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An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan

Commented [ST(1)]: See comments later on use of "fiscal" when looking at both fiscal and ratepayer impacts.

Draft Final Report
May 12, 2017

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Spring 2017

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About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

The FAO produces independent analysis on the initiative of the Financial Accountability Officer. Upon request from a member or committee of the Assembly, the Officer may also direct the FAO to undertake research to estimate the financial costs or financial benefits to the Province of any bill or proposal under the jurisdiction of the legislature.

This report was prepared on the initiative of the Officer in response to a request from a member of the Assembly. In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent economic and financial analysis, this report makes no recommendations.

This analysis was prepared by Matt Gurnham and Matthew Stephenson under the direction of Peter Harrison and Jeffrey Novak.



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Table of Abbreviations

Abbreviation	Long-Form
FAO	Financial Accountability Office
FHP	Fair Hydro Plan
GAAP	Generally Accepted Accounting Principles
HST	Harmonized Sales Tax
IESO	Independent Electricity System Operator
MPP	Members of Provincial Parliament
OAGO	Office of the Auditor General of Ontario
OEB	Ontario Energy Board
OESP	Ontario Electricity Support Program
OPG	Ontario Power Generation
RRRP	Rural or Remote Ratepayer Rate Protection Program

1 Introduction

On March 2, 2017, the Government of Ontario (the Province) announced its "Fair Hydro Plan" (FHP), a proposal to reduce electricity bills for all residential customers by an average of 25%, starting in the summer of 2017, and to limit the increase in electricity rates to the rate of inflation over the next four years.¹ The Province's FHP also proposes additional assistance for eligible rural or remote and low income ratepayers beyond the promised 25% electricity bill reduction. Eligible small businesses and farms would also receive a benefit.

The FHP includes the following initiatives:

1. **Harmonized Sales Tax (HST) Rebate:** a rebate to residential ratepayers for an amount equal to the 8% provincial portion of the HST on electricity bills.
2. **Electricity Cost Refinancing:** the Province is proposing to establish a structure under which the IESO / OPG special purpose vehicle (SPV) or Trust would finance borrow an estimated average of \$2.5 billion per year through 2027 to pay a portion of electricity generation costs, thereby temporarily reducing the cost of electricity for residential ratepayers. Under the proposed structure, the deferred costs. The Province would recover the borrowed funds, which includes an assumed amount of interest, would be recovered from ratepayers over an estimated 17-year period starting in 2028.
3. **Adjusting Electricity Relief Programs:** currently the cost of the Rural or Remote Ratepayer Rate Protection Program (RRRP)² and Ontario Electricity Support Program (OESP)³ is recovered from all electricity ratepayers through the cost of electricity. The Province is proposing to take the cost of these programs from electricity bills and to transfer the cost to the Province. In addition, the Province plans to expand the support provided by the RRRP and OESP programs as well as establish a new First Nations On-Reserve Delivery Credit and Affordability Fund, all of which is to be funded by the Province.

This report reviews the fiscal impact of the proposed FHP, including the expected cost to the Province and the financial impact to electricity ratepayers.

Appendix D provides more information on the development of this report.

Commented [TP(2)]: From a technical/communication perspective, we are not rebating the HST amount that ratepayers are paying – we are providing an on-bill rebate of 8%, equivalent to the provincial portion of the HST. Suggest using the term "Ontario Rebate to Electricity Consumers" (which is the official name of the program).

Commented [ENERGY3]: Recommend "Harmonized Sales Tax (HST) Rebate" be referred to as "Ontario Rebate for Electricity Consumers (OREC)".

Commented [ENERGY4]: ENERGY agrees with the above. Alternate is "amount equivalent to the 8%...".

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Commented [ENERGY5]: Suggest changing "Electricity Cost Refinancing" to "Global Adjustment Refinancing" throughout the document so that it is clear to readers what costs are being refinanced.

For example, "electricity cost" and "cost of electricity" are used often, at times in the same sentence as "electricity cost refinancing". Consider using "GA refinancing" to differentiate the initiative and the total electricity system costs.

Commented [TP(6)]: The term Fiscal Impact is generally reserved for impacts on the provinces fiscal plan. Since fiscal impact in the report includes both impacts on the ratepayer and taxpayer, consider changing the term fiscal impact to total impact or estimated impact.

Commented [ST(7)]: Should include a paragraph and note indicating that these estimates are based on FAO analysis prior to legislation being passed. Estimates and other impacts will change depending on the outcome of the Legislative process and Bill 132.

¹ See the news release "Ontario Cutting Electricity Bills by 25 Per Cent," March 2, 2017, accessed on May 5, 2017: <https://news.ontario.ca/opo/en/2017/03/ontario-cutting-electricity-bills-by-25-per-cent.html>.

² The RRRP provides a rate subsidy to approximately 350,000 rural residential electricity ratepayers.

³ The OESP is an income-tested, application based program that provides a rate subsidy to eligible electricity ratepayer households.

2 Fiscal Impact of the FHP

The Financial Accountability Office (FAO) estimates that the FHP will cost the Province approximately \$44 billion over 29 years while providing overall savings to electricity ratepayers of \$23 billion. This results in a net cost of \$21 billion.

Impact on Eligible Ratepayers

The FAO estimates that the FHP will reduce costs for eligible electricity ratepayers⁴ by a total of \$23 billion from 2017 to 2045. The savings estimate of \$23 billion over 29 years is made up of the following components:

1. HST Rebate: savings of \$41 billion.⁵
2. Electricity Cost Refinancing: cost of \$21 billion.⁶
3. Adjusting Electricity Relief Programs: savings of \$3 billion.⁷

Figure 2-1 shows the impact of the FHP on eligible ratepayer electricity costs against a status quo scenario (i.e. the FHP is not implemented). From 2017 to 2027, electricity costs are projected to be lower under the FHP compared to the status quo (for a total savings of \$33 billion), while after 2027 electricity costs are projected to be higher under the FHP compared to the status quo (for a total cost of \$10 billion). This results in net savings of \$23 billion over 29 years.

Commented [TP(8)]: See above comment.

Commented [ENERGY9]: Recommend making it clear throughout the report whether values and corresponding figures are in real or nominal dollars.

Commented [TP(10)]: Would it be possible for the FAO to share their calculations with us? We assume that the costs are also based on an increase in electricity prices over the next three decades - which would reflect a higher rebate amount.

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Commented [ENERGY11]: Recommend using net present values where appropriate. "Electricity cost refinancing" has a cost of \$21 billion (presumably in real dollars), but would be substantially lower (or even a benefit) in net present value depending on discount rate.

Commented [ENERGY12]: While understanding FAO comments on uncertainty in the future, the Ministry has never indicated a policy intent to end the funding of social programs after 2020-21.

Commented [RK13]: Suggest revising, to reflect that these program costs would be government-funded going forward, not just the first three years. Energy may have better wording. FAO could also look to the proposed legislation

Commented [TP(14)]: Note that this is only up to 2020-21.

Commented [RK15]: Revise based on updating the \$3 bn amount above.

Commented [RK16]: Revise, as noted, to reflect RRRP and OESP ratepayer cost savings going-forward.

Commented [ENERGY17]: Legislation proposes 2047 as the end date.

⁴ "Eligible electricity ratepayers" are all Regulated Price Plan eligible customers which includes all households as well as over 500,000 small businesses and farms. The Province estimates that eligible electricity ratepayers comprise over 90% of electricity ratepayers in Ontario and represent about half of Ontario's electricity demand.

⁵ The FAO assumes that the HST Rebate will continue indefinitely. HST rebate reduces bills by 8% of the pre-tax amount.

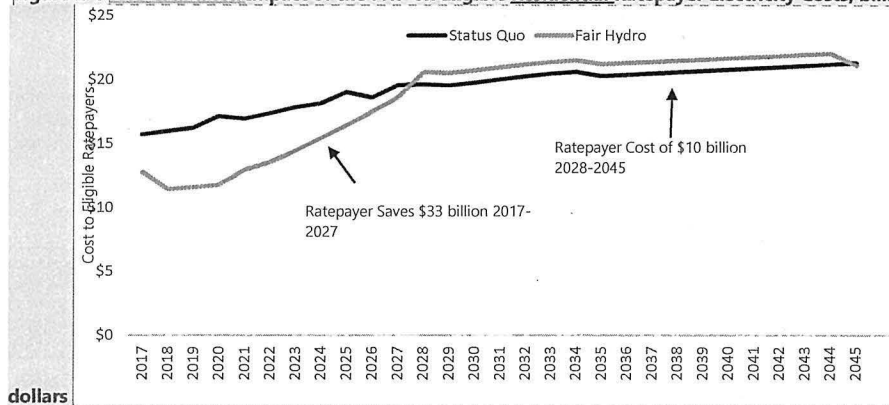
⁶ See below for more analysis on the cost of this component of the FHP.

⁷ The FAO is forecasting the cost of the electricity relief programs based on the Province's announced commitments regarding the FHP and information provided by the Province to the FAO. ~~As such, the FAO does not forecast the costs of the electricity relief programs beyond the year 2020-21. However, there is uncertainty with this assumption because (a) the electricity relief programs may continue after the year 2020-21 and (b) the Province may cease to fund the cost of these programs after the year 2020-21.~~ **INTD: Suggest revising the preceding. Energy may have better wording. FAO could also look to the proposed legislation.** Overall, the FAO estimates that the \$21 billion in net costs of the FHP would not change should the electricity relief programs continue beyond the year 2020-21. This is because the incremental savings to ratepayers would be exactly offset by costs to the Province.

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Figure 2-1 FAO Estimated Impact of the FHP on Eligible Residential Ratepayer Electricity Costs, billions of



Commented [BA18]: Confirm source based on information provided?

Commented [ENERGY19]: Figure 2-1: Suggest clarifying whether the values are before or after tax.

Source: FAO Analysis of Provincial Information.

The impact of the FHP on the average eligible ratepayer can be broken down into three distinct sub-periods:

Table 2-1 Breakdown of FAO Estimate of FHP Impact on Eligible Ratepayers

Time Period	Province's FHP Proposal	FAO's Analysis of FHP	Description
2017-2021	Reduce bills by 25%	Average bill will be reduced by 25%	Savings to ratepayers of \$17.8 billion achieved as follows:
	Cap bill increases at rate of inflation for 4 years	Bill increases will be capped at rate of inflation for four years	HST Rebate - \$4.1 billion
	Province funds and expands assistance for rural and low income ratepayers		Electricity Cost Refinancing - \$10.7 billion Adjusting Electricity Relief Programs - \$3 billion
2021-2027	Continue Electricity Cost Refinancing	Bills to remain lower than status quo due to refinancing and HST rebate	Savings to ratepayers of \$15.1 billion achieved as follows:
		Bills projected to increase by 6.5% annually as financing costs accumulate	HST Rebate - \$7.3 billion
			Electricity Cost Refinancing - \$7.8 billion
2028-2045	Ratepayer repays refinancing	Bills will be higher than status quo despite HST rebate	Net cost to ratepayers of \$10 billion as follows: Electricity Cost Refinancing - cost of \$39 billion HST Rebate - savings of \$29 billion

Commented [TP(21)]: This figure is higher than what was built into the fiscal plan in 2017 Budget. The fiscal plan built in \$3.6B from 2017-18 to 2020-21.

Commented [TP(22)]: See previous comment (re: calculation)

Commented [ENERGY23]: Report seems to assume GA refinancing will end by 2045. Legislation proposes 2047 as the end date.

Commented [TP(24)]: See previous comment (re: calculation)

Source: FAO analysis of Provincial information.

See Appendix A for a more detailed analysis of the impact of the FHP on ratepayer bills.

Key Considerations

The HST rebate and adjusting the electricity relief programs will transfer costs from ratepayers to the Province and have no net impact on the cost of electricity. However, the proposed electricity cost refinancing will increase the cost of electricity due to the interest on borrowed funds.

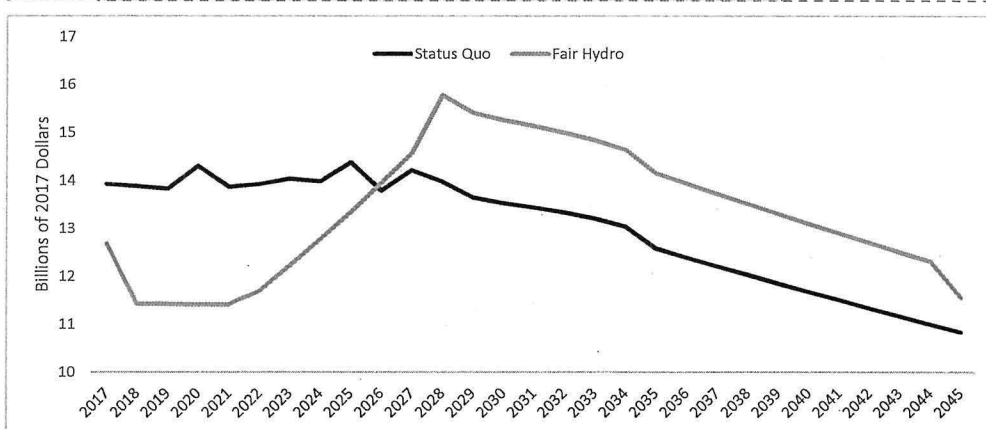
The majority of the savings to eligible electricity ratepayers from 2017 to 2027 will be accomplished by the electricity cost refinancing initiative. The Province plans to borrow an average of \$2.5 billion annually to pay a portion of the cost

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of electricity generation thereby temporarily lowering the price paid rates paid by ratepayers. The FAO estimates that a total of \$18.4 billion of electricity costs and \$7.8 billion of accumulated interest will be financed through 2027. The ratepayer will repay \$39.4 billion (\$18.4 billion of electricity costs, \$21 billion of interest) from 2028 to 2045.⁸ The reason for the high cost of interest relative to the amount of electricity costs financed is that the ratepayer does not begin repayment until 10-years after borrowing commences.

Figure 2-2 outlines the impact of the electricity cost refinancing by showing the cost to eligible electricity ratepayers on a real pre-tax basis, removing the impact of the HST rebate and electricity relief programs.

Figure 2-2 FAO Estimated Impact of Electricity Cost Refinancing on Real Electricity Costs



Source: FAO analysis of Provincial information

Under the status quo, real electricity costs are forecast to remain close to 2017 levels until 2027 and then decline over the following 17 years. The Province's proposed electricity cost refinancing initiative reduces ratepayer costs until 2026 by deferring \$18 billion of electricity costs. Starting in 2026, real pre-tax electricity costs are forecast to be higher under the FHP than the status quo. Real pre-tax costs under the FHP will remain higher than the status quo as the electricity ratepayers repays \$18 billion of deferred electricity costs and \$21 billion of interest.

Risks to the Electricity Cost Refinancing Initiative

The FAO has identified two key risks which could impact the electricity cost refinancing initiative.

1. **Cost of providing electricity to eligible ratepayers** – The amount of refinancing required to deliver the committed bill reductions to ratepayers from 2017 to 2021 depends on the total cost of generating and delivering electricity to eligible ratepayers. There is potential, for example, that eligible ratepayer demand increases as a result of the reduction in electricity prices or that costs to generate / deliver electricity are higher than expected. Increases in demand or generation costs would increase borrowing requirements to achieve

Commented [BA25]: Consistent with ENE model, but solely based on an illustrative assumed 5% interest cost. Actual cost will depend on actual interest rates.

Commented [RK26]: Illustrative costs at a 5% interest rate should not be considered an estimate or prediction of the actual interest rates for the GA deferral financing. It was intended to illustrate the impact of "refinancing" – however, based on current interest rates, the overall interest costs could be substantially lower, as per the sensitivity analysis performed.

Commented [BA27]: Is breakdown does not seem correct/relevant (see Record 16)

Commented [BA28]: Confirm numbers based on info provided

Commented [ENERGY29]: Unsure of the value of this chart as it may be confused with 2-1. It appears one is real and one is nominal.

Commented [RK30]: See related comments above.

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Commented [ENERGY31]: While increasing demand was raised as a factor that could impact refinancing, the inverse is also true (i.e., the impact of decreasing demand). Additionally, increasing demand in the longer-term would decrease the average cost of repayment for eligible ratepayers.

Commented [SK832]: Demand increases may in fact spread the fixed costs of the electricity system over a larger consumption amount, thereby decreasing the per unit cost of electricity (eg. the GA portion).

Commented [ENERGY33]: Increases in generation cost could lead to a reduction in GA costs if the increased costs (e.g. fuel costs) are reflected in a higher HOEP. This would leave the refinancing proposal largely unaffected.

⁸ See Appendix B for more details on the refinancing.

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the stated cost reductions, thus increasing the interest paid by eligible ratepayers during the repayment period.

2. Interest rate assumptions – Changes in the interest rate on funds borrowed to refinance electricity costs significantly impact the interest cost paid by ratepayers. Appendix B contains analysis of the impact of different interest rates on ratepayers.

Impact on Provincial Finances

The FAO estimates that the FHP will cost the Province approximately \$44 billion over 29 years. The cost estimate is made up of the following two components:⁹

1. HST Rebate: cost of \$41 billion.

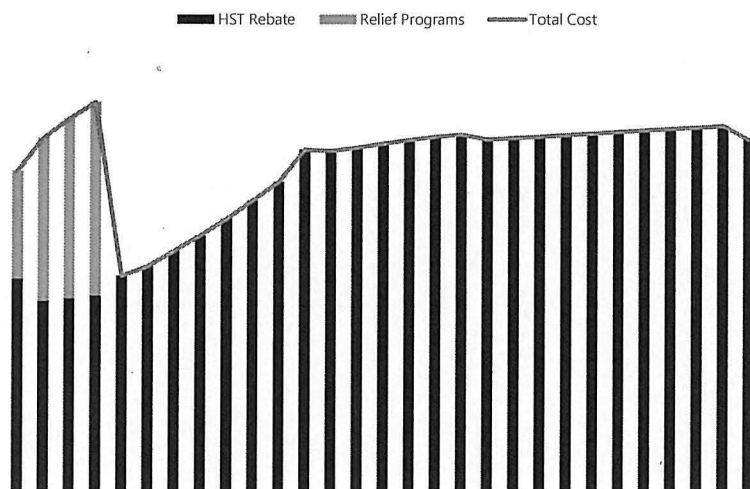
2. Adjusting Electricity Relief Programs: cost of \$3 billion.¹⁰

Figure 2-3 summarizes the FAO's estimate of the annual cost¹¹ of the FHP through to 2045-46. The FAO estimates the cost of the FHP to the Province will peak at \$1.8 billion in 2020-21, after which the FAO assumes that the electricity relief programs will no longer be funded by the Province. The HST Rebate is forecast to cost \$1 billion in 2021-22, rising rapidly to \$1.6 billion by 2028-29.¹²

Figure 2-3 FAO's Estimated Annual Cost of the FHP to the Province, 2017-18 to 2045-46, billions of dollars

Note: Provincial funding for electricity relief programs ends after 2020-21 based on the Province's announced commitments regarding the FHP and information provided by the Province to the FAO.

Source: FAO analysis of Provincial information.



⁹ The Province's FHP assumes that electricity cost refinancing would not impact net debt or the annual surplus / deficit. Please see chapter 5 for more details.

¹⁰ The FAO is forecasting the cost of the electricity relief programs based on the Province's announced commitments regarding the FHP and information provided by the Province to the FAO. As such, the FAO does not forecast the costs of the electricity relief programs beyond the year 2020-21. However, there is uncertainty with this assumption because (a) the electricity relief programs may continue after the year 2020-21 and (b) the Province may cease to fund the cost of these programs after the year 2020-21. Overall, the FAO estimates that the \$21 billion in net costs of the FHP would not change should the electricity relief programs continue beyond the year 2020-21. This is because the incremental savings to ratepayers would be exactly offset by costs to the Province.

¹¹ Annual cost defined as the impact to the Province's annual surplus / deficit.

¹² The rapid increase in the cost of the HST Rebate from 2021-22 to 2028-29 results from the increase in electricity cost over the corresponding time period. See Figure 2-1 Figure 2-1.

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Commented [BA34]: FAO's Source for 8% rebate costs?

Commented [RK35]: And, as above on comment on \$3 bn amount.

Commented [TP36]: the FAO report includes only the cost of the electricity social programs for the next four year (i.e. they do not forecast the cost of the programs beyond 2020-21). The report indicates that this is based on material that they have. However, not sure if this assumption is plausible, given that the legislation that was introduced in the House transfers these programs from the rate-base to government funded - leading to a more probable case of the province continuing to fund these programs in the future. Also, if they are assuming that the 8% rebate program would continue indefinitely, it may make sense (from a consistency perspective) to also assume that the electricity social programs will continue past 2021 as well.

Commented [RK37]: Suggest deleting. FAO should refer to the proposed legislation to clarify that the social programs would continue to be government-funded.

Commented [ENERGY38]: Relief Programs savings should extend indefinitely.

Commented [ENERGY39]: Estimated annual cost of relief programs to taxpayers is shown in Figure 2-3 (e.g. ~\$0.45 Billion in year 1). However, the first values listed in the graph are for FY 2017-18. For comprehensiveness, the graph should show the \$100 M for the Affordability Fund in FY 2016-17. ENERGY provided information to the FAO in late March/early April (Excel attached) which identified A-Fund as a one-time cost from tax in FY 2016/17, pending a future request(s) for additional funding by the Ministry.

Commented [ENERGY40]: While understanding FAO comments on uncertainty in the future, the Ministry has never indicated a policy intent to end the funding of social programs after 2020-21. In particular this visualization of costs may give the impression that these programs will be ending. FAO should consider ways to visualize/incorporate on-going social program funding into the analysis.

Key Considerations

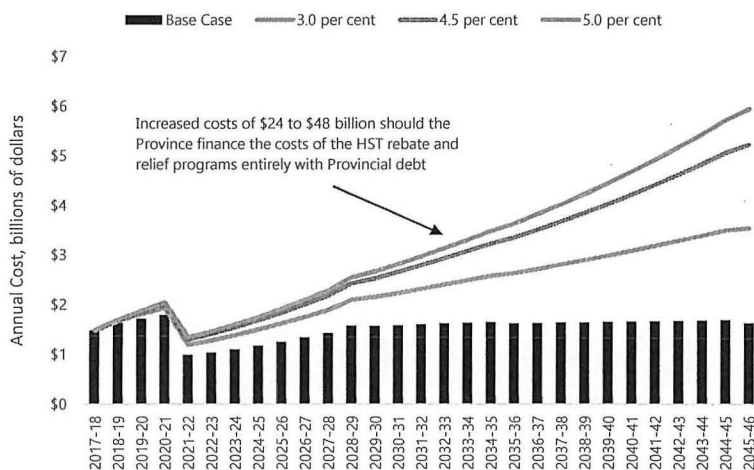
Electricity Cost Refinancing Accounting Treatment

As proposed by the Province, the electricity cost refinancing component of the FHP would not impact the reported annual surplus / deficit or net debt of the Province. The underlying substance of this part of the plan is that the Province is reducing amounts that would be otherwise owed by ratepayers now, and collecting those amounts in future years. While the Province is facilitating the transaction, the Province is not relieving the ratepayers of this obligation. However, gross debt would increase by \$26 billion by 2027-28, before being completely retired by 2045-46.¹³ Please see chapter 3 for more details.

FAO Assessment of Other Funding the Provincial FHP Costs

The FAO estimates that the FHP will cost the Province approximately \$44 billion over 29 years. However, this amount could increase if the Province funds the cost of the FHP (i.e. the HST Rebate and the electricity relief programs) through debt. For example, if the Province funds the HST rebate and electricity relief programs by borrowing over the 29-year period, it could increase costs by \$24 to \$48 billion, assuming an effective cost of borrowing between 3.0% and 5.0%. This could bring the total Provincial cost of the FHP to between \$68 and \$93 billion (Figure 2-4).

Figure 2-4 FAO's Estimated Annual Cost of the FHP to the Province, 2017-18 to 2045-46, billions of dollars



Source: FAO analysis of Provincial Information

In the 2017 Ontario Budget, the Province is calling for balanced budgets from 2017-18 to 2019-20, which include the costs of the FHP. However, in the FAO's Fall 2016 Economic and Fiscal Outlook, the FAO is projecting continued budget deficits over the forecast period.¹⁴ If the Province is unable to balance the budget, then the estimated cost of the FHP will be higher than \$44 billion, as the Province will need to borrow to fund the FHP.

Commented [BA41]: Appears consistent with model; however, it is based on the illustrative, assumed 5% interest rate. The actual interest rate could be lower, as per current rates. As such, gross debt would increase by much less.

Commented [RK42]: To be revised based on revised assumptions on RRRP and OESP cost timeframe.

Commented [TP(43)]: These ranges may be overstated. Once repayment commences in 2027 the Province's net borrowings should be considerably lower.

Commented [ST(44)]: This does not take into account the impact of Government Equity.

Commented [ST(45)]: This paragraph should go first, as this is government policy, not deficits.

¹³ Provincial gross debt would increase by about \$12 billion, while Ontario Power Generation would issue about \$14 billion in debt. Please see the appendix for more details on the proposed financing structure of the electricity cost refinancing.

¹⁴ See the FAO's Economic and Fiscal Outlook, Fall 2016.

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3 Accounting Treatment Uncertainty

The electricity cost refinancing component of the FHP involves a complicated accounting structure that will increase gross debt by approximately \$26 billion by 2027-28, assuming an interest cost of 5% (actual borrowing costs may differ)¹⁵, but does not impact the Province's net debt. This is due to the role Ontario Power Generation is taking on with respect to financing the structure, which includes purchasing from the IESO the right to collect the future cash flows for the amounts deferred – the creation of a regulatory / investment asset¹⁶ – essentially an obligation for essentially the expected future recoveries from ratepayers to repay the IESO / OPG Trust Province approximately \$26 billion, as estimated assuming a 5% interest rate.¹⁷

While the legislation for the FHP was introduced on May 11, 2017, additional details will be available through the finalization of regulations and commercial contracts. Due to the complexity of the proposed financing transaction, the FAO recommends it would be useful for that Members of Provincial Parliament (MPPs) to understand the due diligence completed on this structure by the Province and also request that obtain assurance from the Office of the Auditor General of Ontario (OAGO) review that the Province's proposed financing structure and accounting treatment for the electricity cost refinancing once the key documents are complete, to assess the meet public sector accounting standards and will not impact on the Province's annual surplus / deficit and net debt under public sector accounting standards.¹⁸

If the creation of the regulatory / investment asset does not meet public sector accounting standards, structure as contemplated does not result in a fiscally neutral impact to the Province's annual surplus/deficit, then the electricity cost refinancing initiative would impact the Province's annual surplus / deficit over the 29-year period. In the absence of a regulatory / investment asset, the FAO estimates that costs to the Province would increase by an additional \$26 billion over the next 11 years but would decrease by the same amount over the following 18 years thereafter (Figure 3-1). Under the Province's proposed accounting, impact of the transaction would best reflect the economic substance of the series of transactions on the Province's financial reports, and not portray a ratepayer cost as a cost to be borne by the taxpayer in the early years prior to recovery.

Commented [ENERGY46]: The "obligation for ratepayers to repay the Province" is due to debtholders, including entities other than the province.

Figure 3-1: FAO's Estimated Annual Cost to the Province of the FHP Should the Regulatory / Investment Asset be Created or Not Created, 2017-18 to 2045-46, billions of dollars

¹⁵ Provincial gross debt would increase by an estimated about \$12 billion, with zero increase in net debt, while Ontario Power Generation Trust would issue an estimated about \$14.26 billion in debt, in each case assuming an illustrative 5% interest rate. Please see the appendix for more details on the proposed financing structure of the electricity cost refinancing.

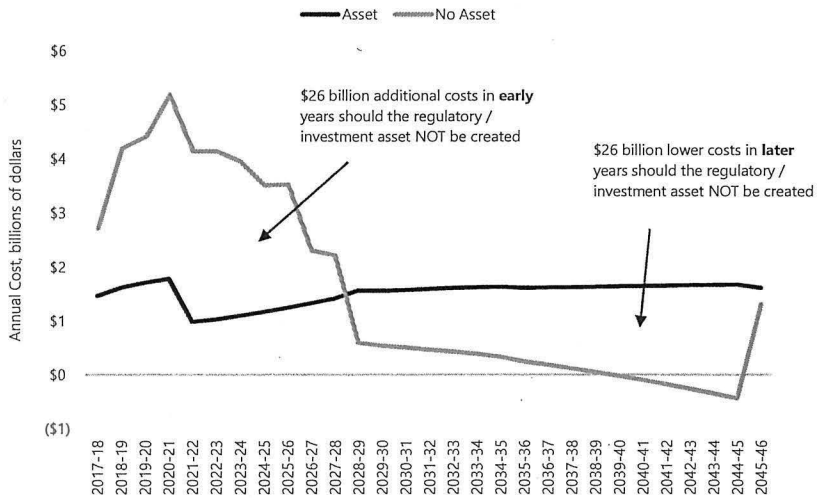
¹⁶ Please see the appendix for more details on the proposed financing structure of the electricity cost refinancing.

¹⁷ This asset will be recorded on the financial statements of Ontario Power Generation Trust which would be consolidated by OPG and, which will then increase the Province's asset value labelled,

"investment in government business enterprises".

¹⁸ Please see the appendix for more information on the potential issues with the Province's proposed accounting treatment of the electricity cost refinancing.

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Source: FAO analysis of Provincial information

4 Conclusion

The FAO estimates that the net cost of the Province's FHP to be \$21 billion over 29 years. However, the impact to the Province and eligible electricity ratepayers differs.

Eligible electricity ratepayers are projected to experience savings of \$33 billion from 2017 to 2027 and increased cost of \$10 billion from 2028 to 2045 for a net savings of \$23 billion.

The FHP is projected to cost the Province approximately \$44 billion over 29 years. However, if the Province funds the cost of the FHP through debt, this amount could increase to between \$68 and \$93 billion.

The Province's proposed accounting treatment of the electricity cost refinancing initiative results in no impact to the Province's annual surplus / deficit. However, if the final details of the structure do not support the Province's proposed accounting treatment ~~does not meet under~~ public sector accounting standards, then the electricity cost refinancing initiative would be reported as an illustrative increase result in ~~estimated at~~ \$26 billion in additional ~~costs~~ expenses to the Province from 2017-18 to 2027-28 and \$26 billion in savings ~~additional revenues~~ to the Province from 2028-29 to 2045-46, despite the fact that the deferred costs and related financing would be recovered from ratepayers and not the taxpayer.

Commented [RK47]: Revise numbers, as per above, to reflect RRP and OESP amounts.

Questions for Legislators

On the basis of the analysis presented in this report, Members of Provincial Parliament may wish to ask the Province the following questions to gain a better understanding of the proposed Fair Hydro Plan.

Issue and Importance	Questions
Accounting treatment uncertainty: Due to the complexity of the proposed <u>financing transaction, once additional details of the transaction are available from regulations and commercial agreements</u>, the FAO recommends that Members of Provincial Parliament (MPPs) <u>obtain assurance from</u> understand the <u>final views of the Public Service and</u> the Office of the Auditor General of Ontario (OAGO) <u>with respect to that</u> the Province's <u>accounting treatment for the proposed financing structure, and accounting treatment for the electricity cost refinancing component of the FHP meet public sector accounting standards and will not impact the Province's annual surplus / deficit and net debt.</u>	Has the Province reviewed its proposed accounting treatment for the electricity cost refinancing initiative with the OAGO?

Commented [ST48]: Not clear why the only question being posed relates to accounting when this is not the primary purpose of the report (or the FAO's mandate). If the whole purpose of the report is to look at the financing and fiscal impacts, how about questions related to:

- Economic viability of amortizing assets over their useful life?
- What policy principles should be used to determine funding electricity programs on the rate base vs. the tax base?

5 Appendices

Appendix A: Ratepayer Bill Projection

Prior to the introduction of the HST rebate for an amount equal to the 8% provincial portion of the HST and the proposed FHP, the "average" eligible residential electricity ratepayer had a monthly bill of \$164.¹⁹ Table 5-1 outlines what the average ratepayer's 2017 bill will look like after the implementation of the FHP.

Table 5-1: FAO Estimated FHP Impact on 2017 Residential Monthly Bill

Category	Pre-FHP Bill	FHP Impact	Post FHP Bill	Explanation
Electricity	\$85.0	-\$16	\$59.4	Impact of electricity cost refinancing
Delivery	\$54.7	0	\$54.7	No change
Wholesale Market ChargeRegulatory	\$5.7	-\$2.4	\$3.3	Removal of RRRP and OESP from ratepayer bills
Tax	\$18.9	-\$13	\$5.9	Impact of HST rebate
Total	\$164.3	-\$41	\$123.3	25% reduction

Source: FAO analysis of Provincial Information

The impact on the typical residential electricity ratepayer bill over the life of the FHP can be seen in Figure 5-1. The FHP will reduce eligible residential ratepayer bills, on average, by 25% with increases capped at inflation for four years. After 2021, average eligible residential ratepayer bills are estimated to increase by 6.5% per year to \$215 when the repayment of the electricity cost refinancing begins in 2028. From 2028 until 2045, the repayment of electricity cost refinancing will add approximately \$20/month to the average eligible residential ratepayer bill. Bills are projected to be an average of 4% higher under the FHP than the status quo despite the HST rebate. Note: the actual impact on individual ratepayers will depend on how much electricity they consume.

Commented [ENERGY49]: It may be useful to indicate how much is being consumed for this monthly bill estimate. Is it based on 750 kWh per month?

Commented [ENERGY50]: The impact of GA refinancing on the electricity line appears to be understated given that the reduction in the tax line is overstated.

Commented [ENERGY51]: The cost of RRRP and OESP are part of the regulatory line on a bill. Wholesale market service charges are a subset of the regulatory line.

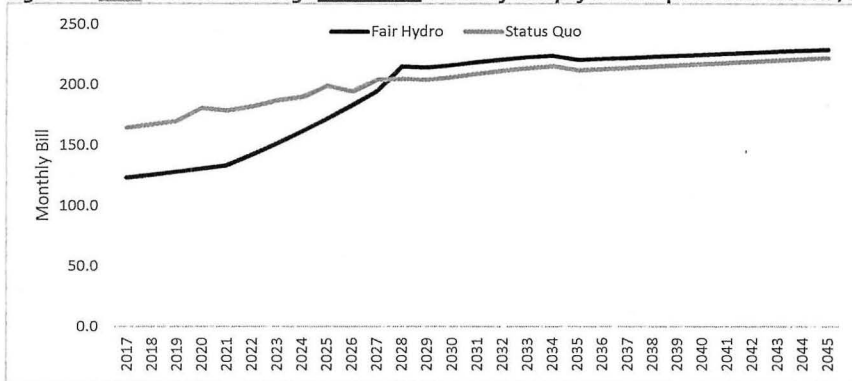
Commented [ENERGY52]: The reduction of \$13 related to the tax line appears to be overstated. Both the 8% rebate and the 13% HST are applied on the amount before tax.

Commented [BA53]: 1. Not an HST rebate
2. Need to split into two lines OREC and HST impacts. FHP impacts (\$9.4m) and \$3.6m) respectively.
3. Note FHT Impacts do not add to the \$41m. Believe Electricity and WMC impacts need to be recalculated.
4. These amounts can be calculated from table provided to FAO "Record 1 FA1710 Fair Hydro Plan..."

¹⁹ According to the IESO, 750 kWh per month is typical household consumption. Source: 2016 Ontario Planning Outlook

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Figure 5-1 **FAO** Estimated Average **Residential** Electricity Ratepayer Bill Impact under the FHP, dollars



Source: FAO analysis of Provincial information

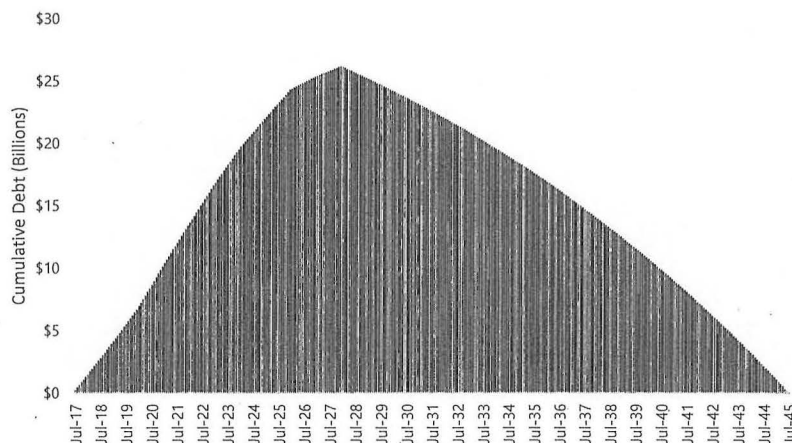
Appendix B: Electricity Cost Refinancing

Refinancing Plan

Under the Province's illustrative assumption of a 5% interest rate, total debt would peak in 2027 at \$26.2 billion (Figure 5-2). Under anticipated regulations and commercial contracts, the \$26.2 billion balance would then be amortized and repaid by recovered from eligible ratepayers from 2028-2045 in monthly payments that total \$2.2 billion annually.

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Figure 5-2 Refinancing Balance, billions of dollars



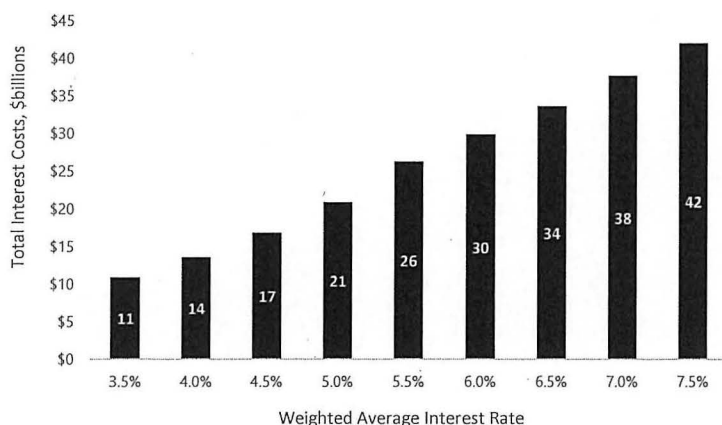
Source: FAO analysis of Provincial information

Interest Rate Sensitivity

The FAO assumes that total debt issued to finance the electricity cost refinancing has a weighted average interest rate of 5%. For example, the FAO assumes that Ontario Power Generation will finance 55% of the electricity cost refinancing, while the Province will finance the remaining 45%. The FAO assumes interest rates of 6.2% and 3.5% for OPG and Provincial debt, respectively.

Assuming a weighted average interest rate of 5%, the FAO estimates that the electricity cost refinancing results in total recoverable financing interest costs to eligible ratepayers of about \$21 billion.²⁰ Figure 7-3 shows the FAO's estimate of interest costs to eligible ratepayers under different interest rate scenarios. The estimates are based on the assumption that the repayment term will not extend beyond 20 years.

Figure 5-3 FAO Estimate of Impact of Changes in Interest Rate on Electricity Refinancing Cost, billions of dollars



Source: FAO analysis of Provincial information

If the weighted average interest rate increases from 5% to 6%, then the FAO estimates that ratepayers would pay an additional \$9 billion in interest expense related to the electricity cost refinancing. If the weighted average interest rate decreased to 4%, then the FAO estimates that ratepayers would pay \$7 billion less in interest expense. If the Province financed the entire electricity cost refinancing, as opposed to only 45%, the FAO estimates that ratepayers would save about \$10 billion in interest expense, because the interest rate on Provincial debt is lower than the interest rate on OPG's debt.

Appendix C: Accounting Treatment Analysis for Electricity Cost Refinancing

Financing Structure²¹

²⁰ See Appendix C for details on the financing structure.

²¹ Based on FAO analysis of information provided by the Province.

Commented [RK54]: Showing this section as a range may make more sense, rather than a point estimate of 5%.

Current long-term rates are closer to 3.5%, while shorter-term rates are lower, suggesting that an illustrative 5% rate is likely to be higher than actual rates.

Commented [RK55]: A 270 basis point spread between Provincial and OPG Trust borrowing rates appears substantially too high. Actual spreads may be more in the 20 – 50 bps range.

Commented [ENERGY56]: Agree with MOF above.

Interest rate assumption for OPG debt is too high. The spread between provincial and OPG debt will be less than the 270 basis points used in the analysis.

Commented [JK57]: It would depend on terms used 270bps is likely too high.

Commented [RK58]: Based on expected interest rate spreads between the Province and OPG of closer to 20-50 bps, the interest cost reductions compared to the 5% illustrative case is likely to be much closer to \$10 bn regardless of the percentage financed by the OPG Trust versus the Province.

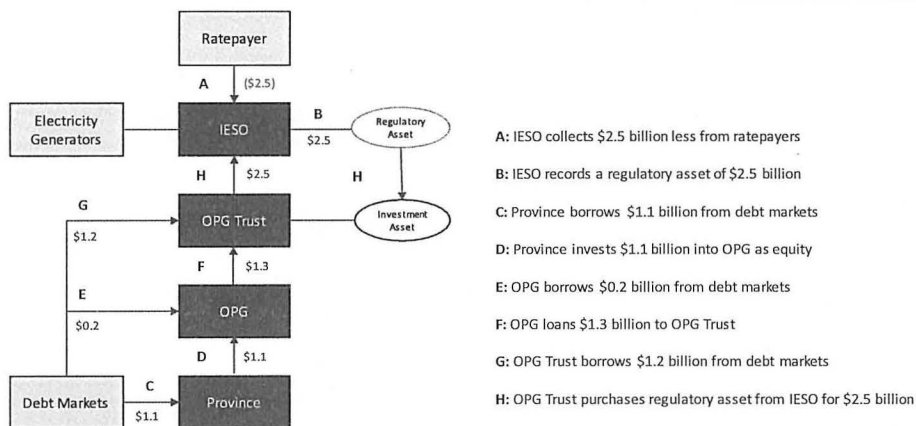
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One of IESO's roles is to operate and settle the wholesale electricity market, which includes paying the generators for power and collecting from the ratepayers, generally through distributors. The settlement process occurs on a monthly basis, although there is an element of estimation in rate-setting that requires amounts be trued up over a period of months. The role of the IESO will not change in the new financing structure, except that the settlement process for the portion of the costs that are deferred will be extended to years vs. months. The IESO will continue to pay the amount due to the generators for power, but will collect less from the ratepayers in the initial years of the structure resulting in a shortfall. The shortfall created during the early years of the structure will be financed with debt.

The Province is proposing that Provincial equity injections into OPG (44%) financed with Provincial debt and OPG financing from capital markets (5%) it will finance about 49% of the electricity cost refinancing, and 51% will be funded directly from capital markets while Ontario Power Generation (OPG) will finance the remaining 55%. During the later years when the deferred amounts are recovered from the ratepayers, the amounts collected from the ratepayers will exceed the amounts paid to the power generators, and that excess will be used to repay the debt. The Province will issue debt to finance its portion, and then invest this amount into OPG. Then, OPG will take the funding provided by the Province and loan it to a newly created trust (OPG Trust), which will be consolidated within OPG. The OPG Trust will then issue debt to finance OPG's portion of the electricity cost refinancing. Finally, the OPG Trust will purchase the regulatory asset from the Independent Electricity System Operator (IESO). This purchase converts the regulatory asset into an investment asset.²³ Figure 5-4 summarizes the proposed financing structure. It illustrates how the estimated \$2.5 billion in average annual electricity costs over the first 10 years of the FHP will be financed by the Province and its consolidated entities.

Figure 5-4 Proposed Financing Structure for \$2.5 billion in Electricity Cost Refinancing

Commented [TP(59)]: Suggest A and B refer to the \$2.5B amount as the "shortfall" to bridge the previous discuss to this diagram.



Source: FAO analysis of Provincial Information

Regulatory / Investment Asset

The FAO is uncertain as to whether the creation and recording of the regulatory / investment asset by the IESO, as proposed under the electricity cost refinancing initiative, is consistent with Canadian public-sector accounting standards (PSAS). PSAS does not explicitly address rate regulated accounting and the recording of a regulatory asset.

²³ See section 28(1) of the proposed Bill 122, the *Fair Hydro Act, 2017*.

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For example, regulatory assets are permitted under many other accounting frameworks such as U.S. Generally Accepted Accounting Principles (US GAAP), International Financial Reporting Standards (IFRS), Accounting Standards for Private Enterprises (ASPE) and Governmental Accounting Standards Board in the United States (GASB). IFRS, ASPE and GASB standards on rate regulated accounting are all based on US GAAP standard on rate regulated accounting. When PSAS does not explicitly address an accounting topic, professional judgement must be applied in determining the appropriate accounting which best reflects the economic substance of the transactions. PSAS, like other accounting frameworks, provide guidance on considering other accounting frameworks in exercising professional judgement. However, the IESO prepares its financial statements in accordance with Canadian public sector accounting standards, which do not permit regulatory assets.

OPG provides an example of how regulatory assets are created and reported on balance sheets in Ontario. OPG prepares its financial statements in accordance with U.S. GAAP and notes in its financial statements that:

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the customers. When the Company assesses that there is sufficient assurance that incurred costs in respect of the regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset.²³

The Ontario Energy Board Act, 1998 and Ontario Regulation 53/05 provide that OPG receives regulated prices for electricity generated from the Sir Adam Beck 1, 2 and Pump hydroelectric generating stations, the DeCew Falls 1 and 2 hydroelectric generating stations, the R.H. Saunders Hydroelectric GS, the 48 hydroelectric generating stations prescribed for rate regulation effective in 2014, and the Pickering and Darlington nuclear generating stations (collectively, prescribed facilities or regulated facilities). OPG's regulated prices for these facilities are determined by the Ontario Energy Board (OEB).²⁴

In other words, OPG is allowed to record regulatory assets on its balance sheet if it incurs costs that are related to a prescribed list of its electricity generation assets. Further, OPG expects these costs to be recovered in the future, because the price it receives for electricity generation is regulated by the Ontario Energy Board (OEB). Lastly, OPG can record the regulatory asset because it prepares its standalone financial statements in accordance with U.S. GAAP. For purposes of consolidation on the Province's financial reports, commencing April 1, 2016, OPG's results will be reflected in accordance with International Financial Reporting Standards which also support OPG's recording of regulatory assets. In other words, the Province's annual surplus/deficit is currently impacted by the recording of regulatory assets and liabilities of OPG. The same is true for Hydro One.

Overall, US GAAP recognizes that in certain circumstances, the actions of a rate regulator can create economic rights or obligations of the entity that should be recognized in the financial statements as assets and liabilities.

The following conditions apply:

1. Rates that bind customers are established by an independent, third party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
2. Rates are designed to recover the entity's cost of providing the regulated services or products.
3. It is reasonable to assume that rates are set at levels will recover the entity's costs that can be charged to and collected from customers.²⁵

Both the IESO and OPG are entities that are regulated by the OEB, and it is reasonable to assume that the electricity cost refinancing will be collected from ratepayers in the future. However, the FAO is primarily concerned with the Province's proposed accounting treatment as it relates to the second condition with respect to IESO's recording of a

Commented [TP(60)]: What is the purpose of this example?

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²³ Ontario Power Generation's financial statements, 2016, page 12

²⁴ Ontario Power Generation's financial statements, 2016, page 12

²⁵ Rate-regulated Activities: Accounting under U.S. GAAP, T. Linsmeier, December, 2014: <http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2014/December/05A-RRR-FASB.pdf>

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to record a regulatory asset; rates are designed to recover the entity's cost of providing the regulated services or products.

For example, which services or products is the electricity cost refinancing related to? In principle, the electricity refinancing costs are related to the costs of generating electricity in Ontario. However, there are many different electricity generators in Ontario that contribute to the final cost that is paid by ratepayers. For example, OPG accounts for roughly half of electricity supply in Ontario.

In this sense, the electricity cost refinancing is related to a wide variety of electricity generation assets, half of which are outside of OPG's ownership (and prescribed list of generating facilities). Further, non-OPG electricity generators do not receive regulated prices from the OEB, so they may not record regulatory assets on their balance sheets. Overall, the FAO is concerned with the Province's proposal, because the electricity cost refinancing is not wholly related to either the IESO or OPG's asset bases.

Commented [TP(61)]: To discuss how this sentence is relevant to the analysis.

Alternatively, the IESO has contractual agreements with the power generators, which sets the terms, including the pricing, of what the generators are to be paid. The IESO is responsible for making payments to these generators, and has the right through the legislative framework and rates for ratepayers that are set by the Ontario Energy Board to recover these payments. In this sense, the rates are designed to recover the IESO's cost of providing the regulated service of settling the market.

Alternatively, an argument can be made that the electricity cost refinancing is not related to the cost of generating electricity in Ontario. This is because the Province has indicated that the contracts that generators have with the IESO will not be changed, which dictate how much money generators will receive for their electricity production. Further, this implies that the price that electricity ratepayers pay for electricity generation does not change.

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In this sense, the costs of the Province's proposal are more like direct financing costs, as opposed to electricity generation costs. However, direct financing is not a regulated service or product.

Commented [TP(63)]: To discuss how this sentence is relevant to the analysis.

In summary, the FAO has identified the following uncertainties related to the Province's proposed accounting treatment and financing structure of the electricity cost refinancing:

1. The IESO prepares its financial statements in accordance with Canadian public-sector accounting standards, which do not explicitly address accounting for rate regulatory assets, permit the recording of regulatory assets on its balance sheet.
2. The electricity refinancing costs are not related to the services or products that the IESO provides, and only partially related to the services or products that OPG provides.
3. Direct financing costs, without a regulated asset base, are not permitted to be capitalized as regulatory assets under US GAAP.

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Commented [TP(64)]: See previous addition – they are related to the role of settling the wholesale electricity market.

Nevertheless, as Figure 5-4 illustrates, the Province in applying professional judgement in the application of public sector accounting standards, is proposing that the regulatory asset will be recorded initially on the IESO's books and then sold to ultimately be recorded on OPG's Trust and recorded as an intangible asset in OPG's consolidated financial statements balance sheet as an investment asset through the established trust. Due to the complexity of the proposed financing transaction, the FAO recommends that Members of Provincial Parliament (MPPs) obtain the Public Service's final view and assurance from the OAGO's final view of whether that the Province's proposed financing structure and accounting treatment for the electricity cost refinancing structure is consistent with PSAS meet public sector accounting standards.

Appendix D: Development of this Report

Authority

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The Financial Accountability Officer decided to undertake the analysis presented in this report under section 10(1)(b) of the *Financial Accountability Officer Act, 2013*.

Key Questions

The following key questions were used as a guide while undertaking research for this report:

- 1. What is the financial impact over 30 years to electricity ratepayers of the Fair Hydro Plan (FHP)?
- 2. What is the anticipated financial (fiscal) impact over 30 years to the Province of the FHP?
 - 1. How will the Province's income statement, including surplus and/or deficit, be affected?
 - 2. How will the Province's balance sheet (assets, liabilities and net debt) be affected?
- 3. What is the financial impact of using Ontario Power Generation to conduct financing operations rather than the Ontario Electricity Financial Corporation?

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Methodology

This report has been prepared with the benefit of information provided by the Province, meetings with staff from the Ministry of Energy, the Ontario Financing Authority and the Ministry of Finance, a review of the proposed Bill 132, the *Fair Hydro Act, 2017*, a review of relevant literature, as well as other publicly available information. Specific sources are referenced throughout.

Commented [TP(65)]: Should the OAGO or materials provided by that office also be referenced as a source?

This report reviews the FAO's estimate of the fiscal impact of the Province's FHP on the Province and electricity ratepayers. The FAO's estimates are subject to many assumptions and uncertainties, which are referenced throughout the report. As such, the actual fiscal impact of the FHP may differ significantly from the FAO's estimates.

All dollar amounts are in Canadian, current dollars (i.e. not adjusted for inflation) unless otherwise noted.



Ontario's Fair Hydro Plan: Providing Relief for Consumers

Technical Briefing
Ontario Ministry of Energy

March 2, 2017

Outline of Technical Briefing

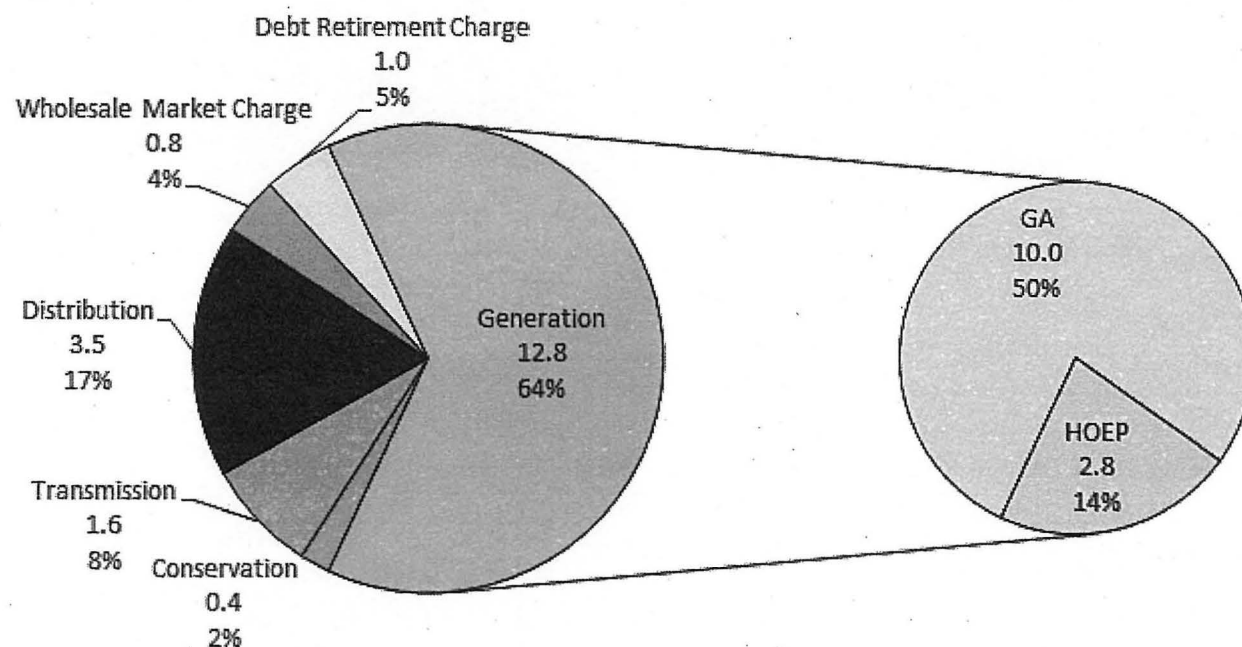
1. Overview of Ontario's Electricity Market
2. Ontario's Fair Hydro Plan – Providing Relief for Consumers
3. Questions

Ontario's Electricity Market

- In 2015, generation accounted for 64% of total electricity system costs. Total system costs in 2015 were \$20 billion.

2015 Electricity System Cost

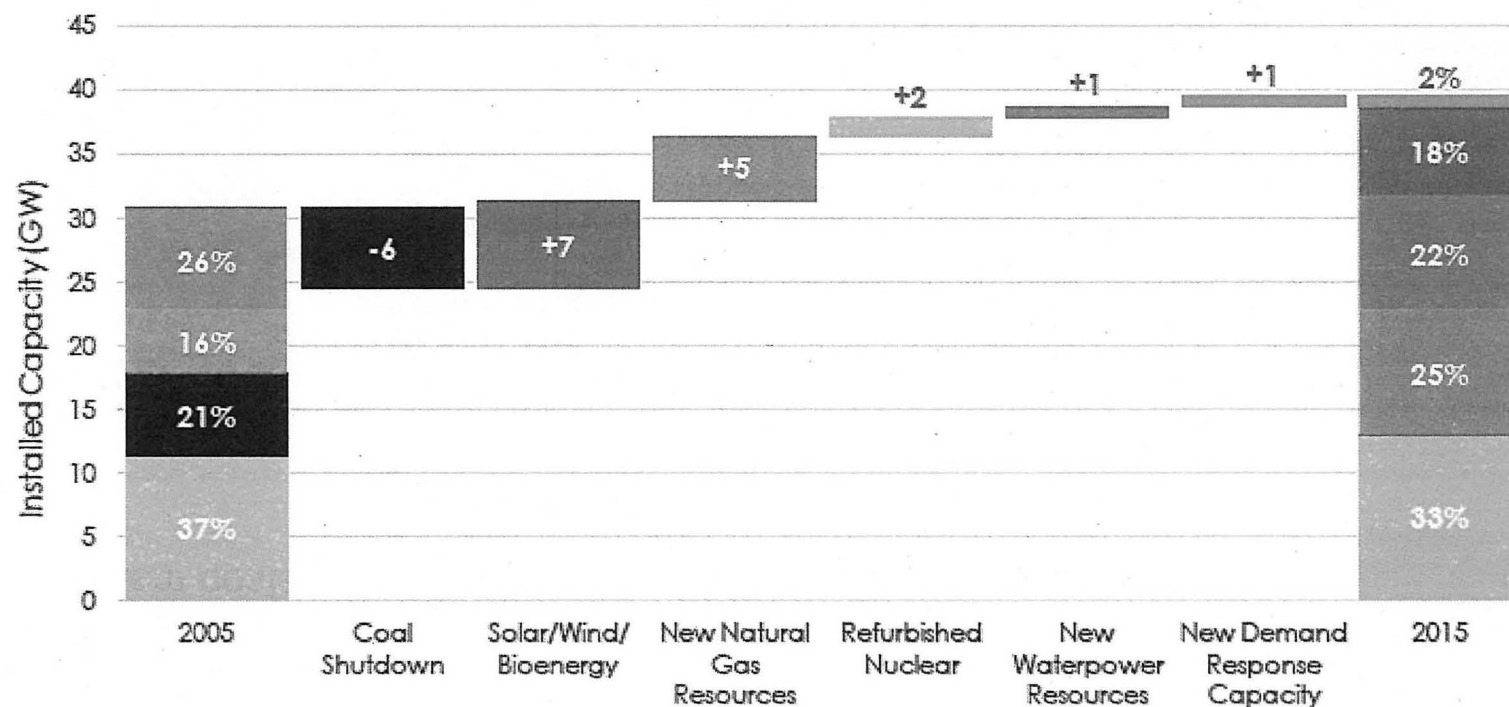
\$ billion



Source: IESO

Significant Change in Supply Mix

- Between 2005 and 2015, government invested more than \$50 billion in the electricity system, including \$35 billion in electricity generation to restore reliability, replace coal and meet environmental objectives.
 - Electricity costs are increasing as necessary investments are made to decarbonize and modernize the province's electricity infrastructure.



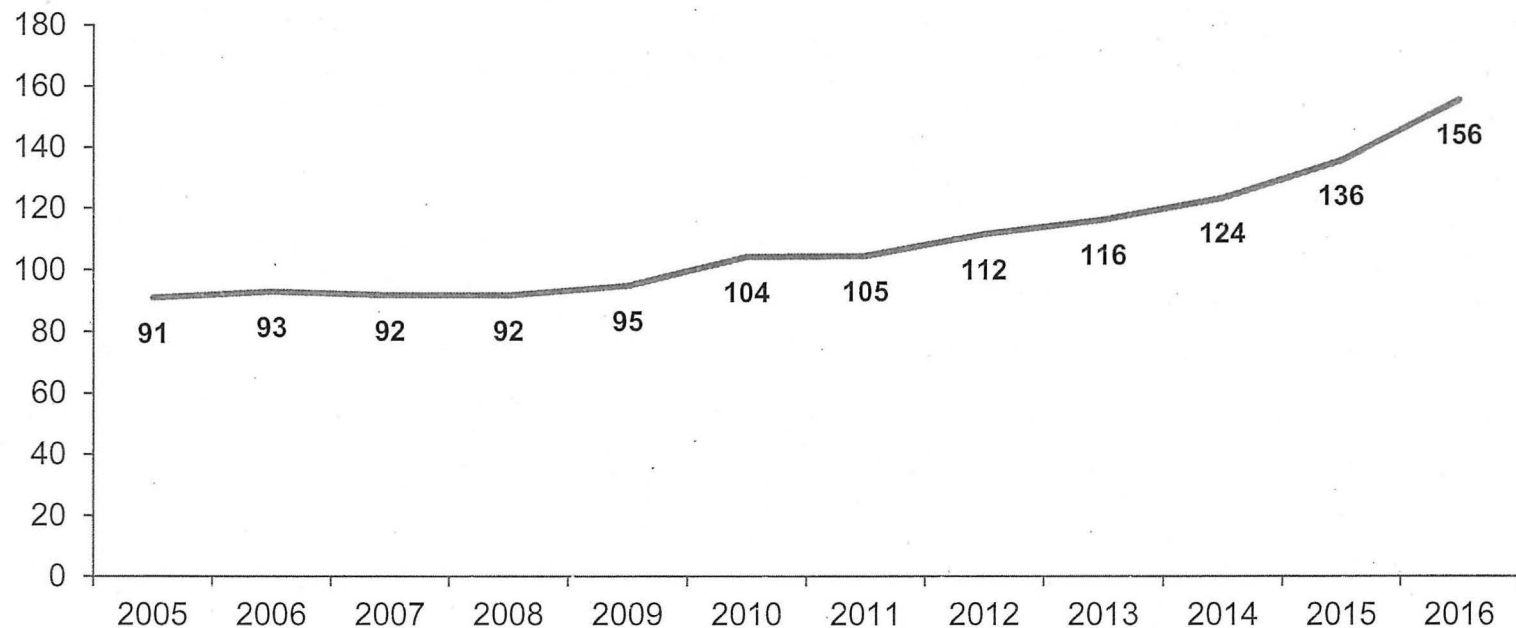
Source: IESO

Electricity Prices Have Increased

- Since 2010, electricity prices have increased at a rate higher than the Consumer Price Index (CPI).

Typical Residential Electricity Bills

in \$ per month, 750 kWh consumption



Source: Ministry of Energy

Recent Actions To Mitigate Electricity Rates

- Following the 2016 Throne Speech, several actions were announced to further reduce electricity costs.
 - As of January 1, 2017, Ontario is rebating an amount equal to the provincial portion of the HST to reduce eligible residential, small business and farm electricity bills by 8%.
 - Expanded support available to eligible rural ratepayers by updating Rural or Remote Rate Protection (RRRP) with additional relief, decreasing total electricity bills by an average of \$45 each month when combined with the 8% rebate.
 - Expanding the Industrial Conservation Initiative (ICI) – up to one-third savings for participants.
 - Suspending the LRP II and the Energy from Waste Standard Offer Program (EFWSOP) – up to \$3.8 billion in cost savings.
 - Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements – up to \$129 million in cost savings.

Ontario's Fair Hydro Plan

Ontario's Fair Hydro Plan

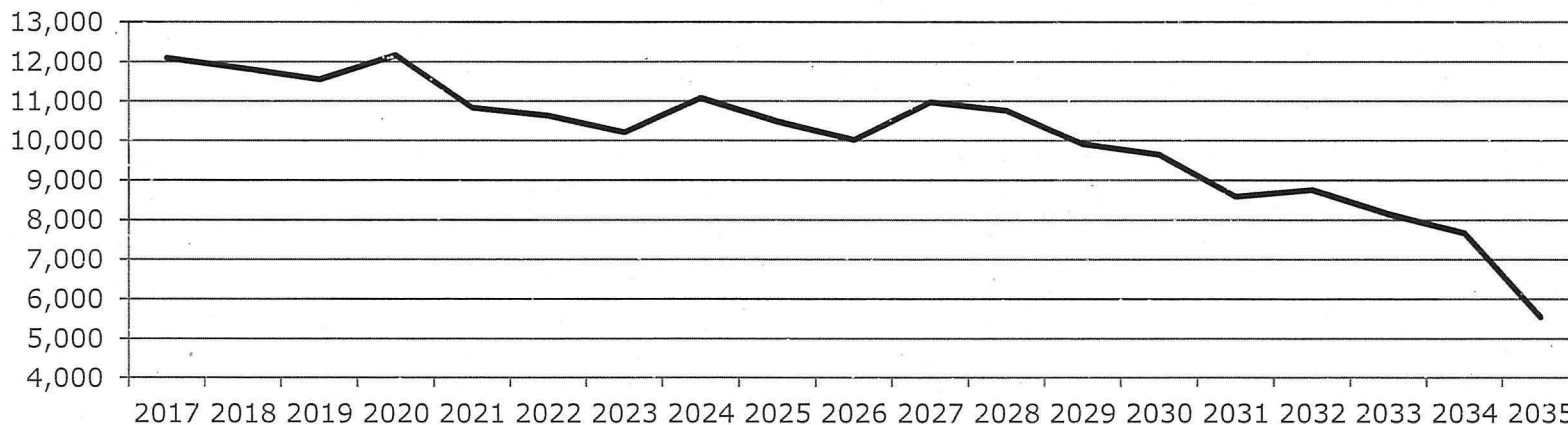
- Ontario is lowering electricity bills by 25 per cent for the typical residential customer and holding rate increases to the rate of inflation for four years. Small businesses and farms would also benefit from this initiative.
- People with low incomes, those served by local distribution companies (LDCs) with the highest distribution costs, OESP recipients and On-Reserve First Nation households would benefit from even greater reductions to their electricity bills.
- These new measures will cost the government up to \$2.5 billion over the next three years.
- Government intends to introduce legislation to enable Ontario's Fair Hydro Plan.

1. Refinancing Global Adjustment

Refinancing the Global Adjustment

- Refinancing the Global Adjustment (GA) would provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period of time.
 - 25% reduction on average for the typical residential customer and rates would follow inflation for the next 4 years.
- Under current forecasts, the immediate reduction (i.e., the financed portion) in the GA would be about \$2.5 billion per year on average over the first ten years, with a maximum annual interest cost of \$1.4 billion.
- This measure would share the associated costs more fairly. The chart below shows how Global Adjustment (GA) cost is front-end loaded and forecast to decline over time.

Forecast Global Adjustment Cost (nominal \$ million)



Source: IESO

Policy Rationale

- The majority of the province's electricity generators are under 20-year contracts. Many of these generators will be able to operate past their contract term.
- By recognizing that generation assets are expected to continue to provide benefit to future ratepayers, beyond the term of current contracts, future ratepayers are expected to be able to utilize these assets and reduce the need to finance the development of new generation assets.
- In the early years, a portion of the costs covered by the GA would be financed to reduce pressure on electricity ratepayers.
- In the later years, when some system costs are expected to be reduced due to continued operation of existing assets under 20-year contracts, the cost of financing would be recovered from ratepayers.

"The amount consumers pay today could be reduced by stretching capital amortization periods to match the expected productive lives of the assets. In this way, the costs of generation charged to households would more closely reflect the true economic costs of the assets."

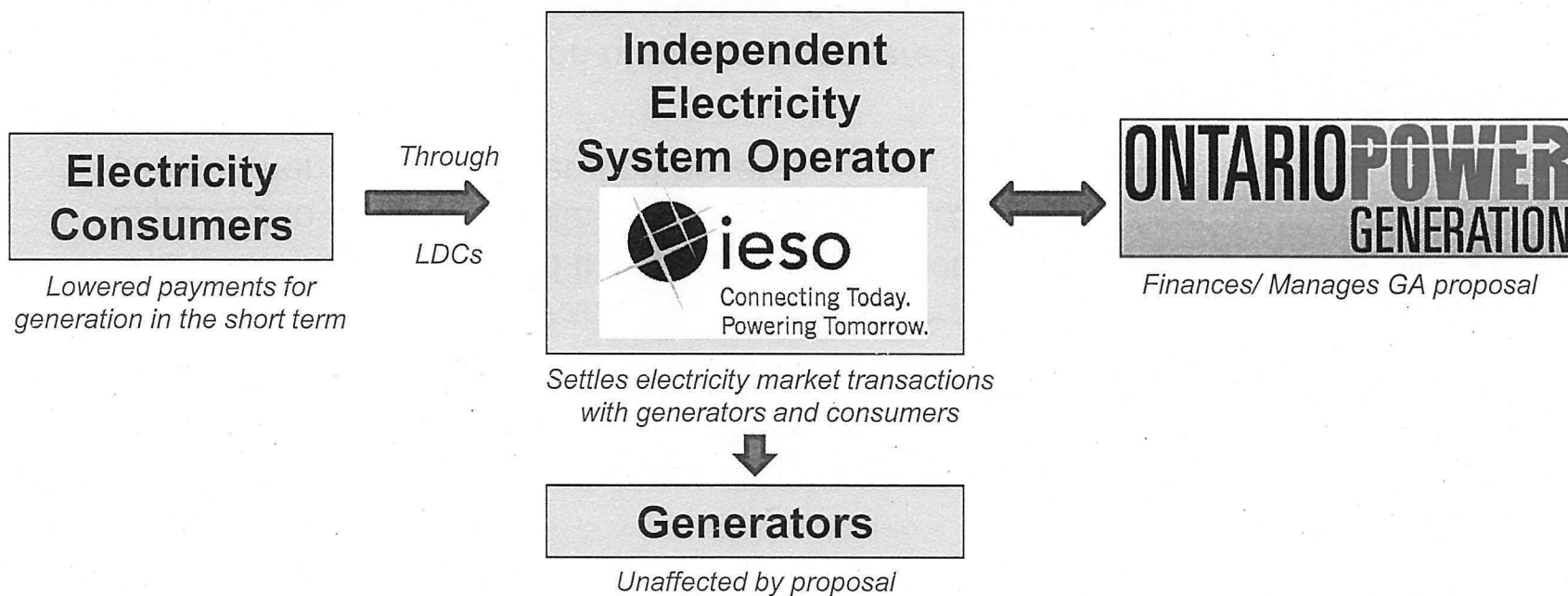
Globe and Mail Op-Ed (February 28, 2017) – Ivey Business School

Implementation

- The following entities would implement the proposed Global Adjustment (GA) refinancing mechanism.
 - The government intends to introduce legislation that would, if passed, enable IESO and OPG to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the OEB, as it relates to the financing proposal.



Ontario Energy Board (OEB)



2. Helping Vulnerable Consumers

Helping Vulnerable Electricity Consumers

- Fair Hydro Plan initiatives to help vulnerable consumers include:
 - Broadening Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief for the customers of the costliest local distribution companies (LDCs).
 - Enhancing the Ontario Electricity Support Program (OESP) and working to ensure the program uptake is as close as possible to 100%.
 - Establishing a new First Nations On-Reserve Delivery Credit.
 - Establishing a new Affordability Fund which would support Ontarians who have difficulty paying their electricity bills to be able to access energy efficiency improvements.
- All of these initiatives would provide benefits to eligible consumers on top of the benefits they would receive from Global Adjustment (GA) refinancing.
- As part of the Fair Hydro Plan, these programs would be funded by provincial revenues, reducing regulatory charges for all Ontario ratepayers.
 - These programs would be funded by provincial revenues because they all provide targeted benefits to vulnerable consumers.

Broadening Rural or Remote Electricity Rate Protection (RRRP)

- Rural or Remote Rate Protection (RRRP) provides a rate subsidy to rural or remote residential customers who are faced with higher distribution costs compared to urban areas.
 - The RRRP is currently provided to approximately 350,000 Hydro One R2 residential customers in Ontario.
- The Province would expand the RRRP to provide distribution charge relief to additional hydro customers served by local distribution companies (LDCs) with the highest distribution rates, including: Hydro One R1, Northern Ontario Wires Inc., Lakeland Parry Sound, Chapleau PUC, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power. This would extend RRRP availability to about 800,000 customers.
- The new benefits would vary from LDC to LDC. For example:
 - A Hydro One R2 customer consuming 2,500kWh a month would see distribution cost reductions of around \$75 a month.
 - A Hydro One R1 customer consuming 1,000kWh a month would see distribution cost reductions of around \$18 a month.
 - An InnPower customer consuming 1,000kWh a month would see distribution cost reductions of around \$12 a month.
- The government intends to introduce legislation to broaden the RRRP and to move forward in having RRRP costs be funded by provincial revenues, reducing regulatory charges for all Ontario ratepayers.

Enhancing the Ontario Electricity Support Program (OESP)

- The OESP would be enhanced by increasing its monthly credits by 50%, expanded to cover more low-income Ontarians, and increasing uptake to as close to 100% as possible.
 - Sliding Scale #1 outlines basic program benefits, and Sliding Scale #2 outlines enhanced benefits for Indigenous households, electrically heated households, and households with certain medically intensive medical equipment.
- The government intends to introduce legislation to enhance the OESP and to move forward in having OESP costs be funded by provincial revenues, reducing regulatory charges for all Ontario ratepayers.

Existing OESP Credit Scales							
Sliding Scale #1		Household Size					
		1	2	3	4	5	6 7 +
Income Bracket	< \$28,000	\$30	\$30	\$34	\$38	\$42	\$50
	\$28,001 - \$39,000			\$30	\$34	\$38	\$42
	\$39,001 - \$48,000					\$30	\$34
	\$48,001 - \$52,000						\$30
Sliding Scale #2		Household Size					
		1	2	3	4	5	6 7 +
Income Bracket	< \$28,000	\$45	\$45	\$50	\$55	\$60	\$75
	\$28,001 - \$39,000			\$45	\$50	\$55	\$60
	\$39,001 - \$48,000					\$45	\$50
	\$48,001 - \$52,000						\$45

Proposed +50% OESP Credit Increase*							
Sliding Scale #1		Household Size					
		1	2	3	4	5	6 7 +
Income Bracket	< \$28,000	\$45	\$45	\$51	\$57	\$63	\$75
	\$28,001 - \$39,000		\$40	\$45	\$51	\$57	\$63
	\$39,001 - \$48,000			\$35	\$40	\$45	\$51
	\$48,001 - \$52,000					\$35	\$40
Sliding Scale #2		Household Size					
		1	2	3	4	5	6 7 +
Income Bracket	< \$28,000	\$68	\$68	\$75	\$83	\$90	\$113
	\$28,001 - \$39,000		\$60	\$68	\$75	\$83	\$90
	\$39,001 - \$48,000			\$52	\$60	\$68	\$75
	\$48,001 - \$52,000					\$52	\$60



*Note: The proposed higher scale, including the amounts in circles are proposed and will be refined in consultation with the OEB.

First Nations On-Reserve Delivery Credit

- In 2016, the Minister of Energy asked the Ontario Energy Board (OEB) to develop options for a First Nation delivery credit for households.
- The OEB, engaging with First Nations, including remote communities, the distributors serving them, and consumer groups, developed the following recommendations:
 - Eliminating the delivery charge for all on-reserve First Nations households and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of \$85.
 - Automatically qualify on-reserve First Nations households (~21,500 customers).
- The government intends to introduce legislation to create the First Nations On-Reserve Delivery Credit and to move forward in having its costs be funded by provincial revenues, reducing regulatory charges for all Ontario ratepayers.

Establishing a New Affordability Fund

- The Affordability Fund would assist electricity customers who cannot qualify for low-income conservation programs and need financial assistance to undertake energy efficiency improvements.
- The Affordability Fund would provide LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.
- Measures supported by the Fund are expected to be similar to those available under the existing low-income conservation program, such as energy efficient lighting and appliances and, for electrically heated homes, insulation and weather stripping. Cold climate air source heat pumps would also be an eligible measure.
- The Province intends to work with Hydro One, in consultation with all other LDCs, to establish an independent Trust to serve as the administrator of the Affordability Fund.
- The Province would pay for the Fund through provincial revenues.

3. Enhancing Competitiveness for Small Manufacturers and Industrials

Enhancing Competitiveness for Small Manufacturers and Industrials

- The Industrial Conservation Initiative (ICI) provides a strong incentive for participating consumers to reduce their consumption during peak hours to reduce their costs.
- Expanding the eligibility threshold for the ICI would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand. The expanded ICI would include
 - Extending eligibility to small manufacturers and industrials with average monthly peak demand over 500 kilowatts; and
 - Targeting eligibility to energy intensive industries with the North American Industry Classification System (NAICS) codes 31 - 33 (i.e., Manufacturing).
- Under the expanded ICI, small manufacturers and industrials whose electricity demand is currently too low to qualify for ICI, would now be eligible for the expanded ICI if they wish to participate.
- Small manufacturers would also benefit from funding social programs through provincial revenues.
- In addition, the Ministry would assist small manufacturers and industrials' participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

4. Market Efficiencies / Bending the Cost Curve

Ongoing Efforts To Bend The Cost Curve of Ontario's Electricity System

- Since 2010, the government has taken a number of important actions to reduce electricity system costs, including:
 - Renegotiating the Green Energy Investment Agreement to reduce contract costs by \$3.7 billion.
 - Reducing Feed-In Tariff (FIT) prices saving ratepayers at least \$1.9 billion.
 - Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately \$1.5 billion lower than the 2013 LTEP forecast.
 - Deferring the construction of two new nuclear reactors at Darlington, avoiding an estimated \$15 billion in new construction costs.
 - Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020 instead of 2016, thus helping to achieve \$1.7 billion in savings and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers about \$600 million.

Improving Electricity Sector Efficiency

The Ontario Energy Board (OEB)

- The Ontario Energy Board (OEB) regulates and licences more than 70 Local Distribution Companies (LDCs) in the province. The OEB would identify opportunities for cost efficiencies by:
 - Encouraging shared partnerships on services between utilities, which will help reduce costs and encourage further innovation for small to medium sized utilities;
 - Reviewing regulatory requirements to reduce “red tape” and eliminate unnecessary costs on LDCs; and
 - Looking at opportunities to further drive transmitter and LDC efficiencies and productivity improvements, including the use of innovative technologies and business processes.

Independent Electricity System Operator

- The IESO plans for the province’s electricity needs, balances the supply and demand for electricity in Ontario in real time and administers conservation programs.
- The IESO’s Market Renewal includes such initiatives as developing a capacity auction process, introducing a day-ahead energy market, etc.
- Changes related to IESO’s Market Renewal initiatives are estimated to save at least \$200 million per year, starting in 2021.

2017 Long-Term Energy Plan

- The Ministry of Energy is developing the next Long-Term Energy Plan (LTEP) after receiving feedback from the public, stakeholders and indigenous communities during the engagement process that took place from October to January 2017.
- The LTEP process is designed to be iterative and flexible and only commit resources as demand needs become clearer.
- The Ministry of Energy anticipates that the next LTEP will be published in spring 2017.

