Ontario Energy Board

Commission de l'énergie de l'Ontario

Report of the Board

Developing an On-Reserve First Nations Rate

Working draft: Dec 6, 2016

December XX, 2016

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EXECUTIVE SUMMARY

On June 27, 2016, the Minister of Energy asked the Ontario Energy Board (the OEB) to examine and provide advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers ("First Nations Rate").

As the Minister's letter points out, First Nations leaders have been advocating for the need to review delivery charges associated with transmission and distribution assets to provide electricity rate relief for on-reserve customers. The Minister asked the OEB to undertake outreach and engagement with First Nations communities to ensure that an understanding of the unique electricity issues facing their community members informed the OEB's efforts on this initiative.

In order to advise on options for a First Nations Rate, the Minister asked the OEB to:

- Identify eligible on-reserve First Nations consumers, including those who may live on reserves not connected to the IESO grid and those served by power systems not regulated by the Board;
- Consider impacts on existing electricity consumers, as well as distribution and transmission utilities and other stakeholders;
- Consider program funding and administration;
- Consider interactions with existing programs such as the Ontario Electricity Support Program (OESP); and
- Report back to the Minister by January 1, 2017.

The Minister's letter is attached as Appendix "A" to the Report.

OEB engagement sessions revealed a clear consensus among First Nations leaders that a First Nations Rate should acknowledge First Nations' contribution to the electricity system in the province rather than focus on affordability. There was also unanimous support for the elimination of the delivery charge.

After having engaged with First Nations and examined a range of possible options, the OEB has developed a preferred option to recommend to the Minister. The OEB recommends that the On-Reserve First Nations Rate:

- Eliminate the delivery charge for all on-reserve First Nations residential customers;
- Display the monthly on-bill amount that otherwise would have been charged for delivery;
- Require partnerships between distributors and band councils to identify all on-reserve First Nations customers; and
- Recover program costs on a provincial basis from all ratepayers through the Rural or Remote Electricity Rate Protection (RRRP) Charge.

This approach would provide a meaningful benefit, averaging $XX monthly, to an estimated 20,000 on-reserve First Nations residential electricity customers in Ontario. Total annual program costs are estimated to be up to $20 million.

This report is divided into four sections: An overview of the role of the Advisory Committee and guidance provided in scoping this initiative, a summary of input received from engagement sessions with First Nations communities and other stakeholders; a detailed description of the options considered and the recommended approach, and recommendations on how the On-Reserve First Nations Rate could be implemented and monitored once it is in place.

1. SCOPE & GUIDING PRINCIPLES

In July 2016, the OEB, together with the Chiefs of Ontario's Committee on Energy Grievances, established an Advisory Committee to help scope the initiative and develop guidelines for our report. The Advisory Committee met regularly throughout the OEB's process to develop this report, and provided advice on such areas as engagement plans, issues identification and development of proposed options.

1.1 Focus on Delivery Charges

From the outset of this process, the Advisory Committee stated that the focus for this initiative should be acknowledging First Nations' contribution to the electricity system in the province. The Advisory Committee also identified delivery charges associated with transmission and distribution assets as of particular concern to their citizens. First Nations customers questioned the high cost of delivery relative to the rest of the bill. It was recommended that the OEB consider an approach aimed at reducing delivery charges for First Nations customers.

1.2 What are Delivery Charges?

Delivery charges represent the costs of bringing electricity to residential customers, including the costs for building and maintaining the distribution network. Some of these charges are fixed at a set amount per month. Others are variable and increase or decrease depending on how much electricity is used.

Delivery charges include:

(1) **Customer Service Charge** – A fixed charge for costs relating to meter reading, billing, customer service and account maintenance, and general utility operations.

(2) **Distribution Charge** – A charge, currently per unit of electricity consumed, for costs of building and maintaining the distribution system, including overhead and underground power lines, poles, and transformer stations.

(3) **Transmission Charge –** A variable charge for the costs of transmitters to operate and maintain the high-voltage transmission system that carries electricity from generating stations to distributors.

(4) **Line Losses –** A variable charge to account for natural losses that occur from distributing electricity over distances. When electricity is sent over power lines, it is normal for a small amount of power to be consumed or lost as heat. Losses are inherent to the distribution of electricity and cannot be eliminated.

In 2016, electricity distributors began structuring residential rates so that the costs for distribution service are collected through a fixed monthly charge.

For most distributors, distribution charges will be an entirely fixed monthly service charge by 2019. For Hydro One, who serves the majority of on-reserve First Nations customers, the change to a fixed monthly service charge is being phased in over an 8-year period. The OEB agreed that a longer phase in period was required to help smooth customer impacts. Hydro One's move to fully fixed distribution charges will be completed by 2023.

1.3 Objective of the On-Reserve First Nations Rate

Based on the Advisory Committee's views that this initiative should acknowledge First Nations contributions to the electricity sector, the OEB believes it is appropriate to directly compensate individual First Nations consumers through savings on their electricity bill.

Accordingly, the OEB has undertaken this initiative with the objective of:

> *Developing an appropriate electricity delivery charge for on-reserve First Nations residential electricity consumers*

1.4 Guiding Principles for Developing an On-Reserve First Nations Rate

In collaboration with the Advisory Committee, the following principles were established to help guide the OEB in developing its recommendations:

1. Maximizing benefits for on-reserve First Nations residential customers at the lowest cost to other ratepayers

2. Ease of program implementation for First Nations residential customers and distributors

3. Fairness for all customers, including the impact on other electricity consumers

4. Demonstrating that First Nations views were heard and considered in developing this report

2. DEVELOPING AN APPROACH

2.1 Who Serves On-Reserve First Nations Customers

To guide the OEB in its research, the Ministry of Energy provided a list of all First Nations reserves in the province and their probable local distribution company. The OEB subsequently met with distributors to verify who delivers electricity to First Nations' reserves in Ontario. The following distributors were identified:

1. Algoma Power Inc.
2. Attawapiskat Power Corporation
3. Bluewater Power Distribution Corporation
4. Cat Lake Power Utility Ltd.
5. Cornwall Electric Distribution
6. Fort Albany Power Corporation
7. Kashechewan Power Corporation
8. Hydro One Networks Inc.
9. Hydro One Remotes Communities Inc.
10. PUC Distribution Inc. (Sault Ste. Marie)
11. Thunder Bay Hydro Electricity Distribution

These distributors are all licensed and rate regulated by the OEB and connected to the IESO grid, except for Cat Lake Power Utility Ltd (Cat Lake Power), Cornwall Electric Distribution (Cornwall Electric) and Hydro One Remotes Communities Inc. (Hydro One Remotes).

Hydro One Networks Inc. (Hydro One) has been operating Cat Lake Power's distribution assets on an interim basis since 2006.

Cornwall Electric is a licensed distributor but is not rate regulated by the OEB because it receives its power from Hydro-Québec.

Hydro One Remotes service area is unlike any other in the rest of Ontario. It serves 21 off-grid communities in northern Ontario, most accessed only by air or winter roads. These communities use diesel generation as their primary source of electricity.

In addition, the following First Nations communities were identified as being served by independent power authorities (IPA):

IPA Identified Communities	
Keewaywin First Nation	Pikangikum First Nation
Eabametoong First Nation	Poplar Hill First Nation
Muskrat Dam First Nation	Wawakapewin First Nation
Nibinamik First Nation	Weenusk First Nation
North Spirit Lake First Nation	Wunnumin Lake First Nation

IPAs are not licensed or rate regulated by the OEB. They are heavily reliant on diesel generation and funding from the federal government. They are located in remote areas of the province and are dependent on diesel generation.

2.2 A Typical First Nations Customer

The OEB requested aggregate consumption data for on-reserve First Nations customers from the licenced distributors listed above. Most distributors filed data in response to this request.

Evaluation of the data shows that there are an estimated 24,000 on-reserve First Nation customers, of which about 20,000 are residential users. While Hydro One Networks serves about 75% of on-reserve First Nations customers in Ontario, significant customer populations lie in the service territories of Bluewater Hydro (serving Sarnia and surrounding area), Thunder Bay Hydro and Algoma Power Inc.

Analysis of consumption data shows that on-reserve First Nations residential customers use an average of 1,XXX kWh per month, which is considerably higher than the 750 kWh consumption level that the OEB has defined as typical for Ontario household users. On-reserve First Nation residential customers also display volatility in their usage by season. Since most of these customers do not have access to natural gas service and are reliant on electric heat, their consumption is significantly higher in winter, at XXX kWh per month from January through March. Conversely, usage in summer is lower (XXX kWh/mo in June through August), likely due to lower than average penetration of air conditioning use.

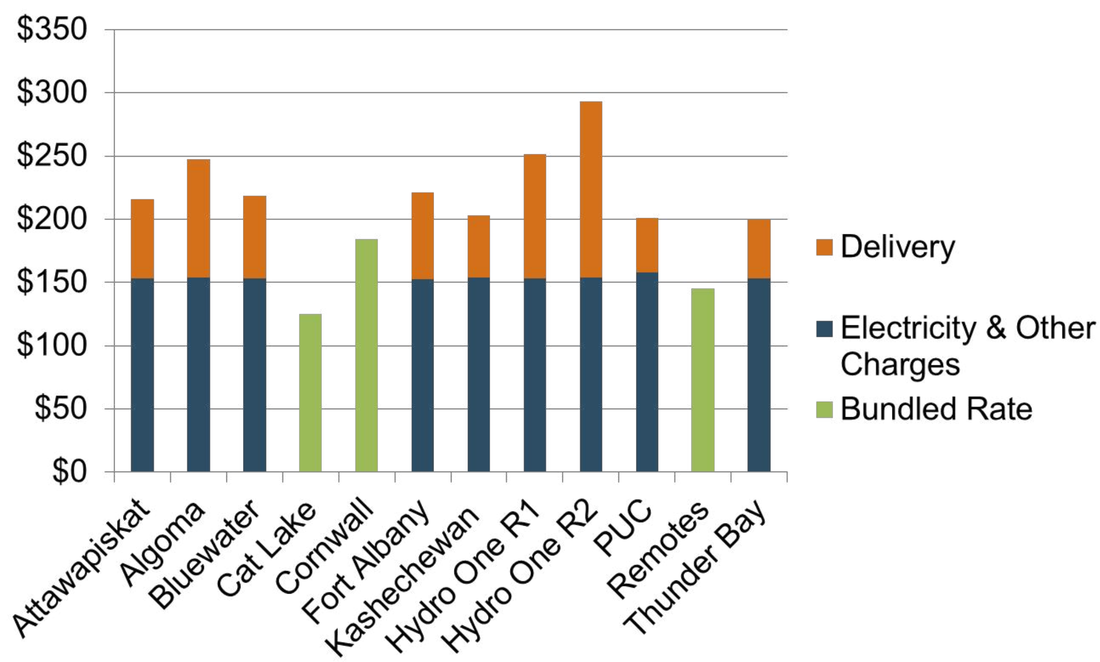
2.3 Typical Electricity Costs

Based on customer data and consumption patterns, the OEB assessed typical costs for First Nations on-reserve residential customers. The OEB's analysis indicates a typical bill averages $300 on an annualized basis. Costs in winter average about $350; costs in summer average about $250.

Notably, there is also a large disparity in costs across the province. The highest average costs are paid by customers of Hydro One in its lowest density service area (R2). The lowest costs paid by grid connected customers are in Thunder Bay.

This difference is due to delivery charges. Table 1 below provides a comparison of electricity rates for those distributors serving on-reserve First Nations customers. These rates are based on a First Nations customer using an average of 1,XX0 kWh per month.

Table 1: Residential Bills by Distributor



As depicted in the graph, electricity and other charges for grid-connected customers are fairly constant throughout the province at around $1XX.

The cost of electricity is recovered from all customers on the regulated price plan[1] in proportion to their consumption, taking into account a customer's usage pattern. Similarly, other charges, such as those related to the operation and planning of the electricity grid, are recovered at substantially the same rates across the province.

However, delivery charges vary based on the cost of distributing electricity to consumers in different parts of the province. For example, the cost to deliver electricity to a customer in a more densely populated area, such as Thunder Bay, is significantly less than the cost to deliver electricity in rural areas where customers live farther apart, such as Hydro One's R2 rate class. Within Hydro One's service area, residential customers are divided into different customer classes based on the population density and pay different delivery charges accordingly.

Cat Lake Power, Cornwall Electric and Hydro One Remotes charge a blended delivery rate which includes the cost of supplied electricity. Costs in these areas are not comparable to those served elsewhere, which, as is discussed later, prompts a number of issues warranting further consideration when evaluating an appropriate First Nations rate for these areas.

2.4 Proposed Options

Based on the Advisory Committee's input, distributor data and its experience with rate design, the OEB developed four main options for evaluation.

<u>Option 1: A First Nations Specific Rate Class</u>

The very nature of the Minister's letter prompted consideration whether a dedicated rate class should be defined for on-reserve customers. Under this approach, a distributor would evaluate the assets used in serving its on-reserve customers based on their load profile and the configuration of the distributor's electricity system, and allocate costs to this specific class of customers accordingly. The result would be a dedicated rate class that reflects the cost of serving this customer group; the distribution and transmission rates charged to this class would reflect the allocated costs and their expected usage. An additional option would involve reducing the costs allocated to this class by supplementing the revenues recovered from customers with another source of funding.

[1] The regulated price plan (RRP) was developed in 2004 to provide stable and predictable electricity pricing, encourage conservation and ensure the price consumers pay for electricity better reflects the price paid to generators. In accordance with the applicable regulation, the OEB must forecast the cost of supplying RPP consumers and ensure that RPP prices reflect this cost. RPP prices are reviewed by the OEB every six months to determine if they need to be adjusted.

Option 2: Seasonal Fixed Credit

Given the observation that bills vary from season-to-season, the OEB considered an option that would take these consumption patterns into account. Accordingly, the OEB designed a fixed credit amount which could be applied to the bill. The credit would vary based on the summer peak season (May 1 to October 31) and the winter peak season (November 1 to April 30). For the purposes of evaluation, the OEB developed a scenario based on the provision of a $50 credit in the summer and a $100 credit in the winter.

Option 3: 50% Total Bill Reduction

As an alternative to a fixed credit approach, the OEB thought about creating a percentage based credit which would reduce First Nations customers' overall total bill. The total bill amount would be reduced by a fixed percentage amount, such as 50%. The use of proportional relief rather than a specific dollar amount would reveal differences in program costs and efficacy between the two approaches in achieving fair outcomes for program participants in the face of varying electricity needs and different costs for service across the province.

Option 4: Delivery Charge Percentage Credit

Finally, given the specific concerns discussed in both the letter from the Minister of Energy and with the Advisory Committee, the OEB developed an option that targeted delivery charges specifically. Under this approach, the delivery line would be reduced by a fixed percentage amount, such as 100%, applied through a monthly on-bill credit. By focusing on delivery charges, the First Nations Rate would alleviate the issue of rate variability for First Nations customers. Unlike the total cost of electricity consumption, which customers can control to some degree by taking part in conservation programs, customers on reserve have no control over which local utility provides service to them; they therefore have no control over the delivery charges they pay for service.

2.5 Program Costs and Benefits

Estimated costs and benefits for each proposed option are presented in Table 2 below.

The cost projections were based on the following assumptions:

- A typical First Nations customer using 1,XX0 kWh per month;
- Current delivery costs, taking into account the enhancement to the RRRP to be provided to Hydro One's R2 residential customers in 2017;

- An eligible population of 20,000 on-reserve First Nations residential customers; and
- A summer period of May 1 to October 31 and a winter period of November 1 to April 30, consistent with RPP.

At a benefit of $50 in the summer and $100 in the winter, the Seasonal Fixed Credit approach would have an annual cost of approximately $12 to 16 million. Under the 50% Total Bill Reduction option, a typical First Nations customer would receive a monthly credit of about $X in the summer and $X in the winter, at a total annual cost of $20 to 28 million. Implementing a 100% Delivery Charge Credit would provide a benefit of almost $XX in the summer and $XX in the winter at a total annual cost of $13 to $20 million. It was not possible to calculate the cost or benefit of the First Nations Specific Rate Class as this would require a load profile study, cost allocation study and cost-of-service review to determine.

Appendix C describes the methodology used to develop these cost projections.

Table 2: Benefit Amounts & Cost Projections for Proposed Options

Proposed Options	Typical Credit Amount / Month		Approx. Residential Monthly Bill Impact for Ratepayers (750 kWh)	Total Annual Program Cost
	Summer	Winter		
First Nations Specific Rate Class	Would require a load profile study, cost allocation study and cost-of-service review to determine			
Seasonal Fixed Credit	$50	$100	$0.07-0.09	$11.8-16.3M
50% Total Bill Reduction	XX	XX	$0.12-0.16	$20.2-28.5M
100% Delivery Charge Credit	XX	XX	$0.08-0.11	$12.8-19.7M

3. ENGAGING WITH FIRST NATIONS AND OTHER STAKEHOLDERS

3.1 First Nations Communities

The OEB conducted engagement sessions with First Nations members in conjunction with the Chiefs of Ontario, in London, Couchiching, Sudbury, Toronto and Thunder Bay. A list of First Nations communities represented at these sessions in contained in Appendix B. The sessions focused on First Nations' concerns regarding electricity costs, the existence of energy infrastructure on reserves and traditional territory, customer service practices and other matters. The OEB also discussed broad alternatives of providing rate assistance through either fixed or proportional credits, as well as through the definition of a specific rate class for on-reserve electricity customers.

Throughout the sessions, two primary concerns emerged: (1) The use of First Nations' treaty lands to distribute and transmit power without permission or compensation, and (2) the high cost of electricity.

First Nations leaders emphasized that high electricity prices are crippling their communities, stagnating economic development and displacing citizens from their homes. Those in attendance reported that First Nations consumers are frequently faced with the decision of either paying their rent or their electricity bill as they are unable to afford both. It was also reported that many First Nations are resorting to taking out loans to pay for their electricity bills as a consequence.

When asked for specific feedback on the design of an On-Reserve First Nations Rate, there was general consensus from all the sessions.

What We Heard:

1. **The First Nations Rate should be easy to implement in order to realize benefits quickly**

   The urgent need for electricity rate relief for First Nations was emphasized in all sessions. When presented with options, First Nations selected those that could be implemented in the shortest timeframe as their preferred approach. They did not want to create lengthy delays by opting to implement complex processes.

2. **A First Nations Rate should take care of all citizens equally**

   There was unanimous support for a First Nations Rate that provides a proportional level of benefit to all citizens. The OEB heard broad acceptance of the view that this initiative is about acknowledging their contribution to the electricity system and as such all customers should receive an equitable amount. There was also concern that customers in more urban areas of the province, where electricity bills are typically lower, would end up receiving a greater benefit compared to those in more rural parts of Ontario. Accordingly, there was preference for a percentage based reduction rather than a fixed credit amount in order to avoid this outcome.

3. **This is about compensation for First Nations' contribution to the electricity system in the province, not affordability**

   First Nations across the province agreed that the purpose of the First Nations Rate should be an acknowledgement of their contribution to the electricity system. Specific historical community grievances are being addressed separately through the Chiefs of Ontario's Committee on Energy Grievances. This initiative is intended to provide a broad acknowledgement of the use of First Nations' treaty lands to deliver and transmit power in Ontario. Accordingly, family income or household size should neither be a consideration for eligibility nor for the overall size in benefit received.

4. **It should provide a tangible benefit**

   First Nations emphasized the importance of seeing the amount of savings they receive directly on their bill, so they can quantify the benefit received from the First Nations Rate. Those in attendance reported that they did not want any rate relief provided to be hidden within one of the line items their electricity bill. Many were surprised to learn that they receive the Rural or Remote Rate Protection Benefit (RRRP) because the reduction is contained within the delivery charge rather than as a separate line item on the bill. First Nations did not want to see this replicated when it came to applying any new credit to the bill.

5. **First Nations want assurance they will not have to pay for the program directly or indirectly**

   When discussing how the costs for a First Nations rate program could be recovered, First Nations reported a strong reluctance to pay into the program, as they currently do for OESP. They argued this is contrary to the purpose of the First Nations Rate and that the level of benefit First Nations receive should not be diminished by having to pay into the program.

6. **Consensus among First Nations that the best option is the elimination of the delivery charge**

   First Nations unanimously agreed that the fairest option would be to eliminate the delivery charge altogether. They noted that it is the easiest to implement and will have the biggest benefit for their citizens. They also agreed that eliminating the delivery charge would achieve an equitable outcome as desired by First Nations customers, since it would broadly levelize the remaining costs of electricity service, regardless of where a reserve was located or which utility served it. First Nations in attendance also acknowledged the appropriateness of focusing on the delivery charge as it directly correlates to the use of First Nations' lands to deliver power.

7. **Consensus that the First Nations Rate should not be application based**

   The OEB also heard that the OESP application processing time and collection of personal information required is a barrier to program participation within First Nations communities. In addition, computer access and language barriers are also a hurdle. First Nations reiterated that because the focus for this initiative is acknowledgement of their contribution as opposed to affordability, the First Nations Rate should be automatically applied to all on-reserve First Nations customers. There is also a strong desire to protect citizens' privacy and prevent unnecessary information being collected. Some Band Councils indicated their willingness to facilitate identification of on-reserve First Nations customers.

3.2 Remote First Nations Communities

OEB staff met with 13 remote communities at the Hydro One Remotes' workshop held in Sioux Lookout.

What We Heard:

- First Nations issues in Northern Ontario are very different from the rest of the province
  - High unemployment rates, limited seasonal work, substance dependence, poverty, high cost of living
  - The OEB cannot develop a one-size fits all approach for all First Nations customers
  - Any approach developed needs to factor in the cost of living in the North
- The high cost of Standard A rates are a major concern
- Capacity issues; unable to connect additional homes or businesses
  - Schools have to rely on heating oil
  - Even if connection is feasible it comes at a high cost
- Diesel fuel spillage is a major concern; additional funding is required for cleanup costs
- Environmental changes (i.e. wet snow, warmer winters) have shortened the duration of winter roads, leading to higher delivered fuel costs
- Primary focus for a First Nations Rate for remote communities should be providing assistance to Band Councils – they employ 70% of the community
  - Assistance to residential customers should be secondary
- Remote communities are in planning discussions with Wataynikaneyap Power LP to connect to the grid. This project is expected to take 10 years to complete

NTD: Seeking direction on whether we build toward a conclusion that

a) more work is needed, and more engagement could be planned

b) that a break in the service charge (approx. $19 per month) is sufficient (this was recommended by Hydro One Remotes); perhaps mention in context of the long term prospect of connection.

3.3 First Nations Customers Served by Power Systems Not Regulated by the OEB

A representative from Wunnumin Lake First Nation was present at the OEB's engagement session in Thunder Bay. In addition, OEB staff met with leaders from Muskrat Dam First Nation, who reported that a fundamental priority for these communities is being eligible to receive rate protection through the province's RRRP, commensurate with the levels being provided to subsidize the cost of electricity service in areas served by Hydro One Remote Communities Inc.

NTD: Again, seeking direction on whether we build toward a conclusion that more work is needed? To date, we have had limited engagement with IPA communities. We have been invited to speak at an IPA workshop in late January 2017 in Sioux Lookout. 7 IPA communities are interested in being served by Hydro One Remotes and have written to the Minister of Energy stating this intention. However, connection to Remotes will take a while. It is suggested that RRRP funding could be provided to IPA communities in the interim.

Another issue still pending confirmation – would a reduction in the service charge be considered income by Indigenous and Northern Affairs Canada (INAC)? If so, current INAC funding would be clawed back and would negate the benefit provided.

3.4 Electricity Distributors Serving On-Reserve First Nations Customers

The OEB held meetings with affected electricity distributors to discuss availability of data related to on-reserve First Nations customers, potential options, distributors' input on feasibility considerations related to system impacts, and possible intake approaches.

Affected distributors were also invited to file written comments with the OEB by December 2, 2016. Comments were received by Hydro One, Hydro One Remotes, Algoma Power and Cornwall Electric.

What We Heard:

1. **A percentage credit to the delivery charge is the most prudent option**

   Hydro One stated that a credit to the delivery charge would be easier to explain to customers because it relates to a specific line item on their electricity bill. Given that the delivery charge varies with consumption, Hydro One suggested that a percentage credit, rather than a fixed dollar amount, should be implemented to allow the credit to vary in line with the delivery charge. Algoma Power and Cornwall Electric did not indicate a preferred approach. They noted their experience with implementing fixed monthly credits and percentage based total bill reductions through the OESP and Ontario Clean Energy Benefit programs, and stated they would be able to implement either approach with minimal impact to billing systems and implementation costs.

2. Implementation timeline and costs

Hydro One submitted there would be no material difference in cost or complexity of implementing a credit to the delivery charge or a total bill reduction. Hydro One estimates it will cost approximately $1 million to $1.3 million and will take up to 6 months to implement an on-bill credit program for its approximately 16,000 on-reserve First Nation customers. The implementation cost estimate includes defining and implementing a process for identifying on-reserve First Nations customers not yet flagged, modifying customer information systems, testing modifications to ensure accuracy, and developing a communications plan for qualifying customers. Algoma Power and Cornwall Electric indicated that 3 to 6 months would be required to manage system changes and requested that consideration be given to the cost of any additional administrative requirements in relation to the overall cost of the program.

3. Consensus that program intake should be automatic, as opposed to application based

There was consensus among all four distributors that the qualification process should be automatic and not administratively cumbersome. Algoma Power and Cornwall Electric indicated that their customer information system (CIS) already includes an identifier for tax-exempt status for on-reserve customers. Cross referencing this identifier with the residential rate class can easily produce a list of on-reserve residential customers that can be used to determine initial eligibility for rate assistance. Hydro One and Hydro One Remotes also confirmed that partial identification can be achieved within in their CIS by combining address information with tax exempt status. However, Hydro One pointed out that this approach will not capture all on-reserve First Nations customers as some may not have provided Hydro One with their tax exempt status. They submitted that customers will need to be encouraged to provide their utility with their First Nations status through communications programs and band councils. Hydro One further noted that the onus should rest with customers to self-identify as eligible for the First Nations Rate. The First Nations Rate should be applied on a going-forward basis once a customer has self-identified and there should be no retroactivity, as this will increase administrative costs, complexity and customer confusion.

4. **Consensus that the First Nations Rate should be recovered through a province-wide charge**

   There was agreement amongst all distributors who filed written comments that a provincial charge was the fairest approach to recovering program costs. Hydro One and Hydro One Remotes supported the use of the RRRP mechanism in particular, stating that it was the most expedient way to fund the program at the lowest cost. Hydro One also proposed the creation of a variance account to capture the difference between the actual credits provided to on-reserve First Nations customers and the amounts collected from all ratepayers.

5. **Unique Circumstances Related to Cornwall Electric**

   The Akwesasne First Nation on Cornwall Island is supplied by Cornwall Electric, which in turn is supplied by Hydro-Québec. Cornwall Electric submitted that any regulatory amendments required to implement the First Nations Rate will need to consider an appropriate method for settlement with the IESO. Cornwall Electric recommended that the First Nations Rate settlement process should be similar to past rate relief programs, such as OESP.

3.5 Consumer Groups

The OEB met with the Low Income Energy Network (LIEN) and Consumers Council of Canada (CCC) to better understand their views on the funding mechanism for the First Nations Rate and how the program costs should be recovered.

LIEN and CCC were invited to submit written comments with the OEB by December 2, 2016. No comments were received.

3.6 Evaluation Criteria

Based on feedback from the Advisory Committee and input from the engagement sessions, the OEB evaluated the options it developed by reference to the following criteria:

1. **Recognition of First Nations’ contribution to Ontario’s electricity system**

   A meaningful level of benefit should be provided through the First Nations Rate in order to appropriately acknowledge the value Ontarians receive from using First Nations’ lands for conveying electricity. Acknowledgment should be provided on an individual customer basis rather than on a commercial or band level. Since each on-reserve First Nations citizen has contributed to the electricity system, the First Nations Rate each customer receives should not vary based on factors such as household income or electricity consumption. This was consistent with feedback heard at engagement sessions.

2. **Equality of outcome**

   Each on-reserve First Nations consumer should receive a proportional amount of assistance to ensure that each household experiences an equal outcome. On this basis, proportional (percentage-based) approaches are better suited to meet this requirement than any fixed credit approach, given the variation in bills from service area to service area. For example, a fixed $50 credit for example will substantially reduce the bill of a customer in Thunder Bay but may not have a meaningful impact on a Hydro One R2 customer. A percentage-based credit on the other hand would lead to an equally meaningful bill reduction for all First Nations customers.

3. **Fairness for customers**

   The First Nations Rate must balance the need to provide the greatest benefit to on-reserve First Nations customers at the lowest reasonable cost to other ratepayers.

4. **Ease of implementation**

   The First Nations Rate should be cost-effective to implement. Although this outcome is always desirable when implementing a new program or initiative, a particular desire for efficiency was emphasised at our engagement sessions. An approach for a First Nations Rate that is easy and efficient to implement will provide much needed relief faster, as well as minimize the cost to other ratepayers in Ontario.

5. **Visibility of compensation**

   First Nations should see the benefit amount directly on their bill so they can quantify the amount of compensation being provided. Many First Nations' consumers did not realize they received the RRRP benefit because it is not shown directly on their electricity bill. Seeing an exact dollar amount on the bill will promote awareness that First Nations' contributions are being recognized.

3.7 Evaluation of Options

The performance of each option against each criterion is discussed below.

<u>Option 1: A First Nations Specific Rate Class</u>

The benefit to this approach is that First Nations customers would have their own separate and distinct rate class. However, this option has a number of serious drawbacks. Developing a load profile study can be a lengthy and costly process for distributors who lack the historical interval demand and consumption data for all classes. It may also result in a rate that is already similar to the residential rate which currently applies.

Implementation would also be lengthy. Any changes made to a distributors' rate design and cost allocation would need to be approved by the OEB through a hearing. This type of hearing is more lengthy and complex than a typical rate setting process, and the opportunity for a distributor to undertake such an activity is typically available only once every five years.

The creation of a separate rate class and the associated charges provides also limits visibility of the compensation provided. Over time, it would be difficult for First Nations customers to see what they otherwise would have paid. Furthermore, the costs of providing additional revenues to lower the costs to the customer class could vary over time. Therefore, while this option has tolerable features in terms of outcome and recognition of contributions, it performs poorly on ease of implementation and visibility.

Option 2: Seasonal Fixed Credit

The biggest benefit to this option is that accounts for higher bills during colder months and the use of electric heat. Because the credit is a fixed dollar amount, it is easy to forecast total program costs as there are no fluctuations based on usage. The biggest challenge with this approach, however, is that it does not benefit all customers equally. A $100 credit for a First Nations customer living in a rural area who is reliant on electric heat (i.e. Hydro One R2) will not provide the same level of benefit as it will to a customer living in a densely populated urban area, who has access to natural gas (i.e. Thunder Bay). There is also the potential that very low volume consumers could receive a $0 bill or even a negative bill after the monthly credit is applied. This raises issues around the unused amounts and whether customers would be able to carry forward any unused credits for future use. This may result in administrative challenges for utilities.

Option 3: 50% Total Bill Reduction

The principal benefit to this approach is that it provides an equitable level of benefit to all on-reserve First Nations customers. One customer type will not inadvertently benefit more than any other. It provides a tangible benefit, by showing First Nations customers the amount they would have been responsible for paying prior to the introduction of the First Nations Rate. It is easy for distributors to administer because every customer receives the same percentage reduction, which requires fewer billing system changes and customization. The major drawback with this approach is that it is difficult to accurately forecast total program costs as they will vary based on usage. It is also the most costly of all options presented, which raises considerations regarding the level of fairness to all customers.

Option 4: Delivery Charge Percentage Credit

A 100% delivery charge credit is the preferred option of First Nations communities. It allows First Nations customers to quantify their contribution to the electricity sector by seeing the amount of the delivery charge they would have been responsible for. The OEB believes it is appropriate to focus on the delivery charge as it directly relates to the use of First Nations' lands to deliver power, the stated focus for this initiative. By focusing on the delivery rate, as opposed to the total bill, it also ensures that energy conservation remains a priority. This approach is also relatively efficient for distributors to implement since all customers will receive the same percentage reduction. The drawback to a percentage based credit is that programs costs will be sensitive to changes in distribution, transmission and commodity costs.

Table 3 summarizes how each proposed option compares under the application of the evaluation criteria. Based on the criteria, the 100% Delivery Charge Credit is the only approach that satisfies each measure. It is therefore the recommended option among those considered.

Table 3: Evaluation of Proposed Options

	Evaluation Criteria				
	Recognition of First Nations Contribution to the Electricity System	Equality of Outcome for All On-Reserve First Nations	Fairness for all Customers	Ease of Implementation	Visibility of Compensation
First Nations Specific Rate Class	Moderate	Low	N/A	Low	Low
Seasonal Fixed Credit	Low	Low	Moderate	Moderate	High
Percentage Based Bill Reduction	Moderate	High	Low to moderate	High	High
100% Delivery Charge Credit	High	High	Moderate	High	High

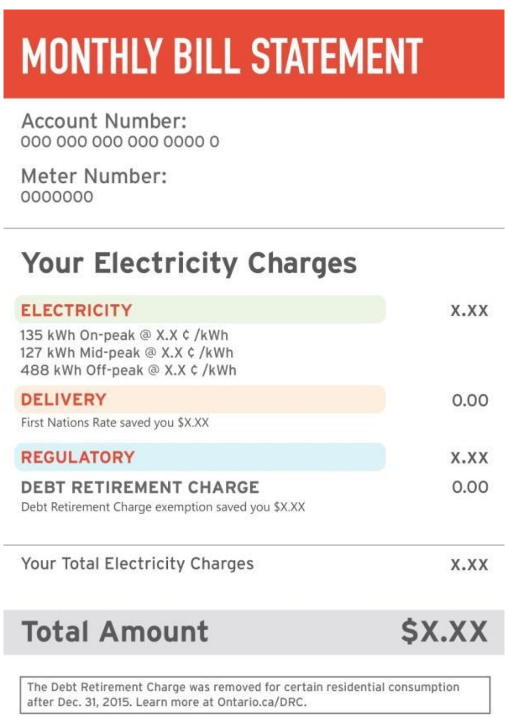
3.8 The On-Reserve First Nations Rate Design

Based on the evaluation criteria, and input from First Nations communities, the OEB recommends:

- The First Nations Rate should eliminate the delivery charge by providing a 100% credit for on-reserve First Nations residential customers
- It should be provided to First Nations customers automatically without an application process
- The First Nations Rate should be presented as a separate line on the bill with the amount of the delivery charge the customer would have paid. The delivery charge should appear at $0

Figure 1 illustrates a potential bill presentation. Under the recommended approach, the delivery line would be shown as $0; a new line directly beneath the delivery line would show the amount of the delivery charge the customer would have paid absent this program.

Figure 1: Proposed Bill Presentment



3.9 Paying for the First Nations Rate

If costs of the First Nations Rate program are to be recovered within the electricity system, a mechanism would have to be established to raise funds through customer charges. The charge could be set so as to recover program costs within each distributor's specific service area; alternatively, a province-wide charge could be set in order to recover all program costs across the province. An agent could distribute the funds to distributors in order to ensure they are compensated for the provision of the benefit.

A distributor-specific charge is feasible but potentially leads to unfair outcomes. If a distribution charge were used to fund the First Nations Rate, the total amount provided to a distributor's First Nations customers would be recovered only from customers in that service area. This means the amount needed to fund the program will vary significantly across service areas. For this program, most costs would only be recovered from Hydro One customers, since it serves most on-reserve First Nation customers.

If the costs of the program are to be recovered from within the electricity system, the recommended approach for funding the First Nations Rate is a provincial charge. This means funds will be collected in a provincial pool and disbursed to distributors based on the cost of delivering the First Nations Rate in their respective service areas. This approach also reflects the preference of stakeholders, including LIEN and CCC.

<u>Mechanisms for Collecting Funds</u>

The options to collect and disburse funds on a provincial basis to fund the First Nations Rate include the use of an existing charge, or the creation of a new one.

The OEB assessed whether the charge that recovers the costs of the Rural or Remote Electricity Rate Protection program could be used to recover the costs of the First Nations Rate program.

In the OEB's assessment, both this option and the creation of any new charge would require legislative amendments; leveraging RRRP would involve changes to Ontario Regulation 442/01 as well. The need for legislative amendments is discussed further in the Implementation section of this report.

Leveraging the Rural or Remote Electricity Rate Protection (RRRP) Charge

Using the RRRP charge to recover the cost of the First Nations Rate takes advantage of existing infrastructure to disperse and collect funds. Given their geographic location, on-reserve First Nations customers are often recipients of the RRRP benefit as well. Collecting and disbursing funds for both programs through the same mechanism is reasonable, and could yield some efficiency during implementation. The IESO and OEB already follow requirements established in regulation to provide information and perform calculations to assess program costs and determine a charge that recovers program costs on a forecast basis. While there are three utilities that will deliver the First Nations

Rate but do not receive any RRRP funding -- Bluewater Power, PUC, and Thunder Bay Hydro – the additional administration to support their participation in RRRP disbursement is believed to be feasible.

Creation of a Separate Regulatory Charge

Alternatively, a new regulatory charge could be created. The new charge, and the mechanisms for collecting and disbursing the funds, could be modelled on existing provincial charges such as the RRRP and the OESP charge. Replicating existing processes will minimize the time it takes to implement the new charge.

Exempting First Nations Rate Recipients from Paying the Charge

As was expressed in the engagement sessions, First Nations do not want to pay for the program. From a regulatory perspective, this would be difficult to achieve if the RRRP charge is leveraged, since the RRRP is currently levied on all grid-connected customers, including those who receive it. If a new charge is established, it would be simpler to include a provision in the legislation or regulation exempting recipients from paying the charge.

The greater challenge lies in the implementation. Exempting recipients of the First Nations Rate from paying into the program is complex to administer, which means it may take longer and cost more to implement than a provincial charge that all customers, including the recipients, pay.

In the OEB's view, the requirement to pay into the program does not diminish the overall outcome. According to cost estimates, the average benefit that an on-reserve First Nations customer would receive in a month is $XX; the average monthly cost of the program charge for a participant would be about XX cents. This would mean more than 99% of the initial benefit would still be available to provide cost relief.

4. IMPLEMENTATION CONSIDERATIONS

4.1 Automatically Qualifying On-Reserve First Nations Customers

In our engagement sessions we heard that on-reserve First Nations consumers should not have to apply to receive the First Nations Rate. The OEB agrees that requiring consumers to apply would create an unnecessary barrier to accessing the rate and would create an ongoing cost to administering the program.

Unlike an income tested program, such as the OESP, where eligibility must be verified using information normally unavailable to utilities, an application process is not necessary to deliver this rate. On-reserve customers can be confirmed by their service address. Also, most First Nations customers are already identified in utilities' billing systems as recipients of the HST exemption. As much as possible, collecting further private customer information, which can also be a barrier to uptake, will be avoided to deliver this rate.

4.2 Sharing of On-Reserve First Nations Customer Information with Band Councils

Hydro One Remotes, as a condition of its electricity distribution licence (ED-2003-0037), has the ability to share customer account information with band councils. It is recommended that similar licence changes to achieve the same flexibility be extended to all distributors serving on-reserve First Nations customers and be expanded so that band councils can assist with self-identification of eligible customers.

4.3 Legislative and Regulatory Changes

In order to implement the On-Reserve First Nations Rate, the OEB believes there would need to be legislative changes. Currently, the Board does not have the authority to set a provincial charge for this type of program and also establish the rules for the funds to be disbursed to the First Nations customers.

The only comparable charge is the RRRP, which has specific legislation that sets out the Board's authority to set the charge and order payments to the appropriate distributors.

Providing for the recovery of the charge on bills may require amendments to regulations relating to the information on low volume customers' invoices.

A provision in either legislation or regulation may be needed to allow the OEB to require non rate-regulated distributors to deliver the First Nations Rate to on-reserve First Nations customers and to collect the provincial charge to fund the rate.

4.4 Cost Escalation

As described in Section 2, the cost projections for the proposed First Nations Rate are reflective of affected distributors' current 2016 delivery charges. A number of factors will lead to changes in these costs over time. The OEB's transition toward fully fixed distribution charges for residential customers is expected to provide some downward pressure on program costs in the near to mid-term, since the effect of the rate design will be to reduce delivery costs for customers with higher than average consumption in their distributor rate class, which is predominantly the case for on-reserve customers, especially in winter. A source of upward pressure in program costs will arise from the cost of losses, which rises in step with the change in the cost of electricity, and also from changes in distribution and transmission costs overall. The cost of this program will be especially sensitive to changes in Hydro One distribution rates, since this utility serves the majority of on-reserve customers. The OEB recommends monitoring ongoing program costs to ensure the pace of growth in these costs means they continue to be manageable and reasonable for the customers who contribute to it.

4.5 Continued Access to Assistance Programs, such as the OESP

It is the OEB's view that receipt of the First Nations Rate should not hinder access to assistance programs such as OESP and the Low-Income Energy Assistance Program (LEAP). As heard at the engagement sessions, the First Nations Rate is about recognizing First Nations' contribution to the electricity system; it is not about affordability. The OEB also recognizes that even after the application of First Nations specific rate relief, lower income First Nations customers may still continue to have difficulty keeping up with their electricity bills. Accordingly, they should still be entitled to assistance from LEAP and OESP, provided they meet the eligibility criteria for those programs.

4.6 Reviewing and Monitoring Outcomes

The Minister asked the OEB to address the process and mechanisms for reviewing and monitoring outcomes and measuring success.

The OEB will continue its engagement with First Nations customers, band councils, and other organizations to assess the effectiveness of the rate at acknowledging First Nations' contributions to the electricity system.

The OEB believes that an On-Reserve First Nations Rate may also have a positive impact on:

1. Reducing Arrears;
2. Reducing Disconnections;
3. Improving Payment Patterns; and

4. Ensuring all eligible First Nations are receiving the HST exemption to which they are entitled.

Affected distributors will be required to this information report annually, in relation to the number of customers receiving the First Nations Rate. The OEB will update the Electricity Reporting and Recordkeeping Requirements accordingly.

5. CONCLUSION

The OEB's proposed First Nation rate for on-reserve customers reflects the input of First Nation customers across Ontario. If implemented, the program would provide recognition of First Nation customers' contributions to the electricity grid and lower costs for all eligible recipients. Instituting the OEB's preferred option would provide meaningful rate relief at a monthly cost of less than 12 cents for the typical consumer.

The OEB presented its preferred recommendation at the Chiefs of Ontario's Special Chiefs Assembly and Leaders in Legislature. The Chiefs of Ontario passed a resolution in support of the OEB's recommendation with one exception, that the scope of the First Nations Rate be expanded to customers living off reserve. The OEB acknowledges the Chiefs' preference, but notes that the Minister's letter clearly identifies that the rate assistance is intended for on-reserve customers.

The recommended approach provides incentives to encourage conservation, which supports Ontario's Long-Term Energy Plan: *Achieving Balance*, and complements existing programs, including the Ontario Electricity Support Program.

Appendix A – The Minister's Letter

Ministry of Energy

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Ontario

JUN 27 2016

MC-2016-1314

Ms Rosemarie Leclair
Chair and Chief Executive Officer
Ontario Energy Board
PO Box 2319
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms Leclair:

Re: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers

I write in my capacity as the Minister of Energy in order to exercise the statutory power I have under section 35 of the *Ontario Energy Board Act, 1998* (the "Act") to require the Ontario Energy Board (the "Board") to examine and report back to the Ministry of Energy (the "Ministry") with advice on the questions outlined below.

Background

Through the First Nations-Ontario Political Accord and Canada's Truth and Reconciliation Commission's Calls to Action, there is a renewed spirit for the Province and First Nations to work together on issues of mutual interest.

On energy issues, First Nations leaders and Political-Territorial Organizations ("PTOs") have been advocating for the need to review delivery charges associated with transmission and distribution assets within the context of the potential for electricity rate relief for on-reserve customers.

On-reserve First Nations customers often face unique challenges that impact electricity affordability, which results in significantly higher electricity consumption levels and costs.

Section 35 Report

Therefore, I require the Board to examine and report to me with advice on options for an appropriate electricity rate (or rate assistance) for on-reserve First Nations electricity consumers ("First Nations Rate"). In doing so, the Board shall consider:

1. Options for the design, development and implementation of the First Nations Rate.

.../cont'd

2. Options and considerations regarding the cost and funding mechanism for the First Nations Rate, including considerations of:

   - The impacts on existing electricity consumers, if any;
   - The impacts on Ontario's electricity distribution and transmission utilities and other stakeholders, if any.

3. For each of the First Nations Rate options identified by the Board in its report ("Report"), the Board shall specifically address program development and implementation issues, such as:

   - Identification of, and delivery and (if applicable) intake options for, eligible on-reserve First Nations consumers, including those who may live on reserves not connected to the IESO grid and those served by power systems not regulated by the Board;
   - Overall cost of the program, including funding and administration;
   - Potential barriers to implementation and uptake (and strategies to mitigate these barriers), and consideration of interactions with other assistance programs, including the Ontario Electricity Support Program (OESP).
   - Process and mechanisms for reviewing and monitoring outcomes and measuring success.

In carrying out its work to prepare this report, it is my expectation that the Board will undertake outreach and engagement with First Nations communities, organizations and such other parties as the Board deems appropriate.

The Board's examination of potential options for the First Nations Rate should commence as soon as possible. It is my expectation that the report be submitted to the Ministry no later than January 1, 2017.

This letter takes effect on the date it is issued.

Sincerely,

Glenn Thibeault
Minister

c: David Zimmer, Minister of Indigenous Relations and Reconciliation
Deborah Richardson, Deputy Minister, Ministry of Indigenous Relations and Reconciliation
Serge Imbrogno, Deputy Minister, Ministry of Energy
Carolyn Calwell, Director, Legal Services Branch, Ministries of Energy, Economic Development and Growth, Infrastructure, and Research, Innovation and Science

Appendix B – Communities Represented at Engagement Sessions

First Nations Communities Represented		
Aamjiwnaang	Lac Seul First Nations	Oneida of the Thames
Akwesasne	Long Lake #50 First Nation	Pic Mobert First Nation
Alderville First Nation	Magnetawan First Nation	Red Rock Indian Band
Anishinaabeg of Naongashiing	Marten Falls	Scugog Island First Nation
Beausoleil First Nation	Matachewan	Serpent River First Nation
Biigtigong Nishnabe	M'Chigeeng First Nation	Shawanaga First Nation
Brunswick House First Nation	Mishkeegogamang	Six Nations
Caldwell First Nation	Mississauga First Nation	United Chiefs and Councils of Mnidoo Mnising
Chippewas of Georgina Island	Mississaugas of New Credit	Wabauskang First Nation
Chippewas of Nawash	Mitaanjigaming First Nation	Wabun Tribal Council
Chippewas of the Thames	Mohawk Council of Akwesasne	Wahnapitae
Couchiching First Nation	Munsee-Delaware Nation	Walpole Island First Nation
Curve Lake	Nishnabe Aski Nation	Wasauksing
Delaware Nation (Moravian of the Thames)	Naotgamegwanning	Whitefish River
Ginoogaming	Ochiichagwe babigoining	Wikwemikong
Lac La Croix	Ojibways of Onigaming	Winnimin Lake First Nation

Appendix C – Methodology: Program Costs & Bill Impacts

Currently being drafted