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Electricity Price Mitigation

Corporate and Electricity Finance Division
December 7, 2016

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General Comments on Energy's Deck

- Energy's deck note various actions taken to-date to reduce costs or cost pressures, such as deferring generation supply investments, improving market efficiency, and reducing the costs of existing procurements.
- Aside from reducing costs on the electricity bill, it is not clear what principles are being applied, short term or long term for electricity pricing.
  - A principle that was applied in the past was to ensure that electricity consumers paid the true cost of electricity, for example.
  - The Energy proposals appear to be about, in part at least, moving some costs from the rate base to the tax base.
- However, the Energy proposals may be seen as having a fairly limited impact, e.g., a little over $8/month for residential, or a little over 5% of the monthly bill (though not all of the proposals have been costed / assessed).
  - The proposals would have a significant fiscal cost [about $1.3 – 1.9 plus bn per year in new fiscal costs].
- There is already significant amounts of existing fiscally-funded electricity price mitigation
  - Averages over $1.5 billion per year over the past five years, and estimated to increase to about $2 billion in 17-18 (see subsequent slide for estimated costs over time, and likely increasing over time), with the total tax-based costs rising to about $3.3-3.9 plus billion in 2017-18, if Energy`s proposals are adopted.
  - These existing mitigation costs are not presented in Energy's deck.
  - Not included is any "hidden" price mitigation through constrained financial performance of, e.g., OPG.

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Context: Current Status on Taxpayer Funded Electricity Price Mitigation

($M)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17[1]	2017-18[1]
OCEB	1,033	994	1,006	1,078	860	-	-
OREC	-	-	-	-	-	300	1,100*
Ending DRC[2]	-	-	-	-	85	330	330
NIERP	120	120	115	108	120	120	120
NOEC	23	24	25	24	26	25	25
OEPTC[3]	354	406	418	429	444	450	460
TOTAL	**1,530**	**1,544**	**1,564**	**1,639**	**1,525**	**1,195**	**2,005**

1. 2016-17, 2017-18 based on forecasted numbers
2. 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
OREC – Ontario Rebate for Electricity Consumers
DRC – Debt Retirement Charge
NIERP – Northern Ontario Electricity Rate Program
NOEC – Northern Ontario Energy Credit
OEPTC – Ontario Energy and Property Tax Credit

- The table above shows the annual amount of taxpayer funded electricity price mitigation from 2011-12 to 2017-18.
- From 2011-12 to 2015-16 there has been an annual fiscal impact of approximately $1.6 billion due to electricity price mitigation programs.
- In 2016-17, the fiscal impact due to electricity price mitigation programs is estimated at approximately $1.2 billion.
- In 2017-18, due primarily to the start of the Ontario Rebate for Electricity Consumers, the expected fiscal impact due to electricity price mitigation programs is approximately $2.0 billion.

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Electricity Price Mitigation

General Decision Points on Program Features:

- Funding: Rate base vs Tax base
  - Tax base programs have a direct fiscal impact on the Province's finances, and shift costs based on taxpayer incidence and impact on expenditure room for other, non-electricity, programs.
  - Rate base programs shift costs from one group of ratepayers to another.
- On-bill vs Not On-bill
  - Recent focus has been on on-bill programs, such as OESP and OREC.
  - Older tax-base funded programs that are not visible on the bill are still in place, such as NOEC and OEPTC.
  - As OESP enrollment increases, could consider phasing out the non-bill benefits of NOEC and OEPTC.
- Targeted vs General
  - Recent new programs include both general (OREC) and targeted (OESP) programs.
  - Consideration could be made to make OREC more conservation-friendly (e.g., a monthly eligible consumption cap brought in, as with the former Ontario Clean Energy Benefit), and maybe a higher cap in the winter to allow for space heating costs.
  - A targeted industrial program recently extended and made on-going is the Northern Industrial Electricity Rate (NIER) program.

Energy's Proposals

Energy is proposing additional electricity price mitigation programs, currently funded through the electricity system, be fiscally-funded. They could be upwards of $2 bn/year, (plus the departure tax), which is not included in the fiscal plan, which would challenge the path to balance.

- OESP & RRRP (Total of about $0.4 Bn/yr): This includes shifting the cost of the Ontario Electricity Support Program (OESP) and the Rural or Remote Electricity Rate Program (RRRP) to the tax base. Note that the fiscal exposure is larger if the OESP take up rate is larger, faster than assumed.

- Industrial Conservation Initiative (ICI -- About $900+ M/yr): Energy also shows, as a potential residential price mitigation measure, the cancellation of the ICI.
  - Energy is not initially proposing it be continued instead as taxpayer funded, but notes that about 30% price increase (from $85/MWh to $110), if ICI is cancelled, for the large Class A customers benefiting from ICI currently.
  - As this cost estimate is for 2016, prior to the planned expansion of the ICI, this could further increase the fiscal exposure by about $100 million).

- Departure Tax: As a result of the IPO, Hydro One paid a "departure tax" payment in lieu of tax (PIL) of $2.6 billion, as a final true-up of its PILs tax obligation.
  - This was paid to the Ontario Electricity Financial Corporation and helped reduce stranded debt.
  - Using some or all of it for price mitigation would change the net stranded debt paydown by OEFC resulting from the IPO. This would also be a one-time measure (potentially over a few years), and fiscal impact, as the departure tax amount was one-time.

- Other fiscal cost risks (Total of about $0.8+ Bn):
  - Amortisation of conservation costs also poses a fiscal risk (about $0.4 bn/yr),
  - Ending the DRC early for Class B customers (commercial, small industrial) (about $0.4 bn/yr to 2017-18)
  - Lowering of the debt interest paid by OPG (about $30 – 70 million/yr between 2017 and 2021),

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Fiscal Mitigation Options

- With the addition of recent and new price mitigation measures, a review should be initiated on fiscally-funded programs. There could be a phase down / out transition period considered. Examples include the following:

- <u>Ontario Energy and Property Tax Credit (OEPTC) and Northern Ontario Energy Credit (NOEC):</u>
  - Phase down and/or out the non-on-bill benefits of. (Save up to about $460 M/yr)
  - These targeted, low-income measures were introduced after the HST was introduced.
  - The OESP provides a larger, targeted and on-bill relief to qualifying consumers.

- <u>Ontario Rebate for Electricity Consumers (OREC)</u>:
  - Introduce over time a monthly eligible consumption cap, with perhaps a higher cap in the winter to allow for space heating costs.
  - As with the prior OCEB cap, provides a rough incentive for conservation and correlation to larger homes. A higher cap in winter may help with space-heating issue.
  - May be challenging to implement.

- <u>Greenhouse Gas Reduction Account</u>:
  - If ICI is put on the tax-base, make it eligible for GGRA funding.
  - Positioned as, e.g., providing annual benefits from participants conserving and shifting off-peak to reduce reliance on GHG-emitting peaking plants

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Proposed Taxpayer Funded Electricity Price Mitigation
(To be revised)

($M)	2016-17[1]	2017-18[1]	2018-19[1]	2019-20[1]	2020-21[1]
OCEB	-	-	-	-	-
OREC	300	1,100*	1,100*	1,200*	1,200*
Ending DRC[2]	330	330	--	--	--
NIERP	120	120	120	120	120
NOEC	25	25	25	25	25
OEPTC[3]	450	460	470	481	481
CURRENT TOTAL	**1,195**	**2,005**	**1,715**	**1,826**	**1,826**
1. OESP		106	119	127	132
2. RRRP		292	300	306	315
3. First Nations Delivery Rate		18	18	18	18
4. Fund ICI through Tax Base		900+	900+	900+	900+
5. Departure Tax		TBD	TBD	TBD	TBD
6. Conservation Amortisation		TBD	TBD	TBD	TBD
7. DRC Ended for Class B	110	450			
8. Other		30	45	60	70
TOTAL	1,305	3,901	3,197	3,237	3,261

1. 2016-17, 2017-18 based on forecasted numbers
2. Estimated impact up to March 31, 2018
3. OEPTC amounts in all years based on energy component of the rebate.

- As shown above, if all measures proposed in this deck were to be accepted taxpayer funded contributions to electricity price mitigation would increase to about $3.4 – 3.9 billion in 2017-18. That is a 65-95% increase from the current forecast for 2017-18..
- These amounts were not considered in the 2016-17 Fiscal Plan and could put at risk the Province's fiscal objectives for 2017-18 and beyond.

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Background on Taxpayer-funded Electricity Price Mitigation

Program	Annual Fiscal Impacts ($M)	Date	Details
Ontario Clean Energy Benefit (OCEB)	~1,000	Jan 1 2011 to Dec 31, 2015	OCEB provided over four million residential customers, and over 400,000 farm, small business and other small users with a benefit equal to 10 per cent of the total cost of electricity on their bills, including tax. Effective September 1, 2012, 10 per cent benefit was capped for the first 3,000 kWh of electricity consumed per month. OCEB expired December 31, 2015, as legislated.
Removed Debt Retirement Charge (DRC) from Residential Bills	~330	Jan 1, 2016 to Mar 31, 2018	The government removed the DRC from residential electricity users' bills as of January 1, 2016. This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998* .
Ontario Rebate for Electricity Consumers (OREC)	~1,200	Jan 1, 2017 onward	This ongoing program will rebate -- directly on consumers' residential electricity bills -- an amount equal to the provincial portion of the Harmonized Sales Tax (HST).
Northern Industrial Electricity Rate (NIER) Program	120	March 2010	As announced in Budget 2015, the government committed to ongoing support for northern industrials with $120 million allocated annually. NIER was previously extended in 2012 for an additional three-year term, effective April 1, 2013 and also for a year effective April 1, 2016, with an allocation up to $120 million per year. Qualifying participants receive a rebate of two cents per kilowatt-hour (kWh) up to a maximum of $20 million per year per company. NIER initially established as a three-year program in Budget 2010, effective April 1, 2010.
Northern Ontario Energy Credit	~25	Budget 2010	Delivered as part of the Ontario Trillium Benefit, provides individuals living in northern Ontario with a credit of up to $146 per year for the 2016 benefit year, and families up to $224.[1]
Ontario Energy Property Tax Credit	~445[1]	Budget 2010	Delivered as part of the Ontario Trillium Benefit, energy portion provides up to $224 per year (inflation adjusted) for low-to moderate-income individuals and families, and for qualifying seniors.[1]

1. Energy portion cost only. Both the energy portion of the Ontario Energy and Property Tax Credit (OEPTC) and NOEC were introduced/enhanced following the introduction of the HST and have a significant annual fiscal cost (totalling about $500 million annually).

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Timeline: Taxpayer-funded Electricity Price Mitigation

Budget 2010: OEPTC, NOEC Proposed as part of the Ontario Trillium Benefit

In the 2011 Budget, the government combined the payments of three existing tax credits — the Ontario Sales Tax Credit, the Ontario Energy and Property Tax Credit, and the Northern Ontario Energy Credit — to create the OTB.
The OTB is paid in monthly instalments throughout the year, which helps people meet their expenses as bills arrive .

Ontario Clean Energy Benefit (Jan 1 2011 to Dec 31 2015)

The OCEB was introduced in the 2010 Ontario Economic Outlook and Fiscal Review to help consumers transition to a cleaner electricity system. As set out in legislation, the OCEB ended on December 31, 2015. The Province has introduced rate mitigation measures to be implemented after December 31, 2015 .

OCEB provided over four million residential customers, and over 400,000 farm, small business and other small users with a benefit equal to 10 per cent of the total cost of electricity on their bills, including tax, for the first 3,000 kilowatt-hours (kWh) of monthly electricity consumption.

Removing DRC from Residential Bills (Jan 1 2016 to Mar 31 2018)

The government removed the DRC from residential electricity users' bills beginning on January 1, 2016. This saves a typical residential user about $70 each year and ends the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.

Ontario Rebate for Electricity Consumers

As of January 1, 2017, OREC will reduce electricity costs by an amount equal to the provincial portion of the HST for about five million residential consumers, farms and small businesses.

2010 2011 2012 2013 2014 2015 2016 2017

History of Northern Industrial Electricity Price Relief

November 2006
The Ontario government announced the Northern Pulp and Paper Electricity Transition Program (NPPETP), a three-year $140 million, to be effective retroactively to October 1, 2006

Budget 2009
The government announced extension of the NPPETP by one year providing about $58 million with electricity price rebates of 1.8 cents/kWh.

Budget 2010
NIER program announced, with a projected fiscal cost of $150 M per year, to provide electricity price rebates for qualifying large industrial facilities in northern Ontario. An additional $21.8 million allocated for existing NPPETP in 2010-11 to be integrated with NIER.

September 2010
Transition from NPPETP to NIER: pulp and paper mills participating in NPPETP continued to receive the NPPETP rebate of 1.8 cents/kWh until September 30, 2010, with those qualifying for NIER receiving a top-up rebate of 0.2 cents/kWh.

December 2012
The government announced the extension of the NIER for three years, capping the rebates to a maximum of 2011-12 consumptions levels or $20 million, whichever is lower.

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Potential Fiscal Impact to the Electricity Sector

- The electricity sector has a significant impact on the Province's fiscal position; through both the revenue and expense sides of the Province's fiscal position.
  - Electricity Rate mitigation programs funded through the tax base have a direct fiscal impact on the Province's finances.
  - Alternatively, electricity rate mitigation programs funded by the rate base shift costs from one group of ratepayers to another.
- The Province's electricity sector agencies and corporations are each consolidated into the government's financial statements, and directly affect the Province's surplus/deficit position.
  - Ontario Power Generation (OPG) financial results have a dollar-for-dollar impact on the Province.
    - Electricity price mitigation strategies involving OPG would lead to a direct fiscal impact.
  - Hydro One financial results have a direct impact on the Province, based on the Province's proportionate ownership.
    - The Province currently holds about 70 per cent of Hydro One.