

***Ontario Energy
Board***

***Commission de
l'énergie de l'Ontario***



Report to the Minister

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

Working draft: Dec 20, 2016

December XX, 2016

This page left intentionally blank

1. THE MINISTER'S REQUEST

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's letter included a request that the OEB 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.

2. THE OEB PROCESS

In developing this report, the OEB engaged with First Nations communities, including remote communities, the distributors serving them and consumer groups to understand what type of rate assistance is required to help First Nations customers, what we should consider in determining an appropriate level of assistance, and how this assistance should be funded and administered.

In July 2016, the OEB established an Advisory Committee with the Chiefs of Ontario's Committee on Energy Grievances. The purpose of the Advisory Committee was to provide assistance on scoping the initiative, developing engagement plans and identifying issues. The Advisory Committee facilitated the OEB's outreach efforts with First Nations communities. They set up a series of meetings across the province to assist the OEB in gathering input. The Advisory Committee met three times throughout the OEB's process to develop this report.

To assist in its development of options for a First Nations Rate, the OEB established the following set of guiding principles:

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

The OEB considered a number of options and assessed them having regard to the Minister's letter, these principles and the feedback from stakeholders. These options are discussed in detail in section 5 of the report.

3. BACKGROUND ON FIRST NATIONS ELECTRICITY CUSTOMERS

3.1 A Typical First Nations Customer

There are an estimated 24,000 on-reserve First Nations customers in Ontario, of which about 20,000 are residential users. The Ministry of Energy provided a list of all First Nations reserves in the province and their probable local distribution company. The OEB met with distributors to verify who delivers electricity to First Nations’ reserves in Ontario. Hydro One Networks Inc. (Hydro One) serves about 80% of on-reserve First Nations customers in the province.

Table 1 provides a list of distributors who were identified as serving on-reserve First Nations customers.

Table 1: Distributors Serving On-Reserve First Nations Customers¹

Distributor	First Nation Communities	Number of Customers
Algoma Power Inc.	Ojibways of Batchewana Ojibways of Garden River	473
Attawapiskat Power Corporation	Attawapiskat First Nation	336
Bluewater Power Distribution Corporation	Aamjiwnaang First Nation	237
Cat Lake Power Utility Ltd.	Cat Lake First Nation	
Cornwall Electric Distribution	Akwesasne First Nation	514
Fort Albany Power Corporation	Fort Albany First Nation	
Kashechewan Power Corporation	Kashechewan First Nation	
Hydro One Networks Inc.	Alderville First Nation Algonquins of Pikwakanagan First Nation Anishinaabeg of Naongashiing Aroland First Nation Atikameksheng Anishnawbek Aundeck Omni Kaning First Nation	16,679

¹ Data based on distributors’ reports to OEB. Customer count for Hydro One reflects residential accounts known to be held by a tax-exempt customer. The number of total residential accounts on reserve is higher.
Report to the Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers

	Big Grassy First Nation Biinjitiwaabik Zaaging Anishinaabek First Nation Bkejwanong Territory	
Hydro One Networks Inc.	Brunswick House First Nation Caldwell First Nation Chapleau Cree First Nation Chapleau Ojibwe First Nation Chippewas of Georgina Island Chippewas of Kettle & Stony Point Chippewas of Rama Chippewas of Nawash Unceded Chippewas of Saugeen First Nation Chippewas of the Thames Constance Lake First Nation Couchiching First Nation Curve Lake First Nation Delaware Nation Dokis First Nation Eagle Lake First Nation Ginoogaming First Nation Grassy Narrows First Nation Hiawatha First Nation Henvey Inlet First Nation Iskatewizaagegan No. 39 Lac La Croix First Nation Lac Seul First Nation Long Lake #58 First Nation Magnetawan First Nation Matachewan First Nation Mattagami First Nation M'Chigeeng First Nation Mishkeegogamang First Nation Mississauga #8 First Nation Mississaugas of the New Credit First Nation Mississaugas of Scugog Island Mohawks of the Bay of Quinte Moose Cree First Nation Moose Deer Point First Nation Munsee-Delaware Nation Naicatchewenin First Nation Naotkamegwanning Anishinabe First Nation Nigigoonsiminikaaning First Nation	

	Nipissing First Nation Northwest Angle No. 33 First Nation Northwest Angle No. 37 First Nation	
Hydro One Networks Inc.	Obashkaandagaang Ochiichagwe'Babigo'ining Nation Ojibways of Onigaming Ojibways of Pic River Oneida Nation of the Thames Pays Plat First Nation Pic Mobert First Nation Rainy River First Nation Red Rock Indian Band Sagamok Anishnawbek First Nation Ojibway Nation of the Saugeen Seine River First Nation Serpent River First Nation Shawanaga First Nation Sheguiandah First Nation Sheshegwaning First Nation Shoal Lake No. 40 First Nation Six Nations of the Grand River Territory Slate Falls First Nation Stanjikoming First Nation Taykwa Tagamou Temagami First Nation Thessalon First Nation Wabaseemoong Independent Nations Wabauskang First Nation Wabigoon First Nation Wahgoshig First Nation Wahnapiatae First Nation Wahta Mohawks Wasauksing First Nation Wauzhushk Onigum First Nation Whitefish River First Nation Wikwemikong Unceded Indian Reserve Zhiibaahaasing First Nation	
Hydro One Remotes Communities Inc.	Bearskin Lake First Nation Deer Lake First Nation Fort Severn First Nation Kasabonika Lake First Nation	2,579

	Kiashke Zaaging Anishinaabek First Nation Kingfisher Lake First Nation Kitchenuhmaykoosib Inninuwug	
Hydro One Remotes Communities Inc.	Marten Falls Namaygoosisagagun First Nation Neskantaga First Nation North Caribou Lake First Nation Sachigo Lake First Nation Sandy Lake First Nation Wapekeka First Nation Webequie First Nation Whitesand First Nation	
PUC Distribution Inc. (Sault Ste. Marie)	Batchewana First Nation	264
Thunder Bay Hydro Electricity Distribution	Fort William First Nation	332
TOTAL ON-RESERVE FIRST NATIONS CUSTOMERS		24,000

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

Analysis of distributors' data shows that on-reserve First Nations residential customers use an average of 1,300 kWh per month, which is considerably higher than the consumption of 750 kWh per month that the OEB has defined as typical for the province. Since most of these customers do not have access to natural gas service and are reliant on electric heat, their consumption varies significantly by season, as it does for any other customer who uses electric heat. During winter (November 1 to April 30), First Nations customers use an average of 1,600 kWh per month. Conversely, usage in summer (May 1 to October 31) is lower with an average of 1,000 kWh per month.

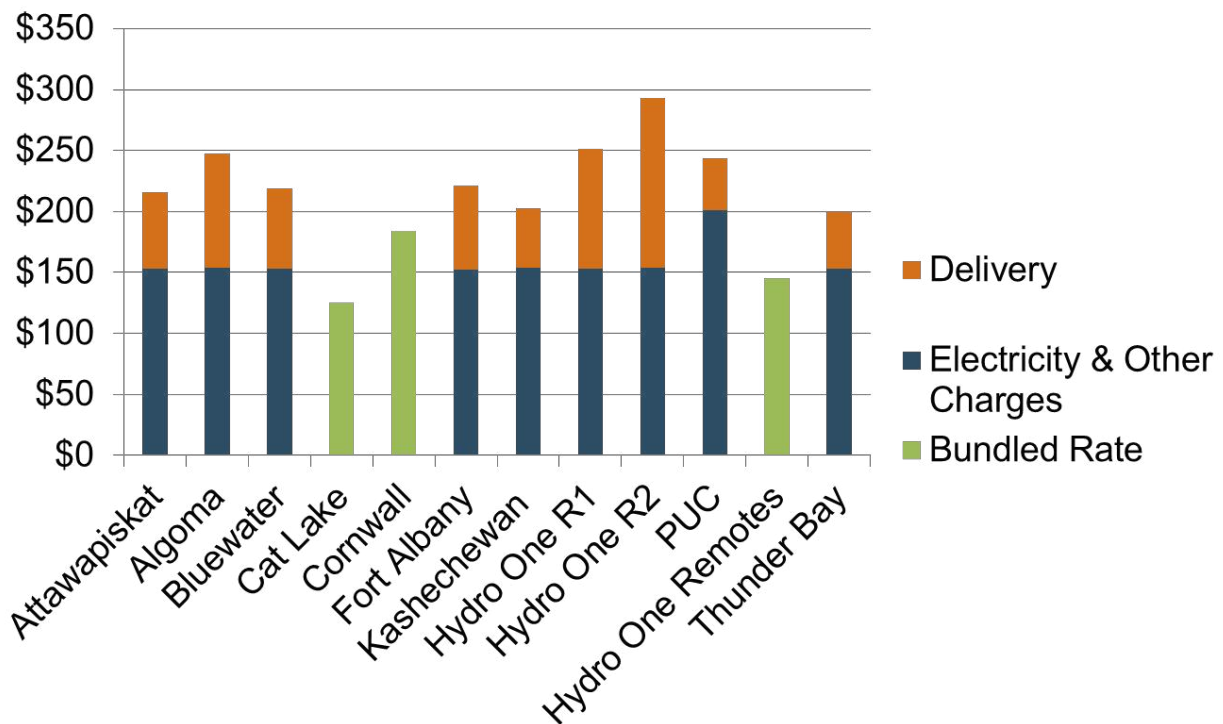
3.2 Typical Electricity Costs

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

Notably, there is 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 First Nations customers are in Thunder Bay.

This difference is due to varying delivery charges of distributors that serve each First Nations reserve. All other rates are the same across the province. Table 2 below provides a comparison of electricity bills for those distributors serving on-reserve First Nations customers. These bills are based on a First Nations customer using an average of 1,300 kWh per month.

Table 2: 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 \$150.

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 population density and pay different delivery charges accordingly.

In addition to differences in costs, a difference in billing methods exists across service territories for First Nations customers. Cat Lake Power Utility Ltd (Cat Lake Power), Cornwall Electric Distribution (Cornwall Electric) and Hydro One Remotes Communities Inc. (Hydro One Remotes) charge a bundled electricity rate which includes the cost of both electricity supplied and the cost for its delivery. Costs in these areas are not comparable to costs in an unbundled rate, which, as is discussed later, creates problems in designing an appropriate First Nations Rate for these areas.

The reasons for this difference in rate design vary. The OEB has granted a licence to Cornwall Electric but it does not set its rates, since the utility receives its power from Hydro Quebec.

Hydro One Remotes, also licenced by the OEB, serves 21 off-grid communities in northern Ontario. The utility charges a bundled rate because it is responsible for both distribution and electricity generation. Lastly, the rates charged in Cat Lake Power's distribution territory reflect the charges in place at the time that Hydro One began to operate the company on an interim basis in 2006. Hydro One has previously signaled to the OEB that it plans to merge Cat Lake with Hydro One Remotes². It is not clear whether such a merger would affect rate design.

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

Not all on-reserve First Nations are served by a distributor regulated by the OEB. In Ontario's northwest, 10 communities are served by entities known as Independent Power Authorities (IPA). IPAs are not licensed or rate regulated by the OEB. Similar to Hydro One Remotes, IPAs are reliant on diesel generation. However, there is a greater role for federal funding in these areas.

² EB-2016-0151 Hydro One Networks Inc. (Cat Lake Power Utility Ltd.) Interim Electricity Distribution Licence ED-2006-0181
Report to the Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers

The following First Nations communities were identified as being served by IPAs:

Table 3: IPA Communities

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

Since these entities are not regulated by the OEB, we were unable to obtain customer consumption data for these communities. Consistent with the project's outreach strategy, the Chiefs of Ontario reached out to the IPA communities and their band councils on behalf of the OEB, but did not receive a response.

3.4 Rate Assistance Programs

There are three rate assistance programs currently available to eligible on-reserve First Nations customers: The Rural or Remote Electricity Rate Protection (RRRP) program, Ontario Electricity Support Program (OESP) and the Low-Income Energy Assistance Program (LEAP).

1. The Rural or Remote Electricity Rate Protection Program

The RRRP program provides a subsidy to customers located in rural or remote areas, where the cost of distributing electricity greatly exceeds the costs to customers elsewhere in Ontario. For customers of Hydro One Remotes, the RRRP benefit is a fixed amount aimed at reducing the rates charged to eligible customers. The assistance represents a savings for eligible residential customers of approximately \$780 monthly. For rural customers, in Hydro One's R2 rate class, the RRRP benefit is used to reduce the delivery portion of their bill to better align with the cost of distribution in the rest of the province. In 2016, rural customers receive a monthly credit of approximately \$31.50. This amount will rise to about \$60.50 in 2017.

2. The Ontario Electricity Support Program

OESP provides low-income consumers with a monthly on-bill credit to reduce their electricity bill. The amount of the credit depends on two factors: (1) how many people live in the home and (2) the combined household income. Customers with electrically heated homes receive a higher level of OESP assistance. Lower-income First Nations households, whether on reserve or not, also receive an enhanced credit of \$45 to \$75 per month, to help address the unique challenges that may lead to higher electricity use and costs. Currently, over 5,600 First Nations consumers have been approved for OESP.

3. The Low-Income Energy Assistance Program

Through LEAP, customers can receive an emergency financial assistance grant of up to \$500 per year or \$600 if their home is electrically heated. This assistance is only available if a customer is behind on their bill and may face having their service disconnected. LEAP is intended for emergency situations and is not meant to provide ongoing help to pay bills. In order to access LEAP, a customer must go through the social service agency who has partnered with their distributor.

4. ENGAGING WITH FIRST NATIONS AND OTHER STAKEHOLDERS

4.1 First Nations Communities

The OEB conducted engagement sessions with First Nations customers 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 is presented below.

Table 4: 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
BiigtigongNishnabe	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 MniidooMnising
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	Wahnapiatae
Couchiching First Nation	Munsee-Delaware Nation	Walpole Island First Nation
Curve Lake	NishnabeAski Nation	Wasauksing
Delaware Nation (Moravian of the Thames)	Naotgamegwanning	Whitefish River
Ginoogaming	OchiichagweBabigoing	Wikwemikong
Lac La Croix	Ojibways of Onigaming	Wunnumin Lake First Nation

The sessions focused on First Nations' concerns regarding electricity costs, the presence of energy infrastructure on reserves and traditional territories, customer service practices, and other matters. The OEB also discussed the broad alternatives of providing rate assistance through either fixed or percentage based credits or the creation of a specific rate class for on-reserve electricity customers.

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

When asked for specific feedback on the design of a First Nations Rate, there was general consensus from all the sessions. A report summarizing comments heard at each of the engagement sessions was prepared by the Chiefs of Ontario. This report also contains suggested recommendations by the Chiefs of Ontario. A copy of this report can be found in Appendix B.

What We Heard:

1. 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 First Nations Rate should be an acknowledgement of their contribution to the electricity system. As a result, personal circumstances such as family income or household size should neither be a consideration for eligibility nor for the overall size in benefit received. It was noted that specific historical community grievances are being addressed separately through the Chiefs of Ontario's Committee on Energy Grievances.

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

There was unanimous support for a First Nations Rate that provides a proportional level of benefit to all First Nations customers. Since this initiative, from First Nations' perspective, is about acknowledging their contribution to the electricity system, all customers should receive an equitable benefit.

Concerns were raised 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.

There was also a strong desire to see the First Nations Rate applied to all First Nations customers regardless of where they live, rather than limited to those on-reserve.

3. 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. 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.

4. 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.

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 and RRRP. 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 that the First Nations Rate should not be application based

The OEB heard that the OESP application processing time and collection of required personal information 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 rather than 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.

4.2 Remote First Nations Communities

OEB staff met with 7 remote communities at a Hydro One Remotes' workshop held in Sioux Lookout.

What We Heard:

1. First Nations issues in Northern Ontario are very different from the rest of the province

Remote communities expressed concerns with adopting a one-size fits all approach for a First Nations Rate. We heard these communities experience higher levels of unemployment compared to the rest of Ontario. This is partly because job opportunities are limited in these areas since work is primarily seasonal. In addition, the cost of living in remote communities is high due to their reliance on air transport to bring in basic supplies at least seasonally, if not year-round. As such, remote communities emphasized the need to develop a tailored approach that factors in the true cost of living in remote Northern Ontario.

2. A First Nations Rate should focus on assistance to band councils

In contrast to what we heard from other First Nations communities who desired an equitable level of compensation for all individuals, remote customers stated that the First Nations Rate should provide assistance to band councils in their communities. We heard that electricity costs in remote communities are too high for band councils to manage. Band councils are classified as Standard A customers because they receive direct or indirect funding from the federal or provincial government. Standard A customers pay rates that can reach \$1 per kilowatt-hour in air access communities; this cost reflects both the cost of service, as well as a premium to subsidize retail electricity rates for other non-Standard A customers. The OEB heard that focusing on assistance to band councils will help promote economic development, since band councils employ about 70 percent of the people in remote communities. Furthermore, we heard that assistance to residential customers should be secondary in these communities since they are already heavily subsidized.

3. Local capacity issues and Grid Connection

The OEB heard about the difficulties remote communities face connecting new homes or businesses because of a lack of available generation capacity and the lack of capital to fund system upgrades. Generation is also limited by the amount of diesel fuel that can be transported and stored. Even when connection is feasible, the cost to connect is still a barrier. Many remote communities are in planning discussions with Wataynikaneyap Power LP as part of the initiative to connect many remote communities to the grid, which, if it proceeds, would be

expected to address most local capacity issues. However, this project is still at the development stage.

4. Environmental Considerations

Relying on diesel fuel creates environmental risks for these communities. Fuel spillage is a major problem and remote communities requested additional funding for cleanup. We also heard about the impact environmental changes are having on these communities. In particular, warmer winters have led to wet snow, which has shortened the duration of winter roads, leading to higher costs to deliver fuel.

4.3 First Nations Customers Served by Independent Power Authorities

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. As with remotes, priorities differ from on-grid communities. Their feedback also reflects the differences in the funding model for electricity service, which is established by the federal government.

What We Heard:

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 Remotes. In Muskrat Dam's view, this action would be a substantial initial step toward equitable treatment for remote off-grid First Nations communities.

4.4 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 from Hydro One, Hydro One Remotes, Algoma Power and Cornwall Electric. A copy of those comments are posted on the OEB's website.

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 (OCEB) programs, and stated they would be able to implement either approach with minimal impact to billing systems and implementation costs.

2. 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. Hydro One submitted that customers will need to be encouraged to provide their utility with their First Nation tax-exempt 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. Hydro One stated that 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.

3. Six months needed to implement

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 remaining on-reserve First Nations customers not yet identified as such, 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.

4. First Nations Rate should be recovered through a province-wide charge

There was agreement among 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.

4.5 Consumer Groups

The OEB met with representatives of 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 represents over 60 member groups across Ontario. It aims to ensure universal access to adequate, affordable energy as a basic necessity and that low-income consumers have access to energy conservation and assistance programs. CCC is a non-profit, voluntary organization that advocates for consumers' ability to exercise their rights and responsibilities in the marketplace.

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

What We Heard:

1. Funding options for the First Nations Rate

While one representative indicated a preference for the First Nations Rate to be funded from the tax base, all agreed that the next best and fairest option would

be to recover the costs as a provincial charge, similar to OESP. LIEN principally did not agree with a distribution charge like LEAP, and acknowledged the undue pressure this would place on Hydro One customers, who would bear the bulk of the program costs.

5. FIRST NATIONS RATE OPTIONS

In setting out his request to the OEB to provide advice on options for a First Nations Rate, the Minister stated that “on-reserve First Nations customers often face unique challenges that impact electricity affordability, which results in significantly higher electricity consumption levels and costs”. First Nations communities voiced similar views to the OEB but also stated that, in their view, a First Nations Rate should acknowledge First Nations’ contribution to the electricity system in the province. As outlined in the Chiefs of Ontario’s Summary Report to the OEB,

“It needs to be clearly communicated, to the First Nation and to Ontario as a whole; the First Nation Rate is in recognition of Treaty Rights and the contributions First Nations have made to the development of the energy system within Ontario. While First Nation members do need assistance with energy costs, this program needs to be recognized as being rights based, not as an affordability program.”

Based on First Nations’ consensus that the First Nations Rate should be a way of recognizing their rights rather than merely reduce their costs, options have been designed to target those who hold those rights – residential customers – rather than other kinds of on-reserve customers such as businesses and organizations.

First Nations communities also stated that a First Nations Rate should be provided to all First Nations customers irrespective of where they live. However, the Minister’s letter to the OEB was very clear that the focus of our examination and report is to provide advice for on-reserve First Nations electricity consumers.

5.1 Jurisdictional Review

The OEB undertook research into rate assistance programs for First Nations electricity customers in North America and Australia. We were unable to find any programs with a similar scope or objective. Although rate affordability programs exist, none are specifically tailored to First Nations customers. The OEB believes this type of program may be the first of its kind.

5.2 Evaluation Criteria

Based on input from First Nations, the advice of the Advisory Committee and the Minister’s request that the OEB address cost, implementation and feasibility issues, the OEB developed the following criteria to assist in its assessment of options to develop a First Nations Rate:

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

First Nations expect a meaningful level of benefit to be provided through the First Nations Rate as acknowledgement of the value Ontarians receive from using First Nations' lands for conveying electricity. Acknowledgment should be provided to individual customers rather than band or commercial accounts. Since each on-reserve First Nations resident 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. The avoidance of means-testing was consistent with feedback heard at engagement sessions.

2. Equality of outcome

First Nations expect each on-reserve First Nations consumer to receive a proportional amount of assistance to ensure that each household experiences a reasonably consistent 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 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. 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.

4. Cost and fairness for those who bear it

The First Nations Rate must balance the need to provide the greatest benefit to on-reserve First Nations customers, with the need to provide the benefit at the lowest reasonable cost to those who will pay for the cost of the program. It should also be relatively stable and predictable in order to avoid volatility for those who bear the cost.

5. Ease of implementation

The First Nations Rate should be easy to implement, with as few barriers to introduction and adoption as possible. 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 relief faster, as well as minimize the cost to other ratepayers in Ontario.

Options for a First Nations Rate

Having regard for the Minister's Letter, what we heard from stakeholders, and our own analysis, the OEB identified four options for a First Nations Rate:

1. First Nations Specific Rate Class;
2. Seasonal Fixed Credit;
3. 50% Total Bill Reduction; and
4. 100% Delivery Charge Credit.

Estimated costs and benefits for each proposed option are presented in Table 3 below³. A detailed discussion of each option follows.

Table 5: Benefit Amounts & Cost Projections for Proposed Options

Proposed Options	Typical Credit Amount / Month		Total Annual Program Cost	Residential Monthly Bill Impact for Ratepayers (750 kWh)
	Summer	Winter		
First Nations Specific Rate Class	Data not available. Would require a load profile study, cost allocation study and cost-of-service review to determine			
Seasonal Fixed Credit	\$50	\$100	\$11.8-16.3M	\$0.07-0.09
50% Total Bill Reduction	\$105	\$150	\$20.2-28.4M	\$0.12-0.16
100% Delivery Charge Credit	\$75	\$100	\$12.8-19.6M	\$0.08-0.11

Option 1: A First Nations Specific Rate Class

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. These costs would then be allocated to this specific class of customers accordingly. The result would be a dedicated rate class that pays distribution and transmission rates that reflect the cost of serving this

³ Cost estimates are based on customer data provided by distributors, all applicable 2016 rates and charges and reflect the enhanced RRRP amount for low density Hydro One customers effective in 2017. For distributors with bundled rates, the waiver of the fixed service charge (see section 5.5 below) has been assumed for Option 4: 100% delivery charge credit. Cost ranges reflect the difference between the number of on-reserve customers confirmed to be members of the First Nation (lower bound) and the total number of residential accounts on-reserve (upper bound).

customer group. A credit could then be applied to this class in order to acknowledge their contribution. This would reduce the costs recovered from customers in this class..

Recognition of First Nations Contribution:

First Nations customers would have their own separate and distinct rate class which would provide them with the level of recognition they desire. However, an additional option to reduce costs would be required in order to acknowledge their contribution and provide a meaningful level of benefit.

Equality of Outcome:

All First Nations customers would be responsible for paying rates that reflect the cost to serve them. As with recognition of First Nations contribution however, an additional option to reduce costs would be required to provide a meaningful level of benefit.

Visibility of Compensation:

The creation of a separate rate class and the associated charges would limit the visibility of the compensation provided. Over time, it would be difficult for First Nations customers to see what they otherwise would have paid.

Ease of Implementation:

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

Cost Projections:

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.

Cost & Fairness for Those Who Bear It:

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. Finally, the costs of providing additional revenues to lower the costs to the customer class could also vary over time.

Option 2: Seasonal Fixed Credit

Report to the Minister: Options for an Appropriate Rate Assistance Program for On-Reserve First Nations Electricity Consumers

Given the observation that bills vary from season-to-season, the OEB considered an option that would take 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.

Recognition of First Nations Contribution:

While this option accounts for higher bills during colder months and the use of electric heat, a fixed on-bill credit, untethered to any specific line item on the customer's invoice, is comparatively more loosely tied to the intended acknowledgement of First Nations contribution to the electricity sector than other approaches.

Equality of Outcome:

The biggest challenge with this approach 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 (e.g. 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 (e.g. Thunder Bay).

Visibility of Compensation:

A fixed credit approach provides First Nations customers with a tangible benefit, as they will be able to clearly see the amount their electricity bill has been reduced each month.

Ease of Implementation:

A fixed credit is relatively simple for distributors to implement, however additional customization will be required to account for seasonal credit changes. There is 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.

Costs Projections:

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. Higher or lower seasonal credits could also be proposed.

Cost & Fairness for Those Who Bear It:

Given that the credit is a fixed dollar amount, it is easy to forecast total program costs as there are no fluctuations based on usage. It is also the least costly of all the approaches. Adjustments to the credits over time, as costs and other circumstances change, could provide further flexibility.

Option 3: 50% Total Bill Reduction

As an alternative to a fixed credit approach, the OEB evaluated the merits of 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 percent.

Recognition of First Nations Contribution:

The use of proportional relief rather than a specific dollar amount provides a moderate level of acknowledgment of First Nations contribution to the electricity sector. The connection to the bill rather than a specific line item provides less direct connection to the nature of First Nations contribution to the electricity system through the hosting of delivery infrastructure.

Equality of Outcome:

The principal benefit to this approach is that it provides an equitable level of benefit to all on-reserve First Nations customers. One customer will not benefit by a greater proportion than any other.

Visibility of Compensation:

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.

Ease of Implementation:

It is easy for distributors to administer because every customer receives the same percentage reduction, which requires fewer billing system changes and customization.

Cost Projections:

Under the 50% Total Bill Reduction option, a typical First Nations customer would receive a monthly credit of about \$105 in the summer and \$150 in the winter, at a total annual cost of \$20 to \$28 million.

Cost & Fairness for Those Who Bear It:

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 those who would bear the costs.

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.

Recognition of First Nations Contribution:

A 100% delivery charge credit is the preferred option of First Nations communities. Focusing on the delivery charge, rather than the total bill, directly correlates to the use of First Nations lands to deliver power and provides the level of acknowledgement of their contribution that they are seeking.

Equality of Outcome:

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 reducing consumption, shifting to off peak times and taking part in conservation programs, customers on reserve have no control over which local distributor provides service to them; they therefore have no control over the delivery charges they pay for service. Eliminating the delivery charge would achieve an equitable outcome as desired by First Nations customers, since the remaining costs of electricity service are relatively consistent across the province. The benefit is proportional to the level of delivery charge experienced by the on-reserve customer.

Visibility of Compensation:

The delivery charge credit allows First Nations customers to quantify their contribution to the electricity sector by seeing the amount of the delivery charge they would otherwise have paid.

Ease of Implementation:

This approach is relatively efficient for distributors to implement since all customers will receive the same percentage reduction. This means minimal billing changes and customization will be required. As distributors pointed out in their written comments, economies of scale should be realized through their experience with implementing similar percentage based bill credits, such as the Ontario Clean Energy Benefit.

Cost Projections:

Implementing a 100% Delivery Charge Credit would provide a benefit of almost \$75 in the summer and \$100 in the winter at a total annual cost of \$13 to \$20 million.

Cost & Fairness for Those Who Bear It:

This option represents a moderate approach, since the cost of this option falls between the costs for the other two options. The drawback to a percentage based credit is that program costs will be sensitive to changes in distribution, transmission and commodity costs. In 2016, electricity distributors began structuring residential rates so that the costs for distribution service are collected through a fixed monthly charge. This move to a fixed distribution charge should alleviate some cost sensitivity in the near- to mid-term.

5.3 Comparative Evaluation

Table 4 summarizes how each proposed option compares against the evaluation criteria. Based on the OEB's criteria, the 100% Delivery Charge Credit is the only approach that scores high or moderate on each measure. It provides the highest level of recognition of First Nations contribution to the electricity system, while providing an equitable level of benefit for all on-reserve First Nations residential electricity customers. It is also easy to implement and provides the desired level of visibility that First Nations are seeking, at a moderate level of fairness to all customers.

Table 6: Evaluation of Proposed Options

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

The OEB presented these options at the Chiefs of Ontario's Special Chiefs Assembly in late November. There was consensus among First Nations that the fairest option is to eliminate the delivery charge altogether. They noted it is the easiest to implement and will have the biggest benefit for their citizens. The Chiefs of Ontario passed a resolution in support of the OEB's proposed options with the addition that the Chiefs of Ontario's Political Confederacy continue discussions with the Minister of Energy to expand the reduction to all First Nations customers regardless of residency.

5.4 Approaches for First Nations Customers Not Connected to the IESO Grid

Cat Lake Power, Cornwall Electric and Hydro One Remotes are not connected to the IESO grid. As discussed in section 3.2, these distributors charge a bundled electricity rate which includes the cost of supplied electricity. The appropriateness of each option for these communities requires specific evaluation.

The Seasonal Fixed Credit and the 50% Total Bill Reduction approaches are feasible for these distributors to implement since every customer receives either the same fixed dollar amount or the same percentage reduction. This makes it is relatively straightforward for distributors to administer, requiring fewer billing system changes and customization.

However, eliminating the delivery charge is not possible for these distributors, since the exact amount charged for delivery is unknown. If a percentage based delivery charge credit were to be adopted, there are three alternatives for delivering this to customers: (1) a credit based on the actual cost of delivery embedded in the bundled charge, (2) a reduction based on the estimated proportion of the bill that is associated with delivery, or (3) elimination of the fixed service charge as a proxy for certain delivery costs.

Option 1: A Credit Based on the Actual Cost of Delivery

A distributor could disaggregate its costs to quantify the cost associated only with delivering power to customers. Based on this data, a credit can be applied to reduce all or a portion of the delivery cost embedded in the charge. The principal benefit to this approach is that it ensures that these customers receive a benefit that is intended to mirror the relief that on-reserve First Nations customers are receiving elsewhere in the province. Focusing on the delivery charge also directly correlates to the use of First Nations lands to deliver power and provides the level of acknowledgement they are seeking. Finally, a delivery credit approach 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 major challenges with this approach are that a detailed review of distribution costs is performed typically only once in five years for an Ontario distributor and that for Hydro One Remotes, distribution costs are small relative to the overall cost of service, which would mean the elimination of delivery costs would likely not yield an appreciable reduction to the rates paid by customers. A further complication is that the OEB has no responsibility for reviewing costs in Cornwall Electric's service area. While the licenced utility could be compelled to provide cost information to the OEB, it is questionable whether such an exercise would be appropriate in the absence of rate-setting authority.

Option 2: A Credit Proportional to the Estimated Delivery Charge Bill Reduction

The delivery charge represents on average 34 percent of the electricity bill for a typical on-reserve First Nations customer served elsewhere in the province. Using this percentage as a proxy, Cat Lake, Cornwall Electric and Hydro One Remotes could reduce customers' electricity bills by 30 percent to achieve an equitable level of compensation. The approach is somewhat consistent with First Nations view that all First Nations customers should receive an equitable level of compensation. It is also relatively simple for distributors to implement. The downside to this approach is that it lacks any objective linkage to the actual costs of delivery service in these areas.

Option 3: Eliminate the Monthly Fixed Service Charge

As an alternative, Cat Lake, Cornwall Electric and Hydro One Remotes could waive the fixed service charge amount or provide an equal credit to offset it. The service charge is a known monthly charge. Eliminating it would result in a monthly credit of between \$9 and \$20 for a typical First Nations customer served by these distributors. While eliminating the monthly service charge approach may fall short of providing an equitable level of benefit for all recipients, it would be quick and straightforward to implement. Eliminating the service charge can easily be presented on the bill, which will allow on-reserve First Nations customers to quantify the benefit they are receiving. It is also administratively easy for distributors to implement as the amount of the service charge is already known and fixed. Focusing on the service charge, as opposed to the entire bundled rate, also ensures that energy conservation remains a priority.

5.5 An Approach for Customers of IPAs

The absence of cost data and information on billing practices, coupled with the feedback from IPAs about their priorities, prevents the simple application of any of the First Nations Rate options developed for other reserves to reserves served by IPAs. Alternatives therefore need to be considered.

The OEB is aware that many IPA communities are interested in being served by Hydro One Remotes and have written to the Minister of Energy stating this intention. It is expected that those who become served by Hydro One Remotes would subsequently receive RRRP rate protection, and face lower costs as a result. However, connection to Hydro One Remotes is a multi-year process that involves cooperation between Ontario and the federal government.

Although we had limited engagement with IPA communities, RRRP was identified as an approach to providing assistance in the short term. The OEB recognizes that the provision of RRRP in these communities prior to being served by Hydro One Remotes may raise a number of issues, including, but not limited to, departures from prior practices and agreements between Ontario and the federal government with respect to funding of on-reserve activities, requirements for audit and other verification practices regarding RRRP provision, and any ramifications to the calculation of income by Indigenous and Northern Affairs Canada which could result in clawing back of other federal funding for the community. Many of these considerations are beyond the purview of the OEB to investigate and resolve.

6. IMPLEMENTATION CONSIDERATIONS

6.1 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 the First Nations Rate. On-reserve customers can be confirmed by their service address; First Nations status can be confirmed by tax exemption status. Many First Nation customers are already identified in utilities' billing systems as recipients of the HST exemption. Utilities and band councils may merely need to increase the visibility of this customer identification practice in order to identify any customers not yet identified. Based on feedback received, it is the OEB's view that collecting any further private customer information, which can also be a barrier to uptake, should be avoided as much as possible to deliver this rate.

6.2 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. The OEB could explore whether similar amendments to the licences of other distributors that serve on-reserve First Nations customers are warranted, as this would assist with self-identification of eligible customers.

6.3 Continued Access to Assistance Programs, such as the OESP

The Minister asked us to consider how the First Nations Rate would interact with other assistance programs, including 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 LEAP. The OEB recognizes that even after the application of First Nations Rate credit, lower income First Nations customers may still continue to have difficulty keeping up with their electricity bills. Similar to RRRP, which does not disqualify a customer from receiving OESP and LEAP, on-reserve First Nations customers should still be entitled to assistance programs provided they meet the eligibility criteria.

6.4 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 concurs with the Chiefs of Ontario that the implementation of a First Nations Rate will have many benefits such as assisting in the government's process of reconciliation with First Nations communities and improving relationships between distributors and First Nations customers. These types of qualitative benefits are not those which the OEB can measure and assess.

However, the OEB expects that there will be tangible ancillary benefits to the provision of the First Nation Rate, especially with regard to the following:

1. Reducing arrears;
2. Reducing disconnections;
3. Improving payment patterns; and
4. Ensuring all eligible First Nations customers are receiving the HST exemption to which they are entitled.

If the First Nations Rate is implemented, the OEB could require distributors serving on-reserve First Nations customers to report this information annually, in relation to the number of customers receiving the First Nations Rate.

As a preparatory measure, the OEB could work with distributors to develop baseline data for these measures before any implementation of a First Nations Rate. The OEB could also implement changes to the OEB's Electricity Reporting and Recordkeeping Requirements to support this data collection.

7. FUNDING A FIRST NATIONS RATE

7.1 Sources of Funds

There are only two sources of funds for a First Nations Rate: (1) the government's consolidated revenues raised through taxes or (2) funds raised from electricity customers (ratepayers). The Minister's letter describes a First Nations Rate as a measure to address electricity affordability for on-reserve First Nations customers. First Nations customers view a First Nations Rate as a means of acknowledging their contribution to Ontario's electricity system. Whether the intent of the First Nations Rate is electricity affordability or recognizing First Nations contribution, both of these objectives can properly be considered interests that should be funded from the tax base.

Nevertheless, the OEB has broad discretion to consider factors such as affordability when setting rates and has done so for programs like OESP and LEAP. Similarly, the government has acknowledged the higher cost to serve rural customers and implemented RRRP, which is also funded by all electricity customers in Ontario.

The First Nations Rate options range in cost from \$12M to \$30M. Funding from rates would add between \$0.07 and \$0.16 to the typical monthly electricity bill. While this is a modest amount and could be considered just and reasonable, recovering costs from electricity customers would add incremental costs to the electricity bill, something which may not be palatable to ratepayers. More importantly, rate recovery of these program costs would be without regard to income level or other considerations which provincial tax policy takes into account.

7.2 Mechanisms for Collecting Funds

If the Minister proceeds with a First Nations Rate funded from the electricity bill, the following mechanisms could be considered: (1) A distribution charge or (2) a provincial charge.

Option 1: Distribution Charge

A distribution 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.

Option 2: Provincial Charge

A provincial charge means funds would 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 ensures all ratepayers in Ontario contribute equally to the cost of the First Nations Rate.

If this is to be a ratepayer funded program, the OEB suggests that it be funded through a provincial charge. This approach also reflects the preference of stakeholders. 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.

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 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 distributors 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.

7.3 Legislative Changes

Irrespective of the First Nations Rate option selected, the OEB expects that legislative changes will be required in order to provide credits to First Nations customers and put a charge in place to collect the costs to fund the program.

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

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.

7.4 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 the RRRP benefit. 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, requiring First Nations Rate receipts to pay into the program does not remove the overall beneficial outcome. According to cost estimates, the average benefit that an on-reserve First Nations customer would receive in a month is \$85; the average monthly cost of the program charge for a participant would be less than 12 cents. This would mean more than 99% of the initial benefit would still be received under the First Nations Rate.

7.5 Cost Escalation

The cost projections for the First Nations Rate are reflective of distributors' current 2016 delivery charges and the enhanced RRRP for Hydro One low density customers in 2017. A number of factors will lead to changes in these costs over time. The OEB's transition toward fully fixed distribution charges is expected to reduce the distribution component of delivery costs for residential customers with higher than average consumption, which many on-reserve First Nations customers are expected to be. As a result, the distribution-related costs of the First Nations Rate program should decrease, absent changes attributable to rebasing. However, increases in overall distribution and transmission costs, as well as the cost of electricity will create upward pressure on program costs. The First Nations Rate will be especially sensitive to changes in Hydro One's distribution rates, since Hydro One serves the majority of on-reserve First Nations customers. The OEB recommends monitoring ongoing program costs to ensure the pace of growth continues to be manageable and reasonable for those who pay for it.

8. CONCLUSION

In developing this report, the OEB considered a number of options and assessed them having regard to the Minister's letter and feedback from First Nations communities and affected stakeholders. Based on the OEB's analysis, a preferred option was identified:

- Eliminate the delivery charge for all on-reserve First Nations residential customers and eliminate the monthly service charge for customers who pay a blended rate.
- Automatically qualify on-reserve First Nations customers as recipients of the First Nations Rate;
- Require partnerships between distributors and band councils to identify all on-reserve First Nations customers;
- If costs are to be recovered through the electricity system, use a province-wide charge to collect the costs from all ratepayers; and
- Continue to provide assistance through OESP and LEAP to eligible on-reserve First Nations customers.

This approach would provide a meaningful benefit, averaging \$85 monthly, to an estimated 20,000 on-reserve First Nations residential electricity customers in Ontario, at a monthly cost of less than 12 cents for the typical residential electricity consumer.

Appendix A – The Minister’s Letter

Ministry of Energy

Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754

Ministère de l'Énergie

Bureau du ministre

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Télééc. : 416 327-6754



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-

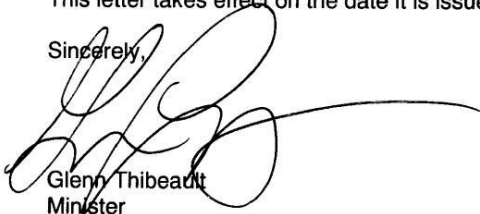
2. Options and considerations regarding the cost and funding mechanism for the First Nations Rate, including considerations of:
 - The impacts on existing electricity consumers, if any;
 - The impacts on Ontario's electricity distribution and transmission utilities and other stakeholders, if any.
3. 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 – Chiefs of Ontario Engagement Sessions Summary Report

