LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.