



BACKGROUND

ONTARIO BUDGET • **2014**

MINISTRY of FINANCE

BUDGET 2014

Clean, Reliable and Affordable Energy for Ontarians

May 1, 2014

The government will continue to build on its Long-Term Energy Plan to support the energy needs of people and businesses now and in the future by:

- continuing to modernize energy infrastructure
- removing the debt retirement charge cost from residential electricity bills
- helping businesses manage electricity costs
- reducing energy costs for low-income families
- supporting opportunities for Aboriginal people and communities.

Modernizing Energy Infrastructure

By 2003, years of underinvestment in electricity generation and transmission in Ontario had led to aging energy infrastructure, a supply shortage, reliance on expensive imports and dirty coal-fired power. Worst of all, Ontario residents and businesses could never be sure if the lights would come on when they flipped the switch.

Over the last decade, the government has turned the system around. More than \$21 billion has been invested in cleaner generation and Hydro One alone has invested over \$11 billion in transmission and distribution infrastructure. Ontario's elimination of coal-fired electricity generation is the single-largest greenhouse-gas reduction measure implemented in North America to date, and the province is now a North American leader in renewable energy and a world leader in energy technology, innovation and smart-grid solutions.

Removing the Debt Retirement Charge from Residential Bills

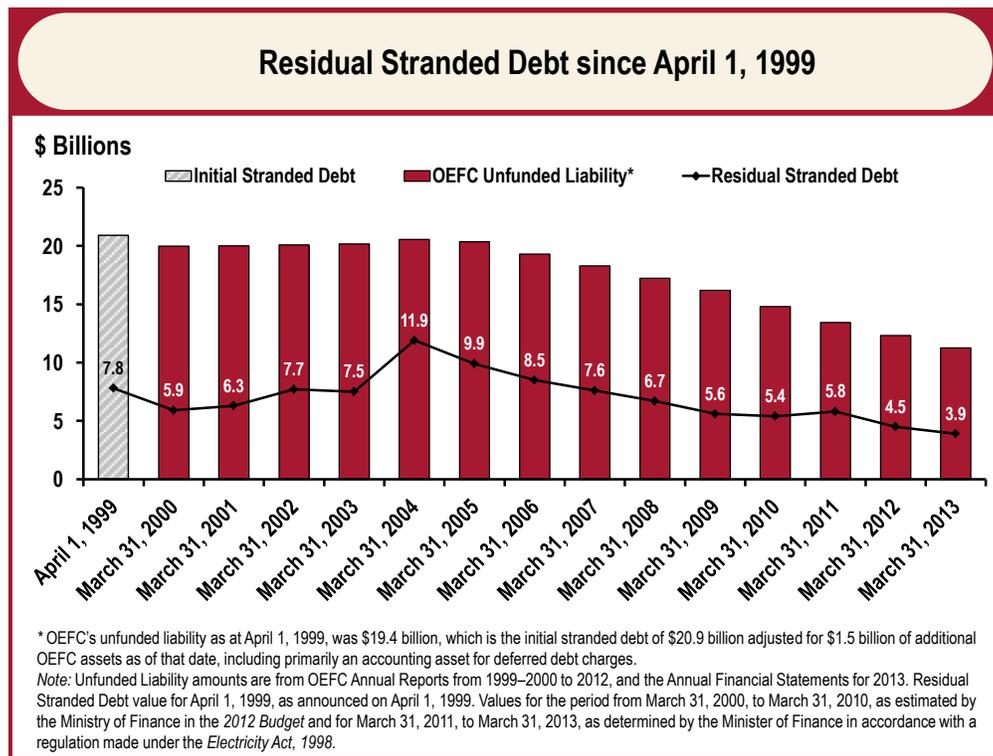
The government is proposing to remove the Debt Retirement Charge (DRC) cost from residential users' electricity bills after December 31, 2015 — almost two years earlier than currently estimated. This would save a typical residential user about \$70 per year.

The charge would remain on all other electricity users' bills until the residual stranded debt is retired — this is currently estimated to occur by the end of 2018, in line with the previously estimated range.

The DRC is provided for under the *Electricity Act, 1998*, and has been charged since May 1, 2002, to help service and pay down the debt and other liabilities of the old Ontario Hydro.

The Ontario Electricity Financial Corporation (OEFC) inherited \$38.1 billion in total debt and other liabilities from the former Ontario Hydro when the province's electricity sector was restructured on April 1, 1999, including \$20.9 billion of stranded debt. This is the tenth consecutive year of stranded debt reduction.

The residual stranded debt has been reduced by an estimated \$8 billion since 2004 to \$3.9 billion as at March 31, 2013, from an estimated peak of \$11.9 billion as at March 31, 2004.



The Minister of Finance will continue to report annually on the residual stranded debt, as well as the estimated date range for its retirement and the end of the DRC for all non-residential electricity users.

The Auditor General audits the OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements. The Auditor General's 2012 and 2013 Annual Reports also noted that the Auditor was pleased to see an increased level of transparency with respect to public reporting on the residual stranded debt. This includes interest expense, which is currently about \$1.5 billion per year and has totalled about \$29.2 billion between April 1, 1999 and March 31, 2014.

Helping Businesses Manage Electricity Costs

Rate Mitigation for Business

Many programs and incentives are available to support industrial consumers:

- The Province extended the Northern Industrial Electricity Rate Program with \$360 million over three years (2013–14 to 2015–16) to provide a rebate of two cents per kilowatt-hour to qualifying large northern industrials
- In 2011, the government implemented the Industrial Conservation Initiative, which encourages large companies to conserve during peak hours, saving money for the entire electricity system
- Companies have the opportunity to participate in Demand Response programs administered by the Ontario Power Authority (OPA)
- Industrial companies could be eligible for a significant reduction in electricity rates through the Industrial Electricity Incentive program if they start or expand operations and create jobs.

Five-Point Business Energy Savings Plan

Ontario's five-point business energy savings plan is designed with the busy small business owner in mind, to help local entrepreneurs stay focused on growing their businesses.

1. Roving Energy Managers will support small businesses' energy-savings projects every step of the way — from applying for incentives to installing energy-efficiency measures. The government will promote the use of Roving Energy Managers by working with energy agencies, local distribution companies and the Retail Council of Canada.
2. The saveONenergy for Business Conservation program will be better tailored to ensure small businesses can benefit from programs to help manage and reduce energy bills.
3. The saveONenergy for Business Conservation program is also being expanded to provide increased incentives to businesses by simplifying and automating application processes.
4. To help small businesses cover the upfront capital costs of conservation projects, the Province will work to make on-bill financing available for the sector, beginning in 2015, and allow repayment through the utility bill.
5. To ensure conservation incentives continue to be available for small businesses, Ontario will commit to another six years of conservation programs through the new Conservation and Demand Management Framework.

Industrial Electricity Incentive Program

As part of Ontario's efforts to support a dynamic business climate, drive local economic growth and support job creation, the government will direct the OPA to run a new Industrial Electricity Incentive (IEI) program stream to accept applications for discounted electricity rates.

The IEI assists with the management of electricity demand by encouraging increased industrial production through sharply discounted electricity rates for local job creators. In this way, Ontario is using the current surplus baseload generating capacity to support domestic job creation and economic growth.

- The new stream will make available up to four terawatt hours of electricity per year
- Eligibility criteria will be expanded to encourage participation
- Contracts will be available for a longer term, with an end date of December 31, 2024
- The stream will build on previous successful intakes, and the OPA will aim to award contracts by December 31, 2014.

Expanding the Industrial Conservation Initiative

Ontario is committed to providing competitive industrial electricity rates while promoting the conservation of energy, including electricity.

To support these priorities, in 2011, the Province implemented the Industrial Conservation Initiative (ICI). The ICI charges the largest consumers in the province, termed Class A consumers, a global adjustment rate based on their contribution to peak demand.

The Ministry of Energy will expand the definition of Class A consumers, lowering the threshold from five megawatts (MW) to three MW, which will increase the number of Ontario businesses eligible to participate in the ICI.

This will save participants on average 15 to 20 per cent on their energy bill.

Vision Extrusions, an extrusions manufacturing company in York Region employing 325 workers, could expect to save approximately \$560,000, or 17 per cent, on its annual electricity costs under proposed changes to the Industrial Conservation Initiative, assuming the company reduces its electricity consumption by 15 per cent during times of highest system demand.

The ICI program expansion will support increased business competitiveness as well as the government's conservation goals by:

- Enhancing the efficiency and competitiveness of a larger number of industrial firms
- Helping reduce emissions by promoting energy conservation during peak demand periods
- Improving the reliability of the electricity system, especially during critical peak demand periods
- Reducing the need for and costs associated with the building of new electricity power plants in the future to cope with periods of high demand.

Reducing Energy Costs for Low-Income Families

The Province is requiring the Ontario Energy Board to report back on electricity system options for a sustainable, long-term electricity support program specifically designed for low-income Ontario families. This will build on the government's existing measures to help low- to moderate-income families and individuals with their energy costs, including:

- Ontario Energy and Property Tax Credit – for 2014, up to \$973 in tax relief for non-seniors, or up to \$1,108 in tax relief for seniors, to help with the sales tax on energy, including electricity, and with property tax
- Northern Ontario Energy Credit – for 2014, up to \$141 for single people in the north, or up to \$216 for families in the north, to help with the higher energy costs they face.

Supporting Opportunities for Aboriginal People and Communities

Preparing Remote First Nation Communities for Electricity Transmission

To help ensure remote First Nation communities can more fully benefit from new transmission projects in their area, Ontario will provide \$3 million in funding over three years through the Remote Electrification Readiness Program. The program will include job-specific training, relevant health programs, business innovation mentoring and economic development supports.

Connecting remote northwestern First Nation communities to the Ontario electricity grid is a priority and would support stronger and healthier communities by:

- Reducing barriers to growth
- Increasing economic development opportunities
- Improving social and living conditions for residents
- Providing cleaner air and reduced greenhouse gas emissions
- Reducing future environmental remediation liabilities associated with diesel fuel spills
- Ensuring more reliable electricity supply.

The federal government must work with the Province to establish a funding agreement for cost-sharing of investments to connect remote First Nation communities.

Aboriginal Loan Guarantee Program

The Aboriginal Loan Guarantee Program (ALGP) was launched in 2009 to facilitate Aboriginal participation in renewable energy infrastructure projects. To date, the program has leveraged investments of more than \$2.8 billion, with \$130 million in approved loan guarantees supporting the investments of eight communities, representing more than 10,000 First Nation people.

To build on this success, the total amount of loan guarantees that will be made available under the ALGP was recently increased by \$250 million to \$650 million. This will give the Province flexibility to support qualifying applications currently under review, as well as future applications to the program. Eligible investments under the ALGP include key investments in transmission, wind, solar and hydroelectric projects that will be located across the province. These projects will provide Ontarians with sources of clean, reliable electricity for years to come.

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