ELECTRICITY PRICE MITIGATION DISCUSSION – MMMP
FEBRUARY 9, 2017

POTENTIAL SPEAKING POINTS

General Comments

- I want to thank the Ministry of Energy for developing options to deliver on government initiatives to lower electricity costs for consumers.

- I would encourage the Ministry of Energy to work with Ministry of Finance staff and Treasury Board Secretariat staff, including the Provincial Controller, on the analysis of the options to ensure that the government is well-informed on the options so that decisions are based on sound analysis and advice.

- I understand the need for mitigating electricity price pressures and to help those electricity consumers most in need but we could be creating new added cost pressures for decades to come under many of the GA-related scenarios.

- The options on the table - involving hundreds of millions to billions of dollars per year - require a significant amount of due diligence and review, and a full discussion amongst us and the full Cabinet.

- I understand that the details of the structure still need further analysis, such as on the accounting treatment and whether it would then affect the Province's Public Accounts.
  - A key fiscal objective is to have the entity performing the Global Adjustment deferral financing not be consolidated into Public Accounts on a line-by-line basis and avoid a fiscal impact.
  - Structures that have been looked at include a new, separate, non-controlled entity; restructuring the IESO as a government business enterprise (GBE); or OPG.
  - Some key considerations, generally and for accounting, is to evaluate if the entity is self-sustaining; and, if with the IESO or OPG, that it is a

business that sells goods and services to entities outside of the government reporting entity.
  - The entity would have to be able to recognise as an asset the future recoverability of the deferred costs, including the billions of dollars of accumulated interest costs.

- It is important to take the time to do a full analysis of the options to make sure that
  - They are properly costed based on the best information available, and with cost sensitivities identified too, if electricity costs or consumption volumes change, or if the interest rate environment changes.
  - The accounting treatment considerations are well-understood, that would affect how these options might affect our path to budget balance and the Province's net debt to GDP ratio.
  - The required legislative changes are well-thought out and drafted so that there are no surprises.

- It would be very important to get this right first to ensure the best possible launch of a major new initiative.
  - This will need to be considered carefully and not be rushed to meet some hypothetical public communications rollout timelines, and here will be significant communications challenges.

- It's also important to weigh any decisions on the electricity price mitigation options against other key government objectives:
  - Balancing the 2017 Budget in the 2017-18 fiscal year, and on-going.
  - Depending on the accounting treatment the Global Adjustment deferral options would add significantly to the challenge to meet the balanced budget commitment.
  - The fiscal exposure could be in the range of $6-6.5 billion per year in the non-targeted options, or in the $1.5 Bn to $3 Bn range if targeted to residential and small business consumers on the Regulated Price Plan.

- The accumulated debt in the broader plan could reach $90 Bn in the broad-based options, or a still significant $18 to $32 Bn in the RPP-targeted options.
- The various electricity price mitigation options would also compete with resources that could be used to meet other government priorities.

<u>Comments on Potential Options</u>

- Global Adjustment (GA) Smoothing
  - Using the GA to provide electricity rate mitigation to consumers will be providing a benefit to a wide range of customers, even if limited to Regulated Price Plan (RPP) customers, some of whom may be more or less challenged by electricity costs than others.
  - In an environment of other objectives on balancing the budget and other priority initiatives, focussing on targeting relief for the most vulnerable to electricity costs should be seriously considered.
  - Smoothing the GA amounts by deferring payments would add a significant amount of debt to be serviced and repaid by future ratepayers in the Province.
  - This would include a significant amount of interest cost associated with the GA cost deferral -- with perhaps almost as much or more in interest costs to be paid over time than the actual amount of cost deferred – just like a mortgage on a house.
  - Even at an assumed about 5% interest rate, that's a lot of added costs to future ratepayers, and they'd be exposed to potentially higher interest costs too, depending on who does the borrowing (the OFA or another entity), and future interest rates.

- I understand that a number of options have been explored on what entity would be established to be responsible for financing the deferred costs and holding the debt that it would to pay off from future payments from ratepayers: Potentially a new entity, or an existing entity such as the IESO, or, more recently, the option of restructuring Ontario Power Generation into a

holding company with a new subsidiary established to finance the GA cost deferral.
  - The objective would be to have a structure that could cost effectively defer the GA costs while not have an in-year consolidation impact on the Province's bottom line.

Other Options

- Tax-basing existing electricity price mitigation programs such as the existing Rural or Remote Rate Protection (RRRP) program and the Ontario Electricity Support Program (OESP) (combined about $400 million per year and climbing) would be a fiscal challenge.

  - As these are already supported on the rate base, with costs spread out widely, fiscal considerations should be raised.

- Aggressively pushing OPG to find efficiencies and building prospective cost reductions into OPG rates would be a significant fiscal exposure.
  - If OPG were not able to find these further efficiencies, that would result in a negative fiscal impact estimated at up to $240 M per year by Energy.