Ontario

MINISTRY OF
ENERGY

Affordability Fund Update

March 20, 2017

CONFIDENTIAL DRAFT

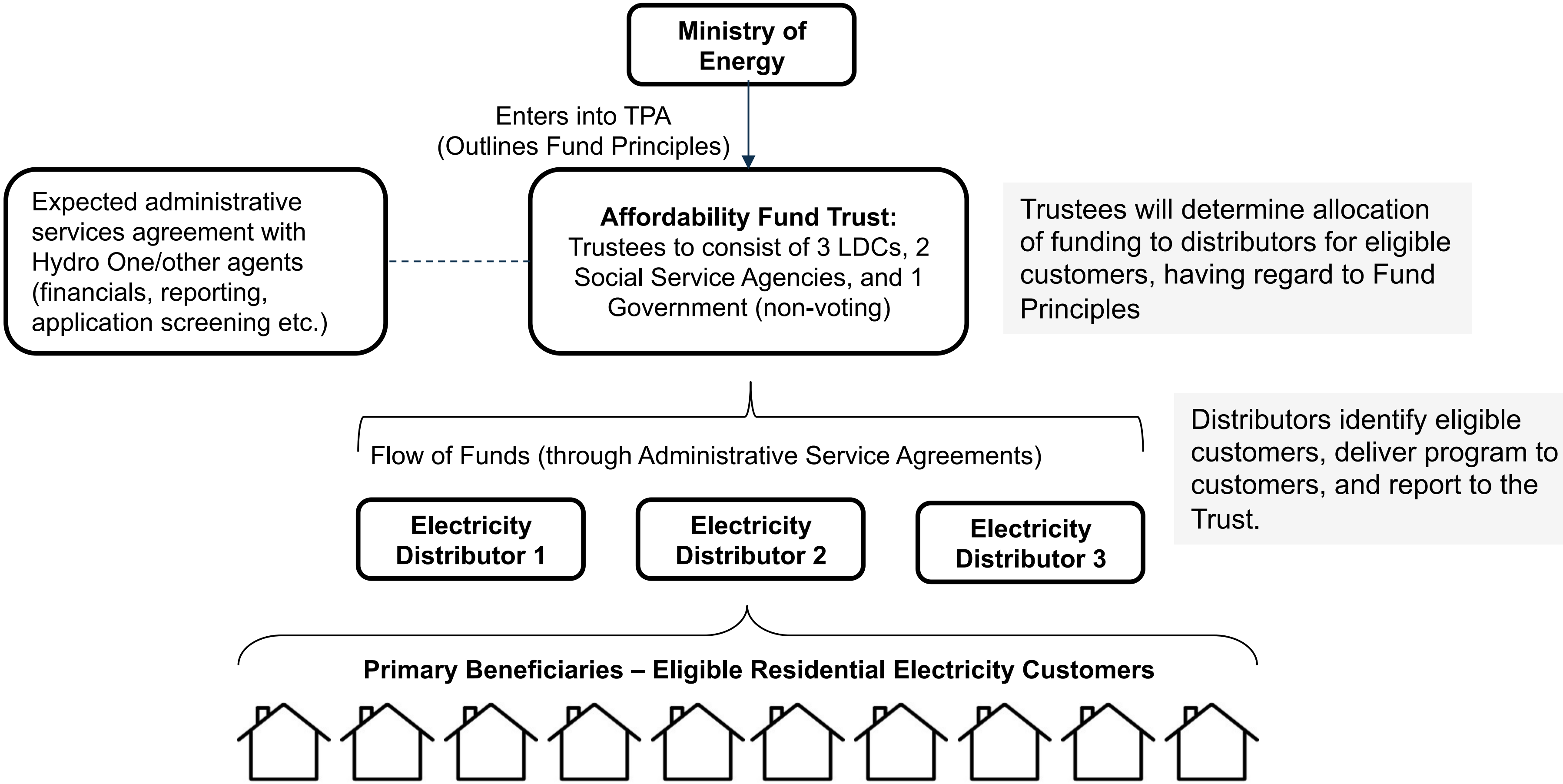
Purpose & Overview

Purpose: Provide an update on the establishment of the Affordability Fund, part of Ontario's Fair Hydro Plan announced March 2, 2017.

Overview:

- The Affordability Fund will be administered by a non-controlled Trust and be accessible to electricity distributors across the Province to provide energy efficiency measures to their customers.
  - Distributors will target customers who are not eligible for the low-income Home Assistance Program (HAP), but are having difficulty paying bills (e.g. in arrears, facing disconnection).
- Trust to be established during the week of March 20, 2017 with provincial funding and to exist until April 30, 2019, or until funding to electricity distributors no longer made, or by 2023.
  - Treasury Board (TB) approved $100M for FY 2016-17; ENERGY can return to TB to request further funding in a future fiscal year based on performance and need.
  - ENERGY expects $100M to flow to customers in one year, but set term at two years for flexibility and to accommodate wind down of distributor agreements and reporting.
  - Term can be further extended with amended/new Transfer Payment Agreement (TPA).
- Principles have been established as annexes to the TPA and in Declaration of Trust ("Trust Deed") to communicate government expectations to Trust.
  - Principles strike a balance between setting government objectives of the Fund and providing flexibility so that the Trust remains non-controlled.
- ENERGY is working with OPCD, CSD, LSB, external counsel (Blakes) and Hydro One (who is consulting with KPMG) to ensure that TPA and Trust Deed is not seen as controlled from a Public Sector Accounting Standards perspective (see Appendix for definition).

Transaction Diagram: Roles & Responsibilities once Trust Established



In the event that Trustees are unable to disburse funds before the end of Trust term, Trustees will consult with the OEB to select charities who support delivery of low-income programs, as Residual Beneficiaries.

Transitioning from Original Trust to Board of Trustees

TRUST

March 2017

Phase 1: Establish Trust with Original Trustee (March 23)*

- Original Trustee in place (Computershare)
- Trust Account established
- Declaration of Trust and TPA executed
- Advisory Committee comes into being

April – May 2017

Phase 2: Full Board of Trustees Established

- Computershare accepts recommendations of Advisory Committee in appointing Board of Trustees
- Once all Trustees in place, Computershare steps down as Original Trustee

ADVSORY COMMITEE

Secure Advisory Committee (March 20-23)

Committee selected by ENERGY and Hydro One to identify and recommend Board of Trustees

To be formed of individuals with electricity sector, conservation and low-income program expertise

Advisory Committee Makes Recommendations to Original Trustee

Committee recommends Board of Trustees to Original Trustee (5 voting members, 1 government non-voting)

Once all Trustees in place, Advisory Committee responsibilities are complete

*ENERGY has asked Hydro One to sign the engagement letter with Computershare to establish the Trust (expecting confirmation on March 20).

Proposed Advisory Committee Members

- Purpose of Committee is to make recommendations to the Original Trustee (Computershare) regarding the appointments to the Board of Trustees.
- Recommendations for Committee members consider that members consolidated with the Province's books cannot represent a majority
- Ministry awaiting Hydro One input on Committee recommendations

Proposed Seven Voting Committee members:

1. United Way
2. Low-Income Energy Network (LIEN)
3. Thunder Bay Hydro
4. Hydro Ottawa
5. Hydro One (consolidated with government)
6. OEB (consolidated with government)
7. IESO (consolidated with government)

Key Features of TPA and Trust Deed and How They Relate

TPA (ENERGY-Trust)

- General Terms and Conditions (Updated to reflect non-controlled Trust)
- Project Specific Information (total funding amount, duration, contacts)
- Project (conditions to be met before distributing funds)
- Budget (e.g. eligible admin expenses)
- Payment plan
- Reporting
- Principles Annex

Documents are mutually referable and the TPA is established as a supplement to the Deed.

Original Trust Deed (signed by Original Trustee)

- General Terms and Conditions
- Objectives
- Distributions
- Powers of the Trustee
- Concerning the Trustee (e.g. duties)
- Amendments and Supplements
- Termination
- Acceptance of Trusts
- Principles Annex
- Eligible Measures
- Permitted Expenses
- Permitted Delegation Annex
- Trustee Replacement Annex

Admin. Services Agreement (Trust-Hydro One – at Trust discretion)

- E.g. financials, applications review

- The government's principles for establishing the Trust are included as an Annex to both the TPA and Deed.

Affordability Fund Principles

The Trust shall have regard to principles established by the Province, as set out in the TPA/Trust Deed. ENERGY worked with OPCD, CSD, LSB, external counsel and Hydro One to refine, these include:

- **Identification of Eligible Participants**
  - Trustees will rely on electricity distributors to identify eligible customers and facilitate payments
  - If an electricity distributor is unable or unwilling to submit funding applications to the Trust, beneficiaries may directly apply to Trust (this avenue would not to be recommended to be widely publicized, but is legally required so Trust serves beneficiaries). Trustees can work with the OEB, IESO and other entities to assess the individual's application.
- **Eligible Measures**
  - The Trust Deed outlines a list of measures for consideration by the Trust, including eligible HAP measures (lighting, appliances) as well as air source heat pumps.
  - The final measure eligibility list will be determined by the Trustees. Distributors have the flexibility to select measures based on their customer needs.
- **Payments to Trustees and Electricity Distributors**
  - It is not intended that the Trustees, with the exception of Computershare, will receive remuneration for their services. However, the Advisory Committee will have discretion to recommend compensation if it proves difficult to secure willing Trustees. Trustees will be eligible to seek reimbursement for any out-of-pocket expenses reasonably incurred.
  - Distributors are expected to manage funding from the Fund in a not for profit manner, but will be able to seek reimbursement for administrative expenses. Unspent funds to be returned to Trust.

The Trustees are expected to consult with distributors, IESO, OEB and low-income program experts to refine participant and measure eligibility rules, and develop an application process for distributors.

Process & Timeline: Execute TPA & Transfer Payment To Trust

- On March 17, ENERGY received the $100M in CRED's Green Energy Initiatives TP line.
- The deadline for funds to be disbursed for accounting purposes is March 28 at 12 PM.
  - Because OSS takes up to five days to set up a vendor account, banking details must be sent to OSS by March 21 at the latest.
  - ENERGY is working to have the signed TPA, Deed and CRED-ADM signed payment memo by March 24.
  - OSS must receive by March 27 to process the request.
- Payment through Electronic Fund Transfer arrives in the Trust's bank account within 3-4 days of OSS payment processing (does not need to be received in March 2017).

1. Computershare sets up Trust Bank Account. OSS sets up Trust as vendor. **March 21**
2. DM and Computershare review TPA and Trust Deed **March 22**
3. TPA and Trust Deed signed by Computershare and Deputy. **March 23 (EOD)**
4. TPA, Trust Deed and signed payment memo with CSD. **March 24**
5. CSD Controllership to release full payment package to OSS to process payment **March 27**
6. **Funds Disbursed -** OSS executes funds transfer **March 28**
7. Funds arrive in Trust Bank Account **March 31/ April 3**

Risks to Meeting Fund Objectives & Mitigation

Risk	Likelihood (L/M/H)	Impact (L/M/H)	Mitigation
TPA and Deed not signed by March 23	M	H	• Early and ongoing discussions with Computershare • Outreach to Advisory Committee members early in week (names to be included in Deed) • Share TPA/Deed by EOD March 20 for two day review
Auditor General criticism of value for money and/or government control	M	H	• Trust expected to offer same/similar measures as HAP. 2015 HAP results showed a a positive societal benefit. • Working closely with OPCD; seeking written opinion from OPCD and KPMG (KPMG TBD)
Difficulty finding willing Trustees leading to delay	M	H	• Careful selection of Advisory Committee members • Committee can recommend payment for Trustees
Delay defining processes/criteria, distributor delay	M	H	• Expected that Trust will sign admin. agreement with Hydro One to gain capacity/resources for this phase • Distributors expected to leverage HAP delivery
High public expectations	L	M	• Strategic communications by government/distributors
Funds not spent	M	M	• Trust can amend Deed, criteria; OEB data identifies large need; increase program marketing; unspent $ to charity

Next Steps

- **Week of March 20, 2017:** Schedule additional briefings as needed
- **March 20:** Continue to work with OPCD and Hydro One/KPMG to ensure final TPA and Trust Deed align with PSAS control indicators.
- **March 20-21:** Work with Hydro One to formally engage Computershare, Computershare to set up bank account
- **By March 23:** Secure Advisory Committee members
- **March 24:** CSD receives TPA, Deed and payment memo.
- **March 23:** Deed and TPA signed by Trust and Province
- **March 27-28:** CSD instructs OSS to release funds; OSS disburses funds to Trust
- **April – May 2017:** Advisory Committee recommends Trustees; Original Trustee appoints full Board of Trustees
- **June 2017:** Trustees expected to engage with distributors, IESO and OEB, and low-income groups to design funding criteria and processes
- **June 2017:** ENERGY to report back to TB/MBC with final program details and a performance management framework including outcome measures and targets
- **Summer 2017:** Estimated timeline for electricity distributors to begin applying to the Trust for funds
- **Late 2017/ Early 2018:** ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need**.** Trust term can be extended with amended/new TPA if agreed by Trust.

Appendix

A1: Public Sector Accounting Standards – Indicators of Control

A1: Public Sector Accounting Standards – Indicators of Control

- Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.
- Under Public Sector Accounting Standards (PSAS), the Province is required to consolidate all entities that are considered to be part of their reporting entity.
- PSAS control indicators include:

Persuasive Indicators	Other Indicators
1. Government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization 2. Government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses 3. Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization 4. Government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations	5. Provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment/removal of a significant number of members 6. Appoint or remove the CEO or other key personnel 7. Establish or amend the mission or mandate 8. Approve the business plans or budgets for the organization and require amendments 9. Establish borrowing or investment limits or restrict the organization's investments 10. Restrict the revenue-generating capacity of the organization, notably the sources of revenue 11. Establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, or deployment of resource