FW: OPG GA Sensitivity Analysis

From:	"MacIntyre, Kyle (TBS)" <kyle.macintyre@ontario.ca>
To:	"Angus, Helen (TBS)" <helen.angus@ontario.ca>
Date:	Mon, 27 Feb 2017 08:36:10 -0500
Attachments:	GA Smoothing Sensitivities 2017-02-24.pdf (719.53 kB)

FYI

From: Laughton, Patrick (TBS)
Sent: February-27-17 8:23 AM
To: MacIntyre, Kyle (TBS); Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: OPG GA Sensitivity Analysis

FYI please see below for some comments from folks on the OPG sensitivity analysis piece received yesterday.

From: Veinot, Cindy (TBS)
Sent: February-26-17 7:12 PM
To: Proulx, Didem (TBS); Hughes, Karen (TBS)
Cc: Laughton, Patrick (TBS); Fung, Felix (TBS); Liu, Sophie (TBS)
Subject: RE: OPG GA Sensitivity Analysis

It would be helpful for Energy to translate the sensitivity analysis into an analysis that is clear on what the fiscal impact would be to the Province – e.g. the total amount of borrowing, interest cost as compared to amount of deferral, fiscal impact if accounting/legal/financing does not materialize as desired.

Cindy

From: Proulx, Didem (TBS)
Sent: February-26-17 5:47 PM
To: Hughes, Karen (TBS)
Cc: Laughton, Patrick (TBS); Veinot, Cindy (TBS); Fung, Felix (TBS); Liu, Sophie (TBS)
Subject: RE: OPG GA Sensitivity Analysis

Hi Karen,

Thank you so much for sharing this deck and giving us an opportunity to review/provide feedback. Here are my thoughts and feedback.

Key Observations / Takeaways from the OPG Deck:

Slide 3 states that for external borrowing to work / for the electricity sector to secure debt using debt markets, regular recovery charge has been limited at 10% of bills (based on US precedence). Gadi/OFA would be best person to confirm or correct this key piece of information. If this statement is true, the key takeaway is that the current proposal (base case) would NOT be financeable using debt markets. So even if the accounting and legal issues were somehow resolved, the borrowing/operationalizing of the GA smoothing can't be done externally.

OPG has provided two alternative scenarios that would allow the borrowing to be done externally using debt markets:

- Reducing bills by 25% and keeping them low for 6 years (that would mean the steep increase in the monthly electricity bills in 2022 as the regulatory change as a percentage of the bill would increase by 25% in that year)
- Reducing bills by 20% and keeping the increases to 2% thereafter.

It is important to note that these scenarios work (limiting the regulatory charge around 10%) because of all the other key assumptions being made in the model (5% interest rate, generator costs, etc.). Given the deck shows that all of these variables carry a significant upside risk, if this proposal was to be implemented, the "final package" may need to scale things back a bit more to leave room for some of these likely risks, before the operator is allowed to borrow on the open market.

- What would some of these scenarios look like? (A package that would pass due-diligence on all assumptions and can secure borrowing at public markets)
- Given current commitments/expectations around Bruce Nuclear, shouldn't any base case include this piece?

The impact of the lower electricity demand and natural gas price sensitivity on GA smoothing is worth is nothing. Implementation of this measure/structure may mean that success of the conservation efforts, natural gas conversion targets, etc. may end up costing the government significantly on GA smoothing, undermining the long term fiscal and environmental agenda.

Fundamental Questions Remain:

The slide deck shows the impact of various proposals/sensitivity analysis on the bills. Information on annual and cumulative fiscal impacts, borrowing requirements, etc. is not presented. Additional details re: the aggregate financial impact of these proposals are needed.

The structure currently proposed by the Ministry of Energy is based on a targeted 25% reduction for the average Toronto Hydro customer. The latest version of the deck confirms that the ratepayer savings will vary across the province due to differences in current prices, distribution rates and consumption patterns. Given Toronto Hydro has a relatively high distribution rate vis-à-vis other companies, it would be important to note the range of reductions that would result from this proposal. The Ministry of Energy should be required to show:

- The range and distribution of savings across the province and providers;
- The cost of providing an exact 25% (or 20%, 18% -- whatever transpires from the discussion above) reduction for the customers. It would be interesting and important to see how the total cost of this initiative would compare with the total cost of the current package and its impacts across different consumer groups and providers.

Please don't hesitate to let me know if you have any questions or concerns. Happy to discuss further or provide additional details if you would like.

Thank you,

Didem

From: Hughes, Karen (TBS)
Sent: February-26-17 3:19 PM
To: Proulx, Didem (TBS); Fung, Felix (TBS)
Cc: Laughton, Patrick (TBS); Veinot, Cindy (TBS)
Subject: FW: OPG GA Sensitivity Analysis

Hi, here is some info from OPG – Didem – do you have time to take a quick look? We should start to build it into the note.

Thanks

Karen

From: Angus, Helen (TBS)
Sent: February 26, 2017 3:08 PM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Subject: Fwd: OPG GA Sensitivity Analysis

Let me know if you want to talk about a TBS strategy here. I'm at home for the rest of the day.

Sent from my iPad

Begin forwarded message:

> **From:** "Imbrogno, Serge (ENERGY)" <Serge.Imbrogno@ontario.ca>
> **To:** "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Davidson, Steven (CAB)" <Steven.Davidson@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Angus, Helen (TBS)" <Helen.Angus@ontario.ca>
> **Cc:** "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Katona, Keley (ENERGY)" <Keley.Katona@ontario.ca>
> **Subject: OPG GA Sensitivity Analysis**

> OPG ran some sensitivities that we could walk through at Fiscal prep.
>
> Serge
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.