

Undertaking #131: CAC to review whether there are other examples apart from Ontario in which there has been direct mitigation from the government account as defined by Dr. Higgin (up to a maximum of 5 hours effort).

Response:

As Dr. Higgin testified [Transcript Pages 9459-9560 and CAC-72 Slide 10] mitigation approaches include:

- Direct (government funded) and
- Indirect (Utility funded).

A. Direct Rate/Bill Mitigation Approaches

From our Literature Review and Web Search (focussed on Canadian Jurisdictions) it appears that the Ontario Clean Energy Benefit is unique in its format:

- General (non-targeted) bill reduction for lower use electricity customers
- Renewable Energy additions to the Provincial Supply Mix materially increase rates
- Financing is from Government General Revenue rather than Electricity Rates

The literature identifies several government General Revenue financed tax credits and incentives provided to residential and small business electricity users to install renewable energy systems, for example:

- Canada's Action Plan
- Manitoba Green Energy Equipment Tax Credit
- US Federal and State Renewable Energy Tax Credits

The primary difference is that the Ontario CEB is available to **all** eligible electricity consumers.

Targeted Electricity Bill Assistance Programs

Several Provinces have Social Assistance Programs that include Electricity Bills e.g.

- Ontario Low-Income Energy Assistance Program (LEAP) (Funded from rates)
- Newfoundland Home Heating Rebate

Jurisdictions Outside Canada

The United Kingdom:

Press reports indicate the UK Government is considering a **general bill reduction:**

The Government is reportedly planning a £300m rebate to help with the rising cost of energy bills.

According to Sky News, there will be a £12 rebate on every domestic electricity bill in the country.

The discount would reportedly be funded by switching the funding of the Warm Home Discount from the energy companies - who currently fund - it to general taxation.

Sky News also cites insiders saying the Government package would include an agreement with distribution network operators, which includes the National Grid, whose charges account for approximately 20 per cent of consumers' bills.¹

Australia:

In Australia, an annual \$300 payment is available to help eligible **low-income households** with any impact from the **carbon price** on everyday expenses.

An individual was eligible for this Low Income Supplement, in the 2012-13 financial year if:

- their income for the 2012-13 financial year was below: \$30,000 for singles, \$45,000 combined for couples, or \$60,000 combined for couples or singles with a dependent child
- they did not receive a pension or benefit from the Australian Government for more than 39 weeks in the 2012-13 financial year²

B. Indirect Utility/Regulator Mitigation Approaches

A relevant general article on Utility Rate Mitigation is from the Edison Institute which discusses the drivers for rate mitigation:

Thus, both electric utilities and their economic regulators – the state public utility commissions – are increasingly looking for ways of mitigating the impacts on consumers of substantial rate increases, while still ensuring that the utilities remain financially healthy and able to continue to provide reliable electric service.

These rate impact mitigation measures may rely on variances in the time value of money, require a phase-in of rate increases, allow the utility to take advantage of lower cost financing for certain investments, or simply time rate increases to coincide with other events to cushion the impact. Such mechanisms may also allow special accounting treatments for the utility or special payment plans for customers.

The need for rate mitigation measures is not a short-term phenomenon. The need for utilities to meet existing environmental regulations and state or possible federal climate change requirements, the ever-increasing renewable requirements that some utilities must meet, the need to add new generation and transmission capacity just to meet normal growth requirements and to replace aging infrastructure all mean the need for rate increase filings over the next several years. Utilities are being asked to make major investments in the smart grid as well. Fossil fuel prices are likely to exhibit volatility for the foreseeable future.³

¹ <http://www.independent.co.uk/news/uk/politics/government-in-300m-energy-bill-rebate-8974736.html>

² <http://www.humanservices.gov.au/customer/services/centrelink/low-income-supplement>

³ Edison Electric Institute: -State Regulatory Update: Rate Impact Mitigation Measures – June 2010, p. 2

All of this suggests that we will continue to need to address means to mitigate the impacts of rapidly increasing costs on electric consumers.⁴

Conclusions (extract)

Between 2000 and 2008, there were essentially two kinds of rate increase situations that required the use of special mitigation measures. The first was the need to deal with the significant rate increases that were resulting from the termination of rate caps that were agreed to by utilities and legislatures back in the 1990s for a set period. As the caps were due to come off, customers who had been living with reduced and frozen rates were suddenly faced with a move to much higher market-based prices.

The other rate mitigation measure required during this period was securitization of costs associated with recovery from natural disasters.

The newest trend in rate mitigation measures appears to be the use of rate increase phase-ins and in some cases, timing rate increases to coincide with reductions in fuel adjustment clauses or other automatic adjustment mechanisms. The latter may be a temporary phenomenon, taking advantage of a recent downward trend in natural gas prices in particular. But the more general trend of phasing in rate increases over a two- or three-year period to give customers more time to adjust to increased costs (and possibly to wait out the current economic crisis) seems to be a real and perhaps permanent trend. Rate phase-ins are certainly not a panacea – there are carrying charges of deferred increases that create additional costs, and that must be dealt with.⁵

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⁴ Edison Electric Institute:-State Regulatory Update: Rate Impact Mitigation Measures – June 2010, p. 2

⁵ Edison Electric Institute:-State Regulatory Update: Rate Impact Mitigation Measures – June 2010, p. 23