BRIEFING NOTE – APPROACH REGARDING THE FAIR HYDRO ALLOCATION LETTER TO ONTARIO POWER GENERATION (OPG)

ISSUE:

- ENERGY must determine an approach regarding how Fair Allocation Amounts (FAA) and Readjustments Amounts (RA) are included in the Minister's letter to OPG.

KEY INFORMATION:

- Under the *Ontario Fair Hydro Plan Act, 2017,* ("OFHPA") the Minister must inform OPG of the FAA for each reference period. **Note:** Work to finalize the FAA is ongoing.

- In addition to funding amounts related to FAAs, OPG as the Financial Services Manager (FSM) will also need to fund amounts related to decisions that the Minister may make under Ontario Regulation 195/17 (i.e., "Part II regulation").

  - These RAs are applied to the total FAA amounts as relevant (i.e., they result in the total amount of debt to be funded by OPG to increase).

- At present the Part II regulation covers the period July 1, 2017 to April 30, 2019. This means that RAs related to the regulation may be made for the first four six-month reference periods. Subsequent RAs, including those related to the committed to "inflationary cap" period, could also be calculated and provided to OPG.

- Three options are under consideration regarding the inclusion of FAA/RA amounts in the letter from the Minister to OPG. The letter would include either:

  1. FAAs for each reference period to 2047 and RAs for first four reference periods (i.e., April 30, 2019);

  2. FAAs for each reference period to 2047 and RAs for all reference periods up until the end of the "inflationary cap" (i.e., April 30, 2021); or

  3. FAAs for each reference period to 2047 and RAs for all reference periods as relevant (i.e., for all reference periods where RAs are expected).

- ENERGY staff recommend option 3 – i.e., sending the full RA forecast schedule to OPG.

- Once a decision is made and the work to finalize the FAAS/RAs is complete, the Minister would send the letter to OPG.

BACKGROUND / CONSIDERATIONS:

- Under the OFHPA, ENERGY is only required to share the FAAs with OPG. Providing additional information to OPG either in the Minister's letter or at staff level is at ENERGY's discretion.

- Sharing the regulated and estimated RAs in addition to the FAAs would provide a more realistic representation of the program requirements to OPG/rating agencies because financing and recovery reflects the combined total of FAAs and RAs.

- In its ongoing work to finalize the FAAs, ENERGY has shared OPG working drafts of models that include estimates/placeholders for FAAs, RAs and total debt amounts/funding requirements.

- The FAA and RA amounts will be expressed as absolute borrowing amounts (i.e., $1.2 billion in a given reference period) and will not be directly translatable into ratepayer bill forecasts.

Option 1 – RAs for first two years only

- This option would provide borrowing information consistent with the current regulation, but would be inconsistent with public commitments regarding four years of inflationary increases.

- A letter that only included two years of RAs would likely need to be accompanied by a memo or letter from ENERGY staff outlining plans beyond the first two years.

Option 2 – RAs for first four years only

- This option would provide borrowing information consistent with public commitments regarding the four-year inflationary cap, but would not address any smoothing over subsequent years to return to the FAA.

Option 3 – Full RAs

- This option would provide a forecast of the full borrowing schedule, including a smoothed return to the FAA.

- These RA amounts would be most consistent with the cost forecasts in the Long-Term Energy Plan.

Energy Supply Policy Division
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