Comments on Ministry of Energy's February 22 (Draft) Deck for March 1 Cabinet Meeting "Electricity Price Mitigation"

The Ministry of Energy (Energy) is providing options for potential price mitigation initiatives.

OVERVIEW

- Energy's proposals involve enhancement of existing rate relief programs and introduction of new initiatives. In addition, Energy proposes that costs of rate mitigation measures be shifted from the rate base to the tax base. Based on Energy's analysis this can range from $740M to almost $970M when fully implemented (table on following pages).
- The largest impacts on rates and largest potential fiscal risks are from the proposed deferred recovery (or smoothing) of Global Adjustment costs (about $1.4X to $3.4X billion fiscal impact per fiscal year in the short-to-medium term, depending on the option).
  - Additional work is required to determine a financial structure for implementation of Global Adjustment smoothing that will avoid fiscal and net debt impacts and be compliant with government accounting standards.
- Energy's proposals would be in addition to existing electricity price mitigation efforts that, over the past five years, have averaged about $1.5 billion per year. This is expected to increase to about $2 billion with the introduction of the Ontario Rebate for Electricity Consumers (OREC) in 2017-18. (See table below)
  - The government introduced OREC, a government-funded program that is providing a rebate amount equal to the 8% provincial portion of the Harmonized Sales Tax (HST), saving $11 per month starting January 1, 2017, for eligible small businesses, farms and residential consumers
  - The government also expanded the rate-base-funded Rural or Remote Electricity Rate Protection (RRRP) program, saving eligible RRRP customers about $45 per month, when combined with OREC.
- The existing government-funded program costs are summarized in the table below:

($M)	2014-15	2015-16	2016-17[1]	2017-18[1]	2018-19[1]	2019-20[1]	2020-21[1]
OCEB	1,078	860	-	-	-	-	-
OREC	-	-	300	1,100*	1,200	1,200	1,200
Ending DRC[2]	-	85	330	330			
NIERP	108	120	120	120	120	120	120
NOEC	24	26	25	25	25	25	25
OEPTC[3]	429	444	450	460	470	481	481
TOTAL	1,639	1,535	1,225	2,035	1,815	1,826	1,826

1. 2016-17, 2017-18 based on forecasted numbers
2. Effective January 1, 2016. 2015-16 estimated for 3 months of reduced DRC revenue
3. OEPTC amounts in all years based on energy component of the rebate.

* Sourced from Energy PRRT submission

OCEB – Ontario Clean Energy Benefit
NIERP – Northern Industrial Electricity Rate program
DRC – Debt Retirement Charge
OREC – Ont. Rebate for Electricity Consumers
NOEC – Northern Ontario Energy Credit
OEPTC – Ont. Energy & Property Tax Credit

Staff Comment: Given the potentially significant fiscal impact of Energy's new proposals and implicit desire for an 'on-bill credit'. The above off bill credits supporting electricity costs (NOEC, OEPTC) can potentially be reduced or eliminated to help offset the fiscal pressures of these new measures.

ENERGY'S BROAD POLICY THEMES / RATIONALES – FEBRUARY 22 (DRAFT) DECK FOR MARCH 1 CABINET MEETING

Energy is taking aim at electricity prices in three overarching ways:

1. Helping the most vulnerable by enhancing electricity support programs and shifting cost onto the tax-base.
    - **a) Rural or Remote Rate Protection Plan (RRRP) enhancement (Delivery Charge Relief)**
    - **b) Ontario Electricity Support Program (OESP)**
    - **c) New LDC Affordability Fund**
    - **d) On-Reserve First Nations Delivery Credit**
2. Ongoing activities to bend the future cost curve of electricity:
    - a) Ontario Energy Board – Identify opportunities for future LDC Efficiencies and Rates
    - b) Independent Electricity System Operator (IESO) – Modernize Ontario's electricity market through electricity Market Renewal initiatives
3. Smoothing the global adjustment (GA) to provide significant and immediate rate relief through cost deferral of the GA.
    - a) GA Smoothing – Identifying Potential Structures
    - b) GA Smoothing – Rate Mitigation Options
        - **Option 1 - GA Smoothing for RPP-Eligible Only (Borrow est. $2.5 – 3.5 billion per year initially upfront, Residential Bills Lowered 25% to 2021)**
        - **Option 2 - GA Smoothing for RPP-Eligible Only (Borrow est. $1.7 – 2.6 billion per year initially upfront, Residential Bills Lowered 20% to 2021)**
        - **Option 3: GA Smoothing for RPP-Eligible Only (Borrow est. $1.4 – 1.6 billion per year initially, Residential Bills Lowered 18% to 2021)**

ADDITIONAL PROPOSALS

In addition, Energy has a few additional proposals to address rate pressures on consumers (not affected by RPP-targeted measures above):

A. Support for Tenants

B. Support for Class B Consumers

- **1) Lowering ICI Threshold Below 1 MW for Energy Intensive Industry**
- **2) Remove Debt Retirement Charge early**
- **3) DRC Benefit Voucher**

SUMMARY OF KEY STAFF COMMENTS

<u>Global Adjustment Proposals</u>

- <u>Accounting & Complex Structure</u>: As of the Feb. 22nd deck, accounting analysis was not complete, and accounting opinions would require seeing the proposed legislation. Legal counsel as estimated a six week time frame before legislation will be ready, but would include drafting in consultation with OPG, IESO and their external auditors, as well as external law firms, and OPCD and policy staff. Targeted accounting treatment requires

  - Achieving IESO rate-regulated accounting for a new GA deferral regulatory asset, as supported by legislative framework and IESO external auditor accounting opinion. The ability to "derecognise" the asset upon sale to OPG.
  - OPG to be able to retain GBE status, including the independence of the Trust from the Province so OPG consolidates the Trust, and the Trust purchasing the regulatory asset from IESO and recording it as an intangible asset.

- Control and Financial Risk Exposure: Energy's deck reports that OPG must have decision making authority on the operation of the Trust. The Trust, operating within the legislation, would be controlled by OPG and able to alter non-legislated terms and conditions to ensure recovery of the deferred amounts. The Trust would be exposed to business risk.
  - It is not clear from the deck what the degree of business risks and losses the Trust might face, and how that works in conjunction with the statement that it must be able to ensure deferred cost recovery.
  - It is not clear how this degree of freedom for the Trust would affect GA amounts to be paid by RPP consumers.
- There have been no discussion with the Auditor General. In previous AG Annual Reports, the AG has raised concerns about the appropriateness of recognizing rate regulated assets and liabilities.
- Costs and Uncertainty: OPG has stated that one condition is for the financing structure for the Trust include a majority of external financing, and that the other about 49% be supported 5% from OPG financing, and 44% from a Provincial equity injection into OPG for it to then provide financing to the Trust.
  - The availability and cost of external financing is unknown, but would likely be higher than the cost of Provincial borrowing. This may increase criticism of the structure, as cumulative interest costs could be almost as high as the peak level of debt (which ranges from about $20 to 38.5 Bn, 44% of which would be financed by Provincial equity under the OPG proposal).
- The overall cost of a GA option is subject to risk, on actual GA costs to be deferred, which is subject to the contracts and operational and market performance, market supply and demand, and actual borrowing costs. The ability to recover the deferred costs, and cost to future consumers, is uncertain, depending on future market conditions and future consumption levels, for example.
- Legal Issues: This proposal would be subject to a constitutional law challenge as an unauthorised tax on future consumers -- seen as subsidising near-term consumers at the expense of long-term and future consumers.
  - Energy would need to justify the shift in timing of cost recovery -- reasonably quantifying the rationale that existing contracted assets can and will provide longer-term benefits ten-years beyond their current contract lengths.

Government Program Funding: Shifted, Enhanced and New

- Enhancing and moving existing rate-base funded programs to government-funded has a significant fiscal impact, initially about $0.7 Bn in 2017018, rising to almost $1 Bn in 2020-21.

- Moving existing RRRP and OESP costs to the tax base has a significant fiscal impact but does not provide significant mitigation -- approx. $1.60 and $0.83 /month respectively for the typical Ontario household (totalling about 1.5% of the typical 750 kWh/month customer's bills).
- Energy should provided a policy rationale for the need and amount of proposed government funding for the proposed LDC Affordability Fund, including a cost-benefit analysis.

FISCAL EXPOSURE ELECTRICITY PRICE MITIGATION – FEBRUARY 22 (DRAFT) DECK FOR MARCH 1 CABINET MEETING

SUPPORT PROGRAMS TARGETTING MOST VULNERABLE USERS:						
($M)		16-17	17-18	18-19	19-20	20-21
1A. RRRP	Legacy – RRRP to Hydro One R2 Customers[1]	-	126	130	133	136
	Legacy – RRRP to Algoma Power & Hydro One Remotes[1]	-	51	52	53	55
	2016 Enhancement to R2 Customers[1]	-	117	120	123	127
	TOTAL - Existing Programs	-	**294**	**302**	**309**	**318**
	Proposed Enhancement to Hydro One and Identified LDCs	-	216	222	228	234
	Broadening RRRP to IPAs[1]	-	22	23	24	25
	TOTAL - Enhancements	-	**238**	**245**	**252**	**259**
	TOTAL FISCAL IMPACT	**-**	**532**	**547**	**561**	**577**
1B. OESP	Existing OESP Credits[1]	-	118	159	193	223
	TOTAL - Existing Programs	-	118	159	193	223
	Incremental Enhancement OESP Credits by 50%	-	59	80	97	111
	Incremental additional OESP categories	-	8	22	35	42
	TOTAL - Enhancements	**-**	**67**	**102**	**132**	**153**
	TOTAL FISCAL IMPACT	**-**	**186**	**261**	**325**	**375**
1C. Establishing a New LDC Affordability Fund		**200**	**-**	**-**	**-**	**-**
1D. On-Reserve First Nations Delivery Credit		**-**	**20**	**20**	**20**	**20**
TOTAL FISCAL IMPACT:		200	738	828	906	972
Other Proposals						
2A. OEB – LDC Efficiencies and Rates		n/a	n/a	n/a	n/a	n/a
2B. IESO – Market Renewal		n/a	n/a	n/a	n/a	n/a

1. Previously funded by the Rate Base. For Broadening RRRP to IPAs, it's unclear where

GLOBAL ADJUSTMENT SMOOTHING/DEFERRAL OPTIONS:

($M)	2017-18	2018-19	2019-20	2020-21	2021-22
3b Option 1: GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 25% (with Tax-base Funded 8% Rebate and Social Programs, 2% increase)	2,534	2,668	2,942	3,420	3,183
3b Option 1: Interest Portion	*32*	*162*	*298*	*449*	*624*
3b Option 2: GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 20% (with Tax-base Funded 8% Rebate and Social Programs, 2% increase)	1,770	1,850	2,072	2,489	2,189
3b Option 2: Interest Portion	*22*	*113*	*208*	*314*	*441*
3b Option 3: GA Smoothing for RPP-Eligible Only – Residential Bills Lowered 18% (with Tax-Base Funded 8% Rebate and Social Programs)	1,487	1,585	1,524	1,503	1,429
3b Option 3: Interest Portion	19	95	176	254	331

Note: Potential to avoid fiscal impact would depend heavily on decision on accounting treatment. Based on an annual interest rate of 5% compounded monthly.

ADDITIONAL PROPOSALS

($M)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
A. Support for Tenants	n/a	n/a	n/a	n/a	n/a	n/a
B. 1) Lowering ICI Threshold Below 1MW for Energy Intensive Industry	-	-	-	-	-	-
B. 2) Removed DRC Early						
a. Shift Class B DRC to Class A [1]	-	295	-295	-	-	-
b. Reduce DRC by $3.50/MWh	-	148	-	-	-	-
c. Remove DRC completely for Class B	-	295	-	-	-	-
B. 3) DRC Benefit Voucher	-	Up to 295	-	-	-	-

1. Estimates assume elimination of DRC could be reflected in bills as early as April 1, 2017. Extension of DRC would lead to fiscal benefit $295M in 2018-19.

STAFF COMMENTS ON ENERGY PRICE MITIGATION OPTIONS – FEBRUARY 22 (DRAFT) DECK FOR MARCH 1 CABINET MEETING

1A) RRRP Enhancement: Distribution Charge Relief for top 1/8 of distribution rate classes; broadening of RRRP

Proposal:

- Cap distribution costs to about $38/month for all customers in this group.
- Move current RRRP costs – additionally including customers of Algoma Power and Hydro One Remotes – to the tax base from the rate base saving approximately $1.60/month on the average residential bill.
- Expand RRRP to include Independent Power Authorities (IPAs, which are …., accounting for about xxx customers).

Staff Comments:

- Moving existing RRRP costs to the tax base has a significant fiscal impact but does not provide significant mitigation -- approx. $1.60/month for the typical Ontario household (about 1% of the typical 750 kWh/month customer's bills).
- The proposal to move the costs of RRRP to the tax base may be providing additional benefit to non-vulnerable consumers. RRRP is not income-tested.
- Energy characterizes this enhanced relief as an acceleration toward the OEB initiative for LDCs to have fixed distribution delivery rates,
    - The proposal subsidizes high cost distribution as the cap is based on the lowest average distribution rate paid by consumers in this group of LDCs.
    - Fixed distribution delivery rates will benefit higher volume users, who will benefit proportionately more than the cost to lower volume users.
    - Will not impact other delivery charges (e.g., transmission).
- Energy does not clarify if the cap would increase every year to reflect increasing costs.
- Increased fiscal exposure risk if rates that the OEB attributes to the LDCs over time rise faster than the increase in cap.
- Hydro One R2 customers would be receiving this enhancement on top of existing expanded RRRP savings.
- The assumptions underlying the RRRP enhancement scenarios are unclear.
- Increased fiscal exposures as moving Hydro One Remotes support to the tax base may contain risks associated with granting the Ontario Energy Board (OEB) authority to determine the amount of fiscal plan support to be provided to these utilities.

1B) Enhance OESP and fund through the rate base

Proposal:

- Provide greater support for lower income Ontarians by expanding OESP benefits by 50%. Preliminary proposals with the OEB will extend the benefits to additional groups.
- Move existing OESP costs to the tax base from the rate base thereby saving the approximately $0.83/month charged on the average residential customer's bill.

Staff Comments:

- Moving existing OESP costs to the tax base has a significant fiscal impact but does not provide significant mitigation -- approx. $0.83/month charged to the typical Ontario household (about 0.5% of the typical 750 kWh/month customer's bills).
- Energy policy rationale for moving such programs to the tax base is to contribute to the rate mitigation target and not have social programs cross-subsidised by other ratepayers.
    - Note that when OESP was being developed, Energy noted that low income support was provided in other rate-regulated jurisdictions and was found to be justifiable so long as it was part of a comprehensive regulatory structure and provided some benefits to other ratepayers.
- TPD has raised the issue that changes to the design of the OESP should be discussed with the Canada Revenue Agency to ensure that it does not become a taxable benefit. When OESP was created, TPD worked with Finance Canada and Energy to ensure that it was not considered a taxable benefit.
    - Federal government may be unwilling or unable to administer OESP due to complexity and the significant restrictions that apply to using federal tax forms.
    - Energy has stated that it has been in discussions with CRA. A status update from Energy should be sought.
- Would provide on-bill benefits.
- Could contemplate phase-in to manage fiscal impact.
- Could look at phasing out existing fiscally-funded programs also targeted to low income or identified groups (e.g., OEPTC, NOEC).
    - These existing programs are not on the bill, so less direct and less visible electricity cost mitigation.
- Phase-out to reflect time to increase application based OESP reaching an increasing portion of eligible households.
- As program eligibility is based on income and household size, it's unclear how on-bill benefits would accrue to those living in rental accommodations where electricity bills are included in rent.

1C) Establish an LDC Affordability Fund

Proposal:

- An Affordability Fund would be accessible to LDCs only, and would target those customers who are most in need, such as those who are facing disconnection and who cannot qualify for the low-income programs.
- The fund would provide support for energy efficiency improvements, and help customers reduce their future bills and avoid future disconnections.

Staff Comments:

- Energy's deck did not explain why these programs should be funded through the tax base.
- It's unclear why there is a requirements for funds to flow in 2016-17 for the fund. Energy does not provide a rationale as to why delay to the 2017-18 year would be unwise.
    - It is unclear when the deck notes that there is a fiscal risk if monies used for the fund do not flow before FY year-end 2016/17 and for monies that are sitting in Hydro One at year-end (because of consolidation with province), and a corresponding fiscal pressure in the following years when the funds are flowed from Hydro One (H1) to ratepayers.

1D) Implement On-Reserve First Nations Delivery Credit

Proposal:

- o The On-Reserve First Nations Delivery Credit would serve to eliminate the delivery charge for all-on reserve First Nation residential customers and eliminate the monthly service charge for customers of licensed distributors which charge a bundled rate.

Staff Comments:

- Energy's deck did not explain why these programs should be funded through the tax base.
    - o Energy states that the OEB "suggests that the program could be funded by the tax base" but this was likely to be one of many options noted by the OEB rather than prescriptive advice on the matter.

3A and 3B) GA Smoothing

Proposal:

- The mechanisms and entities involved to undertake GA smoothing are under consideration, with Slide 55 providing a potential financial structure.
- Since the slide was constructed, Energy has reported that OPG, in consultations with external auditors, has advised that certain terms and conditions are necessary in order for OPG to consolidate the trust and be able to get the desired accounting treatment. These terms included:
    - o The need for external debt financing, and that a portion of the financing needs to be funded through an equity injection by the Province to ensure that OPG's sustainability can be demonstrated to retain its Government Business Enterprise (GBE) status.
    - o GBE status is required to achieve the targeted accounting treatment.
        - OPG currently proposing that 56% of the debt (GA funding requirement) come from Capital Markets and the remainder (44%) be provided by the Province through an equity injection. OPG would receive 5% of debt from Capital Markets and 44% of the debt from an equity injection. OPG would then take this 49% and loan (as subordinated debt) to a trust (OPG Trust) that would finance the remaining 51% of the GA from Capital Markets.
        - OPG Trust would then purchase from IESO a regulatory asset which represents the deferred GA costs, allowing IESO to pay the difference to Generators and thus OPG Trust to collect this amount later from ratepayers.
        - Legislation drafting would need to guarantee the recovery of the deferred GA from ratepayers, with this amount determined from a set formula, possibly with specific parameters to allow limited adjustments.
        - Significant restrictions on the Province's ability to manage the trust or change the legislation guaranteeing the repayment of the cost of borrowing, with the avoidance of legal and constitutional challenges.
- The financial structure would require an analysis that can support no fiscal impact and no increase in net debt.
- GA Smoothing options under consideration are targeted to residential and small business (RPP) customers. The GA smoothing options are illustrative and show potential rate mitigation measures to meet a targeted 25%, 20% and 18% reduction from the projected residential bill in 2017.
- Rates would rise above the true cost of GA and eventually paid off in 2048.

Staff Comments:

- No discussion with OAG; in previous Annual Reports, the OAG has raised concerns about the appropriateness of recognizing rate regulated assets and liabilities.
- Suggests that the Board of Trustees would need to approve any adjustments to the restructured asset (the regulatory asset for the deferred GA costs), rather than the Ontario Energy Board
    - No mention of OEB's role in this process. Rate regulation accounting needs an independent regulator to set rates to ensure a fair rate-setting process.
- The structure, term and timing of the financing for GA smoothing are highly dependent on the IESO's forecast of GA costs.
    - For example, decreased market prices of electricity would lead to higher GA costs to ensure payments to generators. While customers traditionally pay both the reduced market price and higher GA to recoup these costs, the entity financing the GA would need to have increased borrowing.
    - Volatility in prices and GA could lead to much variability in the amount borrowed.
    - Cost is also highly dependent on actual interest rates over time.
    - Market supply and demand also would affect the size of the GA.
- A strict formula to determine the annual GA recovery amount would be challenging and would depend on factors, as mentioned above, that determine the deferred GA costs. Annual valuation to test collectability, the estimated time of recovery, and other assumptions would be essential for valuing the asset representing the deferred GA costs, and if a valuation allowance or recognition of an immediate P/L impact would be required.
- The Province's equity injection will be 44% of the GA debt requirement, a substantial injection for the sole shareholder of OPG.
    - OPG would need to earn a return on the equity in order for there to be an offset, on consolidation into Public Accounts, to the Province's interest on debt costs (net income rising to an annual about $850 million just to cover the assumed interest cost).
- External capital market borrowing by OPG will likely be at a significant higher cost than Provincial borrowing costs.
    - The use of senior debt for OPG external Capital Market borrowings in the intention of lowering the cost of debt may have a minimal reduction in interest cost due to the inherent uncertainty from the intangible regulatory assets essentially used as collateral/security.
- The selling of a regulatory asset, to be done by IESO to OPG, is not a common practice, as regulatory assets are generally linked to the specific entity that has deferred costs in the first place.
- The requirement for the Board of Trustees to be independent from the Province, would impair the Province's powers as the sole shareholder of the OPG parent company, or could otherwise undermine the requirements that OPG's auditors have listed as critical for viability of the proposal.
- This proposal would be subject to a constitutional law challenge as an unauthorised tax on future consumers -- seen as subsidising near-term consumers at the expense of long-term and future consumers.
    - Energy would need to justify the shift in timing of cost recovery -- reasonably quantifying the rationale that existing contracted assets can and will provide longer-term benefits ten-years beyond their current contract lengths.
- The current RPP proposal does not specify if those on retail contracts would be eligible for the GA smoothing benefit.

- As stated in the deck, this proposal is highly dependent on receiving a favourable accounting/legal treatment. Otherwise, there would be a fiscal impact.
- Increased borrowing over time would strain the province's ability for continued borrow.
- Annual borrowing could range from $1.4 Bn to $3 Bn with accumulated debt peaking at $20 Bn to $39 Bn depending on the scenario chosen.
- It should be noted, that unlike a mortgage where payments from the outset are used to pay for both interest and principal costs, the financing undertaken for GA smoothing would not pay principal amounts for the near longer term, and interest would be capitalised instead.
- Conservation efforts are hampered when across the board reductions in the cost of electricity are imposed. This will diminish price signals and other incentives to reduce consumption.
- The analysis is performed on a "typical" customer. Energy deems this to be a Toronto Hydro customer with 750 kWh monthly consumption, however issues may arise in this assumption:
    - The Delivery Cost component of a hydro bill varies across distributors even at the same monthly consumption amount. However the electricity component of the bill - which is targeted by GA Smoothing proposals - would stay the same as RPP prices are applied province-wide.
    - The proportionate impact of changes targeting the Electricity component of the bill would vary from LDC to LDC.
    - Unlike OREC or the former OCEB program which apply a rebate/benefit on a proportion of the total bill, this GA smoothing proposal would have varying levels of proportionate impact.
    - ENERGY's deck uses Toronto Hydro, a higher cost distributor, as an example. As a result, a 25% impact bill impact from GA smoothing for Toronto Hydro would have a much greater impact for other, lower-cost, distributors, where the electricity component of the bill is larger in proportionate terms.
    - This across the board reduction for GA costs would not targeting those with higher electricity bills, as it would be reducing the electricity component equally on a dollar value basis for all customers.
    - If the objective of this proposal is to provide a 25% reduction to electricity bills across the board, an OREC-type program would be more appropriate to achieving this policy outcome, compared to the disparate reductions provided through a GA smoothing approach.

ADDITIONAL PROPOSALS

A. Support for Tenants

Proposal:

- The government is considering measures to provide relief from high electricity prices, and is interested in ensuring that tenants also receive electricity cost reductions and/or relief.
- Potential initiatives could focus on tenants who pay their own electricity bills and for those whose electricity is included in rent.

Staff Comments:

- n/a

B. 1) Lowering the ICI Threshold below 1 MW for Energy Intensive Industry

Proposal:

- To address competitiveness for consumers whose electricity demand is too low to currently qualify for ICI, the government could consider reducing the eligibility threshold below the current 1 MW.
- A narrower version of the proposal would be to allow only manufacturers below 1 MW to participate

Staff Comments:

- Energy has not quantified the potential increase in all other Class B rates due to this expansion and counteracting any RPP price mitigation efforts elsewhere.

B. 2) Remove Debt Retirement Charge Early (DRC) for Non-RPP Class B Consumers

Proposal:

- Several options are proposed to target a reduction in of DRC for Class B consumers:
    a. Shifting DRC which otherwise would be paid by Class B to Class A consumers. This would require legislative amendments to extend the legislated DRC end date.
    b. Providing a reduction in DRC to $3.50/MWh rather than complete elimination for Class B funded by the tax base
    c. Removing the DRC completely for non-RPP Class B.
- An additional proposal was raised to consider providing DRC relief to a targeted segment of the non-RPP Class B, such as manufacturing in particular.

Staff Comments:

- Energy's fiscal impact estimation for option a) does not include interest costs borne by deferring DRC payments to 2018-19 fiscal year. Assumes loss of $295M in 2017-18 will lead to a gain of $295 in 2018-19.
- Prior Budget 2016 language referred to the fixed end date of the DRC as "providing certainty to commercial, industrial and other users, and helping them more effectively plan their business and investment decisions". Extending the fixed end date for industrial users would be counter to this previous Budget commitment.
- MOF would need to conduct a detailed analysis for a refined fiscal estimation in all scenarios.

NOTE: Additional proposal/investigation sought to target the DRC elimination for Class B customers of specific industry classes.

- Would need to assess Legal and LDC implementation issues.
- Legal. Class A and Class B users are defined in regulations of the *Electricity Act* which would allow reference to such definitions in setting rates or exempting groups of users under the DRC regulation, which can be done through an LGIC regulation. Change in end date would require a legislative amendment.
- LDCs. Unclear of the viability of targeting DRC reduction for particular groups of customers within Class B, due to requirements for local distribution companies to assess the manufacturing or non-manufacturing nature of each Class B customer.
    - May need to be application based, increasing the implementation timing and burden.
    - Would likely require verification and audit provisions.
- May affect choice of Class B manufacturers larger than 1 MW that are eligible for Class A ICI to not opt to be Class A. Could increase complexity of program cost estimates and administration.
- Could be subject to trade issues – TBD.
- The Industrial Conservation Initiative (ICI) and Industrial Electricity Incentive (IEI) programs had eligibility based on industrial sector; however, this proposal to target specific Class B industries, pose additional complexity:
    - ICI participants are a relatively few large users. Many large industrials are directly connected to the transmission grid. Approximately 1,500 customers fall in this category and significant reductions in electricity costs (10%-34%) compelled compliance based on historical numbers.
        - DRC reduction are estimated to provide only a 4% savings, mitigating the desire for eligible participants to participate.
    - The IEI program has only 22 participants, and each one is required to provide a detailed application in order to be selected for the program.
        - Sheer number of applicants would overwhelm LDCs if the Class B DRC benefit is to target a particular group of participants.
    - Forecasting the potential fiscal impact of the proposal would be challenging. The impacted consumption would be Class B customers that are non-RPP and non-ICI customers which could be difficult to identify and forecast.

B. 3) DRC Benefit Voucher

Proposal:

- Class B customers would receive a voucher equivalent to all or a portion of their DRC charges on their electricity bills. The customer would use this voucher to increase or 'top-up' incentive amounts available through the Ontario Climate Change Solutions Deployment Corporation (OCCSDC).

Staff Comments:

- Energy indicates proposals would be funded through the GGRA or the tax base, but does not provide a reasonable estimation of potential fiscal impacts
    - Outstanding balance of DRC for 2017-18 fiscal year for Class B customers estimated to be $295 million, but not all Class B customers would be able to benefit.