Ontario

MINISTRY OF
ENERGY

Ontario's Fair Hydro Plan

Ontario Chamber of Commerce AGM breakout session

May 5, 2017

Ontario's Fair Hydro Plan

- Ontario's Fair Hydro Plan (OFHP) proposes new measures to lower electricity bills by 25 per cent on average for residential consumers and hold increases to the rate of inflation for the next four years, as well as initiatives to reduce costs for farms and businesses.
- The plan includes the 8% rebate introduced in January and builds on previously announced initiatives to deliver broad-based rate relief on electricity bills.
- All consumers in the province would benefit from at least one of the initiatives under the OFHP.
- OFHP has the following major components:
    1. **Refinancing the Global Adjustment (GA)**
    2. **Helping vulnerable electricity consumers**
    3. **Extending the Industrial Conservation Initiative (ICI)**
    4. **Improving Sector Efficiency**
    5. **Modernizing Ontario's Electricity Market**

Electricity Bill Components for a Business Consumer

- The following are the bill components for a typical business consumer:
  - **Electricity**: Reflects the prices in the IESO-administered wholesale market.
  - **Global Adjustment (GA)**: A charge that ensures full recovery of generation costs. The cost of conservation programs is also covered by this charge.
  - **Transmission**: Covers costs associated with transporting electricity from the generator to the low-voltage grid.
  - **Distribution**: Reflects costs related operating and maintaining the local distribution system (e.g., Toronto Hydro).
  - **Regulatory**: Charges to recover costs associated with operating the wholesale market, as well as costs associated with the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program.
  - **Debt Retirement Charge (DRC)**: A charge to pay down the debt of the former Ontario Hydro. DRC will removed from electricity bills of non-residential consumers as of April 1, 2018.
- Consumers that are eligible for and choose to participate in the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) pay RPP prices which include the wholesale price for energy and the GA.

Refinancing Global Adjustment

- To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced.

- Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

- The government has introduced legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time.

- The legislation also outlines the role for the OEB, as it relates to the financing proposal.

- The eligibility for GA refinancing would be aligned with the current rebate equal to the provincial portion of HST.
  - This includes all consumers eligible for the RPP (e.g., residential, small business and farms).
  - Businesses with a peak demand of less than 50 kilowatts (kW) and annual usage of less than 250,000 kilowatt hours (kWh) are eligible (e.g., dry cleaners, small retail, etc.)

Shifting Support Program Funding

- Currently, the Rural or Remote Rate Protection (RRRP) program and Ontario Electricity Support Program (OESP) are funded by ratepayers through the regulatory line on your bill.
- The OFHP proposes to shift the funding of these programs to provincial revenues.
- Shifting these cost from rate-base to the tax-base would save all consumers approximately $3/MWh.
- As of May first, the Ontario Energy Board issued an order to LDC's to remove the charge for the OESP from bills.
- The funding of the RRRP charge would be shifted to provincial revenues following the passing of the legislation to enable the OFHP.

Energy Sector Efficiencies

- Ontario's commitment to lowering energy costs for ratepayers would include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements.

Ontario Energy Board

- The OEB regulates and licences more than 70 Local Distribution Companies (LDCs). The OEB also sets electricity rates and prices and monitors and assesses the performance of electrical utilities.

- The OEB will identify opportunities for cost efficiencies by:
  - Encouraging shared partnerships on services between utilities, which would help reduce costs and encourage further innovation for small to medium-sized utilities.
  - Reviewing business cases behind its regulatory requirements to reduce red tape and eliminate costs that LDCs indicate are creating pressures on operating expenses.
  - Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

Independent Electricity System Operator

- The IESO plans for the province's electricity needs, balances the supply and demand for electricity in Ontario in real time and administers conservation programs.

- The IESO and partners have begun a market renewal project to enhance efficiency and performance of the wholesale electricity market. Changes related to the IESO's market renewal initiatives are estimated to have benefits ranging from $2.2 to $5.2 billion (10-year NPV) .

Industrial Conservation Initiative Expansion

- Electricity consumers that participate in the Industrial Conservation Initiative (ICI) are charged GA based on their contribution to the "top five peak" demand hours in Ontario each year. Participants in ICI are able to reduce their GA costs based on their ability to reduce demand during these five peaks.
- By reducing Ontario's peak demand for electricity, ICI reduces the need for peaking generation facilities over the long term.
- Effective January 1, 2017, ICI program was expanded to all consumers with an average monthly peak demand of 1 megawatt or greater.
- As part of the OFHP, effective April 13, 2017, consumers with more than 500 kilowatts and less than 1 MW of monthly average peak demand in the manufacturing and greenhouse sectors are eligible for the program.
  - Consumers in this size class with North American Industry Classification System (NAICS) codes 31-33 and 1114 will be eligible.
- Consumers that opt-in will see the impact on their July 2017 bill.

Electricity Prices – ICI participants

- The table below shows prices for a hypothetical two megawatt consumer in 2016, as an ICI participant and a non-ICI participant.

- The GA rates for the ICI participant column below reflect the average rate paid by participants. Actual rates paid by participants varies based on responsiveness of consumption levels to system peaks.

	ICI participant	Non-ICI participant
Electricity	14.90	14.90
Global Adjustment	52.50	96.50
Transmission	7.25	7.25
Distribution	10.26	10.26
Regulatory	6.80	6.80
DRC	7.00	7.00
Total	**98.71**	**142.71**

Source: IESO, OEB

Note: Prices reflect a two megawatt consumer located in Toronto with an 85% load factor.
Distribution rates exclude rate riders.