<u>Media Q&A – Energy (UPDATED)</u>

<u>On Fair Hydro Plan Legislation</u>

Q1. Once legislation is passed, how soon will rate updates take effect?

This proposed legislation includes the provision that gives the OEB 15 days from Royal Assent to determine updates to the Regulated Price Plan rates, enabling customers to receive the full benefit of the Fair Hydro Plan.

Q3. Were there any outside experts that disagreed with what you're doing?
In crafting the Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies
- Experts across government
- External accounting experts
- External legal advisors
- Financial advisors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.
Q4. When will the 'Fair Hydro Plan' expire?

Our proposed Ontario Fair Hydro Plan Act, 2017, with our other initiatives, would, if passed, lower rates by 25 per cent on average across the province for all residential customers and as many as half a million small businesses and farms,. The government has committed to hold increases to the rate of inflation for four years.

Under GA refinancing, initial analysis indicates that borrowing would occur for about 10 years. Initial analysis indicates that it is currently anticipated that loans will begin to be paid back in the mid-to-late 2020s The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible. This is a significant structural change that represents a fair solution to an issue that has unfairly burdened current electricity ratepayers. This does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills. This plan would deliver the biggest rate reduction in Ontario's history.

Commented [EK(1]: ESP to check

Q5. How did you decide how much to reduce rates by – 25%, 40%, 50%, etc.?

The amount of GA proposed to be smoothed out to later years reflects the projected lifespan of new generation built to update Ontario's electricity system. When combined with the 8 per cent rebate and shifting social programs to the tax base, the result is a significant rate reduction that will make a real difference in peoples' household budgets.

Q6. There are a lot of variables here – what is the chance this legislation won't work as planned?
In crafting the proposed Fair Hydro Act, 2017 the government has consulted broadly, including with:

Commented [EK(2]: Are we answering the question?

- Ontario's Energy Agencies
- Experts across government
- External accounting experts

- External legal advisors
- Financial advisors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province**.**

Q7. Why isn't the 4-year inflation part of the plan in the legislation? Why can't you commit to this promise via legislation?

Commented [DAC3]: Still working on response

Regulations offer the flexibility to respond to potential fluctuations in inflation rates in any given year.
The Ontario Fair Hydro Plan Act, 2017, would if passed, allow future increases to hydro bills to be set by regulation. This enables the government's commitment to hold increases, for four years, to the rate of inflation. By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

Commented [EK(4]: From backgrounder

Q8. Have you proactively engaged the Auditor General on this refinancing plan?

The Auditor General has received multiple briefings and all of the materials that have been requested to this point.

Q9. Is the Auditor General going to agree with all of this accounting?

We can't presuppose the work of the Auditor General. Our officials worked hard to assess all fiscal impacts and worked closely with both internal government and external accounting experts.

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The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Q10. We're at the end of the legislative session – are you speeding this through to avoid scrutiny?

Our promise has been to deliver real rate relief to Ontarians by this summer. We have consulted extensively with experts within and outside of government to craft a solution that will deliver substantial rate reductions to all households, and as many as 500,000 small businesses and farms.

<u>On Debt Refinancing</u>

Q1. How much debt are you borrowing?

The last decade has seen massive investments in improving our system. These costs need to be recovered, but it needs to be fair.

Part of that means moving the cost of social programs from the rate base to the tax base, and expanding support to certain vulnerable groups. The fiscal impact of this move would be $2.5B over the next three years - this cost is additional to our expenditure on the 8% rebate.

Commented [DAC5]: Fact check (officials have been saying $0.5B/year in briefings)

And part of that means sharing some of the costs of these investments with the future ratepayers who will continue to benefit from them. This element - the GA refinancing - is not expected to impact the fiscal plan.

Initial analysis indicates that the accumulated debt would not exceed $28 billion, including interest.**Q2. What will be the total interest paid on the accumulated debt?**

Commented [EK(6]: From backgrounder

Commented [EK(7]: FOR ESP for an answer

Initial analysis indicates that total interest will not exceed $25 billion.

Commented [EK(8]: From backgrounder

Q2. How does the borrowing work? In tranches?

Leveraging the expertise of both organizations, the government has introduced legislation that would enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to finance certain clean energy costs within the global adjustment (GA) over a longer period of time.

Under the proposed legislation, OPG would develop a financing plan, which sets out the funding obligations and amounts related to the financing of the deferred GA amounts. This plan would be submitted to the Minister of Energy. The Ontario Energy Board (OEB) would continue its role as regulator for the electricity sector. In particular, it would continue to set commodity rates for Regulated Price Plan (RPP) consumers, including any cost reductions under the Fair Hydro Act, 2017. Debt and financing costs would be recovered through adjustments to consumer bills.

Borrowing is expected to be done in tranches, as set out in the Financing Plan developed by OPG.

Q3. What happens if the OEB doesn't allow OPG/IESO to recover the exact amount it has borrowed? Will this saddle us with more unwanted debt?

The proposed Fair Hydro Plan legislation is written to prevent such a scenario. The proposed Act, together with amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, would enable Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to address payment, settlement and cost-recovery obligations and to manage the refinanced GA costs. The transaction is expected to be fiscally neutral to the province.

Q4. Is there going to be a new CEO of this OPG entity?

The financing entity would be managed by a a board appointed by OPG.

OPG has a great deal of experience managing the risks associated with borrowing through their experience developing capital-intensive generation projects as well as their management of Nuclear Funds.

Q5. Is this entity within OPG or IESO?

Leveraging the expertise of both companies, the government intends to introduce legislation that would enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to finance certain clean energy costs within the global adjustment over a longer period of time.

OPG, in its role as Financial Services Manager, would create the appropriate entity within which to manage its Financing Plan. Under the proposed legislation, OPG would develop a financing plan, which sets out the funding obligations and amounts related to the financing of the deferred Global Adjustment (GA) amounts. This plan would be submitted to the Minister of Energy. The Ontario Energy Board (OEB) would be responsible for approving administrative fees related to OPG's role as Financial Services Manager in respect of the GA refinancing.

Q6. Does this financing entity report in to the government?

The entity would be directly accountable to OPG.

Commented [DAC9]: Is this true? Or does it have some measure of independence?

Q7. What accountability measures and oversight will government have over the OPG financing entity?

While OPG would have independence in appointing the board of the financing entity. OPG is ultimately accountable to its sole shareholder, the Minister of Energy.

Commented [DAC10]: Ditto to Q6

Q8. Will you take advantage of the OFA's borrowing rates? Or will OPG secure their own?

OPG would finance the deferral of Global Adjustment through a mix of OFA financing and external private sector financing.

Q9. Could this level of borrowing/refinancing ultimately affect Ontario's credit rating?

The refinancing of the Global Adjustment would take place only within the electricity system – current ratepayers would pay less now, and future ratepayers in turn would help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal.

The refinancing is not expected to impact the fiscal plan.

Q10. What do you expect to happen after 4 years?

Based on current modelling, we project that borrowing will continue for about 10 years . Initial analysis indicates that it is currently anticipated that consumers will begin to repay the borrowed amount in the mid-to-late 2020s The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible.

Commented [EK(11]: From backgrounder

In the meantime, the government and our agencies are working hard to reduce system costs and to give consumers more choice. The IESO is embarking on a Market Renewal project to improve the way we procure and dispatch energy, which will save costs. And the OEB is piloting projects to give customers greater flexibility in how they consume and pay for electricity. These measures will help ensure that electricity bills stay low in Ontario.

Q11. What if financiers don't want to buy your debt?

Commented [CC(12]: This question relates to debt, so only to Sch. 1 of the bill – not the whole bill, which Q3 on p. 1 addresses. So the answer is slightly different.

In crafting the proposed Ontario Fair Hydro Plan Act, 2017 the government has consulted broadly, including with:

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- Experts across government
- External accounting experts
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- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Q12. You say you want to ensure fairness for this generation – how can you ensure fairness for our kids and grandkids if you're borrowing billions?

Future generations would be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Our proposed Fair Hydro Plan acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers would pay less now, and future ratepayers in turn help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q13. How long are you talking about refinancing for?

Our proposal would spread costs over a 30-year period. This is a more fair approach that more accurately reflects the lifespan of our generation assets, and spreads the cost out among those people who will use them.

<u>Original Fair Hydro Plan Announcement Qs&As</u>

Q1. What took you so long? How are you just realizing this now?

It did take too long, and we've talked about that. Our Fair Hydro Plan is part of a significant system restructuring that would address long-standing policy challenges and ensure greater fairness over the next three decades. It is crucial that we get it right.

While our government has taken steps to address rates with targeted relief and support programs - it was not enough.

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades governments pushed off the price of reinvesting in the system. This put too much of the burden on a single generation of ratepayers.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change.

And that's why we are proposing the structural change to the system that will give Ontarians relief on their bills.

Q2. How is this different from what was done in the past?

This proposal is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation of ratepayers. This is not a temporary solution, and it does not sacrifice investments in the energy system. We're proposing to change the way electricity costs are recovered, and to move funding for assistance programs off of hydro bills. This plan is the biggest rate reduction in Ontario's history.

Q3. Isn't artificially freezing rates what got us into trouble in the first place?

We've already invested over $50 billion in badly needed improvements to our electricity system. These investments will last Ontarians for generations to come, and it's only fair that more than one generation pays for them.

This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

We're proposing to change the way electricity costs are recovered, and to move funding for assistance programs off of hydro bills. This plan would result in the biggest rate reduction in Ontario's history.

Commented [CD(13]: Not reviewed by ESP

Commented [CD(14]: Not reviewed by ESP

Q8. Why are you saddling our kids with billions of dollars of debt?

So the good news is that we've created an electricity grid that is second-to-none. In the past few years we've invested more than 50 billion dollars in electricity infrastructure – new dams in the south, new towers in the north, and we plan to spend 13 billion dollars to refurbish nuclear power plants. These are enormously important assets that meet the demand for cleaner and reliable power everywhere in the province.

But we asked one generation – today's generation – to unfairly shoulder the burden of nearly all those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

Think of it in terms of a mortgage. We needed to rebuild the system and so we went to the bank for that money. The mistake we made was setting terms that weren't fair – particularly the amortization. Instead of paying off the mortgage over 30 years, we agreed to a term of 20. That means we pay things down faster. But the monthly mortgage payments – or, in this case, your hydro bills – are higher. And it doesn't really make sense since that house – or in this case the electricity system – is an asset that will continue to benefit people far past that ten year window. In effect, this generation is subsidizing not just those who came before, but those who will come next.

It was a mistake – and it has been notably unfair on today's hydro users. So we're fixing that.
We're renegotiating the mortgage and setting a new term that stretches over a longer period. Over time, it will cost a bit more. And it will take longer to pay off. But it is fairer – because it doesn't ask this generation of hydro customers alone to pay the freight for everyone before and after. The burden now will be shared more evenly and more appropriately.

Q9. Are you trying to buy yourself some time before the next election?

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades, mistakes had piled up on top of more mistakes. Putting too much of the burden on a single generation of ratepayers? That was a mistake. And asking hydro users alone to pay for policies that ought to be paid for by all taxpayers? That was a mistake also.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change.

Q11. You keep saying "immediate" but summer doesn't sound "immediate" to us. What about this spring?

Our proposed Fair Hydro Act, 2017 would, if passed, bring down rates, on average, 25 per cent this year. It would start to be seen on people's bills near the end of spring, early summer – just when people start to turn on their air conditioners.

Ontarians are already starting to see the benefits of our Fair Hydro Plan, through the 8 per cent reduction in January, as well as the Ontario Energy Board's May 1 rate update, which will deliver further savings to ratepayers sooner than expected.

Q13. You say you'll hold rates to increases of only inflation for 4 years – assuming that's 2% that brings you back to an 8% increase over those 4 years. How will that help Ontarians?

This proposal is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

We realize that energy bills have gone up too quickly in the past 10 years, so holding any future increases to the rate of inflation allows Ontarians to adjust accordingly and plan ahead. We believe this is a fair structural change to the system.

Additionally, it's difficult to implement savings in the short-term and takes a significant period of time to properly structure long-term savings across the energy system. This is primarily due to the complexities in the system and all the partners involved. That's why we have committed to holding rates for 4 years – allowing us to implement significant short-term savings, and also develop a long-term plan for additional savings in the 5th year and beyond.

Q15. Why aren't you bringing relief to large industrials?

Our focus was on families, farms, and small to medium sized businesses across Ontario.

However, larger businesses will still see a modest reduction in their electricity bills.

Through SaveOn Energy, many large industrials have already taken advantage of energy saving programs. And we also lowered the eligibility threshold for ICI to 1 MW, allowing additional consumers to benefit. But we know we can do more. That's why we are lowering the threshold again to 500 kW as part of our Fair Hydro Plan.

Q16. Where did this idea come from?

Our government met with many stakeholders over the last few months - our plan is a culmination of the feedback we received and hard work by officials to come up with options. Our government felt this was the strongest, fairest reduction and structural change to Ontario's electricity system.

Approximately 18 US states have passed similar legislation in the past to help spread out costs from today over a longer time period. These examples offer strong frameworks to help guide Ontario's own proposal. Duke Energy has used a similar mechanism to refinance the early retirement of nuclear energy. Long Island Power Authority also used a similar mechanism to spread out the cost of recovering the costs of debt.

Commented [EK(15]: This might be a better response to Q11 p6

Commented [CC(16]: The legal context in the US is completely different so it doesn't help us to highlight it.

Q17. What are you doing to tackle delivery charges for those in rural Ontario?

People living in rural and remote parts of Ontario have been paying much higher distribution costs, compared to people who live in urban areas.

We are going to be providing more relief on those distribution costs – supporting some 800,000 families.

Customers of LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma. The benefits would differ from LDC to LDC.

Q18. Will you negotiate an additional 5% off bills with the federal government?

This is up to the federal government.

Q19. Why not just legislate contracts on the private sector generators?

Commented [CC(17]: Not sure what this refers to.

We have already negotiated where we could - Samsung saved an estimated $3.7 billion in costs. We also received independent expert advice that said if we were to renegotiate, not only is it completely uncertain if we would get benefits, but the benefits would be negligible compared to the systemic changes we announced today.

The renegotiation process would be extremely complex and lengthy, and the advice we received stated that it is very unclear that the end result would be in the interest of ratepayers without any form of taxpayer subsidy.

The potential positive impacts are extremely small, not to mention potential litigation.

Q21. Why are you saying an average of 25%? Are some getting 50% while others get 0%?

We are proposing to triple the size of the cut we're making to people's hydro bills from 8 per cent to an average of 25 per cent. Electricity rates in Ontario would come down significantly, they're going to stay down and everyone would benefit.

Let me emphasize that last point – the cut would go to all households that pay for electricity. There will be no asterisks, no loop holes and no exceptions. And for those living in rural communities or with low incomes the break would be even greater – up to 40 to 50 per cent.

Q22. How much will this cost?

As I've stated very clearly, the last decade has seen massive investments in improving our system. These costs need to be recovered, but it needs to be fair.

Part of that means moving the cost of social programs from the rate base to the tax base, and expanding this support to certain vulnerable groups. The fiscal impact of this move would be $2.5 billion over the next three years - this cost is additional to our expenditure on the 8 per cent rebate.

And part of that means sharing some of the costs of these investments with the future ratepayers who would continue to benefit from them. This element - the GA refinancing - would not impact the fiscal plan.

Q23. How can you ensure this is feasible? What if interest rates go up and it impacts your borrowing?

We built in conservative estimates in our financial calculations. There's always a chance that interest rates rise or fall, but we are confident that we built in the necessary buffer in our estimates by using higher rates than are currently forecasted.

Q24. Will this rate decrease apply to curling rinks, hospitals, schools?

These facilities would receive a marginal decrease on their electricity bills.

If pressed: *approximately 2 to 4 per cent as a result of shifting the social support programs to the tax base.*

Q25. Doesn't this lower the incentive to conserve energy? It's against all your conservation efforts.

Our government remains committed to putting conservation first. Conservation is good public policy - it empowers individuals to lower their own bills, while reducing system costs and saving all Ontarians the cost of new generation and transmission infrastructure.

We will continue to encourage and support to ratepayers who are looking to lower their bills through conservation, by providing incentives and rebates through saveONenergy programs.

Q40. Will any proceeds from cap and trade will be used for the relief package? NGOs have been asking.

No.