

ONTARIO ENERGY ASSOCIATION

# **SPEAKING NOTES TO THE STANDING COMMITTEE ON JUSTICE POLICY**

**Bill 132, Ontario Fair Hydro Plan Act, 2017**

May 23, 2017

To shape our energy future for a stronger Ontario.



Ontario Energy Association

# ABOUT

The Ontario Energy Association (OEA) is the credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario. We represent Ontario's energy leaders that span the full diversity of the energy industry.

OEA takes a grassroots approach to policy development by combining thorough evidence based research with executive interviews and member polling. This unique approach ensures our policies are not only grounded in rigorous research, but represent the views of the majority of our members. This sound policy foundation allows us to advocate directly with government decision makers to tackle issues of strategic importance to our members.

Together, we are working to build a stronger energy future for Ontario.

## INTRODUCTION

Good morning Chair and members of the Standing Committee on Justice Policy. Thank you for allowing me the opportunity to speak to you today regarding Bill 132, the Ontario Fair Hydro Plan Act, 2017.

My name is Vince Brescia, and I am here on behalf of the Ontario Energy Association (OEA). The OEA is the credible and trusted voice of the energy sector. We represent Ontario's energy leaders that span the full diversity of the energy industry in Ontario. Our members include electric and natural gas distributors, transmitters, power producers, energy service providers, and the many professionals and service providers in the sector.

Today I am going to speak about the following four aspects of this new legislation:

- Process
- Enhancing low-income assistance
- Funding low-income assistance
- Rate relief design

### Context Setting

First, I would like to start by setting the context for this new legislation. Over the past 15 years, Ontario's electricity system has undergone a major transformation. In 2003 Ontario had about 30,000 MW of electricity capacity province-wide. Based on data from the Independent Electricity System Operator (IESO), between 2003 and 2015, Ontario added over 16,000 MW of new capacity, representing a massive investment in new generation capacity.

In 2003, then Premier Ernie Eves created the *Electricity Conservation & Supply Task Force* to advise the government on the growing concern about electricity supply in Ontario. When the task force reported in 2004, they suggested that there was a "looming electricity supply shortfall" and suggested urgent action through long-term contracting with generators to address the deficiency. Electricity demand was increasing and all three major political parties had indicated the province should eliminate its coal generation fleet.

The government responded by adding a mix of new nuclear, natural gas, hydro, wind, solar, demand response and conservation capacity – the roughly 16,000 MW of new capacity mentioned earlier. Historically speaking this probably represents the largest addition of new capacity the province has ever seen in such a short period.

Making these investments has delivered significant benefits to Ontario. Firstly, our electricity system is now one of the greenest in the world today, having undergone a massive reduction in emissions, including GHGs. For anyone who believes that climate change is a serious issue that demands action, this has been a welcome transformation. In addition to GHG reductions, the air in Ontario is now cleaner, and we have impressive and diverse range electricity generation assets which will benefit Ontarians for decades to come.

However, as we all know, making such a large set of investments in such a short period has come at a cost. Given the scale of the investments, electricity rates have had to rise significantly in a short period to help pay for these investments. And as we have seen, some Ontarians have faced challenges in managing the pace of this change. So we found ourselves in a situation in Ontario where average Ontarians, opposition parties and the media were all demanding action to address the pace of change of electricity bills. The Fair Hydro Plan represents the government's response to this situation, and I am here today to give the OEA's feedback on that response.

## **Process**

The first thing I want to do today is to commend the government on the process undertaken in developing its response. The OEA was engaged by government officials in meaningful dialogue on options to address the situation Ontario was facing. This included engagement and dialogue from Ministry staff, the Minister, Minister's office staff, the Premier's staff and the Premier herself. The OEA greatly appreciates being engaged in this fashion. Unfortunately, in my many years working on public policy issues, all too often consultation in these situations is either non-existent or entirely perfunctory. This process involved iterative consultation and we are grateful for the opportunity to have been engaged in this fashion.

## **Enhancing Low Income Assistance**

The Fair Hydro Plan includes an enhancement to the Ontario Electricity Support Program. This is a welcome and positive change. Firstly, the amount of the OESP has been increased by 50%, now providing between \$45 and \$113 monthly to low income households. In addition, the income thresholds have been increased which will make significantly more low-income households eligible for the benefit. Finally, the legislation appears to be taking action to help increase program take up by enabling partnership with the Ministry of Community and Social Services which is a direction we support.

## **Funding Low-Income Assistance**

Another change we strongly support is the move in the Fair Hydro Plan to fund low-income assistance through provincial revenues rather than by ratepayers. There is a very strong public policy case to be made that social programs, like the OESP, are better funded by taxpayers rather than ratepayers. The tax system has been designed to be progressive and generate revenues based on ability to pay, whereas charges to electricity ratepayers, whether fixed or per kWh, are not. For this reason, the OEA supports the direction of the Fair Hydro Plan to fund social programs and their associated costs through the tax base.

## **Rate Relief Design**

Finally, we come to the design of rate-relief – the refinancing of the Global Adjustment. As I outlined at the beginning of these remarks, Ontarians have experienced probably the largest investment in new generation capacity ever to take place in such a short timeframe. These are fixed costs. Most people think that electricity costs are variable when actually most of the costs in the electricity system are fixed. Variable costs, like the energy used to produce power, represent a very small portion of costs. So what to do, when a provincial consensus develops that includes all three major political parties, that something should be done to lower bills now, because Ontarians are having difficulty with the pace of change? Given fixed costs, your options are limited. There are no magic solutions to lower costs, which sometimes have been trotted out by various proponents while this issue was being publicly debated. The option chosen was to better align the amortization of system costs to the expected life of assets, which is a defensible option.

From the OEAs perspective, we are very pleased that the government was responsive to our feedback and implemented rate relief using the particular mechanism chosen. We were very concerned that there might be direct intervention into the Global Adjustment itself. This would have impacted numerous existing contracts in a negative fashion. Instead, the Global Adjustment itself will remain unaffected by the plan, so we are supportive of the approach and again thank the government for being responsive to our concerns.

That concludes my remarks. Thank you again committee members for the opportunities to speak to you today.

## CONTACT

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Ontario Energy Association

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