Modelling the Impact of the Ontario Fair Hydro Plan (OFHP) on Residential Monthly Bills

June 2017

Overview

The Ontario Fair Hydro Plan (OFHP) sets out a number of parameters by which residential bills of a regulated rate consumer will be lowered starting in July 2017. ~~The OFHP is expected to have three distinct periods impacting residential bills from 2017 to 2047.~~ The OFHP will first lower residential bills by 25% and keep bills capped at the rate of inflation for 4 years. Bills will then escalate further until the OFHP funds the accumulated difference between the expected bill and the OFHP bill up to $28 billion. After which the OFHP will increase bills above the forecast to repay the debt by 2047. The OFHP is an additive cost control measure to the 8% HST rebate and removal of specific social programs from the rate base. The OFHP is expected to have three distinct periods impacting residential bills from 2017 to 2047.

Key Periods for Modelling the OFHP

Period 1: July 2017 to July 2021

- After-tax residential bills will be reduced by 25% relative to the Ontario Energy Board (OEB) TOU rates released May 2017 starting in July 2017
  - This drop includes a permanent reduction in bills due to:
    - an 8% HST rebate and;
    - Removal of the Rural or Remote Electricity Rate Protection (RRRP) program and Ontario Electricity Support Program (OESP) from the electricity rate base
  - Plus an additional reduction to achieve the initial total 25% and keep bills at no more than inflation that will eventually need to re-paid.
- Subsequent residential bills until July 2021 will be adjusted bi-annually, capped at the rate of inflation ~~until July 2021~~
- The difference in the forecasted bill and the new OFHP bill less the 8% HST rebate and cost savings due to RRRP and OESP will be the amount funded by the OFHP bi-annually

Period 2: July 2021 to maximum accumulated debt (variable)

- Starting July 2021, residential bills will be allowed to escalate bi-annually at an average rate above inflation so that the funding provided by the OFHP reaches an accumulated debt total of $28 billion
  - Current forecasts estimate this to occur in late 2028, this is variable

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- The difference in the forecasted bill and the new OFHP bill less the 8% HST rebate and cost savings due to RRRP and OESP will be the amount funded by the OFHP bi-annually

Period 3: Late 2028 (variable) to May 2047

- The OFHP bill will be increased above the forecasted bill to start repaying the accumulated debt of $28 billion by May 2047
    - The difference between the OFHP bill and the forecast less the 8% HST rebate and cost savings due to RRRP and OESP will be the amount repaid by the OFHP bi-annually
        - The increase in bills will be implemented as a Clean Energy Adjustment
- After May 2047, all of the debt will be repaid and bills will be forecasted to incorporate the 8% HST rebate and cost savings from removing the RRRP and OESP

Model Design and Assumptions

- Annual forecasted bills were adjusted to bi-annual bills in-line with the timing and release of the OEB TOU rate adjustment periods (May & November).
    - Bi-annual bills and demand were based on that periods percent contribution to demand (2016 historical)
- Annual adjustments for inflation (2%) and escalation post July 2021 was compounded bi-annually
- For forecasted bills, a before tax forecast of residential monthly bills were provided from 2018 to 2035 from LTEP 2017. Years beyond 2035 were forecasted by averaging year over year change for six years (2026-2035) and applied to 2035 and extended to 2050
- The difference between the forecasted bill and the OFHP bill less the reduction in bills due to the 8% HST rebate and the RRRP and OESP programs determine the net amount of funding (or re-payment) for that period
- Borrowed debt and interest contribution to accumulated debt. The interest rate is set at 5%.

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