

A Cure for Hydro Bill Headaches:

A Fairer Way to Lower Ontario Electricity Bills

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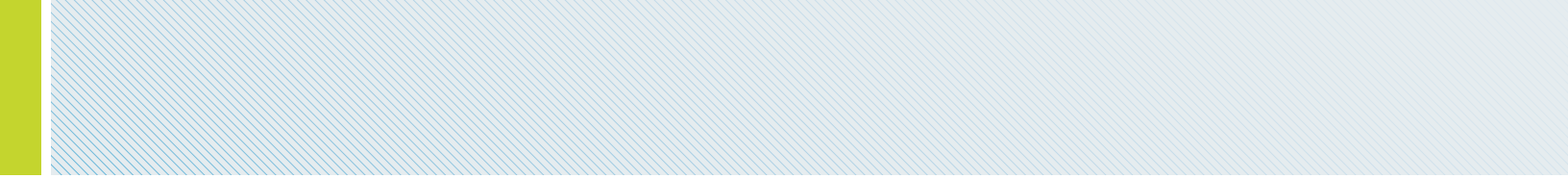
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Executive summary

Facing political pressure to quell widespread anger over the high and rising cost of electricity, the Ontario government has implemented an eight per cent rebate for residential, small business, and farm customers, equivalent to Ontario's portion of the HST. The rebate, which came into effect this year, is expected to cost the provincial government \$1.2 billion per year. We estimate the residential portion to be about half that, at \$520 million per year.

This report uses the Social Policy Simulation Database and Model to analyze the impact of the residential portion of the rebate and determine which households will derive the greatest savings from the rebate program. And we test a fairer alternative.

Since the government is offering a flat rate rebate of eight per cent for everyone, and electricity consumption increases with income, the richest households in Ontario will enjoy the biggest savings from this program, while the poorest households will see the smallest.

The richest 10 per cent of Ontario households, those making over \$176,000 a year, receive an average refund of \$181 — two-and-a-half times more in

savings than the poorest 10 per cent and almost double what a middle-income household is receiving.

The poorest 30 per cent of Ontario households, those making under \$42,000 a year, only receive \$83 on average from this rebate.

Is there a fairer way to get a bigger bang for the province's buck? Yes.

We tested an alternative that is geared to both electricity consumption and incomes; one that would direct the greatest benefits to low- and middle-income households. It would provide a 25 per cent rebate instead of only eight per cent. Households making under \$35,000 would receive the full rebate and would see their pre-HST electricity bill cut by a quarter. The rebate would slowly be phased out for incomes above that amount.

We analyzed the impact of this rebate by dividing Ontario households into 10 equal income groups to see how they fared. With this targeted rebate system, households in the bottom 60 per cent of Ontario's income distribution would reap greater savings. The poorest 10 per cent of households would enjoy \$220 in average annual savings — three times more than under the current system. Low-income households making between \$19,000 and \$29,000 would see the largest rebate: \$268 in average annual savings.

Middle-class households making between \$56,000 and \$89,000 would still receive a larger rebate than through the current program, with average annual savings of between \$203 and \$139.

The benefit would cut out entirely for households making more than \$118,000, meaning the richest third of households would pay their hydro bills without a rebate.

Introduction

Amid reports of electricity costs forcing low-income Ontarians to choose between hydro bills and rent, the cost of electricity has become a political hot potato in this pre-election year.¹ In the throne speech last fall, the government announced its intention to introduce legislation that would rebate the HST portion of residential, small business, and farm hydro bills. That legislation has been passed. Starting this year, these hydro customers will see an eight per cent reduction in their hydro bills.

The government has indicated that it will do more to reduce hydro bills. This report examines the impact of the current HST rebate and proposes an alternative, fairer solution.

Distribution of HST rebate

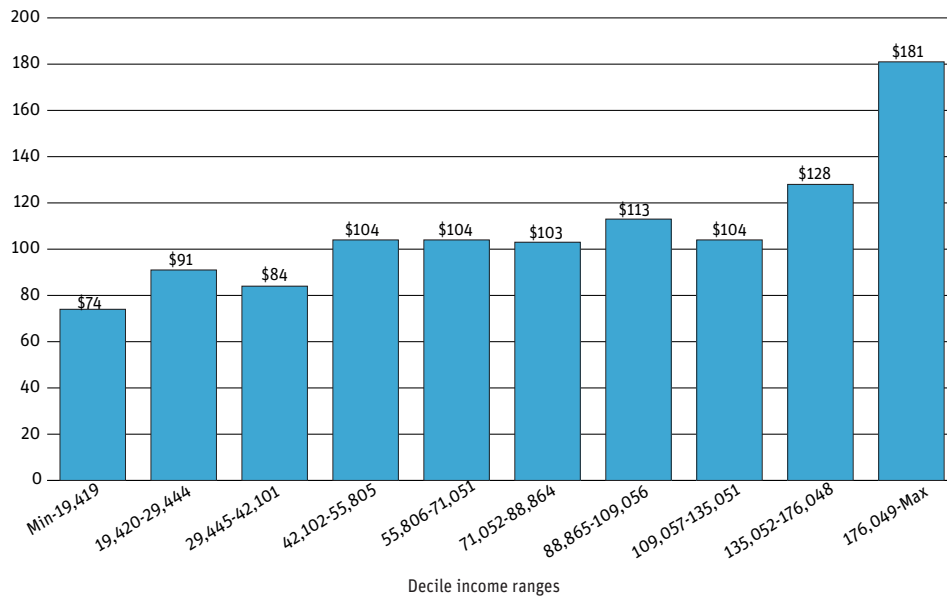
Media reports have said the cost of the current HST rebate program will be \$1 billion.² The finance minister's fall economic statement showed that it would cost \$300 million in the 2016-17 fiscal year, which includes the first three months of 2017. That would suggest that the annual cost is \$1.2 billion.³ This total cost includes rebates to residential customers, farmers and small businesses.

We used Statistics Canada's Social Policy Simulation Database/Model (SPSD/M) to estimate the cost of the residential portion of this rebate and its distribution.⁴ It shows that the eight per cent Ontario portion of HST paid on residential electricity in 2017 is estimated at \$521 million. Electricity consumption rises with income; as a result, so does the benefit of the rebate. This analysis doesn't include the rebate for farmers and small businesses.

SPSD/M shows that a disproportionate share of the \$521 million cost of the rebate to households goes to the well-off: the richest 10 per cent of households, who make over \$176,000, will take home 19 per cent of the benefit under this current rebate.⁵ More than half — 55 per cent — of the benefit of this rebate will go to the richest 40 per cent of households, those who earn \$89,000 or more.

Figure 1 illustrates the disproportionate benefit to higher income households by showing the average HST rebate per household, by income category. It illustrates the regressive nature of this policy: the richest 10 per cent of

FIGURE 1 Average benefit of 8% HST rebate



Source Authors' calculations and SPSPD/M.

Ontario households will receive the largest average benefit, valued at \$181 in average annual savings. The value of the average savings keeps declining the lower you go down the income spectrum.

Households earning between \$135,052 and \$176,048 will enjoy \$128 in average annual savings; those earning between \$109,057 and \$135,051 will enjoy \$104 in average annual savings; those earning between \$88,865 and \$109,056 will get \$113 in average annual savings. Households in the middle of the income spectrum (earning between \$42,102 and \$88,864) will get \$103 or \$104 in average annual savings.

The poorest 30 per cent of Ontario households will get the least benefit from this rebate: those earning between \$29,445 and \$42,101 will get \$84 in average annual savings; those earning between \$19,420 and \$29,444 will get \$91 in average annual savings; and the poorest 10 per cent of Ontario households will receive the smallest benefit, valued at \$74 in average annual savings.

That means the richest 10 per cent of Ontario households will enjoy two-and-a-half times more in savings than the poorest 10 per cent and almost double what middle-income households would get (in the fifth decile).

Ontario's new hydro HST rebate is an untargeted way to spend more than half a billion dollars.

There is an Ontario electricity rebate program aimed at low-income families. In 2016, the Ontario Energy Board put in place the Ontario Electricity Support Program (OESP). It provides a subsidy for low-income hydro consumers.⁶ It is funded through the electricity system, rather than through the tax system. The OESP is based on household income and size. It provides a maximum benefit of \$50 month and phases out at \$52,000 of household income for a family of seven. To qualify for the maximum amount, a family of six must have a household family income of \$28,000 or less, or a family of seven could have an income up to \$39,000.⁷ OESP offers a higher level of assistance for families whose home is electrically heated or if members rely on medical devices requiring a lot of electricity. First Nations and Métis families also qualify for a higher level of assistance.

While this is certainly a progressive rebate system, it requires specific additional enrolment. Concerns have been expressed about the low take-up rate for the program, the complexity of the application process, and the low level of the benefit.⁸ The OESP also doesn't adjust to the size of the bill per se; it only rebates a set amount irrespective of the actual hydro cost.

A proposal for a better hydro rebate

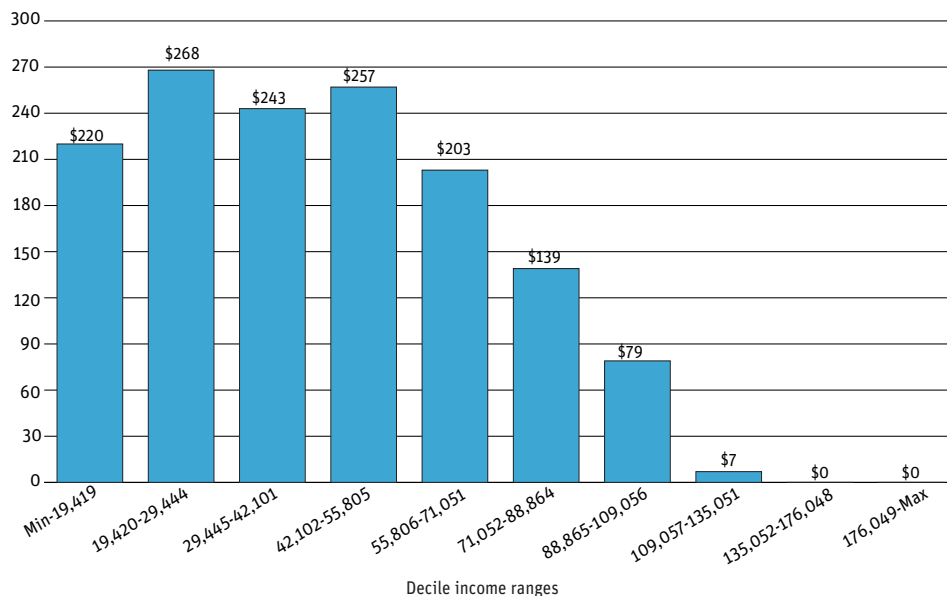
For about the same amount of money that the provincial government is spending on an across-the-board HST rebate, it could provide a better benefit targeted to households making less than \$89,000.

We tested an alternative that would provide a rebate of 25 per cent of pre-HST electricity expenditures for households with incomes up to \$35,000.⁹ For households with incomes above that amount, the rebate would decrease by three percentage points for each additional \$10,000 in income. The rebate would phase out completely for households with incomes above \$118,000. The rebate would be delivered monthly through a refundable tax credit, similar to the Ontario Trillium Benefit.

Figure 2 shows the average dollar benefit for households by income category. It reflects the interaction between rising electricity usage with rising incomes and the reduction in the percentage rebate for households with incomes above \$35,000.

With this targeted rebate, households in the bottom 60 per cent of Ontario's income distribution would reap greater savings on their hydro bill than under the eight per cent HST rebate that is currently available. The poorest 10 per cent of households would enjoy \$220 in average annual savings — three times more than under the current system. Decile 2, those earning

FIGURE 2 Average benefit of proposed rebate



Source: Authors' calculations and SPSP/M.

between \$19,420 and \$29,444, would see the largest rebate, \$268 in average annual savings; decile 3, those earning between \$29,445 and \$42,101, would see \$243 in average annual savings; and decile 4, those earning between \$42,102 and \$55,805, would see a \$257 rebate.

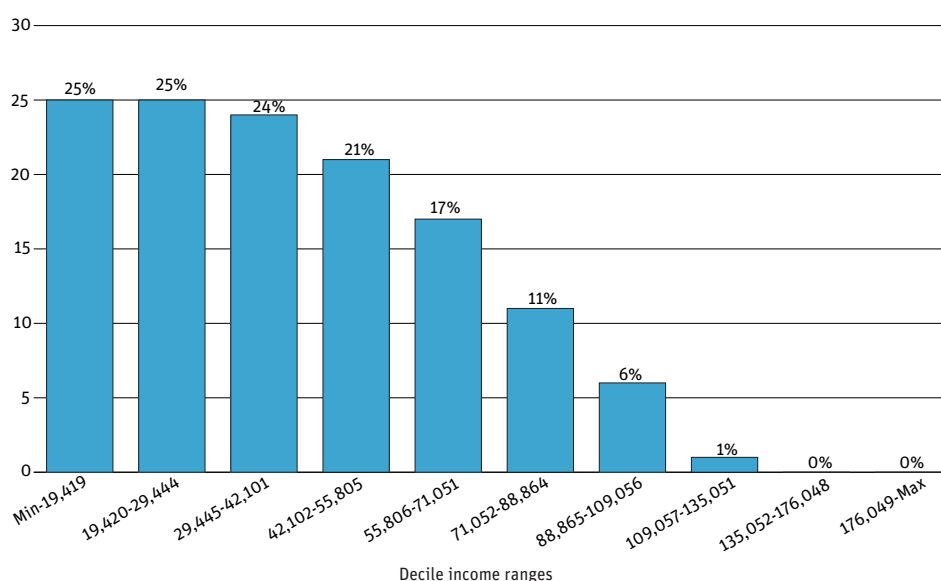
Households in deciles 5 and 6 (those earning between \$55,806 and \$88,864) would still receive a larger rebate than through the current program, with average annual savings of \$203 and \$139 respectively. Decile 7, those earning between \$88,865 and \$109,056, would see \$79 in average annual savings, retaining 70 per cent of their current savings under the HST rebate.

By the eighth decile, those earning between \$109,057 and \$135,051, the average benefit is negligible (\$7). The richest third of Ontario households would pay their full hydro bills.

Figure 3 shows the average percentage rebate on a hydro bill by income category. It shows a 25 per cent reduction over the first two deciles, far more than the current eight per cent. Up to the seventh decile, the new rebate is larger than the current rebate. At the seventh decile, this targeted rebate would result in a six per cent reduction in the hydro bill. For the richest third of Ontario households, those making more than \$109,000 a year, the rebate is effectively zero.

This reconfigured rebate delivers more relief to households who need it most – lower- and middle-income families. The total annual bill is estimated at \$579 million, which is just 10 per cent more than the current HST rebate for residential households.

FIGURE 3 Average electricity cost reduction



Source: Authors' calculations and SPSP/M.

Table 1 shows some examples of the impact of the proposed benefit, on a monthly basis, for families with higher bills and compares it to the current HST rebate. It illustrates that the benefit depends both on electricity costs and on incomes. Households with higher electricity costs, due to heating methods or family size, would receive a larger benefit. It shows the rebate for two families with household income of \$25,000. The household with twice the electricity costs receives twice the rebate. It also shows that households with higher incomes (but with the same electricity bills) would receive a lower rebate. A household with an income of \$75,000 would receive a benefit that was still higher than the current rebate.

TABLE 1 Examples of impact of proposed rebate

Household income	January electricity bill before HST	8% rebate value (\$)	Proposed hydro rebate value (\$)	Proposed hydro rebate (% off bill)
\$25,000	\$150	\$12	\$38	25%
\$25,000	\$300	\$24	\$75	25%
\$35,000	\$300	\$24	\$75	25%
\$55,000	\$300	\$24	\$57	19%
\$75,000	\$300	\$24	\$39	13%
\$100,000	\$300	\$24	\$17	6%

Source Authors' calculations

Conclusion

As it is currently configured, Ontario's HST rebate on hydro bills is an expensive and poorly designed program. The province could get far more bang for its buck by reconfiguring the rebate program so that it targets the bottom 60 per cent of Ontario households rather than disproportionately subsidizing the most well-off households. They don't need another tax break.

Any new government spending program should be designed wisely and provide good value for money. The current rebate does not, but this paper offers a practical and doable alternative at a similar cost.

Appendix

TABLE 2 Comparing HST and proposed rebate

Deciles	Total income range	Average household electricity expenditure (\$)	Total HST rebate (\$millions)	Distribution of HST rebate (%)	Proposed program (\$millions)	Distribution of proposed program (%)
1	Min-19,419	444	21.6	4.1	63.9	11.0
2	19,420-29,444	678	33.1	6.3	97.9	16.9
3	29,445-42,101	641	31	5.9	89.6	15.5
4	42,102-55,805	955	46.5	8.9	114.5	19.8
5	55,806-71,051	1024	50.1	9.6	97.8	16.9
6	71,052-88,864	1070	51.5	9.9	69.9	12.1
7	88,865-109,056	1204	59	11.3	41.2	7.1
8	109,057-135,051	1179	57.4	11.0	3.8	0.7
9	135,052-176,048	1450	70.6	13.5	0	0.0
10	176,049-Max	2070	100.5	19.3	0	0.0
	Total	1071	521.4	100.0	578.6	100.0

Source Authors' calculations and SPSP/M.

Notes

1 Minsky, Amy. December 8, 2016. Thousands of Ontarians are spending 30% of their household income on electricity. Global News. <http://globalnews.ca/news/3115346/hydro-one-electricity-rates-ontario/>

2 Crawley, Mike. February 14, 2017. Ontario Liberals eyeing hydro rate cut in the range of 8 per cent: sources. CBC News. <http://www.cbc.ca/beta/news/canada/toronto/ontario-hydro-bills-global-adjustment-kathleen-wynne-1.3975946>

3 Ontario Ministry of Finance. 2016. 2016 Ontario Economic Outlook and Fiscal Review. Chapter III: Economic and Fiscal Outlook. <http://www.fin.gov.on.ca/en/budget/fallstatement/2016/chapter3b.html#table3-10>

4 This analysis is based on Statistics Canada's Social Policy Simulation Database Model 22.3. The assumptions and calculations underlying the simulation results were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the authors.

5 This analysis is based on household total income, which is the combined income of all members of the household from all sources including transfers but prior to taxation.

6 Ontario Ministry of Energy. April 26, 2016. Ontario Electricity Support Program. <http://www.energy.gov.on.ca/en/ontario-electricity-support-program/>

7 The Canadian Press. October 18, 2016. Tories say Liberals spent \$11.7M on consultants, media for hydro rebate plan. CBC News. <http://www.cbc.ca/news/canada/toronto/ontario-electricity-support-1.3809961>

8 Minsky, Amy. December 8, 2016.

9 Due to restrictions in integration between the Survey of Household Spending and SPSPD/M, electricity expenditures are only available at the household level. However, the tax system won't have access to household income, only family income, which will be less than household income where more than one family lives in a household. The simulation included herein is evaluated only at the household level with household income. In the actual implementation of this credit, family income will be used to determine the percentage rebate. In cases where there is more than one family in a household with earnings but only one family pays the electricity bill, the present simulation will underestimate the amount owed back via the electricity credit.

