
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 Plan Act, 2017* (OFHPA), 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 items:
 - Provincial support agreements;
 - OPG's Financing Plan / Mark Activity;
 - OPG's Equity Injection;
 - Protocol for Subordinated;
 - PILs Exemption; and
 - OPG / IESO Commercial Agreement.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Provincial Support Agreements

- A Change of Law Protection Agreement is being negotiated between the Province, OPG, the Issuer Trustee and the Indenture Trustee. An accompanying Change of Law Process Agreement is being negotiated between the Province and OPG, which covers procedural mechanics as pertains to the rights and responsibilities of the two parties.
 - 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. Note: OPG also requires the provincial support agreements to secure its “warehousing” credit facility.
- 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; and
 - 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.

Next Steps:

- Week of December 11, 2017, finalize and have Ministers sign the Change of Law Protection Agreement and Change of Law Process 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.
 - OPG has provided drafts of the Financing Plan to Ministry of Energy for comment.
- For GA Refinancing to proceed, OPG needs to be able to purchase the investment asset from IESO. Until the purchase takes place, IESO must manage the reduction in GA received from electricity consumers.
 - It is intended that IESO will be able to recover the balance of the variance account by the end of the calendar year.
 - In December 2017, OPG plans to utilize a “short-term” warehouse facility to fund investment asset purchases (expected to occur monthly moving forward), which will be periodically refinanced and repaid by long-term funding from the capital markets.
 - In January 2017, OPG will proceed to issuing senior notes in the capital markets.

Next Steps:

- Week of December 11, 2017, finalize the OPG Financing Plan pending conclusion of rating agency preliminary assessment and Ministry feedback.
- Week of December 18, 2017, OPG purchase of the investment asset from IESO and temporally warehouses the asset.
- In January 2017, OPG will engage capital markets (i.e., Vancouver, Toronto and Montreal). See OPG's more detailed Market Activities presentation.

2) Business Items – Equity Injections

- To purchase the regulatory asset from 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.
- The Ministry of Energy and OPG signed a Master Subscription Agreement on November 29, 2017 outlining the process for the periodic equity injections.
- The OFA will make the equity injection payments to OPG on the Ministry's behalf. This process is outlined in an OFA-ENERGY MOU that was signed on December 6, 2017.

Next Steps:

- First equity injection expected to be completed by week of December 18, 2017.

2) Business Items – Protocol for Subordinated Debt

- 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.
- The protocol outlines that the interest rate will be the aggregate of a Base Rate and Applicable Spread.
- OPG has proposed that interest rates on the subordinated debt be established as follows:
 - 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 based on a survey of at least five dealers.
 - 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 based on survey of at least five dealers.

Next Steps:

- OPG and OFA are working to finalize the protocol.

2) Business Items – PILs Exemption

- The first financing entity 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 (i.e., FHP2017 Inc.) that will be directly or indirectly wholly-owned by OPG.
 - FHP2017 Inc., as a subsidiary of OPG, would be exempt from federal and provincial corporate taxes payable by private sector companies. Instead, FHP2017 Inc., would be subject to tax under the payments in lieu of federal and provincial income taxes (PILs) regime under the *Electricity Act, 1998 (EA)*, and would pay PILs to the Ontario Electricity Financial Corporation (OEFC).
- In order to mitigate the cost to ratepayers, amendments to O. Reg. 207/99 under the EA are being drafted by MOF that would exempt FHP2017 Inc. from PILs on income received 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 recommending similar treatment to the Minister of Finance.

Next Steps:

- MOF is working with ENERGY and OPG to finalize a draft regulation for December / January (TBD).

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), crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario and to meet the implementation date of July 1, 2017.
 - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonquins of Ontario and non-status First Nation groups).
 - COO continues to advocate for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy focused on this issue at a meeting with Ministry staff on November 9, 2017 in advance of the Leaders in the Legislature & Energy Table meeting held on November 22, 2017.
 - The Ministry has indicated that it is open to further discussions and will need to assess the costs of expanding the program. The Chiefs Committee on Energy has committed to assist the Ministry with collecting information on delivery costs for Band owned buildings from all First Nations in Ontario.
 - The Chiefs Committee on Energy indicated that they would provide the information on delivery costs to the Ministry by the end of November.

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. MCSS has advised that it intends to bring forward a Treasury Board submission in January 2018.
 - The MCSS OESP call centre is now operational and is executing enrollment for SA clients. The call centre is directly contacting SA clients currently not enrolled in OESP by phone and letter. 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 in February 2018.
- The Ministry is also proposing changes to the OESP regulation to enable OEBA changes, and to transfer program administration authorities/responsibilities to the Ministry.
 - The OIC and regulatory package is will be scheduled for the next LRC date, which is expected on January 23.
- 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 by the OESP service provider, and anticipates a solution for Q1 2018.

4) Affordability Fund

- Ontario's Fair Hydro Plan (OFHP) 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:

- 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 intake form.
 - As of December 8, 2,043 applications have been received to date, of which 1,420 applications have been delivered to 45 active/pending LDCs. 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 Fall 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 in discussions with IESO to align Fund eligibility and measures with the Save on Energy Home Assistance Program (HAP).
- Program design will be an iterative process to enable continuous improvement based on feedback.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January/February 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

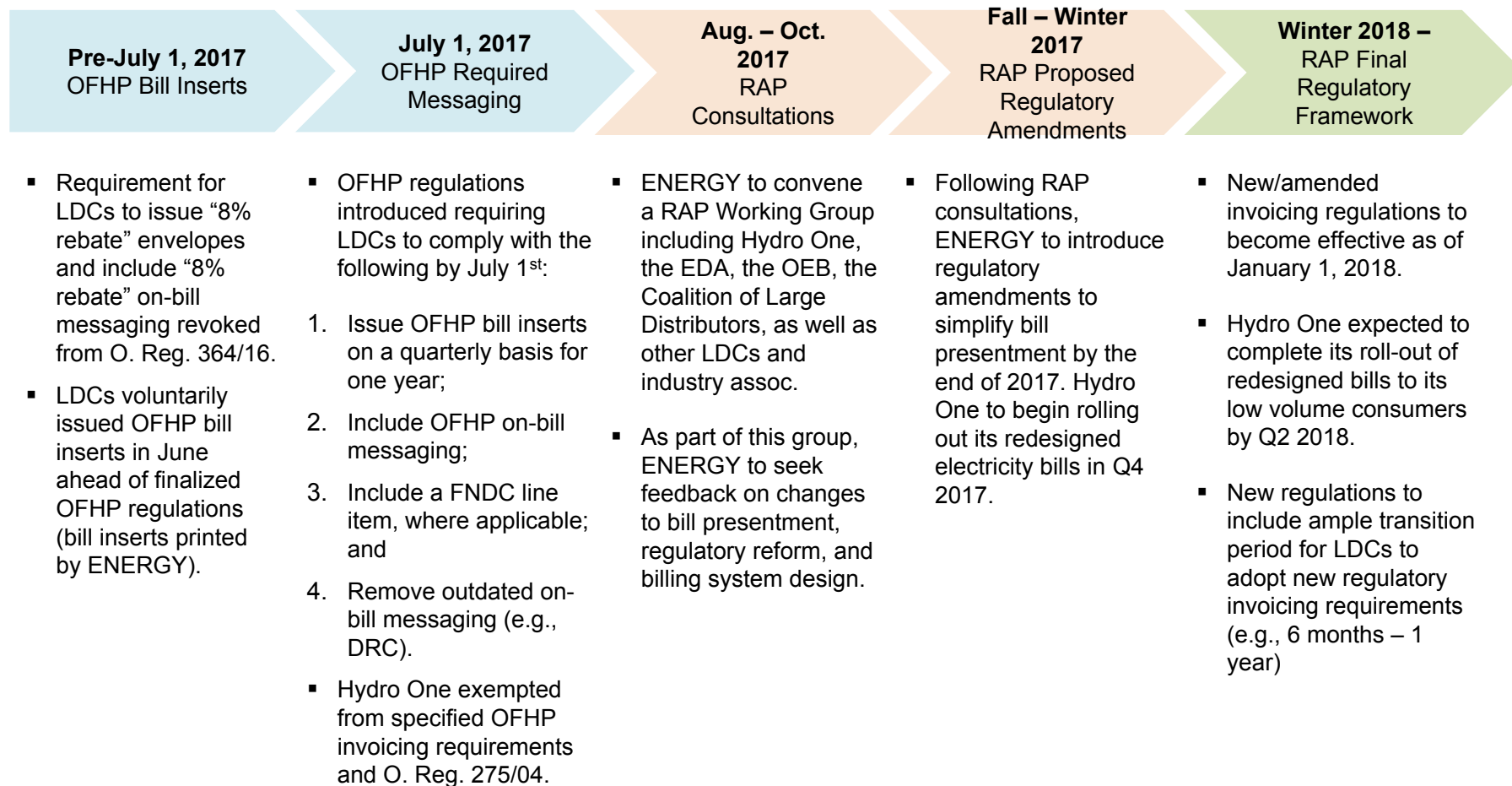
- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act, 2017* (OFHPA) and the *Ontario Energy Board Act, 1998* to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require 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)

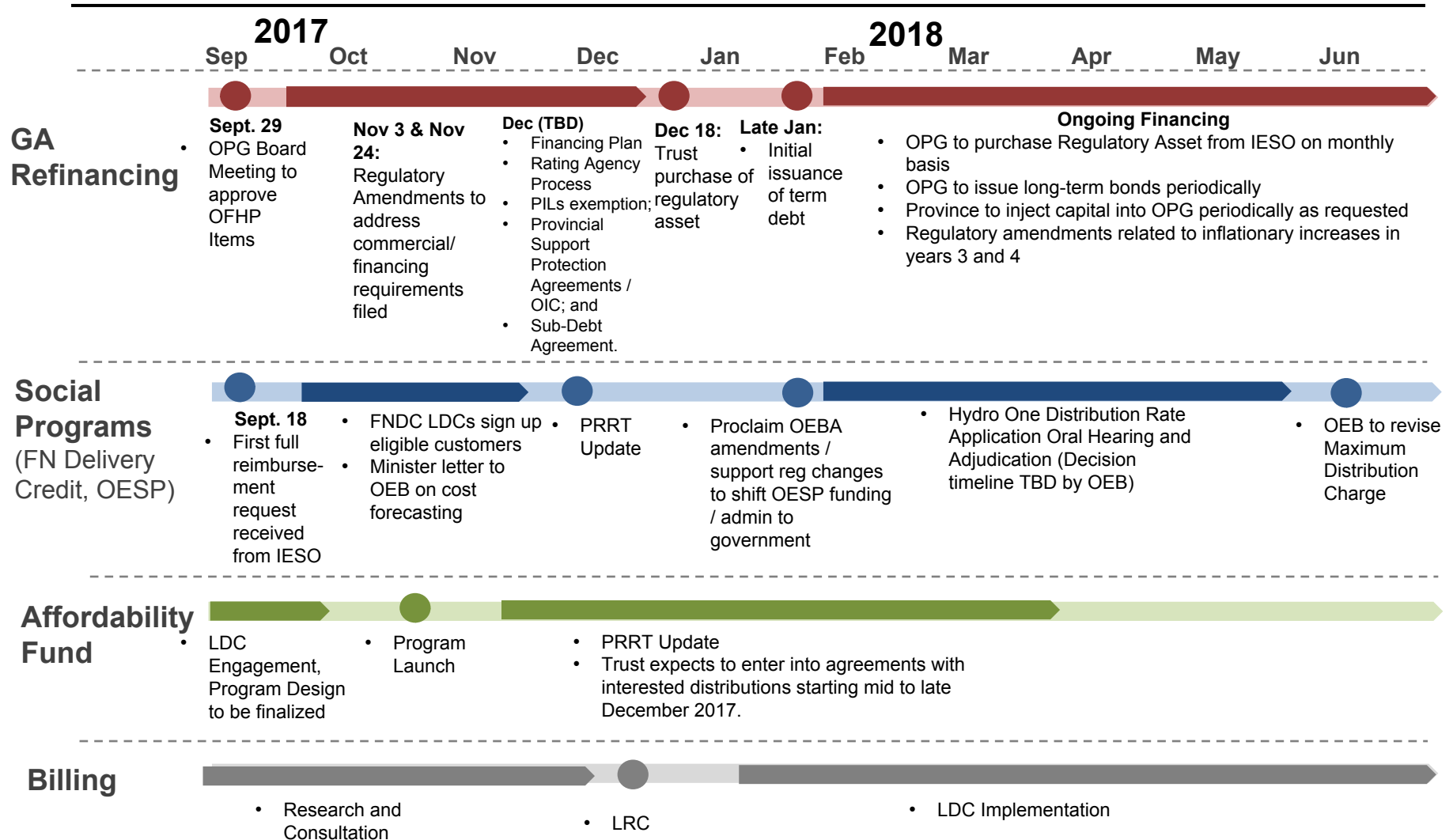
- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills 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.
- The Ministry went to LRC on December 11 to have LDCs produce dynamic messaging on their bills by March 31 2018.

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



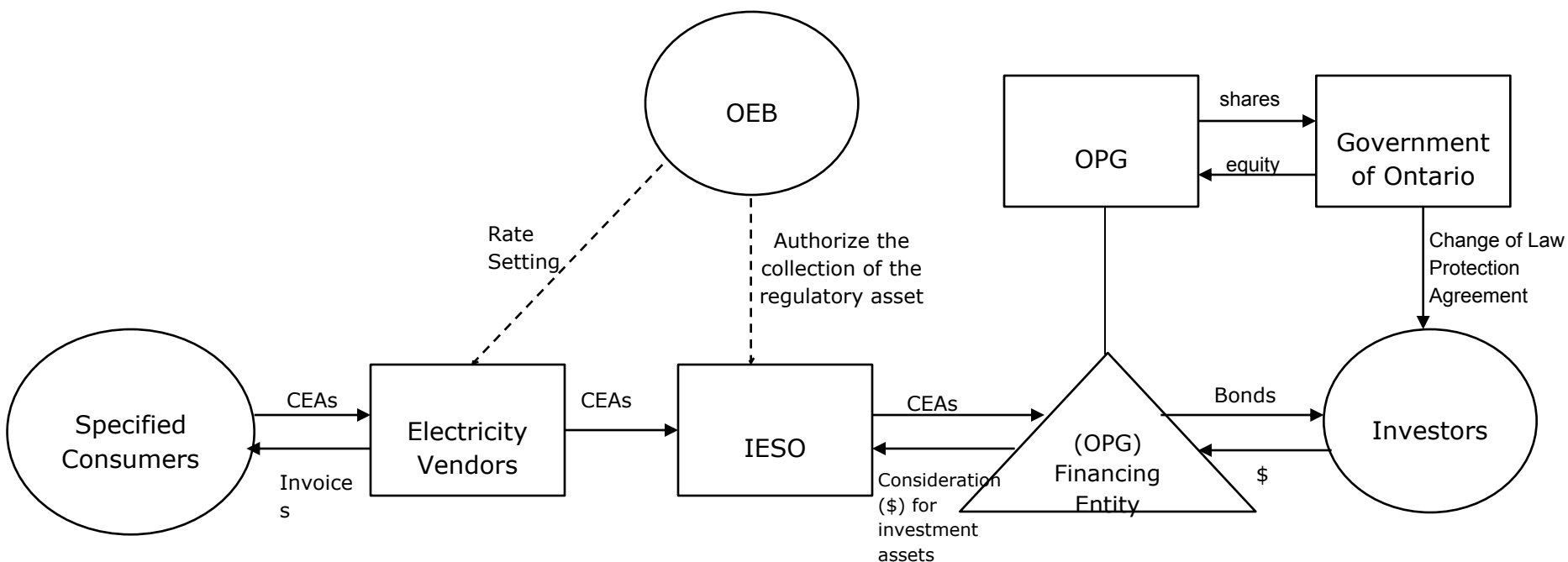
Appendix

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”