TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ontario

Ministry:	Energy
Meeting Date:	June 27, 2017
Agenda Class:	Discussion
Last reviewed by: TB/MBC – June 13, 2017	**Tracking to: Fast Track** LRC/Cabinet – June 27, 2017

SUBMISSION TITLE: Report back on Ontario Fair Hydro Plan – Regulations Part 2 of 2

I. DECISION BEFORE THE BOARD

Receive a report on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding Cabinet for approval

II. RECOMMENDATIONS:

• Receive a report on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to Cabinet for approval including: o Global Adjustment Refinancing; o Ontario Electricity Support Program (OESP) o First Nations Delivery Credit (Correction only to Reg from June 13th).	*Receive*
Note key aspects and program parameters of the proposed regulations	*Note*
Recommend the proposed regulations proceed to Cabinet for approval	*Recommend*
• Direct the Ministry to report back to TB/MBC on: o Details of its overall strategy to substantially increase OESP enrolment (note: includes increasing Social Assistance clients enrolled in OESP).	*Direct*

III. FINANCIAL SUMMARY

$ Millions		**2017-18**	**2018-19**	**2019-20**
Initiative cost requested		0.0	0.0	0.0
Initiative cost recommended		0.0	0.0	0.0
Recommended program base:	Global Adjustment Refinancing*	0.0	0.0	0.0
	Electricity social programs – OESP ^	140.0	261.0	325.0
Offset Recommended		0.0	0.0	0.0
Total Potential Fiscal Impact		0.0	0.0	0.0

*As part of Global Adjustment Refinancing, an Operating Asset for $1.1B for OPG Share Purchase was included as part of 2017 Budget.

^Multi-year appropriation approved as part of the 2017 Budget.

IV. KEY COMMENTS AND CONSIDERATIONS

In March 2017, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval for electricity price mitigation measures that support a 25% electricity bill reduction on average (including the 8% Ontario Rebate For Electricity Consumers announced in 2016). The Ontario Fair Hydro Plan (OFHP) was announced on March 2, 2017.The plan includes refinancing a portion of the Global

Adjustment (GA) and helping vulnerable electricity consumers ("social programs") amongst other initiatives for residential consumers (see Appendix C). The Ministry was directed to report back to TB/MBC on a number of items including the proposed legislation required to enact the initiatives under OFHP (see Appendix D).

Report backs to date include:

- May 9th 2017, the Ministry provided an implementation update on the OFHP and the enabling legislation. TB/MBC recommended the proposed legislation proceed to Cabinet for approval and Ontario's *Fair Hydro Act, 2017* ("the Act") received Royal Assent on June 1, 2017. The Ministry was directed to report back to TB/MBC on a number of items including the proposed regulations required to support the implementation of the OFHP (see Appendix E).

- June 13, 2017, the Ministry provided the first of two updates on next steps in implementation of the OFHP, specifically providing the proposed regulations that would establish and amend the necessary regulations under the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, *Ontario Rebate for Electricity Consumers Act, 2016*, and the *Fair Hydro Plan Act, 2017*. (See Appendix F)

<u>Proposed Regulations</u>

The current submission before the Board is the second bundle of proposed regulations supporting implementation of the OFHP and would establish and amend regulations under the *Ontario Energy Board Act, 1998 and the Ontario Fair Hydro Plan Act, 2017 (OFHPA)*, related to the Ontario Electricity Support Program (OESP), and the Global Adjustment (GA) Refinancing.

<u>Implementation of GA Refinancing</u>

On March 2, 2017, as part of OFHP, the government announced that a portion of the GA would be refinanced in order to fairly allocate costs across present and future generations of electricity consumers with respect to investments made to decarbonize (i.e., phase-out coal) and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system).

As Part 2 of the regulations report back (Part 1 was before the Board June 13, 2017), the Ministry is proposing a new General Regulation to be made under the OFHPA that would, if approved, support the implementation of the refinancing of the GA by ensuring that the mechanisms for refinancing of GA as set out under the *OFHPA* are in place in time for the first debt offering in fall 2017:

- Roles and responsibilities of the Financial Services Manager (FSM) (i.e., Ontario Power Generation), Ontario Energy Board (OEB), and Independent Electricity System Operator (IESO) in relation to the refinancing of GA.
- Require that the clean energy adjustment be a specific line item on bills and that Local Distribution Companies (LDCs) keep separate records of amounts invoiced to be produced at the request of specified parties (e.g., IESO, FSM).
- Provide criteria and detail to support key aspects of the OFHPA, including IESO deferral and the establishment and transfer of portions of the regulatory asset, as well as the establishment of the related variance account.
- Provide further criteria related to the development and implementation of the financing plan by the FSM.
- Provide for further detail related to the calculation of the fair allocation amount by the Minister of Energy (i.e., electricity prices, interest rates, inflation, electricity consumption and the useful life of electricity generation assets) and a methodology for making adjustments to the fair allocation amount, if required.

IESO Credit Facility

The Ministry of Energy indicates the IESO is responsible for financing short to medium term funding shortfalls in the implementation of Ontario's Fair Hydro Plan. This was noted by the Board as part of the legislative package brought on May 9, 2017.

To support this, the Ministry of Finance (MOF) is seeking an Order in Council (OIC) to authorize the Minister of Finance to provide loan(s) to the Ontario Financing Authority (OFA) in an amount of up to $2B, which will provide the OFA with the capacity to provide additional loans to the IESO in order to fulfil the commitments under the Ontario *Fair Hydro Plan Act, 2017*. The Capital Investment Plan Act (CIPA) authorizes the Minister of Finance to make loans to the OFA in the amounts, times and on the terms and conditions authorized by Lieutenant Governor in Council ("LGIC"). Further information in Appendix G.

The Ministry indicates further work to enable GA refinancing will be undertaken Summer/Fall 2017:

- Minister to determine the Fair Allocation Amount for each reference period;
- OPG as Financial Services Manager to produce Financing Plans that would set out funding obligations for each reference period consistent with the Fair Allocation Amount;
- IESO to record deferral amounts and establish the regulatory asset;
- OPG/SPV to begin purchasing of investment asset; and
- OPG to work with lenders and credit rating agencies in establishing the vehicles for selling of investment asset interests.

Regarding on-going TB/MBC engagement, the March 1, 2017 minute directed the Ministry to report back to TB/MBC through regular updates including quarterly reports and the 2018-19 PRRT on the status of implementation, and revised out-year expenditure requirements if applicable. This should enable Treasury Board to monitor the Fair Hydro Plan actuals vs the planned approach for social programs and refinancing of GA.

<u>Delivery of Electricity Social Programs:</u>

Ontario Electricity Support Program

The Ministry is proposing amendments to the existing Ontario Electricity Support Program (OESP) regulation that will enable the Ministry of Community and Social Services (MCSS) to help new and existing social assistance clients to enroll in the OESP.

The amendments are in support of efforts to increase enrollment by reducing application burdens on target populations and enable the development of automatic OESP enrollment procedures for some populations already receiving other government programming (in this case already receiving social assistance).

- MCSS with the support of the Ministry of Energy intend to bring a temporary resources request to the July 25, 2017 TB/MBC meeting.
- The March 1, 2017 Board Minute included direction to pursue additional measures to substantially increase OESP take-up. The Ministry indicates OESP enrolment is about 35% of the targeted low-income population (about 575,000 target population). Stats provided by MCSS indicate just over 109,000 Social Assistance clients being eligible for OESP (as they receive hydro bills directly), but MCSS does not know the portion of the 109,000 that are already OESP recipients.
    - As part of the July 2017 joint submission from MCSS and Energy, Energy should make reference to its overall strategy to move OESP towards 100% participation (This engagement of MCSS would be part of the strategy). Details of the strategy could be part of this submission or OESP report back requirement in the March 1, 2017 minute

(See Appendix D).

The Ministry indicates it will return to LRC/Cabinet in the Fall 2017 with a proclamation OIC to finalize transfer of the OESP from the IESO variance account to government funding. This timing is consistent with previous submissions and ensures the variance account is drawn down before government funding is provided. Drawing down the variance account first should provide fiscal plan flexibility for 2017-18 as the $140M in voted appropriations for a July 1, 2017 transfer payment start date.

On-Reserve First Nations Delivery Credit (FNDC)

The Ministry is proposing a correction to the recently established FNDC regulation to ensure that residents of Cate Lake Reserve receive the FNDC and that there is no confusion as to who will provide the credit.

Analysis/Risks

TBS staff analysis of the May 9, 2017 submission focused on OFHP legislation and indicated that financial, legal, and accounting external assessments of the planned approach to GA refinancing are supportive, noting assessments must be revisited once key implementation details are finalised (e.g. draft legislation, regulations, Special Purpose Vehicle documents, terms of conditions within various other agreements). Final accounting opinions will only be received after final regulations and commercial agreements.

Future reassessments, Navigant's analysis of expected lifecycle for existing generation infrastructure (key), and other factors such as Ontario electricity demand, interest rates in the medium to long-term, and the rate of inflation may contribute to fiscal plan implications emerging over time.

This assessment has not changed with the current submission. The Ministry indicates Navigant's analysis is still pending along with finalized details for elements such as the special purpose vehicle documents, and terms/conditions within various other agreements.

Financial

- The multi-year fiscal profile identified by the Ministry as part of this submission (below) are consistent with the voted appropriation approved for the Ministry through the 2017 Budget. Cost forecasts for these programs were made through a combination of Ministry analysis that utilized consumption data and local distribution company rates to estimate program costs, and information provided to the Ministry by the OEB.

$M	2017-18	2018-19	2019-20	2020-21
Ontario Electricity Support Program (OESP)	140	261	325	375

- The Ministry notes it is currently assessing the potential impact of the Hydro One and other LDC rate applications and will report back to TB/MBC with the potential out-year impacts of this rate application.
- The allocations for the social programs are based on a number of variable inputs such as program uptake, electricity market conditions and forecasting models that are subject to change and represent an on-going fiscal risk. Sensitivity analysis will allow the government to develop a risk based outlook to understand potential fluctuations in the cost of these initiatives.
- There are no sunset dates for the programs and it is important to understand the full cost of the initiatives (including electricity price projections) for the longer term, beyond the year 2021-22 informed by the Long Term Energy Plan.

- Lastly, further information is required on the detailed consumer impacts with assumptions and methodologies specified and documented to support better decision making and achieving the intended program goals.

Accounting

- The fiscal impact associated with the OFHP will be determined by how the series of complex transactions are accounted for on the Province's Consolidated Financial Statements which are prepared in accordance with public sector accounting standards established by CPA Canada. A number of details yet to be finalized through the regulations and various commercial agreements will inform the final accounting analysis.
- While accounting for the social programs and the Affordability Fund as transfers is fairly straightforward, the accounting for the GA mechanism is relatively more complex. To mitigate accounting risk associated with the latter, both the IESO's and OPG's external auditors have provided independent accounting advice on the appropriate accounting for elements of the OFHP structure related to each entity, contingent on finalization of regulations and commercial agreements. Based on the audited financial results for these organizations, supported by the anticipated final accounting opinions, the Office of the Provincial Controller will prepare the Province's consolidated financial statements based on public sector accounting standards.
- At this time, the Auditor General (AG) has not identified any concerns related to the accounting for the social programs; however, the AG has voiced concerns regarding the planned accounting treatment for the OFHP as related specifically to the GA component which is expected to impact the Province's financial results for the first time in 2017-18. TBS staff note the AG has also publicly communicated her opposition to a change in the IESO's accounting policy to reflect rate regulated balances on its books. The Province supports the IESO's accounting treatment as more fairly presenting the economic substance of the entity's market-related activities.
- The AG is currently reviewing the Province's accounting analysis related to the Affordability Fund which reflects a $100M transfer payment to be reflected in the Province's 2016/17 Public Accounts.
- If the AG does not concur with the Province's accounting treatment, including the change in accounting treatment by the IESO, there is a risk the AG may provide a qualified audit opinion on the Provinces' financial statements in the Public Accounts.

Legal

- The ministry has stated the legal risk remains the same as identified at the May 10, 2017 Cabinet meeting regarding the *Fair Hydro Plan Act, 2017*, including and related to:

GA Refinancing

- In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets present only a low risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets.
- Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the asset, but rather is doing so in order to lower the price in the short term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax.
- The degree of constitutional risk is in direct proportion to the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year from electricity generated by those facilities.

If the government fails to establish that the relevant electricity generating assets will continue to perform economically over the 30-year period, or if the GA charge is in the opinion of the court disproportionately back end loaded, the GA will not qualify as a regulatory charge (and would be characterized as a tax).

- The legislation contains provisions to mitigate the constitutional law risks, including requiring the Minister of Energy to reallocate estimated clean energy costs attributable to each reference period in a way that takes into account the need to align those costs with the estimated clean energy benefits attributable to the same period.

The Ministry has provided an update to key risks including mitigation strategies (see Appendix I). The overview of strategic risks, from May 9 2017 TB assessment note, has been brought forward providing context for the more operational nature of Appendix K.

In addition to the risks cited in Appendix H in the implementation of the OFHP, a number of supporting arrangements are being sought by the IESO and OPG, including the following:

Indemnities for OPG (Ontario Power Generation) and IESO

- OPG and IESO have requested indemnities from the Province for their respective Directors, Officers and employees in relation to their roles in the implementation of the OFHP. Ministry of Energy staff are putting together a section 28 approvals submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO.
    - IESO and OPG have stated that these indemnities are required for their participation in the implementation of the OFHP Act.
    - Draft materials from Energy state that the likelihood of this indemnity being called upon is low and that the fiscal exposure is unquantifiable at this time.
    - Energy has confirmed in its draft request letter that it bears responsibility for funding, within its approved allocation, for payments associated with the indemnities provided under the Agreements.
- As currently proposed, the Minister of Finance will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister of Energy.

Provincial Support Agreement or Provincial Guarantee Agreement

- As part of the OFHP and in order to provide support to those with claims against the Financing Entity (i.e., planned to be the OPG Trust) and with the ultimate objective of providing the highest possible credit ratings (and corresponding impact on interest costs to the ratepayers), the Province has been asked to provide both a Service Guarantee and a Performance Guarantee to support obligations of the IESO and the debt instruments issued by the Financing Entity.

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APPENDIX A: PROPOSED MINUTE

Receive a report on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to Cabinet for approval.

In this regard, the Board:

i) Note that the proposed new regulations and amendments to existing regulations include the following program parameters:

<u>Electricity Social Programs:</u>

Ontario Electricity Support Program (OESP)

a) To enable Ministry of Community and Social Services to sign up social assistance clients for OESP based upon Ontario Works (OW) and Ontario Disability Support Program (ODSP) eligibility criteria, and matching this eligibility to the existing OESP household size / income credit table, and to ensure that those deemed financially eligible for either OW or ODSP are also eligible for OESP.

On-Reserve First Nations Delivery Credit (FNDC)

a) A correction to the recently established FNDC regulation to ensure that residents of Cate Lake Reserve receive the FNDC and who will provide the credit.

<u>Implementation of Global Adjustment Refinancing:</u>

a) Roles and responsibilities of the Financial Services Manager (FSM) (i.e., Ontario Power Generation) and Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in relation to the refinancing of Global Adjustment (GA);
b) Require that the clean energy adjustment be a specific line item on bills and that LDCs keep separate records of amounts invoiced to be produced at the request of specified parties (e.g., IESO, FSM);
c) Provide criteria and detail to support key aspects of the OFHPA, including IESO deferral and the establishment and transfer of portions of the regulatory asset, as well as the establishment of the related variance account;
d) Provide further criteria related to the development and implementation of the financing plan by the FSM;
e) Provide for further principles that must be taken into account by the Minister of Energy in the calculation of the fair allocation amount (i.e., commodity prices, interest rates, inflation, population, electricity consumption and the useful life of electricity generation assets) and a methodology for making adjustments to the fair allocation amount, if required.

ii) Recommend the following proposed new regulations and amendments to existing regulations proceed to Cabinet for approval:

a) New General Regulation to be made under Part I of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*
b) Amendments to O. Reg. 197/17 (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA)
c) Amendments to O. Reg. 314/15 (Ontario Electricity Support Program) to be made under the OEBA

iii) Direct the Ministry to report back to TB/MBC with the details of:
a) The overall strategy to substantially increase OESP enrolment, as part of the pending joint submission with MCSS to increase Social Assistance clients enrolled in OESP; and,
b) Any additional proposed regulations with financial implications prior to proceeding to Cabinet for approval.

iv) Note the Ministry is working with central agencies on the credit facility for the Independent Electricity System Operator (IESO) and on a request for indemnities for Ontario Power Generation and IESO.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE		Fiscal Plan Basis			TABLE B1 Appropriations Basis
$ Millions		2017-18	2018-19	2019-20	2017-18
Initiative cost		0.000	0.000	0.000	
Expense changes:					
	Oper	0.0000	0.000	0.0000	0.0000
	Oper	0.0000	0.0000	0.0000	0.0000
Total Fiscal Impact		**0.0000**	**0.0000**	**0.0000**	**0.0000**

Appendix C: OFHP Overview

Ontario Rebate for Electricity Consumers

The *Ontario Rebate for Electricity Consumers Act, 2016* will reduce electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month, for about five million residential consumers, farms and small businesses.

Eligible rural electricity ratepayers will receive additional relief, decreasing total electricity bills by an average of $540 a year or $45 each month.

Commercial, institutional and industrial ratepayers would also benefit from up to 34 per cent lower electricity costs through the expansion of the Industrial Conservation Initiative.

Details:

- The province is reducing costs for eligible rural ratepayers by providing additional funding to the Rural or Remote Rate Protection (RRRP) program.
- The Industrial Conservation Initiative (ICI) provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by up to one-third. Ontario intends to expand ICI to help reduce cost pressures on the electricity system and enable more consumers to reduce their electricity bill by up to one third.
- Ontario has removed the Debt Retirement Charge from residential electricity bills and introduced the Ontario Electricity Support Program (OESP) to provide a monthly credit to low-income households who have applied and meet the eligibility requirements to help reduce electricity costs.

Fair Hydro Act

The *Ontario Fair Hydro Act, 2017* reduces electricity bills for all residential consumers and as many as half a million small businesses and farms, starting this summer. Lower-income Ontarians and those living in eligible rural and northern communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases will be held to the rate of inflation for four years.

These measures include the eight per cent rebate introduced in January and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills. Taken together, these changes are delivering the largest reduction to electricity rates in Ontario's history. To facilitate these immediate savings, the legislation:

Details:

- Enables the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to spread out the costs of Ontario's clean energy investments over a longer period of time, which ensures that the costs of these investments are allocated fairly among current and future ratepayers. This will be accomplished through refinancing a portion of the Global Adjustment (GA), resulting in significant and immediate rate reductions.
- Modifies and broadens the Ontario Electricity Support Program (OESP) to expand benefits and ensure it is funded by government instead of ratepayers, reducing bills for all.
- Enhances the Rural or Remote Rate Protection (RRRP) program to provide distribution charge relief to a total of approximately 800,000 customers and shift costs from ratepayers to provincial revenues. The enhancement will benefit customers served by local distribution companies (LDCs) with the highest distribution rates. These savings will begin July 1, 2017.
- Provides on-reserve First Nations households serviced by licensed distributors with a 100 per cent credit of the delivery line on their monthly electricity bills, starting July 1, 2017.

Appendix D: Previous TB/MBC Minute (March 1, 2017)

Approve electricity rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016) for an average household in 2017.

In this regard, the Board:

i. Direct the Ministry of Energy to implement electricity rate mitigation for all electricity consumers eligible to be billed under the Ontario Energy Board's Regulated Price Plan (RPP) and any other consumers who would be eligible for RPP if their electricity account was with a licensed distributor by:

   a) Subject to completed legal, accounting and financing risk assessments, refinance the Global Adjustment (GA) in order to partially defer RPP-eligible ratepayer GA costs by reducing projected after-tax electricity costs for a typical residential customer consuming 750kWh per month in 2017 by about 16%. Total projected bill increases will be kept in line with CPI until the end of 2021. From 2022 onwards, bills will increase at a rate that ensures gradual recovery of the accumulated debt by 2048, with escalation in subsequent years set above Consumer Price Index (CPI) in order to ensure that bill increases due to repayments are capped at around 10% of the total bill.

   b) Direct the Ministry to report back to TB/MBC by Spring 2017, prior to going to LRC with any legislation, on the approach to refinance Global Adjustment , including, but not limited to:

      - Formal accounting opinions from OPG and IESO auditors.
      - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
      - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
      - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
      - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.

   c) If a non-fiscal mechanism cannot be established:
      1. Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
      2. Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to \$2,534,000,000 in 2017-18, \$2,668,000,000 in 2018-19, \$2,942,000,000 in 2019-20, \$3,420,000,000 in 2020-21 and \$3,232,000,000 in 2021-22.

ii. Broadening the Rural or Remote Rate Protection (RRRP) program to mitigate distribution charges for customers of Local Distribution Companies (LDC) with some of the highest distribution rates, and moving the program from a ratepayer funded program to a government funded program beginning in 2017, including:

   a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

b) Note costs estimated at up to $459,000,000 in 2017-18, $472,000,000 in 2018-19, $484,000,000 in 2019-20, and $497,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.

c) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

d) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including fiscal plan implications to broaden RRRP.

e) Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

iii. Expanding every benefit level of the Ontario Electricity Support Program by 50%, moving the program from a ratepayer funded program to a government funded program beginning in 2017 and pursuing additional measures to substantially increase take-up.

a) Note costs estimated at up to $186,000,000 in 2017-18, $261,000,000 in 2018-19, $325,000,000 in 2019-20, and $375,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.

b) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

c) Direct the Ministry to work Treasury Board Secretariat (Behavioural Insights Unit, Centre of Excellence for Evidence-Based Decision Making) to accelerate/ maximize program uptake.

d) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including fiscal plan implications to expand OESP.

e) Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date.
- Establishing program performance management framework including targets for the expanded program now government funded.

iv. Establishing a new government funded Affordability Fund to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.

b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

v. Establishing a new province-wide government funded program beginning in 2017 that would eliminate the delivery charge for First Nations customers on reserve.

a) Note costs estimated at up to $20,000,000 in 2017-18, $20,000,000 in 2018-19, $20,000,000 in 2019-20, and $20,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.

b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

c) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

vi. Expanding the Industrial Conservation Initiative (ICI) by reducing the eligibility threshold to 500kW to enhance competitiveness for Class B manufacturers beginning July 2017.

a) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, results achieved to date versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vii. Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.

b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.

c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.

d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

APPENDIX E: PREVIOUS TB/MBC MINUTE (MAY 9, 2017)

Receive a report back providing an update on current implementation status, including proposed legislation, of the Ontario Fair Hydro Plan, previously at TB/MBC March 1, 2017 and announced on March 2, 2017.

In this regard, the Board:

i) Note that the proposed Fair Hydro Act, 2017, includes:

   Electricity Social Programs:

   a) Establishment of a First Nation Delivery Credit for On-Reserve Consumers, funded from voted appropriations.
   b) Establishment of new distribution rate protection program to eligible residential customers served by LDCs with the highest distribution costs, funded from voted appropriations.
   c) Shift from costs recovered from ratepayers to funding out of voted appropriations for Ontario Electricity Support Programs.
   d) Delayed proclamation for OESP once proposed amendments are passed until the IESO variance account for the program is close to wound down.

   Global Adjustment Refinancing:

   a) Establishes the fair allocation adjustment that gives the relief to certain specified consumers during the period July 1, 2017 to June 30, 2021 to ensure intergenerational fairness.
   b) Requirement for future consumers to pay the clean energy adjustment that backs financings.
   c) Sets out that the Financial Services Manager (OPG) prepares the Financing Plan establishing when a funding obligation should be incurred so that the OPG entity can raise money to acquire the Investment Interest.
   d) Establishes the LGIC's power to authorize the Ministers of Finance and Energy to guarantee and indemnify any debts, obligations, securities or undertakings associated with the investment interest.
   e) Sets out how the regulatory asset will be determined and how it can be converted into the investment asset, and the investment asset rights.
   f) Sets out that security interests can be granted in investment interests in the investment asset.

ii) Recommend the proposed Fair Hydro Act, 2017 to proceed to Cabinet for approval.

iii) Note a new credit facility is being sought by the IESO from the Ontario Financing Authority to ensure that it has the flexibility to finance clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An Order in Council to allow the Ontario Financial Authority to provide an expanded credit facility will be requested.

iv) Direct the Ministry of Energy to work with Treasury Board Secretariat and the Ministry of Finance/Ontario Financing Authority and report back to TB/MBC on the details of proposed regulations prior to going to LRC, and to provide the Board with an update towards completed legal, accounting and financing risk assessments.

   In this regard, direct the Ministry to:

a) Include a report related to GA Refinancing on findings from sensitivity analysis completed as assumptions vary, such as under different recovery rates, different interest rates, different demand, etc., and combinations of key factors, and then to quantify the likelihood of high/medium/low impact scenarios, with assumptions and methodologies clearly specified and documented.
b) Include electricity social programs with details of forecasting models and costing estimates, including assumptions, sensitivities analysis that would allow identification of risks to the fiscal plan for Broadening RRRP, OESP. The Ministry is to include similar information for the Ontario Rebate for Electricity Consumers.
c) To report back with final program details for 2017-18 for GA Refinancing and Electricity Social Programs, including fiscal plan implications and consumer impacts with detailed assumptions and methodologies specified and documented.
d) To report back with updates to risk mitigation strategies that address key financial and operational risks.

v) Note the following outstanding report back requirements from March 1, 2017 minute:

a) Broadening RRRP – Direct the Ministry to report back to TB/MBC in 2017-18 on the effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the broadened program now government funded
   - Report on and assessment of impacts of consolidation of LDCs
   - Assessment of distribution rates and implications for the program

b) OESP – Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:
   - Identify eligibility criteria, and refinements being made.
   - Current program outcomes identified and results achieved to date, not just amount of funding flowed to consumers.
   - Establishing program performance management framework including targets for the expanded program now government funded.

c) Affordability Fund – Direct the Ministry to report back through quarterly reporting process with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

d) On-Reserve First Nations Delivery Charge – Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.

e) Industrial Conservation Initiative – Direct the Ministry to report back through quarterly reporting process with results achieved versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vi) Approve the Ministry to fund a media buy plan with a maximum value of $3,500,000 with PHD Canada, the Advertising Review Board's mandatory-use media planning and buying Agency of Record. In this regard,

a) Note the Ministry of Energy has already spent approximately $1,000,000 with PHD Media in 2016-17 and is forecasting expense of approximately $2,500,000 in 2017-18.

b) Note the Ministry of Energy will return to request a transfer of funds of up to $2,500,000 in 2017-18 to the Ministry of Energy from the Bulk Media Buy program in Treasury Board Secretariat to recover costs for the public education campaign.

Appendix F: Previous TB/MBC Minute (June 13, 2017)

Receive the first of two report backs on proposed regulations related to the Ontario Fair Hydro Plan that require a recommendation prior to proceeding to Cabinet for approval.

In this regard, the Board:

i) Note that the proposed new regulations and amendments to existing regulations include the following program parameters:

<u>Electricity Social Programs:</u>

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

a) Provides for a fixed monthly credit ($60.50), replacing the existing prescribed annual amount and making the escalating factor unnecessary; and,
b) Sets out a process that the Ontario Energy Board (OEB) will utilize to determine the maximum monthly distribution charge that all prescribed high-cost distributors will charge their customers; and,
    1) Sets out the proposed distributors as Atikokan Hydro Inc.; InnPower Corporation; Chapleau Public Utilities Corporation; Sioux Lookout Hydro Inc.; Northern Ontario Wires Inc.; Lakeland Power Distribution Ltd. (Parry Sound Rate Zone); Algoma Power Inc. (residential); and, Hydro One Networks Inc. (Low & medium density classified customers).

On-Reserve First Nations Delivery Credit (FNDC)

a) Defines eligibility as being restricted to those residential rate class First Nations customers who are members of a band as defined under the federal Indian Act;
b) Eliminates the delivery charge, or monthly service charge for those customers served by Local Distribution Companies (LDCs) that do not have a delivery charge, for on-reserve residential First Nations customers; and,
c) Defines eligibility currently affects 11 LDCs serving on-reserve consumers: Algoma Power Inc., Attawapiskat Power Corporation, Bluewater Power Distribution Corporation, Cat Lake Power Utility Ltd., Cornwall Electric Distribution, Hydro One Networks Inc. Hydro One Remote Communities Inc., PUC Distribution Inc., and Thunder Bay Hydro Electricity Distribution; Fort Albany Power Corporation; and Kashechewan Power Corporation.

<u>Implementation of Global Adjustment (GA) Refinancing:</u>

a) Supports the required calculations to be made by the OEB;
b) Provides the methodology that the OEB will use in applying reductions to eligible and non-regulated consumers who are eligible for GA refinancing;
c) Sets out the near-term reductions (i.e., the reductions that will be applied by the OEB from July 1, 2017 to April 30, 2018), as well as the reductions from May 1,

2018 to April 30, 2019. Further adjustments to be made for future periods beginning May 1, 2019 would be set out in further amendments the regulation; and,

d) Provides the Independent Electricity System Operator (IESO) with the necessary authority related to its activities, including the funding, borrowing and financial arrangements.

ii) Recommend the below proposed new regulations and amendments to existing regulations proceed to Cabinet for approval:

a) New Regulation to be made under Part II of the *Ontario Fair Hydro Plan Act, 2017*, which is Schedule 1 of the *Fair Hydro Act, 2017*;
b) Amendment to O. Reg. 280/14 (IESO Eligible Investments and Borrowing) to be made under the *Electricity Act, 1998*;
c) New Invoicing Regulation to be made under the *Ontario Fair Hydro Plan Act, 2017*;
d) New Regulation (First Nation Delivery Credit) to be made under the *Ontario Energy Board Act, 1998* (OEBA);
e) New Regulation (Distribution Rate Protection) to be made under the OEBA;
f) Amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) to be made under the OEBA;
g) Amendments to the O. Reg 363/16 (General) to be made under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA); and,
h) Amendments to O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) to be made under the OEBA.

iii) Direct the Ministry to report back to TB/MBC with:

a) The details of additional proposed regulations with financial implications prior to proceeding to Cabinet for approval; and,
b) An update on previously minuted report back requirements.

APPENDIX G: CREDIT FACILITY BACKGROUND

Under the Ontario Fair Hydro Plan Act, 2017, the IESO will incur a monthly funding shortfall in the early years of the plan, as a portion of the Global Adjustment charge to ratepayers will be deferred to the future.

During this period, Global Adjustment amounts collected from ratepayers will be insufficient to fund the IESO's contractual obligations to electricity producers and service providers. The Ontario Fair Hydro Plan Act, 2017 gives the IESO the right to recover those deferred amounts from specified consumers in the future (the "regulatory asset") and the ability to sell the regulatory asset to a financing entity.

It is anticipated that the regulatory asset would be purchased by the financing entity to be established by OPG ("OPG SPV"), an OPG special purpose vehicle or trust. The cash received from selling the regulatory asset would be used by the IESO to fund the current Global Adjustment shortfall.

There is expected to be initial and ongoing IESO cash flow requirement timing differences. The OPG SPV is not anticipated to be established and able to borrow to finance the purchase of the regulatory asset from the IESO until later in 2017 (planned for later in summer 2017; however, exact timing is subject to actual implementation). Even once the SPV is set up to borrow, there is expected to be timing differences between the IESO's monthly settlement process when it has to pay generators and when the SPV purchases the asset from IESO. Also, under the proposed legislation, OPG's SPV is not required to purchase any portion of the regulatory asset.

As a result, IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset.

This was part of the May 9, 2017 TB/MBC, with the minute noting efforts underway to put the credit facility in place, and is on-going.

The OFA currently provides a $975 million credit facility to the IESO for other purposes, it is proposed that the OFA provide a new credit facility to the IESO, in an amount of up to about $3 billion.

The use of this new credit facility for a length of time could pose a potential fiscal impact to the Province upon consolidation of IESO.

<u>Approvals Required for OFA Financing</u>

OFA indicates the recommended TB/MBC minute should note a new credit facility is being sought by the IESO to ensure that it has the flexibility to cover clean energy costs if for some reason the OPG Trust, at any time, does not purchase any portion of the deferred Global Adjustment amounts payments. An order-in-council will be sought to allow the OFA to be able to provide the new credit facility to the IESO, for an amount to be determined as per the requirements of the Fair Hydro Plan.

The following approvals are required by the OFA to accommodate the request to provide financing to the IESO:

1) An Order-in-Council is required for the Minister of Finance to lend to the OFA.
2) A Directive from Minister of Finance is required for the OFA to on-lend to the IESO.

3) An executed credit agreement between the OFA and the IESO.

1. Order-in-Council (OIC)

An OIC is required to authorize the Minister of Finance to lend to the OFA. Ministry of Finance Legal Services Branch would need to be engaged to facilitate the request.

- The existing $975 million credit facility was covered under OIC 675/97 which authorized the Minister of Finance to lend a revolving $2.16 billion to the OFA. This OIC was originally obtained in 1997.

It is understood that upon drafting the OIC (by MOF Legal), the OIC would need final approval from Lieutenant Governor in Council LGIC as required under section 22(1) of the *Capital Investment Plan Act*, 1993.

- The OIC would go through Deputy Minister of Finance, Minister of Finance, Chair of Cabinet for briefing/sign-offs and finally to the LGIC for approval.

To draft the OIC, the following details will be required:

i. Dollar Value of Loan from the Minister of Finance to the OFA
ii. Maturity Date of the Loan
iii. Interest Rate of the Loan

The following are recommended to accommodate IESO's need for financing:

i. <u>Dollar Value of Loan:</u>
$3 billion, as per request. The OIC would provide the maximum limit of any loan to IESO and it may be advisable to add a cushion and provide an OIC for $3.5 billion.

ii. <u>Maturity Date of the Loan:</u>
OIC maturing March 31, 2048 would provide approximately 30-year term to match the Fair Hydro Plan. It may be advisable to add a cushion and set a maturity date to March 31, 2053 (cushion of 5-years).

iii. <u>Interest Rate of the Loan</u>
Interest rates on the loans from the Minister of Finance to the OFA have typically been a 1) Ontario 90-day t-bill rates, 2) flow-through of the rates charged to the third-party by the OFA and/or 3) the rate charged to the third-party by the OFA less 25bps.

OFA recommends to keep this unchanged to provide consistency with past OICs but also to provide flexibility in the rates that could potentially be charged to IESO, to be determined by the Minister of Finance, by way of the Minister's Directive.

2. Minister's Directive

Once the Minister of Finance has the authority under an OIC, a Minister's Directive can authorize the OFA to lend to IESO. The Directive can outline specific terms and conditions as needed.

3. Executed Credit Agreement

With a Minister's Directive approved, the OFA and IESO can work to execute a credit agreement, subject to any terms and conditions of the Directive and any policy considerations.

Appendix H: Details of Proposed Regulations

Partial Refinancing of the GA

The ministry is proposing a new General Regulation under the OFHPA that would support the implementation of the refinancing of the Global Adjustment (GA):

- Provide for the implementation of the roles and responsibilities of the Financial Services Manager (FSM)(i.e., OPG) and OEB and IESO in relation to the refinancing of GA:
  - methodology for calculating the clean energy adjustment, the finance amount and the true-up amount;
  - required communications by FSM with OEB on clean energy adjustments for each reference period during the recovery period;
  - requiring that OEB use the FSM calculations of clean energy adjustment to determine a kWh amount for the clean energy adjustment for each reference period during the recovery period using IESO demand forecasts;
- Require that the clean energy adjustment be a specific line item on bills and that LDCs keep separate records of amounts invoiced to be produced at the request of specified parties (e.g., IESO, FSM);
- Provide criteria and detail to support key aspects of the OFHPA, including IESO deferral and the establishment and transfer of portions of the regulatory asset, as well as the establishment of the related variance account;
- Provide further criteria related to the development and implementation of the financing plan by the FSM;
  - reasonable assumptions and additional principles and that the FSM must make or take into account, such as seeking to incur funding obligations on the best terms available and flexibility to cope with changes to future fair allocation amounts; and,
- Provide for further principles that must be taken into account by the Minister of Energy in the calculation of the fair allocation amount (i.e., commodity prices, interest rates, inflation, population, electricity consumption and the useful life of electricity generation assets) and a methodology for making adjustments to the fair allocation amount, if required.

Social Programs

Ontario Electricity Support Program

The OESP is an income-tested, application based program that lowers electricity costs of the most vulnerable consumers by providing a rebate directly on electricity bills.

The ministry is proposing amendments to O. Reg. 314/15 made under the OEBA to enable Ministry of Community and Social Services staff to sign up social assistance clients for OESP based upon Ontario Works (OW) and Ontario Disability Support Program (ODSP) eligibility criteria, and matching this eligibility to the existing OESP household size / income credit table. The amendment is in support of efforts to increase enrollment by reducing application burdens on target populations and enable the development of automatic enrollment procedures for some populations already receiving other government programming. The amendments also ensure that households (MCSS uses the term “benefit unit”) deemed financially eligible for either OW or ODSP, but do not meet the current OESP eligibility requirements, will also be eligible for OESP.

The Ministry indicates it will return to LRC/Cabinet in the Fall 2017 with a proclamation OIC to finalize transfer of the OESP from the IESO variance account (used when OESP was funded by electricity ratepayers) to government funding. This timing is consistent with previous submission and ensures the variance account is drawn down before government funding is provided.

On-Reserve First Nations Delivery Credit (FNDC)

The Ministry is proposing a correction to the recently established FNDC regulation to add “licensed distributor” in front of “serving Cat Lake First Nation.”

Regulations supporting implementation were before the Board June 13, 2017.

Rural and Remote Rate Protection (RRRP) and Distribution Rate Protection (DRP)

Regulations supporting implementation were before the Board June 13, 2017.

Appendix I: Ministry's Update on Risks and Mitigation Strategies

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
1) Global Adjustment (GA) Refinancing			
Maintaining OPG's Financial Viability / Capital Structure	L	H	• OPG requires equity injections on an on-going basis from the Province (i.e., Ministry of Energy). • Equity injections are necessary to support OPG as the owner and manager of GA refinancing. The equity injections allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • In order to obtain financing, OPG would develop a special purpose vehicle (SPV). • OPG has a great deal of experience managing the risks associated with borrowing through its experience developing capital-intensive generation projects as well as their management of Nuclear Funds. • OPG will seek to achieve the highest possible credit rating (i.e., AAA is possible) in order to reduce borrowing costs and attract a wide investor base. **Update:** • Work is ongoing to finalize a draft term sheet that would serve as the basis for the Master Subscription Agreement between OPG/ENERGY and OFA. In addition, OFA and ENE to develop Service Level Agreement for monthly cash management services.
OPG Securing Capital Markets Funding	L	H	• OPG will need to obtain a portion of the required funding from the capital markets. • The Ministry, IESO, OPG and other ministries have worked closely with third-party financial advisors in advance of and throughout the drafting process to help to ensure that the legislation enables refinancing of the GA. • In order to provide financing, OPG would develop a special purpose vehicle (SPV) which will use 100% debt financing to purchase the regulatory asset, financing 51% through capital markets as senior debt, with the remaining 49% being provided by OPG as subordinated debt. • The 49% subordinated debt from OPG will be financed through debt OPG issues in its own capacity, through capital markets (up to 5%) with the remainder (44-49%) financed through equity injections from the Province. This will help to ensure OPG's capital structure remains in line. **Update:** • The legislation and proposed general regulation were developed with input from third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the Global Adjustment (GA).

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			• OPG is continuing to work through the mechanics of securing financing (e.g., engaging rate agencies, etc). • In addition, in order to provide assurances to those with claims against the "Financing Entity" (e.g., holders of debt) and support credit ratings, the Province expects to provide both a Service Guarantee and a Performance Guarantee to ensure that the obligations of IESO are carried out including obligations related to collecting and remitting clean energy adjustments. Working is ongoing.
Managing Interest Cost Risks	M	H	• OPG's Special Purpose Vehicle (SPV) / Trust is borrowing in its own corporate capacity from the capital markets. • Risk that it may incur a higher interest cost than what was originally forecast (i.e., 5%). **Update:** • The legislation and proposed general regulation were developed with input of third-party financiers (i.e., dealers) to ensure that the OFHPA enables the refinancing of the GA • The provincial guarantee as set out in legislation should provide comfort to dealers, thereby increasing the likelihood of achieving more favourable interest rates. • Work is ongoing to scope the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July. • The Financial Services Manager will be required under the principles of the financing plan to seek the best terms available at the time of incurrence of a funding obligation.
Provincial Guarantee is Triggered	L	H	• The legislation sets out that the province could, with certain approvals, provide assurances in the form of a "provincial guarantee" to OPG and investors regarding the permanence of the GA Refinancing framework. The intent is to ensure that investors' interests may be recovered. • The legislation also enables the Province to: 　○ Through the Ministers of Energy and Finance upon approval by Lieutenant Governor in Council, agree to guarantee any debts and obligations; and **Update:** • Work is ongoing to scope the provincial guarantees. Note: The guarantees are required to support rating agency review which is expected by the end of July.
IESO Failure to Establish a Regulatory Asset / Maintaining IESO Financial Viability	L	H	• To recover its revenue shortfall, IESO will establish as a Regulatory Asset that it would sell to OPG's SPV / Trust. • The OEB will authorize IESO to create a variance account in which it will record the funding shortfall and recover the shortfall in accordance with the legislation and regulations. • IESO requires short-term financing to be in place for initial and expected monthly timing differences, or in the event that the OPG SPV, at any time, does not purchase a portion of the regulatory asset.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			Update: • IESO has received an accounting opinion from KPMG that concurs with IESO's view that it has the ability to establish the regulatory asset. • In addition, OFA is planning to increase IESO's credit facility to support its role in implementing the OFHPA. OFA is proposing an OIC that would authorize the OFA to borrow an additional $2.0 billion, which would be in addition to existing authority for the Minister of Finance to provide loans to the OFA, to ensure that there is sufficient borrowing authority in place for the OFA to meet the IESO requested requirements.

Indemnities provided to OPG are triggered/called
 	
(Inserted by the Ontario Financing Authority, MOF)
	L	H (Not quantifiable at this time)	• Ministry of Energy staff are putting together a s.28 (under the Financial Administration Act) approvals package for submission to the Minister of Finance for the Minister of Energy, on behalf of the Crown, to enter into Indemnity Agreements in favour of OPG, including its subsidiaries, and the IESO with respect to their respective roles in carrying out the implementation of the Ontario Fair Hydro Plan.
			  ○ The indemnities are expected to provide coverage for both organizations and their respective Board members, officers and employees involved in implementing the plan.
			  ○ As currently proposed, the Minister will be requested to consider and sign the section 28 approval forms and the transmittal letter to Minister of Energy.
			Update:
			• Work is ongoing to finalize the s.28 (under the Financial Administration Act) approval for indemnities. Note: There could be potential interactions between the provincial guarantees and the indemnities sought by OPG and the IESO, discussed below. A due diligence is currently ongoing by MOF Legal, OFA and Energy staff.

GA Refinancing Approach is Viewed as an Indirect-tax	L	H	• In principle, refinancing the GA to spread the costs of generation and conservation assets over the useful life of the assets presents only a "low" risk of being an unconstitutional tax, as each cohort of consumers pays for a proportion of the GA cost roughly equal to the proportion of the benefit they receive from the useful life of the assets. • Legal risk arises if it becomes apparent that the Government is not spreading cost so that it is shared proportionately by future consumers who cause a need for or benefit from the generation asset, but rather is doing so in order to lower the price in the "short" term by increasing the price in the long term. If the proposed financing served to encumber future consumers with a premium payment to cover the GA financing in order to subsidize current ratepayers, then there would be a moderately high constitutional risk that the financing proposal would result in an unconstitutional tax. • The legislation attempts to mitigate the risks identified above by requiring that the costs moved into the future align with the benefits that future rate payers will receive. To create the flexibility to achieve this requirement, the amounts of the costs and benefits will not be enshrined in the legislation.

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation Strategy/Update
			Update: • The legislation was designed to mitigate this risk. • The Fair Allocation Amount, the process for which is further clarified under general regulation, will help to ensure that the allocation of costs associated with electricity generation facilities is reflected over the term of GA Refinancing.
2) Increasing social assistance clients' enrolment into the Ontario Electricity Support Program (OESP)			
Social Program Cost Estimating	M	M	• OESP costs will depend on uptake of the program, which will be impacted by the 50% increase in credits, enhanced eligibility, and work with MCSS on aligning OESP delivery with their social assistance programs • Work with Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) to ensure access to data for regular forecasting. • A mechanism would be created in regulation to ensure that all parties are aligned in the yearly forecasting and costing of the program. • Social program regulations include provisions to require the IESO and the OEB to provide the Ministry with information required to update cost projections based on up-to-date figures.

APPENDIX J: OVERVIEW OF RISK (CENTRAL AGENCIES PERSPECTIVE)

Prepared by TBS staff, the following chart provides an overview of strategic (versus operational) risks to inform the approval/decision making process regarding the proposed legislation. Each part, GA Partial Refinancing & Electricity social programs, is a separate table.

Global Adjustment Partial Refinancing:

Objective: Provide immediate ratepayer relief by capping rate increases at Consumer Price Index (CPI) for four years and refinancing GA costs over a longer period of time. Develop and implement a financing structure that increases provincial borrowing, but has no impact on annual provincial surplus/deficit.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA smoothing being allocated to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there could be a negative impact on the province's fiscal plan up to $2.5B in 2017-18 and rising. • Rating agencies and investors in the Province's debt may view all of the borrowing as an obligation of the Province, especially taking into account the nature of provincial guarantees, which could put pressure on the Province's credit rating and overall borrowing capacity. • Proposed structure may result in a negative response from Ontario Auditor General (OAG) due to previous concerns regarding recognition of rate regulated assets and liabilities. The AG has already expressed concerns regarding the accounting treatment on the IESO's books which could lead to a qualification of the Province's consolidated financial statements. • Initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to justify structure of financial model and be utilized in discussions with the OAG. • Identify potential options to minimize the balance of rate regulated assets remaining on the IESO's books at fiscal year-end.

Risk	Level of Risk	Risk Response
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.
A legal determination that the Province is spreading the costs of GA financing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Medium **Risk Impact:** High **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and close monitoring of costs and changes in variables built into model. • Analyze the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Financing the costs of GA smoothing through OPG SPV/Trust and the volatility of interest rates may increase the cost of GA smoothing and/or require additional provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Moderate **Time Scale:** 12 to 24 months **Rationale** • The proposed structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on interest rate for borrowing, the amount of equity/funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the government to offset a part of the scheduled increases. • Risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's ratings and cost of borrowing.	Risk can be avoided by: • Province providing a potential guarantee for the cost of borrowing – however, would redirect risk back to the Province and negate benefits of proposed financing structure. Risk can be mitigated by: • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost. • Proposed legislation to enable GA refinancing has been draft with input from third-party financers. Provides a 'narrow' provincial guarantee and ensuring that debt holders have the right of action against a future government to recover the amount outstanding including interest, fees, expenses and any damages.

Risk	Level of Risk	Risk Response
The determination of the appropriate legal and accounting treatment to be applied to the financing model may result in the costs of GA Refinancing having a fiscal impact to the province.	**Risk Likelihood:** Possible **Risk Impact:** Critical **Time Scale:** 6 to 12 months **Rationale:** • The structure of the GA deferral was designed to result in an increase in provincial borrowing, no increase in net debt and no impact on surplus/deficit. • The proposal assumes GA refinancing does not have a fiscal impact because the legal authority and accounting treatments are met. • If a favourable legal and accounting treatment is not implemented, there would be a negative impact on the province's fiscal plan of up to $2.5B in 2017-18 and rising. • Rating agencies and investors in Province's debt may view all of the borrowing as an obligation of the Province, which could put pressure on the Province's credit rating and overall borrowing capacity. • The proposed structure may result in an opinion from the Ontario Auditor General (OAG) considering previous concerns regarding recognition of rate regulated assets and liabilities. The OAG may take this into account when the provincial books are audited. • An initial assessment of the accounting considerations suggests that the proposed model is in alignment with established accounting standards. Additional analysis is still required.	Risk can be mitigated by: • Commissioning external opinions on the legal, fiscal and accounting requirements, which could be used by the Province to support discussions of the financial model with the OAG.
Uncertainty in the financial model due to dependence on assumptions that are subject to potential volatility may result in higher than anticipated future costs for rate payers and the province.	**Risk Likelihood:** Likely **Risk Impact:** Major **Time Scale:** More than 36 months **Rationale** • The financial model developed is a high level and aggregate model, which is built on independent forecasts. There are a large number of assumptions built into the model explicitly and implicitly (as a larger number of assumptions are embedded into the other forecasts that are used as inputs into the model). • The proposal financing structure will accrue total interest of about $26.2 billion, which is sensitive to many factors, including interest rate, natural gas and carbon prices, generation costs and demand levels.	Risk can be mitigated by: • Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the financial models. • Building permissive language in the legislation and regulations to allow for timely course correction mechanisms (i.e. higher payment amounts and/or rate increases) • Regulations to prescribe the methodology to be applied by the Ontario Energy Board (OEB) to determine electricity rates in response to potential deviation from forecasted financing plans.

Risk	Level of Risk	Risk Response
A legal determination that the Province is spreading the costs of GA refinancing in order to lower the price in the short term by increasing the price in the long term may result in the GA charge characterized as a tax and deemed unconstitutional.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** Long-Term (More than 36 months) **Rationale** • If characterized as a tax, the GA charge could be subject to legal challenge and struck down as unconstitutional, allowing consumers to recover their payments. • Likelihood dependent on the extent the government is not able to show a proper match between the cost of providing facilities for electricity generation and the group of consumers who benefit year to year. The bigger the reduction in charges to current consumers, the higher likelihood of the risk being realized. • Internal and external expertise have provided opinion that the proposed structure is constitutionally sound in the short-term (2017-18), but the likelihood of the risk increases in the proceeding four years, which will impact commitment to keep rate increase in line with CPI. • If annual increases in bills or the commodity prices are subject to caps, additional borrowing/provincial funding may be required.	Risk can be avoided by: • Imposition of a valid tax. • Change in policy (i.e. allow greater rate increases during the remainder of the rate mitigation phase and higher increases and payment amounts throughout rate increase and payment phase). • Use of public funds to ease pressure. Risk can be mitigated by: • Improve forecasting model and ongoing monitoring of costs and changes in variables built into model. • Analysis of the costs and benefits of the long lived assets (specifically usability beyond a 20 year period) to assist in determining a supportable GA deferral structure. • Draft legislation with built-in provisions to allow for the balance of the legislation to remain in effect if any particular clause or section is struck down by a court.

Risk	Level of Risk	Risk Response
Refinancing GA costs through an OPG SPV Trust may increase costs and/or require provincial funding.	**Risk Likelihood:** Possible **Risk Impact:** Major **Time Scale:** 12 to 24 months **Rationale** • The proposed borrowing structure will be reviewed by credit agencies to allow OPG to borrow in the open market. Depending on assessment, there may be an impact on the interest rate for borrowing, the amount of equity / funding the province may need to provide and the requirement for a provincial guarantee. • As the OPG SPV/Trust will be borrowing in its own corporate capacity from the public markets, it will likely incur a higher interest cost compared to the Province's borrowing. • There is a risk that credit rating agencies may perceive OPG SPV/Trust's borrowing as debt supported by Province, impacting Province's own ratings and cost of borrowing. • If the Trust can't raise the full funding requirements, additional cash injections would be required. If the borrowing cap of $28B (in the March 1, 2017 Cabinet Submission) is reached sooner than forecast, the province may have to provide incremental funding to float the program to 2047. • Beyond 2022, when steep increases are required, there will likely be additional pressure on the province to offset a part of the scheduled increases. • Fiscal impacts will be subject to fluctuations in Ontario electricity demand, GA and interests rates in the medium-to long term.	Risk can be mitigated by: • Providing a "provincial guarantee" for the cost of borrowing. • Drafting legislation to provide assurance to OPG and investors regarding the permanence of the GA refinancing framework and the authority of the legislation to pass the legislation; and enable the Province to guarantee borrowing of the trust in the event of a market disruption. • Specifics of a guarantee are dependent on the negotiation of agreements not yet initiated. • Equity injections from the province to support OPG as the owner and manager of GA refinancing and allow OPG to strengthen the capital structure of the Trust in order to secure financing at a reasonable cost.

Electricity social programs (Enhancing Electricity Support & Conservation Programs):

Objective: Shift funding of existing and new electricity support programs (RRRP, OESP, Affordability Fund, First Nations Credit) from rate to tax base.

Risk	Level of Risk	Risk Response

Uncertainty in forecasting due to exposure to changes and/or volatility (i.e. interest rates, electricity usage patterns, and distribution costs) may result in higher than anticipated fiscal impacts for the Province.	**Risk Likelihood:** Possible
	Risk Impact: Major
	Timescale: 12 to 24 months
	
	Rationale:
	• The energy sector is complex and a number of key assumptions used as inputs into forecasting model are variables/forecasts themselves, resulting in a high inherent risk that cost estimates are inaccurate.
	• Fiscal projection is highly dependent on factors which can fluctuate from year to year, including:
	    o electricity usage;
	    o distributions costs; and
	    o consumer consumption patterns that may change due to extreme weather or other factors.
	• Fiscal projection is subject to knowledge of future distribution costs and dependent on submission of cost of service applications by Hydro One and LDCs.
	    o Enhanced RRRP may create disincentives from the eligible LDCs towards productivity and performance improvements and/or cause ineligible LDC's to drive up distribution costs to gain access to program.
		Risk can be mitigated by:
		• Development of a risk-based outlook, based on an analysis of scenarios, to determine the sensitivity and financial impact of potential changes in variables used in the forecasting models.