
LTEP Deck: Energy Accessibility

Minister's Briefing
April 26, 2017 v4.1

CONFIDENTIAL DRAFT

Background

- A primary policy objective for the Ministry is to ensure that the electricity sector is responsive to the needs and requirements of the consumers it serves
- As the energy system enables the requirements of modern life and supports the provincial economy, critical functional characteristics of the system would include:
 - Recovery of costs in a fair, equitable, and affordable manner;
 - Clear and open sector operation that is easily understood and accessed by consumers;
 - Serving as an enabler of economic development and competitiveness;
 - Promoting open access and confirming the sector serves the interests of all Ontarians; and
 - Ensuring reliable service and other performance outcomes that serve the public interest.
- As the Ministry prepares the next Long-Term Energy Plan (LTEP), there is opportunity to address these challenges and promote equitable and affordable access to the electricity sector, both in terms of grid connection and interaction with sector organizations
- This deck presents an overview of recommendations for inclusion in LTEP to make the energy sector more cost effective and accessible for customers

Summary of Proposed LTEP Initiatives

Accessibility

1. Strengthening LDC Accountability to Consumers
2. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process
3. Protecting Customers through Rate Regulation of Sub-Metering Providers
4. Regulatory Flexibility and Financial Support for Natural Gas Expansion

* Note: Further content in Maximizing Existing Assets – Electricity deck on distributor reliability

1. Strengthening LDC Accountability to Consumers

Recommendation:

- Direct the Ontario Energy Board (OEB) to continue the work of the Renewed Regulatory Framework for Electricity (RRFE) by further enhancing performance and improving efficiency of LDCs through the introduction of more defined incentives and penalties
- As part of this initiative the OEB would create a regulatory environment which better replicates the pressures and incentives of a competitive market, whereby utilities are motivated to be more proactive, innovative, cost effective and less risk averse in the delivery of electricity service which responds to their customers' needs and expectations
- Options could include:
 - Impose a stronger system-wide performance expectation on LDCs which is tied to Rate of Return risk and reward. System performance expectations could be linked to the already established principles of the RRFE:
 - Customer Focus: Strengthen the LDC Scorecard by connecting it to LDC financial performance i.e. penalties where Scorecard measures are not met, for example, \$20 paid (from LDC profits) to a customer who has experienced an extended outage to show the customer that the LDC values their time not connected
 - Financial Performance: Revise rate-setting to encourage LDCs to address system issues with innovative solutions rather than defaulting to capital investments (on which they earn a rate of return) which is currently the practice. For example: changing the rate making regime to incent innovative technologies that are not long term asset based and reflect faster and more flexible service to the customer
 - Operational Effectiveness:
 - Revise rate-setting to reflect tightening productivity requirements, for example, the OEB could re-introduce a productivity factor (it is currently set to zero). Between rate basing, LDC rates would increase by inflation minus the productivity factor to encourage ongoing cost efficiency and productivity.
 - Reduce barriers and create incentives for LDCs to enter into service sharing agreements which would reduce back end costs and encourage further innovation. Incenting LDCs to fulfil regulatory requirements, for example the requirement for monthly billing, via shared services with other LDCs would enable all customers to receive the same level of service, regardless of the size of their LDC, but on a more cost effective basis
 - Public Policy Responsiveness: Ensuring the implementation of other policy initiatives contemplated in LTEP such as in front of the meter programs, and Conservation and Demand Management
- This Direction to the OEB would satisfy the Ontario Fair Hydro Plan requirement for the OEB to seek further efficiencies and productivity among its regulated utilities

1. Strengthening LDC Accountability to Consumers

Considerations/Risks:

- As referenced in Ontario's Fair Hydro Plan, distribution sector costs, like other components of Ontario's electricity system, have risen as investments have been made to update and modernize system infrastructure
- The Ontario Fair Hydro Plan committed that the OEB would identify opportunities for cost efficiencies by:
 - *'Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes', and*
 - *'Encouraging shared partnerships on services between utilities, which would help reduce costs and encourage further innovation for small to medium-sized utilities'*
- The OEB, through the RRFE, has been moving the distribution sector towards a performance/outcomes-based regulatory framework. New reporting requirements such as the LDC performance Scorecard are positive developments. However, as part of this initiative the OEB could enhance the RRFE framework to tie these system performance expectations/results to LDC financial and operational performance as incentive drivers.
- While the Ministry would set overall direction for the distribution sector to derive further value for consumers, decisions on and details of the actual regulatory mechanisms and requirements to achieve this outcome are within the purview of the OEB
- The process of policy development and consultation by the OEB is usually time intensive. There is a risk that there would be a time lag for consumers to experience the positive outcomes of this initiative

1. Strengthening LDC Accountability to Consumers

Implementation Strategy:

- The OEB Directive would task the OEB with continuing the work of the RRFE by taking steps to further enhance performance and improve efficiency among electricity utilities in order to optimise value for consumers
- Using the RRFE as the guideline for change, the Directive would initiate an update to the RRFE, that would build on the principles established in 2012 to complement the Long Term Energy Plan (2017)
- The OEB would launch consultations with all stakeholders to re-evaluate the RRFE framework and address the new requirements needed in the Long Term Energy Plan as well as updating the regulatory approach direction as outlined in the Fair Hydro Plan

Timeline:

- The OEB would begin developing and consulting on new measures in 2017. This initiative could encompass the development of multiple discreet measures and requirements with different implementation timelines (e.g. penalties related to Scorecard achievements could possibly be introduced sooner than amendments to the rate setting framework). However, the OEB could be required to have substantially completed the initiative, including implementation of new rules, by the end of 2018, for rate filings submitted to the OEB in 2019 (for rates effective in 2020)
- As a reference substantial work on the original RRFE commenced in 2012 and the resultant rate setting changes became effective for 2015 rates (filed with the OEB in 2014)

Collaborators:

- The OEB, LDCs, Transmitters, Consumers, Stakeholders, Government, Consumer Advocate(s)

Cost:

- This initiative would not impact the provincial budget
- Improved utility performance and efficiency should have a downward pressure on the distribution portion of the total electricity bill, with modest total bill impact:
 - Distribution rates only account for roughly 20% of the total electricity bill [NTD: based on Toronto Hydro, dx represents about 30% of a typical residential bill. Distribution represents 20% of total electricity system costs.]
 - Opportunities for improved utility efficiencies and performance may have moderate price impact on distribution rates, but are likely to result in mitigating increases rather than driving decreased rates
 - Direct payments to consumers for failing to meet a performance threshold would have greater bill impact but would be rare and intermittent in occurring, but could prove to be effective (and not collectible in rates in future applications)

2. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process

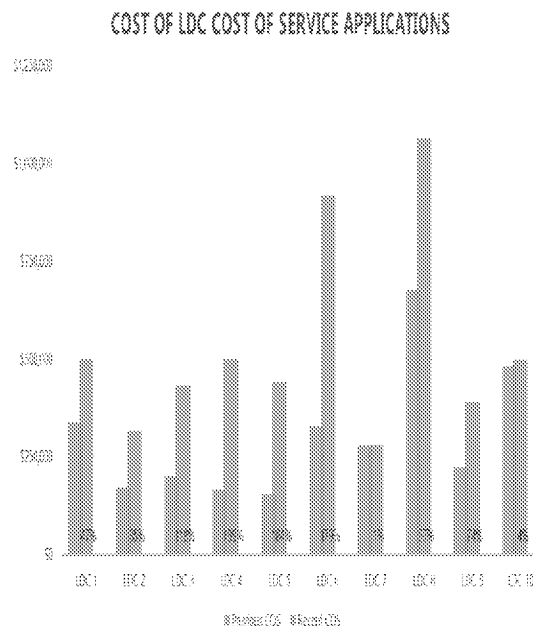
Recommendation:

- Direct the OEB to undertake a “Red Tape Reduction” initiative with respect to the requirements it imposes on regulated entities, and align this initiative with the framework of the RRFE and the Fair Hydro Plan.
- Examples of actions the OEB could take to implement this requirement could include:
 - Assessing cost/benefit analysis to Distributor’s rate applications, for example:
 - If revenue requirement increase is <\$1M – and if application is an annual mechanistic adjustment, i.e. inflation and cost of capital – the OEB could conduct an administrative review only
 - If customer base of a Distributor is less than 10,000 customers and a Cost of Service (CoS) application (detailed); intervenor costs should be capped
 - Intervenor costs should be capped at all levels for all initiatives and consultations (some are like that now - but bigger cases need to have a ceiling on the costs)
 - Requiring that all new OEB rules and requirements be accompanied by a cost benefit analysis which demonstrates benefits for customers and LDCs
 - Requiring the OEB to remove one rule/requirement upon the introduction of a new rule/requirement for LDCs – similar to the Government’s rule regarding amending/new regulations.
- This Direction to the OEB would satisfy the Ontario Fair Hydro Plan requirement for the OEB to review business cases behind its regulatory requirements to reduce red tape and eliminate costs for regulated entities

2. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process

Considerations/Risks:

- LDCs are concerned that regulatory processes have become increasingly costly, time-consuming and overly-prescriptive with limited cost-benefit analysis to justify
- LDCs are hesitant to prepare comprehensive rate filings due to unclear guidelines. LDCs believe certain regulatory and reporting requirements placed on LDCs can be streamlined and instead focus on achieving outcomes
- Providing LDCs with regulatory clarity and consistency would assist in achieving new LDC performance expectations
- The Ontario Fair Hydro Plan committed that the OEB would identify opportunities for cost efficiencies by:
 - 'Reviewing business cases behind its regulatory requirements to reduce red tape and eliminate costs that LDCs indicate are creating pressures on operating expenses'*
- The OEB is an independent regulator and as such they set their own procedural and administrative rules (within the confines of existing legislation) and will ultimately determine how reforms are implemented in practice
- The Ministry will need to consider how prescriptive the Directive should be in order to balance the desire to give clear direction to the OEB while acknowledging the OEB's independent role
- Additional LTEP requirements may increase the burden to LDCs and the OEB would need to consider how to incorporate these new requirements within the scope of its red tape reduction review



2. Ensuring a Modern, Streamlined and Cost-Effective Regulatory Process

Implementation Strategy:

- Direct the OEB to review and change Regulatory Process to ensure a modern, streamlined and cost effective process(es). For example:
 - The OEB would launch consultations with all stakeholders to re-evaluate regulatory framework and address the new requirements needed in the Long Term Energy Plan as well as updating the regulatory approach direction as outlined in the Fair Hydro Plan

Timeline:

- Instruct the OEB to implement changes on a staggered basis over the next 4 years to smooth out regulatory burden. Ensuring that new rate making processes are available for 2019 application filings for the rate year 2020 would parallel with the implementation timeframe for the enhanced RRFE initiative (initiative 1 in this deck)

Collaborators:

- OEB, LDCs, Consumers, Government, Stakeholders, Consumer Advocate, Transmitters and Generators

Cost:

- This initiative would not impact the provincial budget
- Enhanced cost effective regulatory processes is expected to result in downward pressure on distribution rates for consumers
 - Across LDCs, costs for hearings have increased, separate and apart from inflationary increases. Hydro One's latest Custom IR application cost \$679,889 to file
- Costs for the OEB to carry out this initiative should be net zero as its consultation costs should be off set by internal savings
 - The OEB's regulatory cost per customer in 2015 was \$5.71, up 39.3% over 2009

3. Protecting Customers through Rate Regulation of Sub-Metering Providers

Recommendation:

- State intention to provide OEB with authority to rate regulate Unit Sub-Meter Providers (USMPs), as a means to ensure that the OEB is adequately fulfilling its mandate to protect the interests of electricity customers, including those billed by USMPs, with respect to rates and quality of service
- Pending legal review, this could be accomplished by proclaiming an unproclaimed section of the OEB Act, which contains this authority. Prior to such proclamation, staff can work with the OEB to collect information that can help determine the manner and method in which USMPs would be rate regulated.

Considerations/Risks

- As per O.Reg. 389/10 (made under the Energy Consumer Protection Act, 2010) individual metering ('suite metering') is required in all new multi-unit buildings (including residential rental, condominium and co-operative housing) built after January 1, 2011 and is optional for pre 2011 buildings
 - To comply, buildings can choose either 'unit smart metering' by an LDC or 'unit sub-metering' by a USMP
- USMPs are private companies which install 'unit sub-meters' for individual units in a multi-unit building (connected to an LDC's bulk meter) and bill unit occupants directly
- USMPs are licensed by the OEB (28 licensed at present) and are subject to the OEB's 'Unit Sub-Metering Code' however USMPs do not currently pay towards the OEB's operational costs like other licensed entities
 - According to Ontario Clean Energy Benefit payment data, as of December 2015, there were 175,000 residential and small business customers served by 7 USMPs

3. Protecting Customers through Rate Regulation of Sub-Metering Providers

Considerations/Risks:

- USMPs are required to pass on LDC bill charges as measured by the bulk meter with no mark-up but their additional monthly fees (for sub-metering and billing) and miscellaneous charges (e.g. disconnection) are not reviewed or approved by the OEB
- USMP fees usually vary by building and by customer type and are typically not available online – hence there is a lack of transparency with respect to what USMP customers are paying for electricity
- In many cases, it is the developer of a new multi-unit building, rather than the building owner or residents, which contracts with a USMP to install unit sub-metering during the building's construction
 - The contract agreed by the developer, whose interest may not be aligned with that of the eventual building owner/management/residents, would include the fees and charges and conditions of service applicable to building residents
 - USMP contracts can have long terms, e.g. 20 years
- The OEB Act contains an un-proclaimed provision which authorises the OEB to regulate USMP charges
- Some USMPs have recently lobbied government to mandate unit sub-metering for all multi-unit buildings as a conservation measure

Implementation Strategy:

- Work with OEB staff to prepare a public report on a new approach to USMP rate regulation, to be followed by the proclamation of the unproclaimed OEB Act provisions.

3. Protecting Customers through Rate Regulation of Sub-Metering Providers

Implementation Strategy Continued:

- The public report would involve research and consultation phases, and could include:
 - As an initial step the OEB could issue an order via a 'Compliance Bulletin' requiring that USMPs submit the information deemed necessary by the OEB to investigate the sector, e.g. customer numbers, general service territories, fees and charges, terms and conditions of service etc
 - Research into unit sub-metering (i.e. electricity metering and billing in multi-unit buildings by a non utility) in other jurisdictions
 - Engagement and consultation with all parties to the USMP sector including customers or customer associations

Timeline:

- The OEB would commence its USMP assessment in 2017 with a requirement to provide a report to the Ministry, including proposed actions where appropriate, by March 31 2018. Once satisfied, the Ministry could proclaim the unproclaimed sections in spring/summer 2018.

Collaborators:

- OEB, USMPs, LDCs, Consumer Advocate(s), Ministry of Housing (responsible for the Residential Tenancies Act, 2006 which contains provisions related to suite metering in residential rental buildings), associations representing multi-unit building owner/operators e.g. Federation of Rental Housing Providers of Ontario, associations representing multi-unit building residents/tenants e.g. the Federation of Metro Tenants Association

Cost:

- This initiative would not impact the provincial budget
- Regulation of USMP fees and charges may result in more consistent, transparent and potentially lower electricity bills for USMP customers where the OEB study finds that USMP rates are currently egregious
- The OEB's assessment would have to include a cost-benefit analysis which would consider additional costs to the OEB to rate regulate this sector versus the benefits to the relatively small pool of USMP customers

4. Regulatory Flexibility and Financial Support for Natural Gas Expansion

Recommendation:

- **Decision:** Support natural gas expansion noting the OEB decision and MOI funding, while recognizing that natural gas will not be available in every corner of the province.
- **Exploratory:** Seek to maximize the value of existing natural gas infrastructure while reducing GHG emissions through integrated energy solutions.

Considerations:

- Natural gas is commonly used as a heating fuel. Compared to other heating fuels, natural gas has a lower carbon footprint than propane or heating oil. Natural gas would have a higher carbon footprint than electricity or renewable sources like biomass (e.g., wood).
- Extensive natural gas infrastructure is in place in Ontario (approximately 75% of homes are heated with natural gas in Ontario). The infrastructure includes extensive storage and capacity to meet peak heating demands.
- Stakeholders identified that access to natural gas is urgently needed in rural Ontario to lower energy costs for homes and businesses, to facilitate industrial expansions and to attract investment.
- In February 2015, the Minister asked the Ontario Energy Board (OEB) to assess what options may exist to connect more communities to natural gas and to ensure the rational expansion of Ontario's natural gas transmission and distribution system.
- In November 2016, the OEB issued a decision on a generic hearing regarding natural gas expansion. The decision gives more flexibility to utilities (by allowing stand-alone rates and surcharges) to make expansion to unserved communities more economically feasible and encourages competition to service communities.
- On January 30, 2017 the Ministry of Infrastructure announced its \$100 million natural gas grant program to aid in the expansion of natural gas service to rural, northern and Indigenous communities.

4. Regulatory Flexibility and Financial Support for Natural Gas Expansion

Considerations (Cont'd)

- The 2013 LTEP highlighted that Ontario wants to ensure communities can access natural gas to take advantage of low prices.
- Maximizing and maintaining the use of natural gas infrastructure can help keep costs down by avoiding "stranded asset" risk where ratepayers pay for minimally utilized / unused assets.
- Overall system costs need to be considered in the LTEP – natural gas can continue to play a role during the transition to a low carbon economy by meeting key needs (e.g., peak heating demand).
- Renewable Natural Gas (RNG) is an opportunity to leverage existing natural gas infrastructure and green the economy - RNG is a renewable fuel source that can help meet Ontario's climate change objectives. Expanding natural gas to rural areas will increase pipeline connections to potential sources for RNG supply
- There may be niche economic opportunities for natural gas to replace higher carbon intensity diesel / gasoline in the transportation sector. Climate Change Action Plan has initiatives to support infrastructure expansion, a current barrier to natural gas use in the transportation sector.
- Due to high cost of pipeline connections, natural gas will not be economically viable for all regions / areas of the province. Other fuels (e.g., electricity, heating oil, propane, wood, etc.) will have to meet end user needs.
- **Forecast:** Expansion of gas services is not anticipated to have a significant impact on electricity or gas demand on a provincial scale .
- **Prices:** Individual consumers could see major energy cost savings for space and water heating.
- **Regional:** Expansion will affect regional electricity and gas demand and associated planning on a community scale.