Ontario

BACKGROUNDER

Ministry of Energy

Refinancing the Global Adjustment

Ontario's Fair Hydro Plan will lower electricity bills by about 25 per cent for all residential consumers in the province. Small businesses and farms would also benefit from the initiative, with additional relief for people with low incomes and those served by local distribution companies (LDCs) with the highest distribution rates.

Decades of under-investment in the electricity system by governments of all stripes resulted in the need to make significant investments in generation, transmission and distribution assets. In addition, an important decision was made to eliminate Ontario's use of coal, building clean, renewable supply. Between 2005 and 2015, our government invested more than $50 billion in the electricity system, including $35 billion in electricity generation to ensure the system is clean and reliable. The costs of these investments were funded in part through the Global Adjustment (GA).

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term. Generation assets are expected to continue to provide benefit to future ratepayers, beyond the term of current contracts and future ratepayers are expected to be able to utilize these assets. This reduces the need to finance the development of new generation assets.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. Refinancing the GA will provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period of time. In the early years, a portion of the costs covered by the GA would be financed to reduce pressure on today's electricity ratepayers. In later years, the cost of financing would be recovered from ratepayers. Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first ten years, for a total accumulated debt of about $28 billion on a forecast basis.

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role of the Ontario Energy Board (OEB) as it relates to the financing proposal.

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