
Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from the reduction.
- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.
- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.
- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
 - GA Refinancing;
 - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
 - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables IESO to establish a variance account to record the deferral amounts from the difference between collections from current ratepayers and payment obligations to generators and conservation, and to create a regulatory asset as the Act provides IESO the right to recover the balance in the variance account.
 - The IESO can then sell the regulatory asset – the right to recover those deferred amounts from specified consumers in the future
 - OPG, as the Financial Services Manager (FSM), is authorized to establish one or more financing entities that may incur funding obligations to finance the purchase of the regulatory asset
 - A financing entity purchasing the regulatory asset would effectively finance IESO's shortfall in current rates not received from ratepayers.
- In order to support the establishment of a financing entity, facilitate ongoing funding requirements of GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors on finalizing the details for a number of business issues, including:
 - Amendments to O. Reg. 206/17 (General), made under the OFHPA, were required to enable OPG to establish and charge fees as FSM, and to define the role of the Ontario Energy Board (OEB) in reviewing and approving those fees. Amendments were signed by the Lieutenant Governor on November 1, 2017.
 - Included in these amendments were additional provisions in O. Reg. 206/17 to enable the recovery of FSM carrying costs during the moratorium period.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from IESO, the Financing Entity must borrow a portion of the funds from capital markets (planned to be 51%, with other financing to come from OPG and, indirectly, the Province).
 - OPG's financial advisors have indicated that without adequate protection against legislative, judicial and organizational risk, the debt would not be financeable or would result in higher financing costs, to be passed on to ratepayers.
- The Ministers of Energy and Finance have the authority to negotiate and enter into a protection agreement that supports the Financing Entity and prospective debt holders such that the Province would take over the funding obligations of the Financing Entity, under certain circumstances, including.
 - Actions of the Legislative Assembly that undermine the financing arrangement; i.e., repeal or amendment of the Ontario Fair Hydro Plan Act, 2017, or new legislation that adversely affect the Financing Entity
 - A court decision that declares the rights of the Financing Entity to recover amounts from ratepayers to be invalid or unenforceable
 - Changes to the organization, structure or operations of IESO or a change in the electricity market structure or operations that adversely affects the ability of the Financing Entity to recover amounts related to funding obligations.
- In the event the protection agreement is triggered, the Province will be required to pay the obligations of the Financing Entity including principal and interest payments on debt issued to date, any payments to derivatives counterparties and any outstanding payments to service providers.
 - The Province could potentially service the debt and other obligations and could replace OPG as the financial services manager.

Next Steps:

- Finalize the Change of Law Protection Agreement

2) Business Items – OPG Financing Plan / Market Activities

- Under the OFHPA, the Minister of Energy is required to regularly calculate the Fair Allocation Amount (FAA) to ensure a proper alignment of the allocation of the intergenerational costs and benefits for each of the next 60 six-month reference periods.
 - OPG, in its role as FSM, is to produce Financing Plans that would set out funding obligations for each reference period consistent with the FAA.
- On September 28, 2017, the Minister sent a letter to the OPG Board Chair setting out FAA and readjustment amounts (RAs). ENERGY and OPG exchanged data to support the amounts included in the Minister's letter.
 - For GA Refinancing to proceed as planned under the legislation, OPG needs to go to market so that the GA deferral can be funded. Until such time that this takes place, IESO must manage the reduction in GA received from electricity consumers.
- OPG has advised that additional amendments to O. Reg. 206/17 (General) are required to satisfy accounting requirements prior to proceeding to market.
 - Proposed amendments would set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including mitigating impacts on CEAs payable by specified consumers.
 - Additional proposed amendments would clarify the operation of O. Reg. 206/17, including a mechanism for the recovery of financing entity carrying costs after the moratorium period when the FAA remains less than the amount of such carrying costs.

Next Steps:

- OPG is expected to complete its Financing Plan in November and to proceed with the initial debt issuance in late November or December.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

2) Business Items – IESO Cost Recovery for Security Vehicle

- In order for OPG to market the debt, a security arrangement (e.g. a Letter of Credit or other similar credit enhancement tool) is required to backstop smaller Local Distribution Companies (LDCs) that would not be expected to have any or sufficiently sound credit ratings during the years in which CEAs are collected.
 - IESO has advised ENERGY that it requires a funding mechanism to recover costs associated with the security arrangement, including carrying costs and any default costs.
 - Note: the risk of LDC default is considered to be low. However, OPG advised regulatory amendments are necessary to provide security to the market should such a default occur.
- Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* have been developed in order enable amounts related to the security arrangement to be recovered through from consumers through the Global Adjustment (GA).
 - ENERGY consulted with IESO, OPG/Tory's and the OEB during the development of the proposed amendments.
 - In the event of an LDC default – resulting in CEAs not being recovered from the relevant LDC – the amounts related to uncollected CEAs would be recovered from specified consumers, as defined in the legislation, through the GA.

Next Steps:

- The proposed amendments are expected to proceed to LRC on November 20, 2017, packaged with the proposed amendments to O. Reg. 206/17.

2) Business Items – Equity Injections

- To purchase the regulatory asset from the IESO, an OPG financing entity would be established and borrow funds from the following:
 - Capital markets (51%); and
 - Subordinated OPG debt, financed through equity injections from the Province (44%) and OPG, financing from capital markets (5%).
- OPG will require equity injections on an ongoing basis in order to provide the 44% share of financing for the financing entity to acquire the regulatory asset from IESO and keep its capital structure in line, and will require flexibility in order to issue shares to the Province as needed, under a share subscription agreement.
- The Ministry of Energy will be responsible for seeking approval for the investment envelope each year and managing the share subscription arrangement with OPG.
 - On a periodic basis, OPG will send a notice of share subscription to the Ministry of Energy, requesting a certain amount of equity based on the amount of the regulatory asset it plans to purchase in a fiscal year; the Ontario Financing Authority will flow the funds.

Next Steps:

- OPG and the Ministry of Energy Master Subscription Agreement and will proceed to execute in the coming weeks
- The Ministry of Energy will work with the OFA to ensure a mechanism is in place to flow the funds within the required timeframes after the request is made by OPG

2) Business Items – Subordinated Debt Agreement

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt and junior subordinated debt
- OPG proposes that OPG, the Fair Hydro Trust and the OFA will enter into a subordinated debt loan agreement, which outlines the terms of the subordinated debt.
- OPG has proposed that interest rates on the subordinated debt be established as follows:
 - During the Trust short term financing period, when bank facilities are used as funding vehicles, the interest rate on subordinated debt will be the sum of (1) funding rate on senior debt, and (2) additional spread margin of [xx], reflecting the credit rating difference between the senior and subordinated debt.
 - At the time when senior bonds are being issued to take out (term out) the short term financing, OPG will seek indicative coupon rates on the subordinated debt from dealers, reflecting the sum of underlying Government of Canada yield of equivalent term and the appropriate credit spread. The average indicative coupon rate from dealers will be calculated and set as the subordinated debt rate.

Next Steps:

- OPG to incorporate the Province's comments into the next draft of the Subordinated Debt Agreement, which is tracking to be finalized by the end of November (TBD).

2) Business Items – PILs Exemption

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, will be a trust (Trust).
- The Trust would be subject to tax under the *Income Tax Act* (Canada) and the Ontario *Taxation Act, 2007*.
- The beneficiary of the Trust will be a corporation (Subco) that will be directly or indirectly wholly-owned by OPG.
 - Subco, as a subsidiary of OPG, would be exempt from federal and provincial corporate taxes payable by private sector companies. Instead, Subco would be subject to tax under the payments in lieu of taxes (PILs) regime under the *Electricity Act, 1998 (EA)*, and would pay PILs to the Ontario Electricity Financial Corporation (OEFC);
 - PILs are used by the OEFC to help pay down its debt and other liabilities – OEFC is the legal continuation of the former Ontario Hydro.
- In order to mitigate the cost to ratepayers, a recommendation will be made to the Minister of Finance to make a regulation under the EA that would exempt Subco from PILs on income received by Subco as beneficiary of the Trust.
- Should OPG, as Financial Services Manager, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will consider making similar recommendations to the Minister of Finance.

Next Steps:

- Letter to OPG provide comfort that Subco will be exempt from PILs on income received as beneficiary of the Trust.
- The Ministry of Finance is working with OPG on a draft regulation, which is intended to be made by the Minister of Finance in the Fall of 2017.

3) Social Programs – Regulations

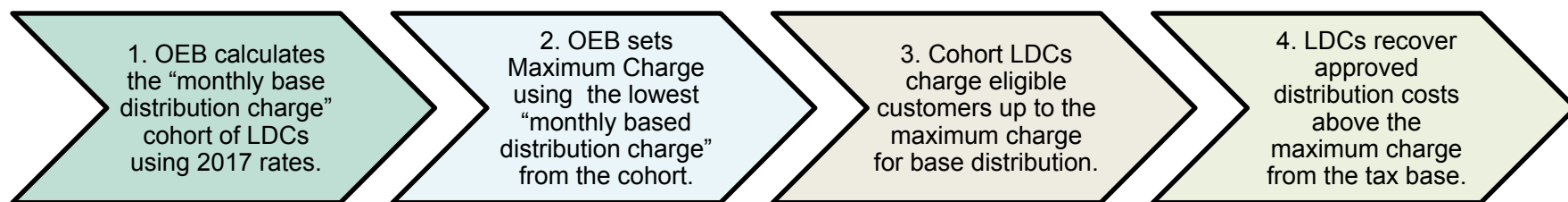
- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:
 1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit)** made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.
 2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers)** made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.
 3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).
 4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.
 5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.
 6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.
 7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
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 - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at \$36.43/month. The maximum charge will be updated at least once annually going forward.
 - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from \$1.66/month for the average customer to \$0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
 - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
 - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
 - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
 - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
 - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base. This will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
 - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government.
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
 - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
 - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
 - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.
- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.
- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.
- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

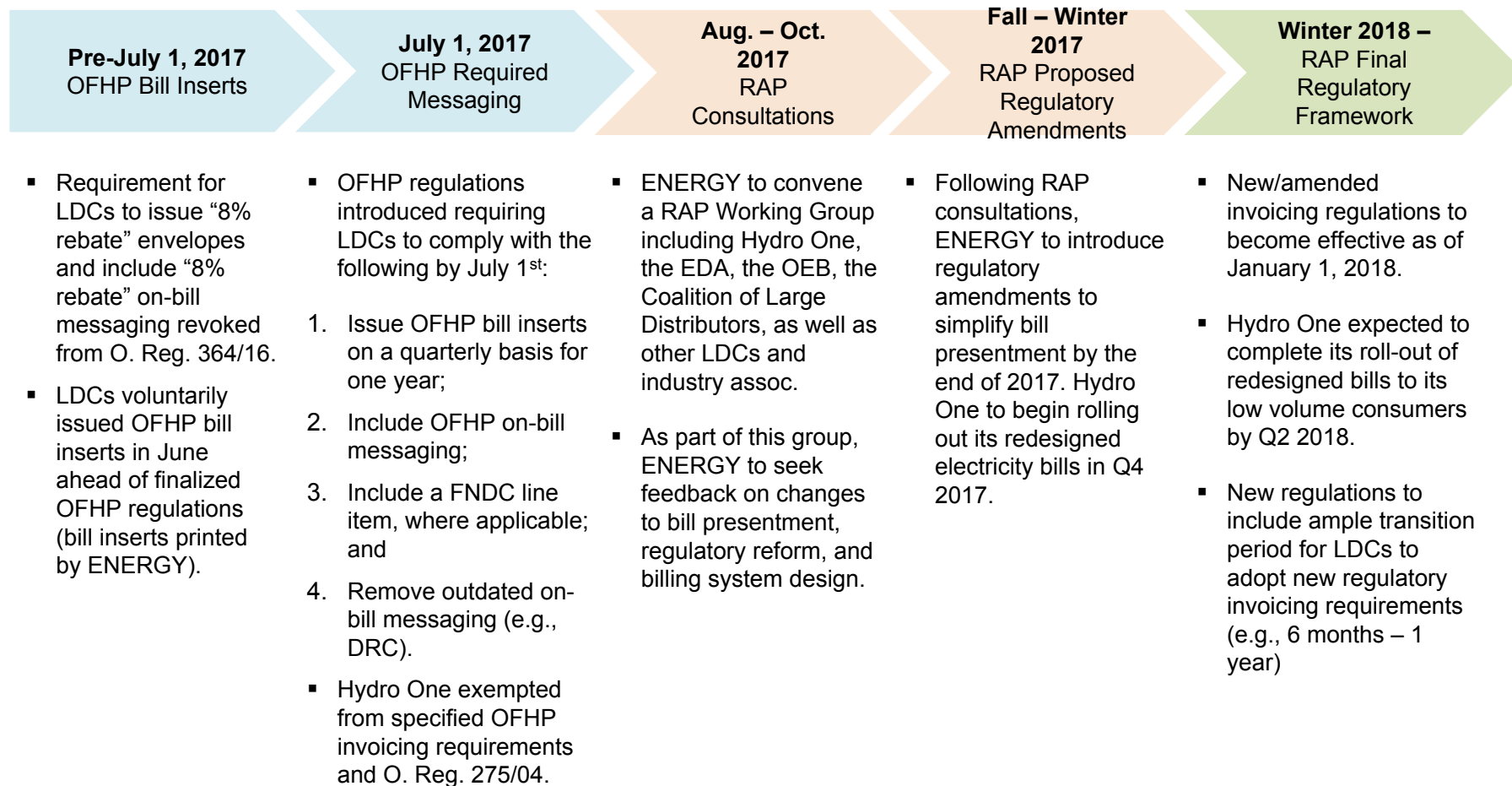
- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
 - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
 - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
 - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for \$00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

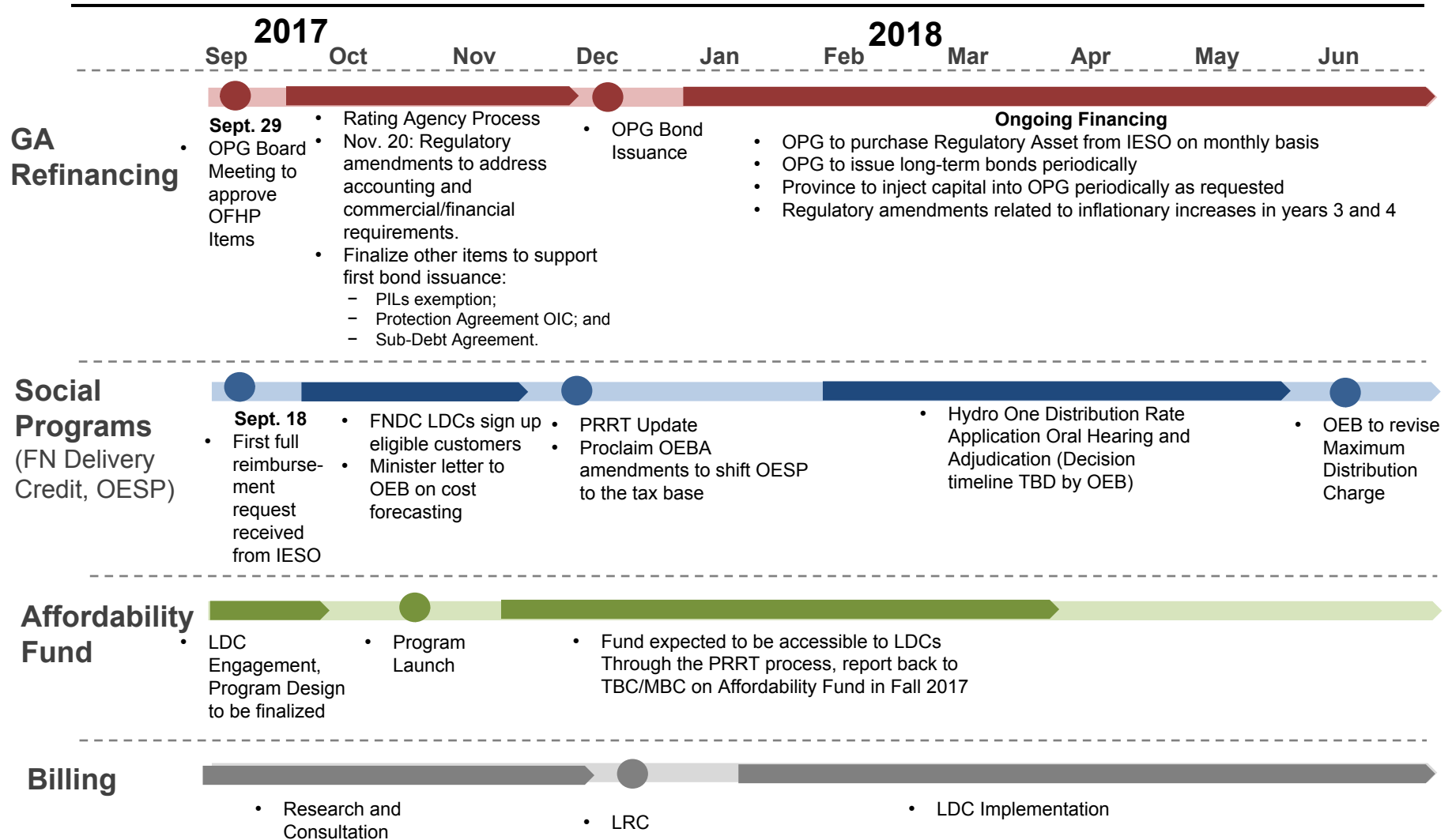
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
 - Enhancing the customer experience (e.g., providing more useful information);
 - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
 - Consolidating the regulatory framework; and
 - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
 - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
 - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:



OFHP Key Milestones



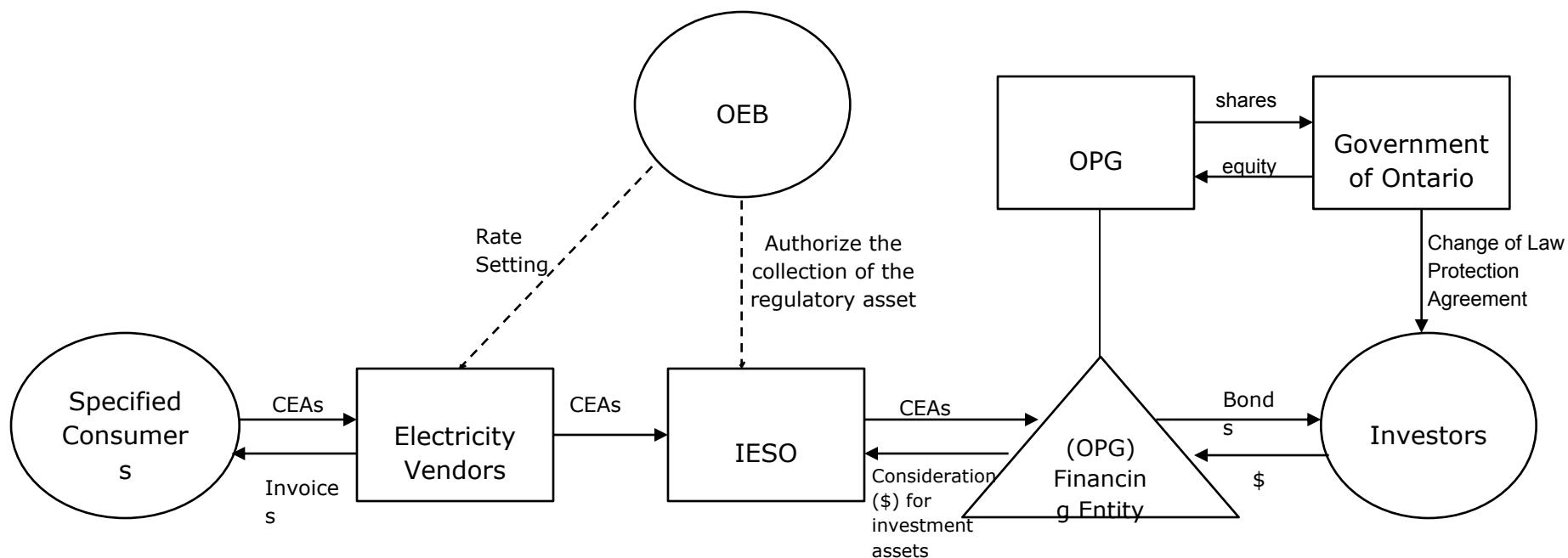
Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Affordability Fund Trust - Board of Trustees

- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government

Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”