Ontario

BACKGROUNDER

Ministry of Energy

Refinancing the Global Adjustment

Ontario's Fair Hydro Plan would lower electricity bills by 25 per cent on average for all residential consumers in the province. Small businesses and farms would also benefit from the initiative, with additional relief for people with low incomes and those living in designated rural communities with the highest distribution rates.

Decades of under-investment in the electricity system by governments of all stripes resulted in the need to make significant investments in generation, transmission and distribution assets. In addition, an important decision was made to eliminate Ontario's use of coal, building clean, renewable supply. Between 2005 and 2015, Ontario invested more than $50 billion in the electricity system, including $35 billion in electricity generation to ensure the system is clean and reliable. The costs of these investments are being funded in part through the Global Adjustment (GA).

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have already been paid for by this generation of ratepayers. This places undue strain on today's ratepayers today, and has resulted in electricity price increases over recent years.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing would be recovered from ratepayers. Under current forecasts, the immediate reduction in the GA would be about $2.5 billion per year on average over the first 10 years, for a total accumulated debt of about $28 billion on a forecast basis.

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

[Jurisdictional Scan – Insert examples of where this has been done in past]

Commented [SK81]: Would 'Smoothing' be an more appropriate term to use here.

The Global Adjustment is not currently 'financed' per se.

Commented [BB(2]: This cannot change. Must be reflected this way across products.

Commented [KR(3]: Not sure about this change – not sure the affected LDC service territories are all classified as rural – Parry Sound, for example.

Commented [KR(4]: Not sure about this.

Commented [SK85]: Note this includes $15B of H1 investment in Transmission infrastructure. Latest FES 2016 excludes this amount (unlike prior Budgets) due to H1 IPO.

Just want to caveat this discrepancy.

Commented [SK86]: There would be a different expectation if the generator would continue beyond the 20 yrs or end at 20 yrs. As a result, hard to say 'fully paid for'.

Commented [SY7]: Energy please confirm. Could be rephrased as: future energy could be purchased much lower rates.

Commented [SY8]: We recommend cutting that line.

Commented [KR(9]: "interest cost" IOD is with respect to the terminology for the Province, but the financing won't be all by the Province.

Commented [KR(10]: Suggest not including, as this is an estimate based on an assumed interest rate, which is not necessarily the actual interest rate.

For media inquiries only call:

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