Legislative Changes – Update

The legislative team is currently working through a number of detailed issues surrounding possible transaction structures to ensure that the legislative framework provides appropriate flexibility.

What follows are some of the issues currently under consideration by the legislative team:

1. "Deferral" Characterization

- The concept of "deferral" mischaracterizes the true nature of the program
- GA Smoothing Program is intended to spread the cost of the generation assets to which the GA applies among the present and future ratepayers who will be expected to benefit from such assets (having regard to the useful life of the assets in question)
- Linking the charges to the useful life of the assets, and spreading the costs more fairly across the generations of ratepayers benefitting and expected to benefit from the assets, helps to make it clear that the program costs are intended to be a regulatory charge to ratepayers and not an indirect tax

re-allocation of cost over useful life

2. Market Considerations

① clearly defined / ② collection of asset → can be collected from consumers

- Capital market requirements are becoming clearer, including the elements surrounding the definition of and rights related to the regulatory asset, and further refinement will be necessary as we obtain more specific input from financial advisors and stakeholders

  → how easy to opt out?
- The obligation to pay must be a traceable obligation directly to the individual consumers in the applicable rate class and the legislation must provide for a pre-agreed collection mechanism

  → cashflow certainty
- An issue being considered is whether there will be any concern by the market that the cash flow needed to service all of the financing costs due within any period will be constrained by the policy objective regarding maximum annual rate increases for the relevant class of ratepayers. Consideration should be given to ways to provide certainty of cash flows in circumstances where payments under the financing obligations become due prior to the corresponding cash flows from the regulatory asset are available.

3. Timing and Frequency of Sales of the Regulatory Asset to the Financing Entity

- What triggers a sale of the regulatory asset from IESO to the Financing Entity?
- Until a sale occurs, IESO will need to finance the shortfall. For what duration?
- Bond issuances will not occur monthly – and the timing of long term financing in the capital markets will, in part, be linked to market conditions.
- Which entity (IESO/Financing Entity) will obtain non-market-based funding (for example, bank financing) until market-based funding is obtained (both at the outset and throughout the life of the program)?

- Would the funding of any shortfall occur no matter what the conditions are in the financial market or the electricity market?

  - Electricity market: large fluctuations (e.g. rise) in commodity price of electricity could materially impact the amounts which need to be borrowed annually

  - Financial markets: borrowing could become very expensive for any entity (IESO or OPG/Trust/SPV). Should the program be made to change, stop or adapt to these kinds of material changes?

4. Conditions to Sale of Regulatory Asset and to Market Transactions.

- The team is working to identify appropriate conditions to the sale of the regulatory asset and to new financings and the incurrence of related costs, given that the financing costs incurred will automatically get passed through to the ratepayers. The location of any such requirements (legislation, regulation, etc.) is currently being determined.

- At the most general level, consider whether there will need to be any required approvals, including approvals over financing costs to be incurred (e.g., including a determination if third party costs are reasonable) prior to any particular financing transaction?

- Should OPG be guided by any prescribed rules or principles when making decisions about financings (e.g., decisions about short term vs. long term financing)?

Pens down on Apr 17th

May 4th; introduction

May 1st – scheduled CRC