

FW: Rate Mitigation

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From: Imbrogno, Serge (ENERGY)
Sent: Saturday, January 21, 2017 1:50:55 PM (UTC-05:00) Eastern Time (US & Canada)
To: Clark, Ed (CAB); Orsini, Steve (CAB)
Subject: Rate Mitigation

Hi Steve, Ed,

I wanted to share some thoughts with you before sharing with a broader audience.

I was thinking of an energy policy rationale for the re-contracting work Alan is exploring. One could argue the original contract terms for wind and solar contracts were put in place to accommodate investors and developed at a time before our cap and trade plan was formalized. By extending the term of the wind and solar contracts, we would be locking in an additional 10 years of GHG free emissions. This would be consistent with our thinking around the long term energy plan which contemplates additional supply to enable the electrification of transportation and other sectors. I would also argue the extension could be funded with future cap and trade proceeds. This would allow us to lock in this GHG free supply at no additional cost to the rate base or tax base. This would achieve the immediate benefit of reducing rates in the near term and would put downward pressure on rates in the out years assuming we can pay for the extension with future cap and trade proceeds.

On gas plants, extending these contracts would be inconsistent with the above policy rationale. A better approach for the gas contracts would be to negotiate for reduced output in the near term, which would eliminate GHGs and would allow ratepayers to share in variable cost savings (eg. Labour, gas, etc). IESO would have to give us a MW target that would be appropriate from a system perspective. We could also think about employing OPG to negotiate the purchase of certain gas assets. For example, OPG is a partner with TransCanada at Portlands. The new TransCanada plant at Napanee is co-located on OPG property and sits beside OPG's Lennox facility. OPG is also a 50% owner of ATCO. If these assets were purchased by OPG it would give us more flexibility to restructure the contracts and would also help OPG's balance sheet.

The major challenge with the re-contracting option is timing and ability to match near term costs savings compared to the GA refinancing option. Given the re-contracting option is financed at a reduced WACC, it would be difficult to match the savings from the GA option which is financed at 5%. However, one could argue that we are underestimating the risk associated with the GA refinancing option. For example, the additional debt on the province's balance sheet may trigger a review of the province's credit rating. The accounting risks and consolidation are also significant.

Serge

Sent from my iPad