

JT 1.6 + 1.7, Exhibit ②

**MINISTRY OF ENERGY AND INFRASTRUCTURE
MB 20 FOR MEI'S CONSERVATION COST RECOVERY FROM
ELECTRICITY UTILITIES AND THE IESO**

1.0 MINISTRY REQUEST

The Ministry of Energy and Infrastructure (MEI) is requesting Treasury Board/Management of Cabinet (TB/MBC) approval to proceed to Legislation and Regulation Committee on February 22, 2010 with a regulation to allow the partial cost recovery of MEI's conservation programs from the electricity utilities; there would be no cost recovery from gas utilities.

MEI also seeking TB/MBC approval for a reduction in the amount of revenue collected in 2009-10. MEI is proposing to change its cost recovery mechanism to collect \$53.695M from electricity utilities only. This would result in a decrease of revenue from the \$142.8M minuted in the 2009-10 RbP. The ministry is noting however that the revenue shortfall in 2009-10 would be fully offset from within MEI's savings identified through the third quarter report.

2.0 BACKGROUND

On May 14, 2009 the *Green Energy and Green Economy Act* (GEA), received Royal Assent.

The GEA has the following key elements:

- Establishing Ontario as a leading jurisdiction for renewable energy
- Creating a conservation culture within government and broader society
- Expanding and supporting economic investment in a "green economy"

The goals of the GEA are to accelerate the development and delivery of renewable energy and conservation, stimulate investment and innovation, and support the creation of new, green jobs.

Schedule D, Section 6 of the Act amends the *Ontario Energy Board Act 1998*, allowing the Board to assess prescribed persons or classes of persons for expenses incurred and expenditures made by the Ministry of Energy and Infrastructure in respect of conservation programs or renewable energy programs provided (section 26.1). For the

purpose of the Financial Administration Act, Board assessments under section 26.1 are deemed to be money paid to Ontario for special purposes (section 26.2), and will be placed into a special purpose account.

Through the 2009-10 and 2010-11 RbP process, and the quarterly reports, the ministry has noted its intention to recover a significant portion of the cost of conservation programs it delivers from electricity and gas utilities. Electricity and gas utilities are expected to further recover these amounts from their ratepayers through a rate increase expected to be approved by the Ontario Energy Board.

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- 3 paragraphs -
starting after first
sentence



It should be noted that the original recovery of \$148M minute in the 2009-10 RbP was derived from a volumetric based approach of MEI's conservation programs for electricity and gas utilities.

3.0 PROPOSED COURSE OF ACTION

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- first paragraph

OPTION 1: Recovery from Electricity Utilities and the IESO Only- RECOMMENDED-

For fiscal 2009-10 the ministry could regulate the collection of a total amount of \$53.695M from electricity utilities and the IESO and not proceed with collection from the gas. The revenue shortfall expected from exclusion of the gas sector could be fully offset from MEI savings that were identified through the Ministry's third quarter report, and will have no fiscal impact.

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- "Pros" paragraph

OPTION 2: No Cost Recovery

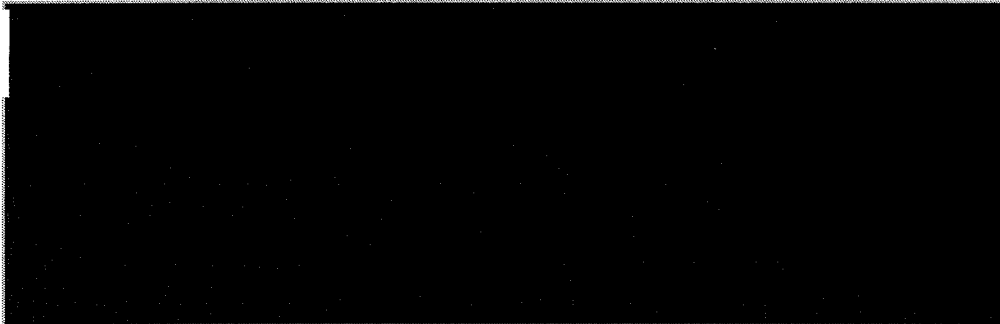
The ministry could forego all recovery in fiscal 2009-10. A portion of the minuted revenue that was expected to be recovered in this fiscal year could be partially offset from MEI savings that were identified through the third quarter report, however there would still be a fiscal impact of \$38.8M in 2009-10.

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- first sentence of "Pros"
paragraph

OPTION 3: Recovery from the Electricity and Gas Utilities using A Volumetric Based Approach

The ministry could recover \$53.695M from the electricity sector and \$110.526M from the gas sector using the volumetric apportionment method for both.

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- second sentence of
"Pros" paragraph



The ministry is recommending to proceed with Option 1, recovery of \$53.695M in 2009-10 from electricity utilities. This would require the ministry to proceed to LRC with a draft regulation on February 22nd.



4.0 PERFORMANCE MEASURES

MEI's conservation programs will contribute to achieving two existing performance measures for MEI:

- Reducing peak electricity demand by 2025 by 6300 MW, through energy conservation.
- Increasing energy saved by consumers through increased use of energy efficient products, 22.6 petajoules by 2012-13.

5.0 FINANCIAL IMPLICATIONS

Government Fiscal Impact:

As shown in the table below, the third option would have the larger recovery for the government; however it is the least favorable option from a policy standpoint. MEI's preferred option and recommendation, has a no fiscal impact and reduced risk from a policy perspective.

(\$ Millions)	Minuted Recovery 2009-10 RbP	Proposed Recovery from Rate Base	Savings Identified in Q3	Each Impact (Variance from Original Revenue Forecast)
Option 1: Recovery from the Electricity Utilities and IESO	142.8	53.7	104.0	(14.9)
Option 2: No Cost Recovery	142.8	-	104.0	(34.0)
Option 3: Recovery from the Electricity and Gas Utilities using a Volumetric Based Approach	142.8	164.2	104.0	(12.4)

Consumer Impact:

For a typical residential customer, Option 1 is estimated to add about \$3/year (about 0.3% bill increase) while a typical commercial customer would see an additional charge of about \$300/year (both spread among the number of billing periods). A typical industrial consumer would pay closer to \$14,000/year (a typical large industrial consumer would pay closer to \$70,000/year).

Small volume electricity customers (e.g. residential customers) would not see a discrete charge on their bill (it would be part of the existing "Regulatory" line in the bill). Commercial and industrial electricity customers would, at the utilities' discretion, see this as a discrete line item in their bills.

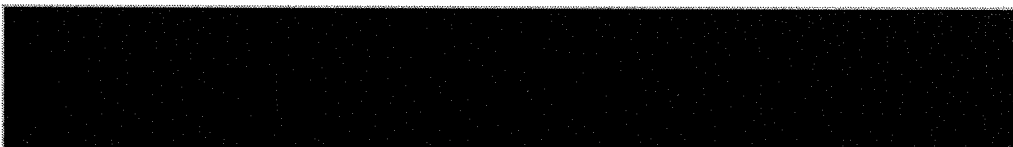
6.0 RECOMMENDATION

The ministry is requesting that Treasury Board/Management Board of Cabinet:

RECOMMEND for Cabinet approval the Ontario Energy Board regulation to allow collection of cost recovery from electricity utilities for fiscal 2009-10.

APPROVE the change in cost recovery mechanism and a revised revenue target of \$53.695M in 2009-10.

NOTE that MEI will fully offset the remaining recovery in 2009-10 from within, using savings that were identified through the ministry's third quarter report.



TT 1.6 + 1.7, Exhibit ③



**LEGISLATION AND REGULATIONS COMMITTEE:
MINISTRY APPROVAL FORM**

LRC Tracking #: REG-8834
EVista Tracking #: SUB-REG-2009-09146

MINISTRY OF ENERGY AND INFRASTRUCTURE

**Assessments for Ministry of Energy and Infrastructure
conservation and renewable energy program costs**

Regulation; Order-in-council

Profile at a Glance

Priority: *Consequential to commitment*

Public Interest: *Medium*

Key Stakeholder Interest: *High*

New Costs/Burdens: *Yes for Stakeholders/ No for Government*

New Savings/Opportunities: *No for Stakeholders/ Yes for Government*

Proposed Items for Review

1. New regulation under the *Ontario Energy Board Act, 1998*, titled "Assessments for Ministry of Energy and Infrastructure conservation and renewable energy program costs".
2. Modification of existing regulation 275/04 under the *Ontario Energy Board Act, 1998*.
3. Order-in-council under the *Green Energy and Green Economy Act, 2009*.

Approvals required prior to LRC

	Committee and date	Cabinet Date	No approval needed
Policy	CCOEF, Dec. 17, 2008	Cabinet, Dec. 17, 2008	
TB/ MBC	(Get info from Corp-RbP approval)		*

**Note appendix here if including an appendix that addresses costs, or if a Budget commitment.*

Deputy Minister

Date

Minister

Date

s. 1 Proposal and Context

- The Ministry of Energy and Infrastructure ("MEI") has proposed to recover certain costs of delivering certain MEI energy conservation and renewables programs ("programs") from electricity ratepayers.
- The same programs were funded up to Fiscal Year 2009/2010 using MEI's budgetary appropriations.

s. 2 Approach and Intended Outcomes

- MEI is proposing a regulation under the *Ontario Energy Board Act* which sets the amounts to be collected, as well as the timing, collection method, and recovery method for the funds.
- Costs would be recovered for the following MEI programs for FY 2009/2010.
 - Home Energy Savings Program (HESP): Provides incentives for energy audits and for installation of energy conservation measures to improve residential home energy efficiency.
 - Ontario Solar Thermal Heating Initiative (OSTHI): Subsidizes the installation of large (commercial) solar air and solar water roofs. The first are generally used to substitute for natural gas heating in warehouses, barns, etc; while the solar water is used to pre-heat water.
- Program administration costs (staffing, overheads and marketing) and costs associated with displacing heating oil and propane are not included as recoverable costs
- The amounts to be recovered from electricity ratepayers for each of the programs with respect to program expenses in FY 09/10 is show below:

PROGRAM	Recoverable Amount- Electricity
HESP	\$53,266,344
OSTHI	\$428,965
Total	\$53,695,310

- These programs affect both electricity and natural gas users, as well as users of other fuels. However, for the current fiscal year, only the electricity portion of the funding will be recovered. [REDACTED]



- Program costs will be recovered from electricity ratepayers in proportion to the benefits that the programs deliver to the electricity ratepayers.
- The funding needed from MEI's appropriations will be reduced by a similar amount to that collected from ratepayers.
- The *Green Energy and Green Economy Act, 2009* provides enabling authority for a regulation of this nature by amending the *Ontario Energy Board Act*. Therefore regulation is the appropriate instrument to implement the proposed changes.

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fourth bullet

- Regulation 275/04 is an existing regulation under the *Ontario Energy Board Act, 1998*, which sets the format and presentation of electricity bills for low volume consumers. This regulation is also being amended to incorporate further changes pertaining to the presentation of the new charge in low volume electricity bills.

s. 3 Direction and Urgency

- Cabinet policy minute of December 17, 2008 included specific direction to "align program funding so MEI can recover appropriate costs for conservation program delivery from the rate base in proportion to electricity and natural gas savings". Enabling authority was subsequently included in the *Green Energy and Green Economy Act, 2009*, which received Royal Assent on May 14, 2009.
- The proposed regulation affects ministry appropriations for the current FY closing March 31, 2010. The Ministry's 2009/10 RbP assumed that cost recovery of MEI conservation programs from ratepayers would be in place for the current FY. The amounts stated in the proposed regulation must be recovered in the near term in order to comply with ministry obligations to Treasury Board whereby these amounts would be recovered in FY 09/10.

**s. 4 Impact Assessment and
 Costs**

- The proposed regulation establishes an additional obligation on electricity ratepayers in Ontario, apportioned among residential, commercial and industrial ratepayers. For the current fiscal year, this obligation is estimated at \$53,695,310
- Conservation Programs which reduce the overall load and throughput in the system benefit ratepayers since they increase reliability, decrease

maintenance costs, and decrease commodity costs, as well as avoiding capital expenses to build new plant.

- The benefit accruing to electricity ratepayers was estimated based on how much of each fuel was displaced by the conservation measures undertaken. In principle, a conservation measure which reduces or displaces electricity consumption benefits the electricity system and ratepayers. Thus, the apportionment of the charge to electricity and gas ratepayers was estimated based on analysis of how much electricity and gas are displaced.
- Average charges to ratepayers for the current fiscal year are estimated as follows:
 - For residential electricity ratepayers about \$3/year.
 - For commercial ratepayers about \$300/year electricity.
 - For typical industrial ratepayers about \$14,000/year (a typical large industrial would be closer to \$70,000).
 - Additional costs associated with the implementation of the proposal, including computer systems modifications, administration costs, etc, will be recovered from electricity ratepayers independently of this regulation, and via an application to the Ontario Energy Board.
- A decision not to proceed with this regulation will require that the foregone revenues be offset from elsewhere within government.
- The funds will continue to be used to deliver MEI energy conservation and renewable programs, making it possible for Ontarians to conserve energy while reducing energy costs and greenhouse gas emissions.

s. 5

Implementation

- By approving the proposed regulation, the collection process would be implemented. MEI, the Ontario Energy Board, and electricity distributors would be expected to participate in the implementation.
- This process is explained in the regulation. It consists of several steps, starting with MEI requiring the Ontario Energy Board to establish an assessment from electricity utilities. Utilities are then regulated to remit the amounts in the assessment to the government's Consolidated Revenue Fund under a Special Purpose Account. Utilities are permitted to recover the remitted amounts from their ratepayers.
- Expenses related to the conservation and renewables programs being funded started April 1, 2009. Full collection of the amounts from electricity is required by July 30, 2010 to meet government accounting rules related to the administration of the Special Purpose Account.
- The order-in council provides for the relevant amendments to the *Ontario Energy Board Act* to come into force on March 1, 2010. It is expected that the regulation will be filed shortly after this, and come into force immediately upon filing.

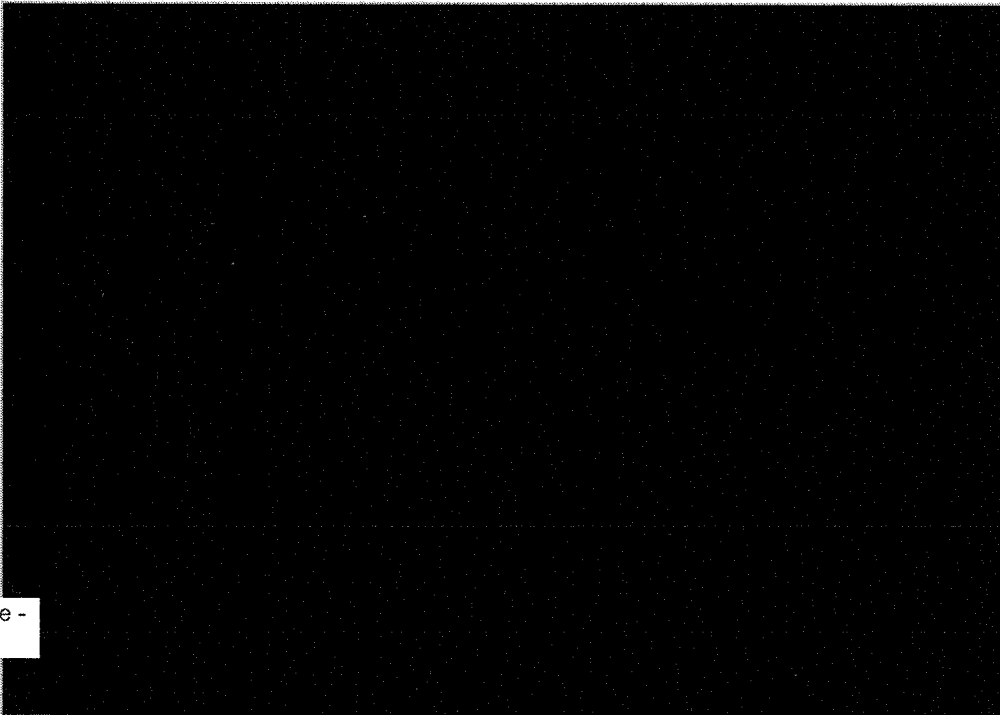


- For low volume electricity consumers, the proposed amendment to regulation 275/04 will mean that the new charge will be added to the 'Regulatory' amounts already in place. Other electricity consumers, and all gas consumers, on the other hand, will be billed by their utilities following their own presentation design.

**s. 6 Delivery and Results
Tracking**

- The success of this proposal will be measured by achieving the collection of the funds. The ministry must have approval and registration of the regulation before the end of the fiscal year to be able to collect the funds.

**s.7 Stakeholder
Consultations**



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last bullet

**s.8 Other Jurisdictions and
Harmonization**



s. 9

Communications

s. 10

**Contacts and
Appendices****Contacts**

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