Draft Agenda and Background information
Dinner meeting: Brian Bentz and Minister Thibeault
April 4th 2017

Issues for Discussion:

1- Simplification of on-bill messaging to accommodate new (and existing) rate mitigation measures
2- Net Metering
3- Ministry of Finance regulations impacting Alectra

1- Simplification of on-bill messaging to accommodate new (and existing) rate mitigation measures

Alectra Utilities has been supportive of the government's recent efforts to put measures in place to reduce customer bills. Alectra Utilities has provided analysis of proposed measures and has submitted sample bills to assist the government's communication exercise.

Alectra encourages the government to use the upcoming bill changes as an opportunity to simplify the on-bill messages.

Messages currently on the bill:

1- There are two line items related to the Debt Retirement Charge as follows:

Debt Retirement Charge	$0.00
Debt Retirement Charge Exemption saved you	$6.03

There is also a bill print message: *The Debt Retirement Charge was removed for certain residential consumption after December 31, 2015. Learn more at Ontario.ca/DRC.*

This is confusing to customers, has been in place since January 2016 and takes up two lines of very valuable bill print space.

2- There is a bill print message related to 8% rebate: *The Ontario government is providing a rebate on your electricity costs equal to the provincial portion of the HST.*

In Alectra's experience, the on-bill messages on an already complicated bill are confusing and are not actually helpful to customers. An increase in messages tends to also be expensive and additional requirements can be challenging for CIS to implement.

In addition to the mandated ones listed above, customers may also have custom messages about equal payment plan amounts, pre-authorized payment dates, late payment charges, security deposits (FYI - Alectra Utilities does not require security deposits for residential customers but others do), the Ontario Electricity Support Program, etc. The bills are very complex and Alectra Utilities has to use two pages in some circumstances, which customers do not like. They prefer clear, concise information on one page.

Complex messaging is not just a one-time implementation cost- it is an on-going incremental costs as well.

Recommendation: remove previous on-bill messages and replace with a standardized message: You have saved approximately 25% on your bill as a result of various initiatives of the government of Ontario. Customers have told us that their bills are not simple to understand, and that they have difficulty calculating their bills for savings. Customer feedback has told us that they want electricity bills to be streamlined and provide the information they need to know to manage their electricity consumption. An example of a part of the bill that could be streamlined is line losses. This item could be rolled into a line item for increased simplicity.

2- Net Metering

Background: Current Status of Regulation

The single entity net metering regulation has recently been published and represents a significant step forward in transitioning customers from FIT incentives to a provincial net metering regime.

Over the next 12-18 months, the IESO will be consulting on allowing for third party ownership and SEVNM/MEVNM (single/multi entity virtual net metering) to allow for the allocation of net metering credits to be decoupled from the ownership of generating assets. This would essentially allow a 3rd party to finance, own and install a system, and transfer the net metering credits to customers or groups of customers who either cannot afford to purchase a system or lack the required infrastructure to install one.

The government needs to pass legislation in order to enable the next phase of net metering (3rd party ownership and virtual net metering). Alectra Utilities recently participated in a Ministry of

Energy consultation on the two issues. The dinner with Minister Thibeault is an opportunity to further advance Alectra's position.

Consideration of 3rd Party Ownership for Alectra

Benefits:

Independent of what form 3rd party ownership takes, the utility has a vital role to play in enabling it both from a physical perspective (wires and meters) as well as via financial enablement (settlement).

Diversify revenue streams – Alectra companies could generate revenues through deployment of commercial/residential microgrids.

Benefit stacking – certain benefits like capital deferral and participating in Ancillary Service markets create additional revenue streams that other TPO's (third party operators) would not have access to (or would have a difficult time accessing)—essentially a big market advantage.

Hedge against Load Defection – With DER cost coming down and rates rising, customers will likely begin installing more behind the meter generation to offset grid consumption. Owning DER assets would allow Alectra to capture part of the value from this growing market segment to compensate for revenue loss.

Distribution Benefits – certain network issues can be addressed using DER's. 3rd party ownership allows Alectra to share the costs and benefits of strategically locating these assets in our network.

Alectra has existing expertise in settlement services that could be leveraged for producers and buyers, ultimately to the benefit of customers.

Considerations:

3rd party ownership could impact the traditional utility business model.

Utilities could face revenue loss related to fixed costs and cross-subsidization. Utilities have certain fixed costs. If customers are purchasing less electricity, utilities will still need to recover their fixed costs. Customers using DER assets physically separated from their location of usage would still require the physical distribution system for connection. As the utility makes the market – its revenue requirements still exist and are necessary.

Utilities could manage this revenue loss through net metering caps, new rate designs, etc., however with 3rd party ownership, the utility would still be required for the interconnection, and could monitor and manage where systems are located to ensure that they bring the most benefits to all ratepayers, including non-participants. Furthermore, if utilities own the assets themselves they could further address the revenue issue by offering specific subsidies for certain areas that correspond to the locational benefit they produce.

Finally, if system costs decrease enough, and energy prices increase enough, customers will install DER's without net metering, preventing the utility from having any visibility into where these assets get installed. Whether systems are owned by 3rd parties or not, this risk remains – customers will eventually go down this route with or without the utility's participation if the economics make sense (see Hawaii, California).

Recommendation:

Alectra should continue to advocate for 3rd party ownership in ways that restrict it to utility ownership. This could require greater flexibility in the utility business operations.

Many of the concerns with 3rd party ownership of net metering assets noted above (under considerations) are essentially mitigated through restricted utility ownership.

Below are some examples:

Customer Protection - Utilities have a responsibility to the public to be transparent and adhere to regulations due to their obligations as a regulated business. They also have strong customer relationships and public trust that are critical to preserve. As a result, they are less likely to design exploitative programs that could take advantage of customers.

Interconnection - As mentioned above, utility ownership could provide streamlined interconnection processes, since customer acquisition and interconnection are done under the same entity.

Locational Incentives - LDC's could benefit directly from the distribution level benefits that DER's could provide. As a result, they could provide additional, locational incentives to customers to support DER adoption.

DER's leveraged as LDC assets - Utility ownership of net metering could allow for some level of utility control, which would facilitate planning activities and potentially reduce distribution infrastructure costs.

Virtual Net Metering

Many of the same benefits apply as with 3rd party ownership, but in many cases the rationale for virtual net metering can get complicated if the geographic boundaries aren't limited. In other words, if customers from one service territory can receive credits from a generating resource in another, then billing and settlement could get complicated. In addition, it is harder to justify distribution level benefits if the source of generation is much further away from where the net metering credits are being realized. In the end, virtual net metering is a nice to have, but not as critical as 3rd party ownership.

Integrated Utility - Alectra needs to be an integrated utility in order to optimize the local market supported by the LDC's system (physically via wires to connect DER to customers, with meters to quantify the generation from the DER and record usage at the customer location, as well as the financial settlement via the billing system). Revenue streams will be still be required by the LDC.

Recommendation:

Delivery: Utilities will continue to provide the physical connection to net metering customers via wires, metering and billing systems. This is an ongoing function whether within Third-Party Ownership or Virtual Net Metering. The industry needs to ensure that this initiative results in costs for the distribution system being recovered from the customers directly benefiting from the program and that utilities are left whole.

3- Resolution of Dilution Tax issue with Ministry of Finance officials

Background:

Since May of 2015, Alectra's predecessor companies have been engaged in a series of discussions with the Ministry of Finance (MOF) on tax regulations impacting the distribution sector. Alectra has been concerned that the MOF was considering the introduction of a new "Dilution Tax" through new regulation, which would:

- Subject Municipal LDCs to an effective "capital tax" that would represent an economic barrier to raising third party equity capital through the creation of a new partnership structure, and the subsequent issuance of new partnership units for cash;
- New capital raised would be treated as a "pseudo minority sale", and would attract Transfer Tax. However, since most LDCs have accumulated PILs credits over the years, no actual cash tax would be payable unless and until the partnership was at least 30%+ owned by new private sector investors;
- New capital raised would also attract PILs (both CCA recapture and capital gains), as if it was a minority sale. This form of tax would result in immediate cash payments to the province, which would have to be deducted from the proceeds of the capital raise. This

form of tax would render the cost of new capital uneconomical such that Municipal LDCs would be unable to raise new capital.

As such, the proposed Dilution Tax would inhibit the ability of municipally-owned LDCs from raising capital for important investments and other initiatives. This is not aligned with the province's goal of seeing LDCs engage in delivery of more services in support of the Climate Change Action Plan, or the desire to see greater consolidation of LDCs.

O. Reg. 124/99:

On January 13, the Ministry of Finance posted proposed amendments to O. Reg. 124/99, Transfer Tax On Municipal Electricity Property, made under the Electricity Act, 1998.

The proposed amendments create a "dilution" based transfer tax. Proposed subsections 2(12) to (15) of the transfer tax regulations ("TTR") would apply to the issue of equity in a corporation, trust, partnership or other entity, that derives its value from property described in subsection (1), to a person other than a municipal corporation that owns, directly or indirectly an interest in that entity.

Alectra has consistently communicated to government that it would not object to the imposition of a new "dilution" form of Transfer Tax, (TT) as long as the affected entities had access to accumulated PILs credits in order to offset the TT. Unfortunately, based on our reading of the proposed regulations, there appears to be an inability to do this as the PILs credits reside in corporate entities several steps down the chain from the municipal shareholders, and there is no easy or obvious way for PILs credits to be moved up to the shareholder level in the event of a transaction which will be captured by this proposed regulation.

Alectra Meeting with MOF on February 21st, 2017:

In response to Alectra noting its concerns with the proposed regulation, the MOF arranged a meeting on February 21st. Alectra shared its understanding that based on the regulation posted, any proposed monetization will result in the immediate payment of a dilution tax by the upstream municipal corporations without any access to PILs Credits.

The MOF confirmed this understanding and shared that their *intent* is to ensure that all of the entities in the chain have access to PILs credits. However, this is only one of 4 "anomalies" that needs to be addressed via new Legislation. The other three anomalies that they have identified include:

- What happens to PILs in an amalgamation or re-org;
- 50% or more vs. 2 entities with 25% - ensuring pro-rata for each scenario; and
- Addressing the circular nature of some of the calculations.

Alectra emphasized the need for clarity in all regulation and legislation, as lack of clarity on tax treatment will restrict future opportunities. This matter is time-sensitive as the timeline to have access to the 22% transfer tax rate and exemption for MEUs with fewer than 30,000 customers expires at the end of 2018. At this time it is not expected that the government will introduce anything related to PILs dilution taxes resulting in CCA recapture and capital gains (Alectra pleased about this of course).

Next Steps:

The MOF has committed to trying to address this issue as part of the spring budget. It would be helpful for the Energy Minister's Office to assist in advancing it on Alectra's behalf.