Ontario

MINISTRY OF
ENERGY

Ontario's Fair Hydro Plan – Minister's Update

July 18, 2017

CONFIDENTIAL DRAFT

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP), which proposes new measures to lower electricity bills by 25 per cent on average for all residential electricity customers, as well as initiatives to reduce costs for low-income consumers, First Nations and small manufacturers.

- The Ministry of Energy worked with a number of ministries (i.e., MOF, TBS/OPCD, MAG and CO), energy agencies (i.e., OPG, OEB and IESO), external advisors and local distribution companies (LDCs) on the development of legislation, regulations and ongoing implementation.
  - On April 10, Ontario expanded the Industrial Conservation Initiative (ICI) to include manufacturers and greenhouses with peak demand from 1 MW to 500 kW.
  - On June 1, the *Fair Hydro Act, 2017* (FHA) received Royal Assent.
  - As of July 1, 2017, the full impact of the OFHPA reductions is in effect.

- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
  - GA Refinancing;
  - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
  - Establishing an Affordability Fund.

1) Global Adjustment (GA) Refinancing

- Full reduction related to OFHP for regulated consumers as determined by the OEB for rates that came into effect on July 1.
  - Supporting regulations in place with respect to the methodology the OEB uses to make determinations related to OFHP, providing IESO with authority for OFHP activities and outlining roles and responsibilities of OPG and IESO.
- Ongoing work with Energy agencies (i.e., OPG, OEB and IESO), key ministries (i.e., MOF and TBS/OPCD) and external advisors. Key deliverables include:
  - **Fair Allocation Amount (FAA):** Minister of Energy to calculate the Fair Allocation Amount (FAA) and provide the amount to the Financial Services Manager (OPG);
  - **Management Fees Regulation:** Confirmation of methodology to determine the fees OPG charges for providing Financial Management Services including role of OEB in reviewing costs;
  - **Guarantees:** Province to provide contingent supports to enable structure. Work is underway to scope those guarantees;
  - **Equity Injection:** Province to purchase shares of OPG on a monthly basis;
  - **Subordinated Debt:** OPG will lend the equity injection from the Province to the Trust by way of subordinated debt; and
  - **PILs Exemption:** Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle.

<u>Status / Next Steps</u>

- Next Steps:
  - Summer 2017:
    - Fair Allocation Amount;
    - Guarantees;
    - Fee regulation; and
    - Equity injection agreements in place.
  - Fall 2017:
    - PILs Exemption;
    - Sale of the Regulatory Asset by IESO to OPG SPV/Trust; and
    - Sale of the Investment Asset by OPG SPV/Trust to market to investors.

2) Social Programs – Regulations

- On July 1, 2017, a number amended and new regulations, needed to implement the Fair Hydro Plan, came into force:

  1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit**) made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
  2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers**) made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
  3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
  4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
  5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
  6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
  7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

2) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a "reserve"

- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent.
  - The definition of key terms, such as, "reserve", "member of a band" are taken directly from the traditional meaning provided in the Indian Act.

- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status. To date, no LDC has indicated to ENERGY there will be any issue providing the credit for consumption as of July 1st for these identified customers.

- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
  - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).

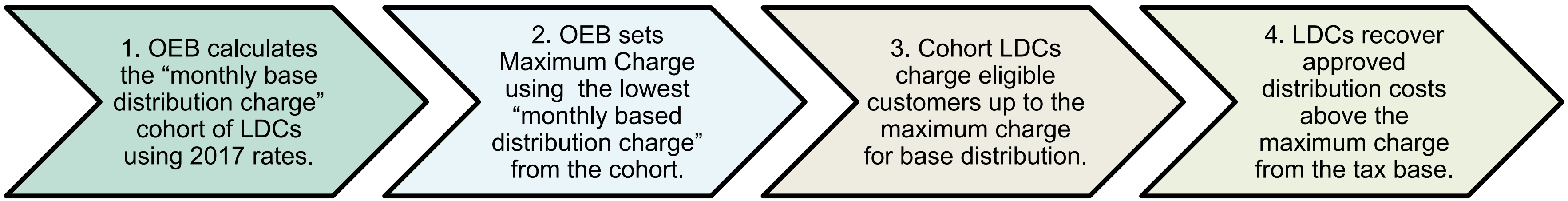
Communications Strategy

- FNDC Postcard
  - ENERGY is currently developing a postcard to be distributed to customers on reserve to raise awareness of the FNDC and encourage those who may be eligible but have not registered for an HST exemption to consider doing so. Logistics and messaging is currently being finalized.

- Chiefs of Ontario Communiqué
  - COO sent a Communiqué to all First Nation Chiefs in June to encourage them to make sure their members are registered to receive the HST exemption from their LDC so that they will receive the FNDC.

2) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at $36.43/month**.** The maximum charge will be updated at least once annually going forward.
  - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year’s maximum charge.
- The OEB’s June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from $1.66/month for the average customer to $0.24.

2) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment, in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
  - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- These amendments were recently approved. While the amendments took effect on July 1, MCSS implementation does not occur until it has an agreement with the OEB, as per recent changes to the OEBA.
- As part of MCSS implementation, it is seeking TB approval for additional FTEs (July 25) for $3.5 million. This is a joint submission with ENERGY – the additional FTEs would be financed using part of the OESP allocation that was approved by TB on March 1, 2017 under the Fair Hydro Plan. Additional activities underway by MCSS:
  - MCSS is developing an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery.
  - MCSS has commenced Phase 1 of increasing awareness of OESP and developed an OESP postcard/cheque insert for SA clients. This is anticipated to be sent to all SA clients in August, leading up to direct outreach to SA clients and enroll them into OESP that is planned for late August / early September.
  - The next step will be to support increased SA client enrolment in the OESP by way of a dedicated team and integration of OESP into SA intake process. Software system upgrades will enable this work, but OESP applications will still be manual – MCSS and OEB continue to develop an automated system for completing applications on behalf of SA clients, which is anticipated for early 2018-2019.

Status / Next Steps

- An OIC proclamation for provisions in the OEBA and further regulatory changes are needed to implement the transition from rate base to the tax base. This will happen when the OESP variance account is nearly depleted, which is expected in the fall
- The Ministry will work with the OEB over the next several months to transition OESP administration to government.

3) Affordability Fund

- The new Affordability Fund is intended to provide energy efficiency measures to electricity customers who are not eligible for low-income conservation programs, and who otherwise would be unable to make energy efficiency improvements without financial assistance.
- The Fund, established through the tax base, will be administered by an independent Trust and accessible to electricity distributors.
- Eligible customers will be identified by electricity distributors. It is expected that priority will be given to homes primarily heated by electricity.
  - The estimated reach of the Fund is expected to be 15,000 to 65,000 households, depending on energy efficiency measures and uptake.
  - It is expected that the program will assist eligible electricity customers by providing measures ranging on average from $3,000 to $5,000 per customer at no or minimal costs.
- Distributor-led, highly targeted marketing of the Fund is recommended, as opposed to broad-based marketing, to enable distributors to target customers who are in need of assistance.

<u>Status / Next Steps</u>

- On March 24, 2017, ENERGY entered into a Transfer Payment Agreement with Computershare, who ~~will~~ acted as the Original Trustee, to flow $100M to the Affordability Fund Trust.
- On June 19, 2017, Computershare was replaced with a Board of Trustees which includes representation from two social agencies (Ottawa Carleton United Way and the Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- The Board of Trustees will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria established by the Trust.
- Hydro One, in its administrative capacity, is developing back office support and preparing recommendations for the first meeting of the Board of Trustees.

3) Affordability Fund (cont'd)

Status / Next Steps

- **July 2017:** Trustees expected to engage with distributors, IESO, OEB, others, to define funding criteria and processes
- **Late Summer 2017:** Estimated timeline for electricity distributors to begin applying to the Trust for funds
- **Q2 2017-2018:** Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets
- **Late 2017/early 2018:** ENERGY could apply for additional funds through 2018-19 PRRT based on Affordability Fund Trust performance and incremental identified needs. Trust term can be extended with amended/new TPA if agreed by Trust

4) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow eligible electricity consumers/market participants in the manufacturing sector and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI.
- Prior to the amendment to O.Reg. 429/04, ICI participation was only available to electricity consumers with average monthly peak demand greater than 1 MW.

Status / Next Steps

- Newly eligible consumers had to ~~must~~ opt-in with their LDC by June 15 to participate in ICI for the billing cycle beginning July 1.
- Information regarding ICI participants in gathered by the Independent Electricity System Operator (IESO) every July. ENERGY should expect to receive this information from IESO in August.

5) OFHP Billing Requirements

- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act*, 2017 (OFHPA) and the *Ontario Energy Board Act*, 1998 to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
  - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
  - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
  - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note, the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for $00.00 charges) and a definition in the "Glossary of Terms".
- As of July, 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements, so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations.

5) Redesign Action Plan (RAP)

- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry plans to launch a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
  - Enhancing the customer experience (e.g., enhancing mobile access);
  - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
  - Consolidating the regulatory framework; and
  - Promoting greater understanding (e.g., clarifying terminology and calculations).
- To initiate this plan, the Ministry intends to convene a “RAP Working Group” in August 2017 consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
- The Ministry also plans to conduct research on bill redesign initiatives, including a jurisdictional scan on best practices, as well as background on vendor billing systems.
- As noted, Hydro One has been exempted from current invoicing regulations as of July 1, 2017 so that they may proceed with their planned bill redesign. As a condition of this exemption, Hydro One has agreed to share their findings and lessons learned from this redesign process, as well as participate in the RAP Working Group.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments in late Fall 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

5) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

Pre-July 1, 2017 OFHP Bill Inserts	**July 1, 2017** OFHP Required Messaging	**Aug. – Sept. 2017** RAP Consultations	**Fall – Winter 2017** RAP Regulatory Amendments	**Winter 2018 –** RAP Implementation
▪ Requirement for LDCs to issue "8% rebate" envelopes and include "8% rebate" on-bill messaging revoked from O. Reg. 364/16. ▪ LDCs voluntarily issued OFHP bill inserts in June ahead of finalized OFHP regulations (bill inserts printed by ENERGY).	▪ OFHP regulations introduced requiring LDCs to comply with the following by July 1st: 1. Issue OFHP bill inserts on a quarterly basis for one year; 2. Include OFHP on-bill messaging; 3. Include a FNDC line item, where applicable; and 4. Remove outdated on-bill messaging (e.g., DRC). ▪ Hydro One exempted from specified OFHP invoicing requirements and O. Reg. 275/04.	▪ ENERGY to convene a RAP Working Group in August, including Hydro One, the EDA, the OEB, the Coalition of Large Distributors, as well as other LDCs and industry assoc. ▪ As part of this group, ENERGY to seek feedback on changes to bill presentment, regulatory reform, and gather information on behavioural economics, consumer advocacy and billing system design.	▪ Following RAP consultations, ENERGY to introduce regulatory amendments to simplify bill presentment in late Fall/Winter 2017. ▪ Hydro One to begin rolling out its redesigned electricity bills in Q4 2017.	▪ New/amended invoicing regulations to become effective as of January 1, 2018. ▪ Hydro One expected to complete its roll-out of redesigned bills to its low volume consumers by Q2 2018. ▪ New regulations to include ample transition period for LDCs to adopt new regulatory invoicing requirements.

6) Engagement with Legislative Officers

- Both the Financial Accountability Officer (FAO) and the Auditor General (AG) have expressed interest in OFHP.

FAO

- On March 9, 2017, ENERGY and MOF provide the FAO staff with a technical briefing.
- On March 14, 2017, ENERGY and MOF received a letter requesting additional information on the OFHP.
- On May 24, 2017, the FAO released “An Assessment of the Fiscal Impact of the Province’s Fair Hydro Plan”.

AG

- On April 19, 2017, ENERGY met with AG staff.
- ENERGY has received request from the AG for records relating to OFHP accounting and financing. Tranche 1 of these records has been submitted. Tranche 2 of records search will require the support of external resources to conduct record search and assess relevance of responsive records.
- Staff to work with AG staff regarding requests for additional information.

Timing and Critical Milestones

March 2017	Spring 2017	Summer / Fall 2017	
Announced OFHP	***Approval of Processes and Mechanisms***	***Finalize Legislation and Regulations, New Initiatives Come into Effect***	
• Established working groups and committees • Stakeholder and agency outreach • Posted ICI regulatory proposal • Execute Affordability Fund TPA and flow $100 million to Trust	• Partial reduction related to OFHP in May 2017 RPP rates. • Report back to TBC/MBC, LRC and Cabinet on select initiative. • Appointment of Board of Trustees for the Affordability Fund • Royal Assent of legislation.	• Report back to TBC/MBC and Cabinet on new regulations and amendments to existing regulations. • Full implementation of GA refinancing for RPP eligible effective July 1. • New consumers begin ICI participation on July 1. • Electricity Distributors expected to apply to Affordability Fund	• OPG/IESO to proceed with GA Refinancing implementation Summer/Fall 2017. • Implementation of the broadening of RRRP, First Nations On-Reserve Delivery Credit and Distribution Rate Protection begins July 1. • OESP begins August / September 2017. • Report back to TBC/MBC, LRC and Cabinet on Affordability Fund in Fall 2017.

Next Steps

- Ongoing work to implement OFHP with ministries, energy agencies, external advisors and LDCs.

- Ongoing work on how to input the impact of OFHP into the 2017 Long-Term Energy Plan residential bill forecasts.

Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Affordability Fund Trust - Board of Trustees
- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government