Provided to the Minister Energy who may remove the Financial Services Manager if the Financing Plan is not consistent with the principles of the bill and the Financial Services Manager has been given the opportunity to address the Minister's concerns.
- May be amended as determined by the Financial Services Manager.
- In practical terms, the Financing Plan is intended to show how debt (with varying degrees of incurrence dates, maturities, interest rates) will be used over time.
- The OEB would review the administrative costs of the Financial Services Manager.

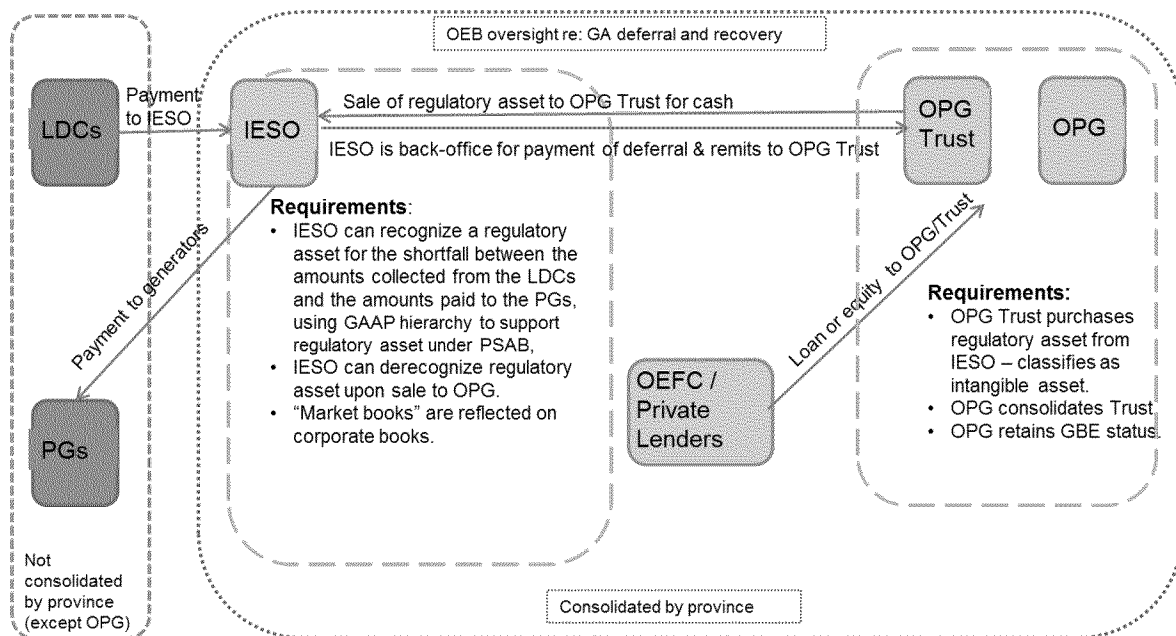
#### Regulatory Asset and Investment Asset

- Regulatory Asset created as IESO incurs a funding shortfall equal to the difference between the rates it receives after the implementation of the Fair Adjustment and the amounts owed under generation and conservation contracts (i.e. the comparison rate minus rates after fair adjustment).
- Subject to OEB approval, IESO would record the funding shortfall as a regulatory asset. IESO would also have collection rights to recover the funding shortfall, which may be sold. Collection rights are deferred until May 1, 2022.
- The Financing Plan contemplates the Financial Services Manager establishing financing entities (OPG Trust/Special Purpose Vehicle (SPV)) to buy the regulatory asset and the associated rights in exchange for a payment to the IESO. IESO would use the payment to offset the funding shortfall.
- This purchase and sale turns the regulatory asset into an investment asset. The transfer includes the rights to collect amounts related to the clean energy adjustment in a manner consistent with the bill.
- The investment interest owner may further sell all or a portion of its rights and interests including by dividend or undivided interest, consistent with the Financing Plan. An investment interest owner may also grant a security interest over all or a portion of its right, title and interests to secure a funding obligation.
- After 5 years (May 1, 2022) the IESO has the rights to collect its funding shortfall from ratepayers in the event that a portion of the regulatory asset is not bought and sold. (See page 17- Fiscal Pressure)

- The rights associated with the investment asset require IESO and LDCs to collect money from rate payers as agent of the investment asset owner.

#### Crown Undertaking (Guarantee or Backstop)

- The Crown would undertake not to do anything to adversely affect an investment asset or funding obligation, including hinder, impair, prejudice the charging, collection or remittance of the clean energy adjustment.
- The Minister of Energy, with LGIC approval, may enter into agreements for compensation with any person in respect of the bill.
- The Minister of Finance, with LGIC approval, may agree to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.



**Note:** Proposed structure is subject to legal and accounting confirmation, absent that confirmation, there would be a fiscal impact to the province.

The bill establishes a structure in which the IESO records the GA cost recovery deferral is recorded as a regulatory asset (regulated by the OEB), supported at its foundation by the fact that the refinancing of the GA is not a reduction in the GA, but rather a deferral to be collected at a future time ("The Fair Adjustment"). Eligible consumers would receive a 25% reduction in electricity rates from July 1, 2017 to April 30, 2018. The IESO may then sell the regulatory asset, at which time it becomes an investment asset. The investment asset owner (OPG Trust/SPV or trust "financing entities") may then further sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation.

Under the proposed framework, OPG, acting in its role as the "Financial Services Manager", and following the principles in the bill, would regularly calculate the "Fair

Allocation Amount” to ensure a proper match of the allocation of the intergenerational costs and benefits. To recoup the costs associated with the fair adjustment, consumers, starting in May 2022 would be invoiced the “Clean Energy Adjustment” on their electricity bills through existing IESO and LDC processes. The OEB would set the rates at which the clean energy adjustment could be collected.

OPG is planning to create a SPV or Trust to finance the GA. The SPV/Trust will be consolidated by OPG, giving OPG the appropriate powers to impact its exposure to variability of the income in the SPV/Trust. The variability will likely largely result from the financing of the SPV/Trust, and therefore OPG will have the ability to direct the financing of the Trust and both benefit from its financing strategy and be at risk as a result of it.

OPG Trust/SPV will ultimately take on the risk and responsibility of financing the deferral through debt financed from OPG and external sources. OPG’s debt would be funded through a combination of an equity investment by the Province (See Table 1 on page 4) and external financing through a securitization of the investment asset. The structure would result in increased gross debt of the Province (to finance the equity injection in OPG), increased interest on debt related to that Provincial debt, increased net investment in OPG (to offset the Provincial borrowing for no net debt impact), and increased earnings of OPG. The proposed structure is expected to result in: (1) increase in provincial gross debt offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province.

The legislation commits the government to backstop the financing if the government were to ever hinder the collection of the clean energy adjustment including revoking or changing the legislation or regulations. In other words, the OPG and its debt holders would have their capital guaranteed and paid for directly by the Province if such a situation were to occur. The potential cost to government associated with providing this type of guarantee and the cost of borrowing from private lenders is unknown at this time, but could be as high as \$1-1.5B annually [TBC]. It should be noted that the external borrowing by the OPG Trust will be at a higher interest cost than Provincial borrowing costs, which would affect the carrying costs that would need to be recovered from ratepayers in the future.

The proposed structure has been extensively reviewed by KPMG (Energy advisor and IESO auditor), and the firm has provided an accounting opinion confirming the validity of the structure under PSAB [TBC]. This opinion can be made public [TBC] to support the governments rational for the plan. In addition, MAG and Blakes are confident that the structure is constitutionally sound, but that this will depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism. Based on the current analysis there is a moderately high risk that the GA financing will have a fiscal impact on the Province before 2022.

For clarity: the following structural requirements have been met: [TBC]

- IESO requirements :

- IESO can recognize a regulatory asset for the shortfall between the amounts collected from the LDCs and the amounts paid to the PGs using GAAP hierarchy to support regulatory asset under PSAB;
  - IESO can derecognize regulatory asset upon sale to OPG;
  - “Market books” are reflected on corporate books; and,
  - OEB to act as regulator.
- OPG requirements:
    - OPG Trust/SPV purchases regulatory asset from IESO – classifies as intangible asset;
    - OPG consolidates Trust/SPV; and
    - OPG retains GBE status.

However, despite the fact that the structure has satisfied the legal, fiscal, and accounting requirements outlined in the policy submission, there remain some fundamental risks that the province would need to accept:

- The structure is unique in Canada and possibly the world, which increases the risk or unknown factors impacting its performance. The use of securities mechanisms to address debt is more common in the United States, but officials are currently unaware of any example that would compare to the size, complexity, or fluidity of what is proposed;
- Complexity of the structure and length of deferral/recovery increases risk and decrease transparency;
- Government would have no ability to control electricity prices resulting from these changes outside of recourse to the fiscal plan;
- Government would not know the price of private borrowing that would be required for the OPG Trust to work and will have limited control over OPG’s direct operations as the Financial Services Manager. While removal of the Financial Services Manager is provided for in the bill, in practice this may prove problematic once the system is operational; and
- Private lenders and rating agencies may disagree with the assessment of the size of the Fair Allocation Amount which would increase the risk of the asset and therefore its saleability. Could decrease amount of rate reduction achievable under this mechanism.

## **2. Enhancing electricity supports for vulnerable Ontarians and shifting costs from rate payer funded to government funded:**

### Moving the Ontario Electricity Support Program (OESP) to the tax base:

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills. The program was launched in January 2016 and has had roughly 30% enrolment. Consistent with Cabinet direction, the program was recently expanded to increase the existing benefit scales by 50% and provide additional credits to more households.

Under the expanded program the basic OESP benefit scale increased from \$30-\$50 to \$45-\$75 a month and the enhanced OESP benefit scale would increase from \$45-\$75 to \$68-\$113 a month for eligible consumers.

The proposed bill amends the *Ontario Energy Board Act, 1998* to allow for the program to transition from the rate base to the tax base, and become administered by a Ministry or other entity as may be prescribed. The cost to the fiscal plan would be \$186M in 2017/18. The bill provides further amendments designed to allow information sharing between the Ontario Disability Support Program (ODSP) and the entity responsible for OESP. The intention is that this information sharing will allow for the automatic enrolment of individuals that are already enrolled under the ODSP, but it is currently unknown to what extent this will significantly impact the enrolment under the program.

#### RRRP Enhancement (Delivery Charge Relief):

Currently, RRRP is a \$241.9M program paid for by the ratepayers. For an average residential customer, the cost of supporting RRRP is roughly \$1.58 per month. For other customers, the cost to support the RRRP can range from \$65 for a greenhouse to \$8,000 for a medium industrial. RRRP helps to offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations all across the Province, including Hydro One R2 customers. The delivery charge includes a distribution cost, which can vary across LDCs, and distribution costs are highest for Hydro One R2 and R1 (medium density) customers.

There are also some LDCs with relatively high distribution costs that, when coupled with high consumption patterns, can result in very high bills for consumers (Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma).

In 2016 the OEB made a ruling that all LDCs need to move to fixed distribution charges. The OEB found that fixed distribution charges would establish a fairer way to recover the costs of providing distribution service, and provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a distribution rate protection program and the ability to cap the distribution charges of prescribed distributors. The amendments also establish that this program will be funded by the tax base.

The intention is to draft regulations permitted under this section of the bill to Harmonize the fixed distribution rates to the lowest distribution cost of the LDCs mentioned above at \$38/month (which is the forecast rate for Northern Ontario Wires). If the costs of another LDC moved above these in the future, a regulation change would be required for that LDC to receive RRRP. These enhancements are expected to benefit approximately 800,000 customers in Ontario.

Targeted RRRP consumers would see additional savings on their monthly bill that would vary based on their consumption level and cost to fiscal plan would be \$344M in 2017/18, \$243M of which is a transfer of existing programs to the tax base. If the legislation and required regulations are passed, the program would become active as of July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1<sup>st</sup>.

#### On-reserve First Nations Delivery Credit

First Nation and Political-Territorial Organization leaders have advocated for the need for electricity rate relief for on-reserve customers and the review of delivery charges associated with transmission and distribution within the context of historical grievances. In this instance, historic grievances relate to lands affected by energy developments.

The proposed bill amends the *Ontario Energy Board Act, 1998* to require the creation of a tax base funded delivery credit program for on-reserve customers with the details as prescribed in the regulations. The intention is to enact regulations that would eliminate the delivery charge for all on-reserve First Nation household customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Eligible recipients would be automatically enrolled in the program (~21,500 customers) and receive an average monthly benefit of \$85. The program will cost approximately \$20M annually and, provided the legislation and regulations are passed, would become effective July 1, 2017. It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1<sup>st</sup>.

#### Expected Impacts of the Proposal on Electricity bills:

The impact of proposed legislation to an eligible customer's bill in July 2017 is a 25% decrease (combined with the 8% from ORECA effective Jan. 1, 2017), followed by an increase in price over time. This includes the 8% rebate that came into effect on January 1, 2017. Between May 2018 and April 2022 electricity rates will be set by regulation with the intention that rate increases would be kept in line with CPI. Customers that are eligible for the RRRP enhancements and the OESP will see further reductions in their electricity rates beyond the 25%

## DRAFT-WITHOUT MATERIALS

| Residential (750 kWh/month)          | Actual 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------------|-------------|------|------|------|------|------|
| Total Bill (includes HST)            | 158         | 164  | 167  | 170  | 181  | 178  |
| Total Bill (excludes HST)            | 140         | 145  | 148  | 150  | 160  | 158  |
| Impact of GA Financing               |             | -26  | -26  | -26  | -32  | -28  |
| Impact of Tax-Basing Social Programs |             | -2   | -2   | -2   | -3   | -3   |
| Subtotal                             |             | 117  | 120  | 122  | 125  | 127  |
| 8% rebate                            |             | -9   | -10  | -10  | -10  | -10  |
| HST                                  |             | 15   | 16   | 16   | 16   | 17   |
| Revised Bill (includes HST)          | 158         | 123  | 126  | 128  | 131  | 133  |
| Year-over-Year Change                |             | -22% | 2%   | 2%   | 2%   | 2%   |
| Change from Forecast                 |             | -25% | -25% | -25% | -28% | -25% |

| Commercial & Small Industrial (\$/MWh) | Actual 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------------------|-------------|------|------|------|------|------|
| Class B Total (excludes HST)           | 160         | 165  | 160  | 162  | 173  | 169  |
| Class B Revised Total (excludes HST)   | 160         | 162  | 157  | 159  | 170  | 166  |
| Year-over-Year Change                  |             | 1%   | -3%  | 1%   | 7%   | -2%  |
| Change from Forecast                   |             | -2%  | -2%  | -2%  | -2%  | -2%  |

| Large Industrial (\$/MWh)            | Actual 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------------|-------------|------|------|------|------|------|
| Class A Total (excludes HST)         | 90          | 91   | 93   | 88   | 95   | 96   |
| Class A Revised Total (excludes HST) | 90          | 88   | 90   | 84   | 92   | 93   |
| Year-over-Year Change                |             | -2%  | 2%   | -6%  | 9%   | 1%   |
| Change from Forecast                 |             | -4%  | -4%  | -4%  | -4%  | -4%  |

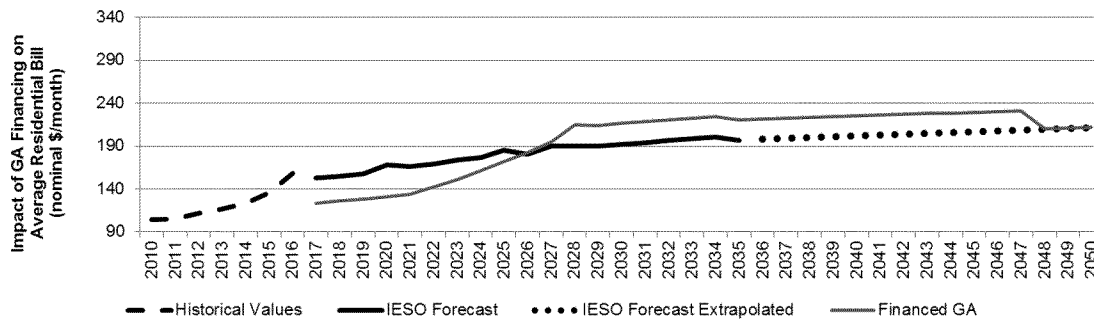
**Notes:** Based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer. Above Class B estimate based on a 1 MW customer connected to Toronto Hydro, assumes delivery charge escalates as per residential forecast. "Social programs" refers to existing RRRP and OESP. While initiatives would take several months to implement, the above estimate for 2017 reflects a full-year impact. The 8% rebate above represents savings compared to status quo due to the reduction in the sub-total from GA financing.

### Risks and Considerations:

#### Future Impacts to Electricity Rates

Borrowing money to defer GA costs for ratepayers would lower costs in the short term but result in substantial debt and higher electricity prices in the future. Based on the GA deferral portion of the plan, electricity prices would increase to about 10% above the actual cost of electricity over the recovery period (peaking at 13%). The proposal may create the expectation that the government is committed to reducing or holding constant the absolute cost of electricity for consumers. Under the proposal, the government would not have the ability to control this portion of electricity rates in the future outside of recourse to the fiscal plan.

## DRAFT-WITHOUT MATERIALS



**Notes:** Assumes 30 year financing period and a nominal interest rate of 5% (compounded monthly). Ratepayer GA payments increase annually beyond 2021 such that the average monthly residential electricity bill increases by 6.5% per year with a limit of \$2.2 billion above the true cost of GA in any given year to cap repayment charges at a maximum of 13% of total bill. IESO forecast is based on IESO's revised OPO forecast as of February 2017. Includes the cancellation of LRP II and EFW, expansion of ICI. Does not include smoothed OPG rates. Above residential bill is based on a 750 kWh per month Toronto Hydro customer.

The government may be criticized for creating a new debt structure which could be compared to the previous debt retirement charge (DRC). The previous debt retirement charge was removed from residential bills in January 2016 and is scheduled to be removed for remaining customers in April 2018.

Future repayment cost estimates are based on a static interest rate of 5%, and forecast electricity market conditions and demand levels. Declining demand levels due to conservation, technology adoption, and self-generation would increase the costs borne by remaining customers to decrease the debt associated with GA financing. This would increase the risk that the province would have to absorb some of the debt in the future. To mitigate against the risk that increased self-generation poses, the bill provides that the Clean Energy Adjustment may not be "set-off". In other words, it would exist as a separate and distinct component of the bill that could not be reduced by methods such as net-metering.

Not all generating assets will continue operations at the end of their contract. If the Fair Allocation Amount is not properly designed, future rate payers will be paying the cost for assets that are no longer in use, which would be unconstitutional (See page 16- Legal Risk). High capital costs, equipment obsolescence or surplus capacity / low demand conditions mean that some generators will shut down at the end of their contract. Future ratepayers would be paying for these assets that no longer produce power in paying down the deferred GA and accumulated interest costs.

### Accounting and Provincial Credit Rating and Borrowing

The significant amount of additional provincial borrowing needed to refinance the GA and associated risks and fiscal costs (interest rates, repayment timelines) could put pressure on the Province's credit rating and overall borrowing capacity.

The complexity of the structure and length of deferral (i.e., recovery of debt) increase the overall risk of the proposal and decrease transparency to the public. The structure of the GA deferral was designed to result in an (1) increase in provincial borrowing (2) no increase in net debt, and (3) no impact on annual surplus/deficit. However, depending

on funding to OPG/ OPG Trust from the Province, an increase in interest on debt and an increase on income from OPG will result. The structure is also contingent on the size of the GA deferral that is seen as possible, which, as previously mentioned, increases the likelihood of pressures on the fiscal plan in the near future. (See page 17- Fiscal Pressure)

Rating agencies and investors in the Province's debt may view all of the borrowing (whether by the Province directly or the OPG Trust) as an obligation of the Province. Depending on the magnitude of the debt incurred, the Province's borrowing cost may be impacted.

The Ontario Auditor General (OAG) has been briefed on the proposal and has had access to the March 1, 2017 policy submission for the Fair Hydro Plan. While the auditors of OPG and IESO have provided their assessments and the Office of the Provincial Controller Division (OPCD) has been engaged, the OAG has historically raised concern with "rate regulated accounting" and may take this into account when the provincial books are audited (i.e., it may impact whether the OAG qualifies the provincial books).

Based on early assessments, only a maximum of 18% rate relief [TBC] can be justified by amortizing contracts over the useful life of the underlying assets. Reducing electricity rates up to or beyond this amount is dependent on increased borrowing. All of the deferral is dependent on increased borrowing. The 18% referenced here is the limit based on review of the contracts and a Eurig assessment and also includes the 8% reduction that was already provided.

#### Legal Risk – constitutionality of financing the GA

The current GA amount paid by consumers is a regulatory charge. One of the requirements of a valid regulatory charge (as opposed to a tax) is that the person paying the charge either benefits from the regulatory scheme or causes the need for regulation. In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a low risk of being a tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.

Former Supreme Court Justice Binnie has provided legal analysis of this proposal, stating that the amount that could be financed would need to reflect the true value of the underlying assets being amortized over a longer period of time. Shifting too much of the current GA costs to future generations could jeopardize the nature of this being a regulatory charge.

A proposal for refinancing the GA that appears to cross-subsidize near-term consumers at the expense of long-term consumers by back-loading costs more than if costs were spread equally over the estimated lifespan of generation and conservation assets presents a moderately high risk (more likely than not) of constituting a tax. If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30 year period, or if the GA charge is in the opinion of the Court disproportionately backend loaded, the GA will not qualify as a regulatory

charge (and would be characterized as a tax). Were the charge characterized as a tax, in the event of a challenge, it would be struck down by a court as unconstitutional and consumers would be entitled to recover their payments. This risk could be eliminated, either up front or retroactively, by the imposition of a valid tax.

The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities. By shifting costs to the 20-30 year customers, the government may in reality be disproportionately back-end loading the GA with the effect that the 20-30 year consumers will be subsidizing the 1-20 year consumers. In short, the bigger the reduction in charges to current consumers, the greater the constitutional risk.

The bill has been drafted to mitigate the constitutional risk of the proposal and clearly articulates the desire to balance the costs and benefits of assets across generations. The bill includes provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court. In addition, external consultant Navigant has provided an interim report on the costs and benefits of the long lived assets which supports the previous conclusions regarding the size of the GA deferral that would be supportable. This is further supported by the conclusions of OPG's independent analysis of the question.

MAG and Blakes are confident that the structure is constitutionally sound, but, as identified above, that this will highly depend on the size of the GA deferral attempted. MAG is confident that the initial fair adjustment is achievable and justifiable, but that this risk increases in the proceeding four years, and may impact the ability to fulfill the commitment to keep increase in line with CPI by this mechanism.

In addition, the structure of the GA refinancing means that the infrastructure included as part of the clean energy adjustment (i.e. amortized over 30 instead of 20 years) will need to be in service over the entire 30 year amortization period or provide benefits to the system in some way over the whole period. In practice this may mean that the government will have limited ability to alter the generation mixture included under the clean energy adjustment, including natural gas generation facilities, which may at some point be seen as inconsistent with the province's commitments to reduce greenhouse gasses. This risk has been mitigated in the bill, by allowing for prescribed natural gas generation contracts to be excluded from the clean energy benefit calculation.

### Fiscal Pressure

This proposal aligns with the 2017 Budget fiscal plan, but involves significant ongoing risks. The proposal does not include a scheduled review period or an end date, resulting in an ongoing fiscal pressure, which may increase in the out years, and could only be removed by a legislative amendment.

The cost projections in this proposal are highly sensitive to interest rates and other assumptions:

- The proposal assumes GA refinancing does not have a fiscal impact because the associated legal authority and accounting treatment requirements are met. If the costs of GA refinancing were accounted for as an expense to the fiscal plan, the fiscal impact would be significant.
- The term and timing of the GA refinancing are highly dependent on the IESO's forecast of GA costs and actual interest rates.

The extent of fiscal pressures is also dependent on other factors (i.e., OAG could qualify Ontario's books or issue an adverse opinion). Due to the complexity and size of the proposal, the government has commissioned external opinions on the legal, fiscal, and accounting requirements. Energy's advisor and IESO auditor, KPMG, has provided an accounting opinion that the principles of the structure are sound, and this opinion can be released publicly when desired. This opinion may not change the likelihood of a contrary opinion by the OAG, but does provide a tool for government to point to in justifying its decisions.

There is also a risk that credit rating agencies and the market may take an alternate view as to the size of the GA deferral that is possible before becoming unconstitutional. If the Fair Adjustment exceeds this analysis, it may increase the perceived risk of the investment asset and therefore its saleability, which would result in reduced market uptake and reduce the amount of near term rate reduction that would be achievable under the plan. This is why the increases in electricity rates between May 2018 and April 2022 are to be set by regulation as opposed to legislating that they increase by CPI. It may not be possible to legally hold the rate reductions to increase by CPI, and if the government wanted to hold to this commitment, the difference would need to come out of the fiscal plan, which has not been forecasted. Each percentage point of reduction that the structure cannot provide would result in an approximate \$150M [TBC] cost to the tax base. This has not been provided for in the bill, but it is likely that the government will receive questioning along these lines and why the previously committed CPI increases are not explicitly stated in the bill.

There may be also some criticism that additional fiscal pressure and risk is being taken to benefit some customers that are not in as much need of rate relief as others (i.e., those that own second homes or cottages).

#### Legislative Officers

The Ontario Auditor General (OAG) has expressed views on rate regulated accounting, which will likely be raised again upon the announcement of this suite of initiatives. The OAG was provided copies of the Cabinet Submission seeking policy approval for Ontario's Fair Hydro Plan and has been briefed by officials from the Ministry of Energy. The OAG will have opportunities to publicly state her views through the Public Accounts committee in the summer of 2018 and in her pre-election report.

The Financial Accountability Officer (FAO) has not been consulted on this proposal and is expected to have an opinion on how this proposal may impact the state of the province's finances.

### OPG Mechanism

- Accountability
  - Bill attempts to balance the independence of the OPG trust with regulatory oversight and the market's need for certainty in recovering the GA financing that it provides.
  - Accountability to the government or the public, amount of government control of the entity, including future rate increases.
- New structure
  - Structure is complex, involving:
    - IESO as originator of the regulated asset and responsible for flow of funds;
    - OEB as regulator of the new mechanism;
    - OPG responsible for financing and managing the mechanism; and
    - The Province providing ongoing equity capital infusions to OPG and backstop.
  - Addition of financial agency to current operational obligations of OPG – not the current expertise of OPG. However, OPG has experience managing large financial assets and liabilities through the jointly managed Ontario Nuclear Funds as well as its own pension fund. In addition, could possibly dilute OPG's focus on current high priority responsibilities (i.e., electricity generation and nuclear refurbishment).
  - This financing structure would be unique to Canada – uniqueness reduces likelihood of all risks being known/mitigated. Highly specialized expertise would be required.
  - Connection to BPS compensation framework/lack of national comparator.
  - Unknown transaction, admin, consultant costs. OEB would review OPG's cost as the Financial Services Manager
- Debt
  - Opportunity for significant shifting of the Ontario's electricity sector over the lifespan of the repayment (30 years). Through sector/policy/government position shifting, possibility of new entity/structure abandoning debt and Ontario having to take a write down.
  - Risk transfer / portion of debt that Ontario would be responsible for would be the higher risk portion.
  - Repayment plan and impact on rate payers highly dependent on interest rates
- Public perception/reaction (could be seen as similar to the process preparing Hydro One for IPO).

### Program Design and Implementation

The proposal relies heavily on LDCs as a partner for implementation. Many of these changes will need to take place simultaneously and amongst the 70 LDCs in Ontario there is variety in size, efficiency and ability to implement change.

- Program design will require an evaluation of whether the existing programs are effective and achieving their outcomes (e.g. the OESP has a current uptake of 30% and program changes are proposed in advance of an increased effort to reach 100% uptake)
- The OESP matrix no longer follows the Low Income Measure (LIM) which creates inconsistencies between how programs are applied and may put pressure other provincial programs to increase funding amounts.

### Benefits for all Consumer Classes

The Fair Hydro Plan includes some benefits for all consumer classes as well as targeted benefits to those with the greatest need. It is likely that the government will be criticized for providing benefits to those who may not be in need (e.g., wealthy cottage communities, etc.).

### **Stakeholder Considerations:**

General public (including residential and small businesses) – Likely support a proposal that is projected to provide up to 25% in rate relief (including the 8% announced in 2016) and other targeted relief for vulnerable Ontarians, but likely to question the longer term implications. Some individuals and organizations will perceive the GA smoothing as unduly burdening future generations. Ability of the public to understand current and recent changes will heavily depend on government communications.

Large Industrial and Commercial Consumers – Will continue to be concerned with the impact of cap and trade on electricity prices and the commitment in the Climate Change Action Plan to use GGRA funds to “keep electricity rate affordable”. Will likely respond positively to the recent changes to expand ICI eligibility to some manufacturing and greenhouse Class B customers, but may be more neutral the remainder of the initiatives.

The impact of cap and trade has been added to electricity bills as of January 2017. Class B consumers have raised concerns about the cost of electricity and its impact on their business competitiveness. Although Class A electricity consumers have access to ICI, they are also concerned about the impact of cap and trade on their electricity costs. They are expecting that GGRA funds will be used to mitigate their costs. There is an expectation government is going to take specific action to mitigate their increases due to Cap & Trade, and given the initiatives proposed in this submission, there is no plan to provide further relief through the Greenhouse Gas Reduction Account. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide some saving to both Class A and B consumers.

Tenants – Likely to support any future price mitigation measures that directly benefit them; likely to react negatively if no mitigation measures target them.

Northern communities – Likely to support the targeted RRRP delivery relief.

Indigenous communities – First Nation members who live on reserves are likely to support the proposal because of the targeted delivery relief. Other Indigenous communities (i.e., Métis, non-status, First Nations without reserve land bases) are likely to react negatively at being excluded from the delivery charge relief.

eNGOs – May react negatively towards any price relief that is not directly tied to energy conservation. May criticize the inclusion of natural gas electricity generation as part of the “Clean Energy Adjustment.”

Solar PV sector – May react negatively to price relief as it can be seen to undercut the affordability of distributed renewable generation assets such as solar PV, and undermines the economic arguments behind net metering.

LDCs – Have expressed the need for an additional tool to provide assistance to their customers who are having difficulty with their electricity bills.

### **Delivery:**

If passed, the legislation will enable the price mitigation measures to begin to take effect on July 1, 2017. The 2017 LTEP will be released to the public in the summer 2017 and would reinforce/integrate with Ontario’s Fair Hydro Plan. Regulations are required under the major components of the legislation in order to fully implement the initiative and clarify program details.

### **1. Refinancing Global Adjustment assets in order to defer ratepayer costs / Mechanism to defer GA costs**

Consumers will see an immediate reduction of their electricity bills as of July 1, 2017. The establishment of the regulatory asset and purchase by OPG is expected to take three to six months to implement following the introduction of enabling legislation.

### **2. Enhancing Social and Conservation Programs**

#### OESP Enhancements

New OESP program details would require TB/MBC approval.

Changes to regulation will be required to establish and define the parameters for the proposed changes. The financial flow-through mechanism would likely be modeled after processes used for the OREC (8% rebate). The amendments made in this bill allow for a transition period where the program continues to draw on the existing IESO variance account until the account can no longer maintain the program. IESO is required to notify the Ministry of Energy when it expects the variance account to be depleted (likely sometime in the fall). At this time

The proposed changes will take time to implement as they would require changes to the central system and the LDCs' billing systems. The OEB and their central service provider will need to work with LDCs, MOF, and the CRA on the changes to this program (delivery mechanism, funding source, application system, eligibility).

#### RRRP Enhancement

Regulations would be required to establish the details of the program. OEB estimates that the implementation would take at least six months after finalizing regulations. For this reason it is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1<sup>st</sup> which will put an immediate pressure on the OEB and LDCs as implementation is required no later than October 1, 2017. A mechanism will need to be created to ensure that all parties are aligned in the yearly forecasting and costing of the program.

#### On-Reserve First Nations Delivery Credit

The OEB would need to work with the LDCs to identify the eligible on-reserve consumers. A communications plan could include public release of the OEB report and a commitment to working with the LDCs on implementation details.

It is possible that for technical reasons not all LDCs will be able to implement the changes required under the program in time for the July 1 effective date. In these cases, the bill dictates that, once the changes have been made (required by October 1, 2017 at the latest), the LDC would provide a lump sum credit to customers that would otherwise have been eligible for benefits under the program starting July 1<sup>st</sup>.

Once available, the rebate would appear on customer's electricity bills as a reduction in, or credit for, their delivery line.

There is a risk that either non-status Indigenous communities without reserves or Metis could challenge the program on the grounds that it discriminates against them contrary to section 15 of the Charter. This risk is mitigated by the ameliorative purpose of the program and because targeting First Nations communities for a reserve-based program corresponds to the distinct circumstances of reserve-based communities, relative to other Indigenous communities. A genuinely ameliorative program that targets some people but excludes others is shielded from a section 15 challenge if it serves or advances the ameliorative goal.

#### **Linkages:**

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer-fall 2017. These plans identify needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The Ontario Rebate for Electricity for Electricity Consumers Act, 2016, (ORECA) put in place an 8% rebate for residential, small business customers and farms beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB expired on December 31, 2015.

Debt Retirement Charge – On January 1, 2016 the government ended the electricity Debt Retirement Charge (DRC) on residential users earlier than planned, and put in place the low-income targeted OESP, effective 2016. For all other consumers the DRC is scheduled to be removed by April 2018.

Industrial Conservation Initiative – Ministry of Energy program implemented in January 2011 to help large industrial consumers reduce their electricity costs by shifting electricity consumption away from peak periods. As part of the Fair Hydro Plan, ICI eligibility was recently expanded to allow for the participation of the manufacturing and greenhouse sectors with an average month peak demand greater than 500 kilowatts (kW) and less than or equal to 1 megawatt (MW). ICI benefits all electricity consumers by decreasing the need for costly peaking generation over the long term.

Affordability Fund – approved as part of Ontario's Fair Hydro Plan, and under development, the Affordability Fund is intended to expand access to conservation funding to targeted consumers that do not currently qualify as low-income for the purposes of the Home Assistance Program (HAP).

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to \$2 per month, on average, to residential consumers. This commitment to residential consumers was met by the January 2017 8% rebate.

The commitment to mitigate the cap and trade impact on electricity costs for commercial and industrial consumers (i.e., Class A and B) has not been addressed. **Note:** Funding electricity support programs through the tax-base rather than the rate base will provide saving to Class A and B consumers.

The CCAP committed to a new Climate Change agency that would act as one window for the delivery of climate change-related programs. The Green Ontario Fund (GreenON)- is tasked to develop programs and services designed to:

- Reduce greenhouse gas emissions from housing from buildings and the production of goods; and

- Increase uptake and overcome market barriers of low-carbon technologies and processes.

The CCAP committed to “consider options for legislation/regulation change that lessen the impact on residential tenants of increased energy costs from cap and trade”. As part of the review of the Residential Tenancies Act, the Ministry of Housing is working on a proposal that will address that commitment. The proposal is expected to come to Cabinet in spring 2017.

## **Proposed Cabinet Minute**

### **Approval of draft bill for introduction**

Cabinet approved version **XX-XX** of this draft legislation for introduction, subject to the following:

1. The Office of Legislative Counsel is authorized to prepare a French version and to make minor adjustments to the English version, for the purpose of ensuring consistency between the two versions and making other improvements or correcting mistakes discovered in the translation process.