JT 1.5B Exhibit 1

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PURPOSE OF BRIEFING

- To update the Minister on the status of a regulation under the GEA to recover the cost of MEI's conservation programs from gas and electricity ratepayers.
  - Why
  - How much
  - Who Pays – Apportioning the costs amongst Residential, Commercial, Industrial users
  - What consumers will see on their bills
  - Timing considerations
- Specifically to request direction about how to apportion the charges to different classes of ratepayers.

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Background

- The Green Energy Act includes provisions allowing recovery of funds for MEI multi-fuel conservation programs from ratepayers (consistent with ratepayers currently funding all other conservation programs).
- Two MEI programs are in market: the Ontario Solar Thermal Heating Initiative (OSTHI) program and the Home Energy Savings Program (HESP).
  - Both of these programs are scheduled to run until March 2011 while a third program is in the planning stages (PowerHouse).
- The expense associated with current MEI programs for FY 09/10 is estimated at $165 million. $140 million would be funded from gas and electricity ratepayers while the rest (admin, oil/propane related incentives) would be paid by existing MEI allocations.
- The $140 million that needs to be recovered is next apportioned to gas and electric ratepayers by determining the costs associated with the gas and electricity savings that HESP and OSTHI would yield. MEI estimates the division to be: $40 million (electricity) and $100 million (gas)

	Gas ($million)	Electricity ($million)
HESP	99	39
OSTHI	1	1
Total	100	40

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Current Status

- MEI staff have worked extensively with internal and external stakeholders to develop a process for cost recovery. It would require the OEB to assess gas and electric utilities for amounts as identified in a regulation, to be filed annually on the basis of Treasury Board approved figures.
- Direction is required in three key areas in order to complete the drafting of the regulation:
  1. The allocation of the charges to different ratepayers - i.e., determining who pays how much towards these costs is likely to be controversial as different groups of ratepayers will either prefer not to pay, or to shift the responsibility to other groups of ratepayers.
  2. Avoiding a negative cash flow at the utility due to remitting funds to MEI before they collect from the ratepayers.
  3. Showing this charge as a segregated and noticeable item in gas bills.

Issue 1: Apportioning the Charges

- Considerations on which customer class is charged and for how much:
  - Who benefits directly from the programs (e.g. residential)?
  - Who benefits indirectly from reducing demands on the energy infrastructure for expansion of storage (gas), distribution (both electricity and gas), and generation (electricity) capacity?
  - What are the rate impacts?
  - What is the constitutional law assessment of whether the recovery may be viewed as a regulatory charge or a tax?

- The gas apportionment is the most contentious.

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Apportioning the Charges: Gas Options

Recovery from gas users: **$0** **$50M** **$100M**

(all amounts annual)

Option 1:

Pay based on volume of gas consumed
Rate: $/m^3 0.0035

Residential	Commercial	
$10 (avg.)	$640 (avg.)	[redacted]

→ [redacted]

The volumetric approach apportions equal charges regardless of rate class and emphasizes system benefit of reduced gas use over the direct benefits to the programs which are mostly in the residential class

Rate Impacts are modest except for the largest industrial customers – about 2 dozen would pay over $100,000 per year, the very largest over $2 million. Gas companies and industrial users are concerned that increasing industrial rates will negatively impact these customers, particularly at this time of a weakened economy

Solicitor-Client Privilege (last paragraph only)

[redacted]

Estimates are annual and averages only – actuals will vary by customer

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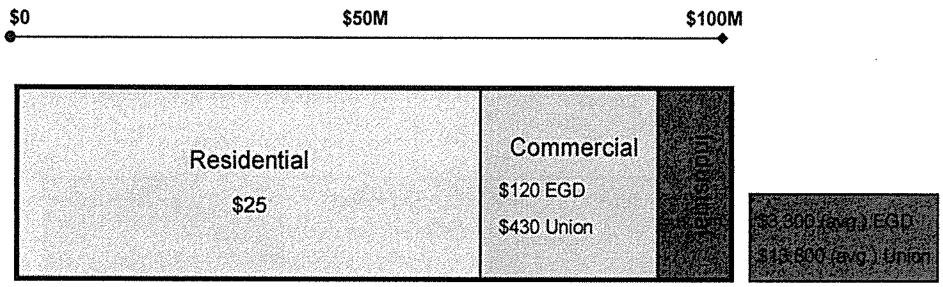
Apportioning the Charges: Gas Options

Recovery from gas users:

(all amounts annual)



Option 2:
Model based on how utilities recover their own infrastructure costs, and with industrial caps

Enbridge and Union proposed a method which reflects their infrastructure cost to serve each sector; this method shifts the costs to the residential market reducing the cost to industry. Industrial impact can be further reduced by adding a cap of $100,000.

Solicitor-Client Privilege (second paragraph only)

[redacted]

This option has strong stakeholder support, in the form of gas distributors and the Industrial Gas Users Association (IGUA).

* Estimates are annual and averages only – actuals will vary by customer

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Apportioning the Charges: Electricity Options

Recovery from electricity users:
(all amounts annual)

$0 — **$20M** — **$40M**

Pay based on volume of electricity consumed
Rate: $/Kwh 0.00028

Residential	Commercial	[illegible]
$3 (avg)	$300 (avg)	[illegible]

The volumetric approach is preferred in the electricity sector as consistent with the system benefits for which all other electricity conservation is paid for by users.

Rate impacts are modest, representing about a 0.3% increase in all sectors

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Issue 2: Cash flow

- Provincial accounting rules require the full amount of charges for FY09/10 to be remitted no later than July 31, 2010.
- Utilities will begin collecting from customers roughly 3 months after the regulation is passed due to the necessary lead time to change utility billing systems.
- To meet the July 31, 2010 accounting rule, collections from customers must precede remittance of the funds to the government or otherwise the utility will incur a negative cash flow by remitting funds to government before collecting from customers (something utilities oppose).
- Similar cash flow issues in the electricity area are mitigated due to the lower amounts.

STATUS

- MEI staff is seeking input to assess the tolerance to bill increases (particularly in the residential sector) to inform the decision on collection period (between 4 and 12 months)
- Two options presented in next slide

Cash flow options

- The shorter the collection period used to recover MEI's charge, the higher the amount billed each period. For example (residential sector):

Higher bill impact: Utilities could collect in 4 months

- Under this option, utilities recover fairly rapidly (in 4 months which could be April, May, June, July which are lower gas billing months) and begin the new year's recovery cycle after.
  - Under Apportionment Option 1, each residential bill would increase by about $2.50. Industrial impact would vary but would be as high as $0.5M per monthly bill;
  - Under Apportionment Option 2, each residential bill adds $6.25. Industrial impact would vary but would be as high as $25,000 per monthly bill.

Moderate bill impact: Utilities could collect in 12 months.

- Under this option, the new year's recovery cycle overlaps with the current year's. Utilities "catch up" over 4 years, after which collections from ratepayers precede remittances.
  - Under Apportionment Option 1, each residential bill would increase by about $1. Industrial impact would vary but would be as high as $150,000 to $200,000 per monthly bill;
  - Under Apportionment Option 2, each residential bill would increase by about $2. Industrial impact would vary but would be as high as $8,333 per monthly bill.

Issue 3: Bill presentment

- In order to control how this charges is presented to customers, MEI will amend existing regulation that prescribes the format and content of electricity bills for **residential** electricity customers. This is not the case for all other electricity customers or natural gas customers.
- MEI expects that all gas bills will show the charge separate from all other charges.

SUMMARY TABLE (SEE NEXT PAGE FOR DETAILS)

Residential electricity customers	All other electricity customers	Natural gas customers
▪ Via regulation, MEI is able to dictate how residential electricity bills are presented. ▪ As a result, the cost recovery charge can be added to the existing regulatory charges line-item and not be identified separately. ▪ This would be justified given its relatively small size and with the aim of maintaining the level of readability of the current bill structure.	▪ The format of the bill is at the distributors' discretion. ▪ The Electricity Distributors' Association has indicated that distributors are likely to identify this as a separate line item.	▪ The format of the bill is at the distributors' discretion with no regulatory authority over it. ▪ Enbridge and Union have indicated that they will identify this charge as a separate line item. ▪ They are both willing to work with MEI on what text should be used to describe the charge.

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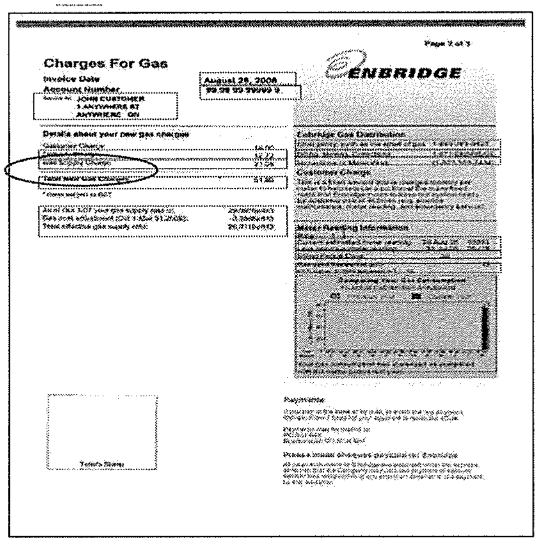
Sample Bills

	Gas
	New line item would be added in the area inside the red circle. 

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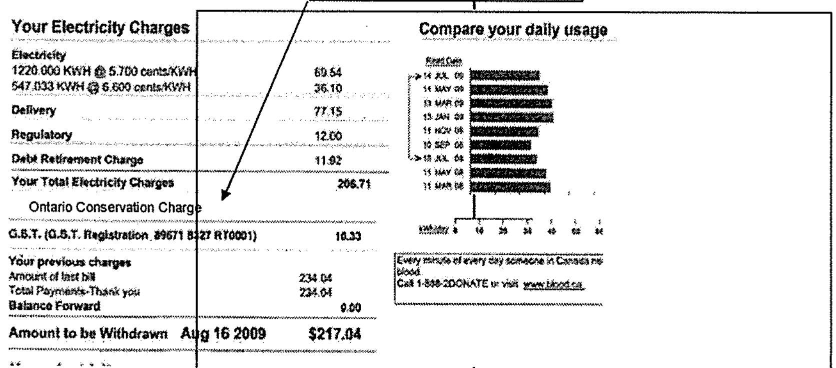
Sample Bills

Electricity	
Residential	All others
Charges will not show but will be included under the regulatory label	New line item would be added, likely as shown but at LDC discretion

Commercial bill for illustration only



Your Electricity Charges		
Electricity		
1220.000 KWH @ 5.700 cents/KWH	69.54	
547.033 KWH @ 6.600 cents/KWH	36.10	
Delivery	77.15	
Regulatory	12.00	
Debt Retirement Charge	11.92	
Your Total Electricity Charges		206.71
Ontario Conservation Charge		
G.S.T. (G.S.T. Registration #9671 8327 RT0001)		10.33
Your previous charges		
Amount of last bill	234.04	
Total Payments-Thank you	234.04	
Balance Forward		0.00
Amount to be Withdrawn Aug 16 2009		$217.04

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Decisions and Next steps

- Following items require decisions/agreement in order to prepare regulations:
  - Which apportionment methodology should be chosen for gas?
  - Is there a preference for compressing the collection over a short period or have the collections spread out longer, financed and cost recovered by the Utilities?
  - Is there any concern with the bill presentment as described?
- Next steps
  - Finalize regulation following agreement on direction – December
  - Communicate decisions to key stakeholders (OEB, Enbridge/Union, IGUA, EDA)
  - Finalize regulation (Jan LRC date)

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Timeline

December	TASK	LRC DATES
14	Write Regulation (4 weeks)	
21		
28		
January		
4		
11		
18	Ministry Approval of regulation (1 week)	January 18. Material to
25	LRC and Cabinet Approval (1 week)	Minister January 4
February		
1	OEB assessment preparation (1 week)	
8	Utility computer systems changes (10 weeks)	February 8. Material to
	Utility commences recovery- April 19, 2010	Minister January 25
	(For February 8 LRC, May 3, 2010)	

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