Rate Mitigation Measures

Presentation for Premier's Office

December 14, 2016

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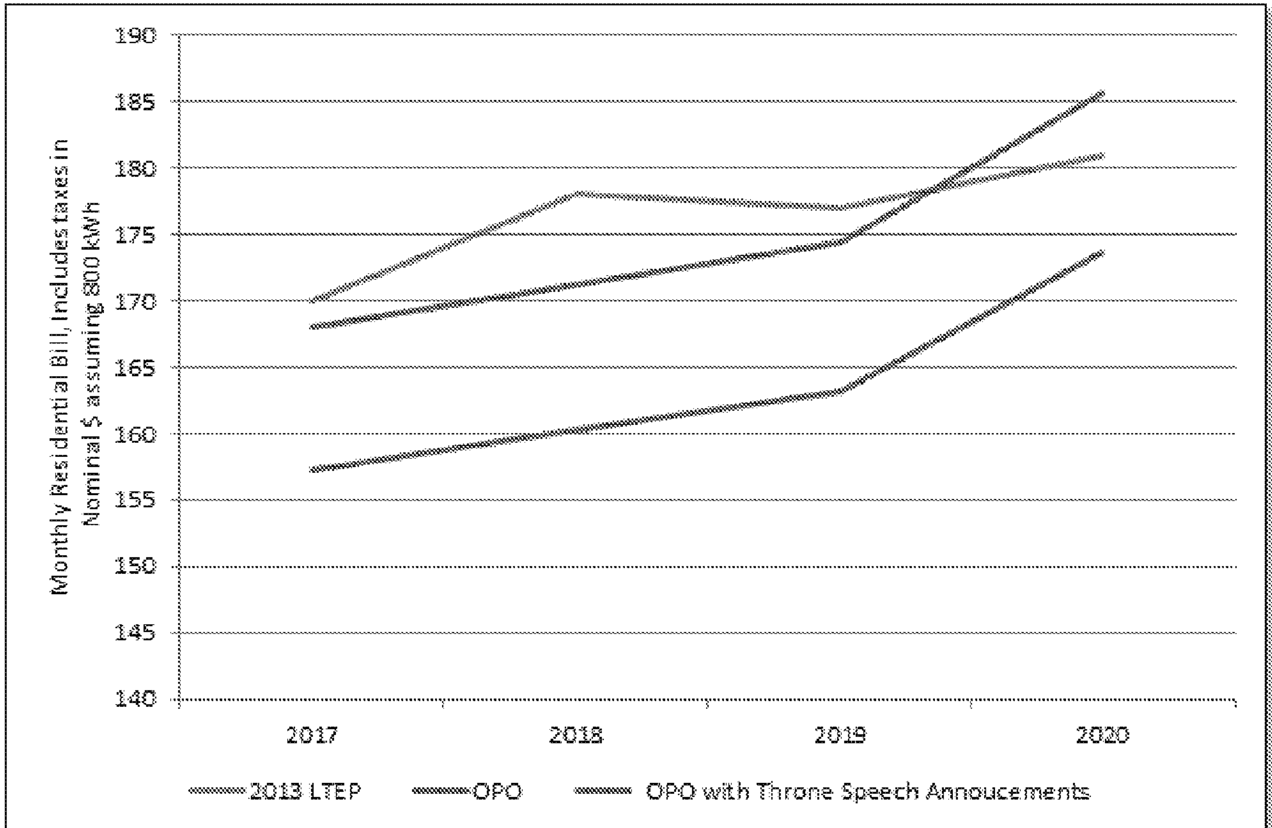
Overview of Rate mitigation options

- Over the past decade Ontario has experienced yearly electricity rate increases averaging 5.1 percent, peaking at 18 percent in 2016.
- However, rates are expected to stabilize and increase by 2.1 percent annually in nominal dollars from 2016 to 2020.
- The decision to halt the Large Renewable Procurement (LRP) II and the recent agreement with Quebec, along with ongoing IESO initiatives, like Market Renewal and Non Utility Generator (NUG) renegotiations, will help minimize rate increases further.
- In addition, the IESO has identified three additional measures that could be taken to help reduce or defer future rate increases, including:
  1. Amortization of conservation costs
  2. Adjust planned and directed standard offer procurements
  3. Further discussions with Quebec

Residential Cost Projections

- From 2006 to 2015 the total cost of electricity has increased about 54 percent, with average annual increases of about 5 percent
- The annual increase from 2015 to 2016 was 18% which coincided with the elimination of the Ontario Clean Energy Benefit
- However, rates are expected to stabilize and increase by 2.1 percent annually in nominal dollars from 2016 to 2020.



- The recently released Ontario Planning Outlook (OPO) forecasts lower rates in the interim than LTEP 2013.
- The announcement of an 8 percent rebate in the Throne Speech will reduce residential costs further.

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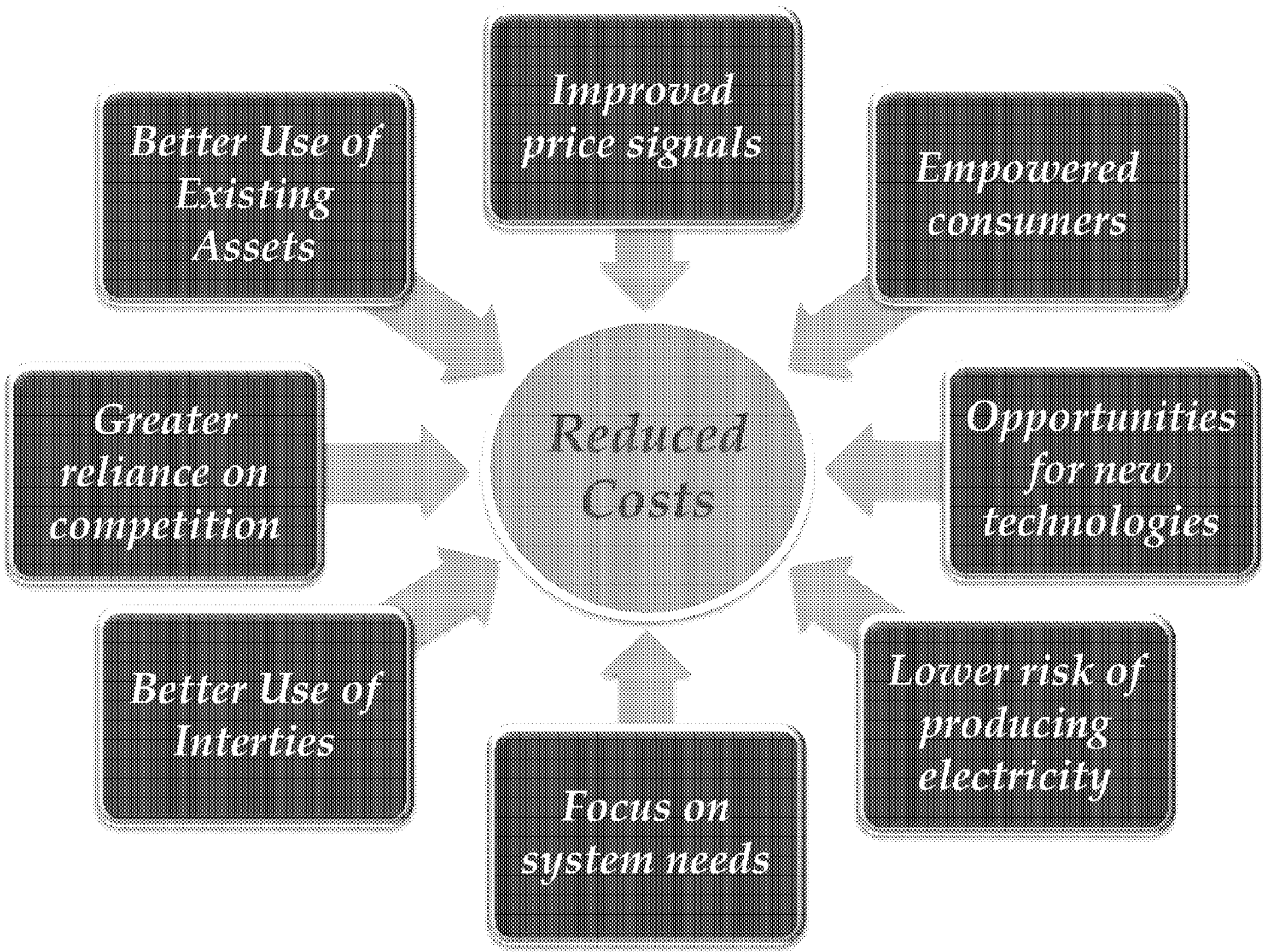
Ongoing Measure: Market Renewal Project

- Ontario's electricity sector has gone, and continues to go through significant changes
- The IESO is working with its stakeholders to consider important enhancements to Ontario's wholesale electricity market, and introducing a technology agnostic and competitive procurement of resources
- Market Renewal will draw on lessons learned and best practices in Ontario and elsewhere to achieve material efficiencies in the near and longer term
- The IESO is in the process of quantifying the expected benefits, including for consumers, before committing to developing and implementing the various projects
- The project aligns with the priorities outlined in the Minister's mandate letter, including mitigating the impact of electricity prices on consumers and businesses, and developing a level playing field to source affordable, clean, innovative, and reliable electricity in the future.

Market Renewal: Where are the Benefits Expected to Come From?



Ongoing Measure: Re-negotiate NUG contracts

- The IESO has been pursuing more flexible operation from the natural gas NUGs still under contract with the Ontario Electricity Financing Corporation (OEFC)
- The objective is to ensure these natural gas facilities no longer operate 24/7 and instead provide energy to Ontario only when it is needed.
- This is expected to reduce electricity sector GHG emissions as the facilities will not operate as frequently, while also reducing overall ratepayer costs.
- It is expected to also have the effect of reducing surplus base load generation

Additional Measures:

1. **Amortization of conservation costs**
   - Conservation program expenditures are approximately $500 M/year
   - Treat conservation cost recovery consistent with generation and transmission
   - A 10 year amortization period would decrease near-term ratepayer impacts, while increasing longer term rate impacts. The overall cost to ratepayers will be higher due to borrowing costs.
2. **Adjust standard offer procurements** *(Planned and Directed only)*
   - An adjustment to remaining renewable target would help reduce rate increases with minimal impact on future capacity and reliability forecasts, i.e. FIT 5 Extension, FIT 6 and remaining renewables to reach 10,700 Target for a total of 850 MW of installed capacity
   - The majority of this capacity reduction will be achieved in the later part of the forecast, beyond 2020
   - Other reductions in generation currently under contract were also considered but are not recommended

Additional Measures:

3. Explore further discussions with Hydro Quebec

- IESO and HQ recently finalized an electricity trade agreement that includes energy, capacity, and cycling (storage) that is expected to reduce GHG emissions and ratepayer costs
- While it will be important to get learnings from the recent agreement as it goes into effect, there may be additional opportunities available through continued dialogue with Hydro Quebec
- Further discussions around opportunities should continue to be based on Ontario's three objectives:
  - Reducing GHG emissions in Ontario;
  - Providing savings to Ontario ratepayers;
  - Complementing other electricity wholesale market and policy initiatives

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