Electricity Sector Considerations – GA Refinancing

Confidential Advice to Cabinet – Working Draft

BRIEFING NOTE – ELECTRICITY RATE MITIGATION FOR ONTARIO CONSUMERS

ISSUE: A proposal to cancel the global adjustment (GA) refinancing program.

PROPOSAL:

<u>Cancel the GA Refinancing Program</u>

Topics	Commentary
Option	• Under this approach, the Global Adjustment (GA) refinancing program would end and the Province would become responsible for repaying the interest and principal amount of the first two debt offerings through the Ontario Financing Authority (OFA). – The first two debt tranches are expected to come due in 2033 and 2038. The payment of interest and principal on the subordinated debt (i.e., 49 per cent) would be made to OPG. • Note: Additional debt obligations would be transferred to the government if they were incurred before ending the program.
Legislative / Regulation	• The cancellation of the program would have a number of legal implications, including the repeal or amendment of the *Ontario Fair Hydro Plan Act, 2017* (OFHPA) and associated regulations. • It is important to note that under section 5 of the OFHPA, as well as the "Change of Law Protection Agreement" signed in December 2017, entered into pursuant to that provision, the Province has agreed to indemnify the obligations of the financing entity (i.e., the Fair Hydro Trust) under certain circumstances, including where the Trust's ability to recover costs from ratepayers is adversely affected by the repeal or amendment of OFHPA or associated regulations. – Under the agreement, if the guarantee is triggered, the Province is obliged to make the principal, interest, and any other payment obligations of the Trust as they come due. – Whether or not the Province would be responsible for any additional cost consequences of triggering the guarantee would require further analysis. – There could be other contractual, market and securities implications that would need to be explored further with OPG due to the triggering of the indemnity. • Additional legal implications of repealing/amending the legislation and assuming the debt of the Trust would also require further consideration, including potential impacts of cancelling planned future borrowing on investors or other parties. – Close co-ordination between Energy and Finance would be required given that both the Minister of Energy and the Minister of Finance were

<table>
<tr><th>Topics</th><th>Commentary</th></tr>
<tr><td></td><td>required under section 5 to enter into the Agreement, and given the involvement of the OFA.

– Time would be required to assess the steps required to close out the program, including whether or not the FSM and financing entity should be wound up, as well as the creation and amendment of the commercial documentation.

– Given that the FSM and the financing entity created under the OFHPA are primarily the responsibility of OPG, the Province may or may not be required to issue one or more unanimous shareholder declarations and resolutions to facilitate these elements of the GA refinancing close out.

• Further legal and accounting analysis is required.</td></tr>
<tr><td>Fiscal</td><td>• The fiscal impact of taking over the existing obligations would be approximately $56 million per year on average from 2019-2038 in interest plus $1 billion in 2033 and $0.8 billion in 2038 for principal repayment.

• Note: Ending GA refinancing would also increase the cost of the Ontario Rebate for Electricity Consumers (OREC) as the bills that it applies to would go up.</td></tr>
<tr><td>Bill Impact</td><td>• Ending the GA refinancing program would lead to a “one-time” increase in the typical residential bill of approximately 23 per cent in 2019. This is an average increase relative to the 2017 LTEP bill of approximately 15 per cent between 2019 and 2023.

• Over the long-term bills would be lower than under GA refinancing.</td></tr>
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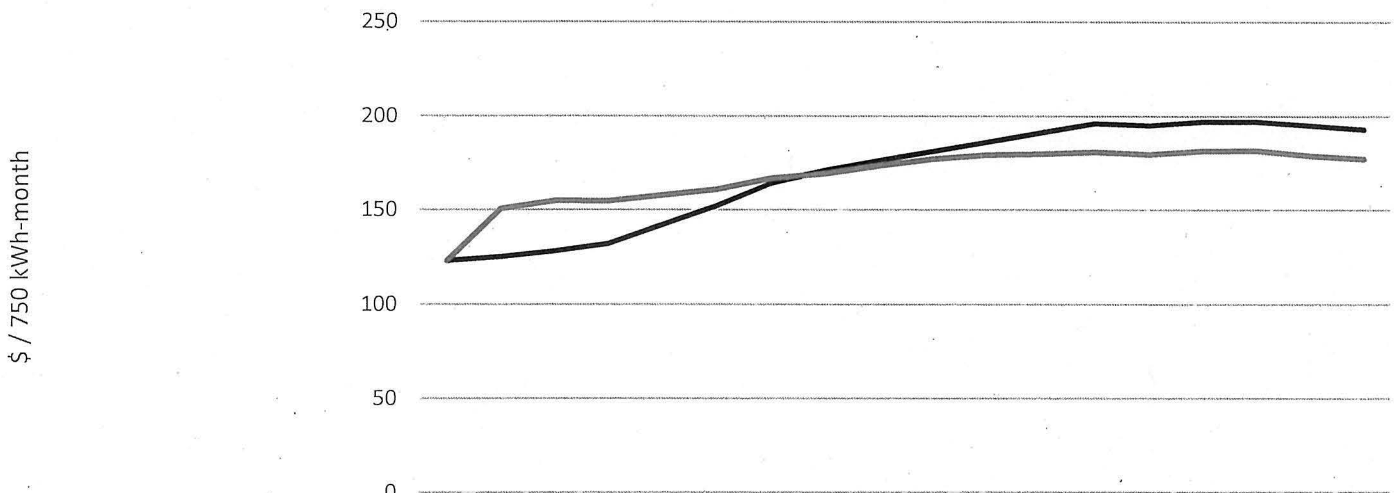
APPENDIX:

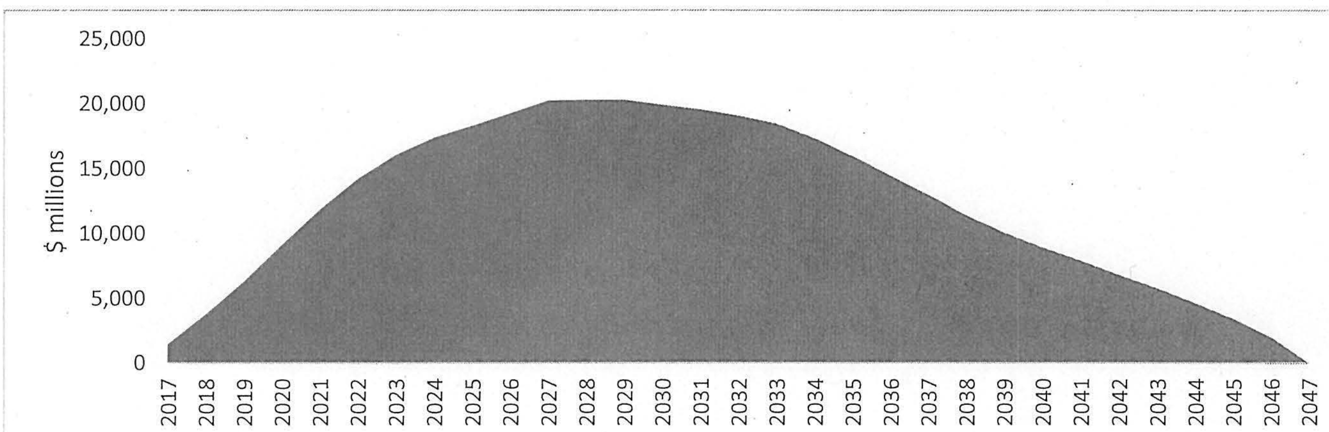
TYPICAL RESIDENTIAL BILL



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
2017 LTEP	123	125	128	132	142	152	164	171	176	181	186	191	196	195	197	197	195	193
Status Quo (Eliminate GA Refinancing)	123	151	155	155	158	161	167	169	173	177	179	180	181	179	181	182	179	177

Source: Ministry of Energy

CURRENT OFHP DEBT BALANCE FORECAST



Note: Based on Ministry forecasts consistent with the Fair Allocation Amount (FAA) provided to Ontario Power Generation (OPG) in September 2017. Assumes 5 per cent average interest rate over the 30-year life of the program and includes estimates of OPG fees. Estimates are subject to change based on a number of variables, including interest rates.