



LEGISLATION AND REGULATIONS COMMITTEE
BRIEFING NOTE

ENERGY
Fair Hydro Plan Implementation

DRAFT

Prepared without benefit of materials

Cabinet (info) Feb 15, 2017	TB/MBC and Cabinet March 1, 2017	Announcement March 2, 2017	TB/MBC May 9, 2017	Cabinet May 10, 2017	Introduction May 11, 2017
Royal Assent June 1, 2017	TB/MBC June 27, 2017	Cabinet June 27, 2017	Program Effective Date July 1, 2017		LRC / Cab

Summary of Proposal

[NTD: Placeholder for consistency with Cabinet direction]

Commented [TR(1)]: Is ENERGY proposing an variances from Cabinet direction?

Context for Decision:

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP). One component of the OFHP is refinancing a portion of the Global Adjustment (GA). The implementing legislation for GA refinancing, the *Fair Hydro Act, 2017*, was introduced May 11, 2017 and received Royal Assent on June 1, 2017. The OFHP expands the powers of Ontario Power Generation (OPG), the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) and puts in place mechanisms including appropriate payment settlement and cost-recovery authorities for and through the IESO to manage the deferred GA costs.

On June 14, 2017 new regulations were created under the OFHPA that support calculations related to GA financing, and O. Reg. 280/14 was amended to authorize IESO to borrow to fund the regulatory asset as part of the financing structure. On June 27, 2017 a new regulation was created under the OFHPA that details the roles and responsibilities of the Financial Services Manager (i.e., OPG), IESO and OEB.

Proposal:

ENERGY is proposing new regulations to further support the implementation of the GA refinancing structure including:

1. Amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges
2. Amendments to O. Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period.
3. Amendments regarding the "letter of credit" to backstop Local Distribution Companies (LDCs) in the event of a default
4. Amendments regarding OPG securitization

Commented [TR(2)]: Please provide additional details, which regulations would be amended?

Why does Ontario need these changes? Why now?

Addressing rising electricity prices is among the highest priorities for Ontarians. Approval of the proposed regulations is needed now for OPG to begin financing the debt incurred from GA cost deferral.

How will this proposal impact Ontario?

Refinancing a portion of the GA is expected to lower bills by 25% for a typical residential consumer, starting in the summer of 2017. The proposed amendments would affect all specified consumers, to whom the "Fair Adjustment" applies.

Commented [TR(3)]: Are the proposed amendments expected to have any ratepayer impacts?

What is the expected cost to government?

The GA refinancing structure is established in the *Fair Hydro Act, 2017*. It is expected to result in: (1) increase in provincial gross debt (to finance the equity injection in OPG) offset by an equivalent in regulatory assets resulting in no change in net debt, and (2) an increase in interest on debt paid by the province offset by higher earnings from OPG resulting in no impact on annual deficit of the province. The proposed regulations would support the implementation of this refinancing structure.

What are the key steps to deliver this proposal?

The proposed regulations would take effect on X.

OPG would begin recovering management fees on X and the OEB would review those fees as per the methodology established in the regulation beginning / for the time period X.

It is expected that OPG would begin purchasing monthly regulatory assets from the IESO on X. It would then sell or securitize all or part of the regulatory asset to other parties in exchange for a funding obligation beginning / for the time period X.

Commented [TR(4)]: Please provide details on the roles of OPG and the OEB in implementing the regulatory amendments.

Commented [TR(5)]: Please advise on the timelines associated with each proposed regulatory amendment

Commented [TR(6)]: Is ENERGY requesting an exemption from the Twice Annual Effective Date?

How will the changes be communicated?

Commented [TR(7)]: CO comms to review

[NTD: CO Comms to provide]

Cabinet Office Analysis

On March 2, 2017, the government announced Ontario's Fair Hydro Plan (OFHP), which is expected to lower bills by 25% for a typical residential consumer, starting in the summer of 2017. The *Fair Hydro Act, 2017* (OFHPA) establishes the framework to refinance a portion of current Global Adjustment (GA) costs as part of the OFHP. The refinancing methodology defers a portion of the current GA costs to future ratepayers, recognizing the longer term benefit of many of these generating assets to the electricity system. ENERGY is proposing to establish regulations that would support the implementation of this initiative.

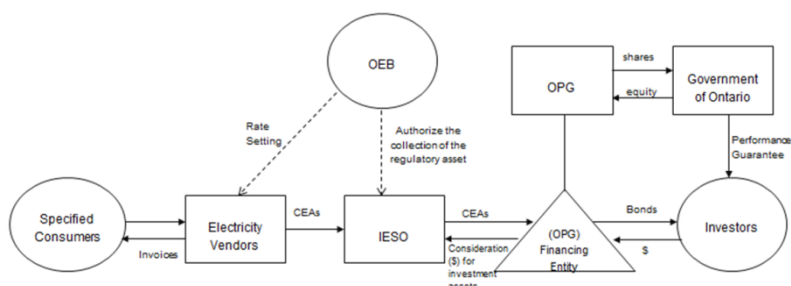
Financing Structure

Under the GA financing structure, the Independent Electricity System Operator (IESO) records the GA cost recovery deferral as a "regulatory asset" (regulated by the Ontario Energy Board (OEB)) to be collected at a future time from "specified consumers" ("the Fair Adjustment" and "IESO deferral"). As a result, specified consumers will receive a reduction in electricity rates from July 1, 2017 to June 30, 2018. IESO may then sell the regulatory asset, at which time it becomes an "investment asset."

The Minister of Energy, following the principles in the Act and regulations, will regularly calculate the "Fair Allocation Amount" to ensure a proper alignment of the allocation of the intergenerational costs and benefits in relation to each of the next 60 six month "reference periods." Based on the Fair Allocation Amount, the Financial Services Manager (OPG), through financing entities, will debt finance the GA costs. The financings will be backed primarily by the clean energy adjustments payable by specified consumers. The clean energy adjustments will track the actual payment obligations incurred by the financing entities when they become due and payable.

OPG, in its role as the Financial Services Manager, will calculate the aggregate clean energy adjustment payable in each month of the reference period, and, to ensure intergenerational fairness, these amounts would be managed to ensure consistency with the fair allocation amounts. OEB will calculate the rates at which the clean energy adjustment would be collected from specified consumers.

To recoup the costs associated with the fair adjustment, consumers will be invoiced the clean energy adjustment on their electricity bills through existing IESO and Local Distribution Companies' (LDC) processes, which will be channeled through to pay each financing entity's related funding obligations. The clean energy adjustments will appear on customer's bills once repayment of the accumulated debt begins.



Note: CEAs are “clean energy adjustments”.

Proposal

Under the GA refinancing structure, OPG will be the Financial Services Manager. In this capacity it will take on the risk and responsibility of financing the deferral by purchasing monthly regulatory assets from IESO. OPG will finance these purchases through a combination of an equity investment by the Province and external private sector financing. The proposed regulatory amendments would allow OPG to begin financing the debt incurred from GA cost deferral:

OPG Management Fees: OPG is allowed to charge a management fee for its services made up of a base fee, variable fee and Third-party costs (e.g. banking fees). Proposed amendments to O.Reg. 206/17 would...

Commented [TR(8)]: Please provide details. Would the amendments set out the management fees in the regulation?

OPG Fees and Interest Recovery during the Inflationary Cap Period: According to OPG accounting advice, interest and fees must be recovered during “inflationary cap” period for GA Refinancing to proceed as planned under the OFHPA. The proposed amendments to O.Reg. 206/17 would...

Commented [TR(9)]: Please provide details

Letter of Credit: A letter of credit is needed between OPG and IESO to backstop smaller LDCs without ratings in the event of a default. Proposed amendments would...

Commented [TR(10)]: Please provide details

OPG Securitization:

Linkages:

Long-Term Energy Plan (LTEP) – Ontario is preparing to release a new LTEP in summer 2017. The LTEP identifies needs for investments over the shorter term, while broadly mapping out the direction of the sector over a 20 year timeframe. The LTEP will balance the principles of affordability, reliability, clean energy, community and Indigenous engagement, as well as conservation and demand management.

Electricity Rate Mitigation Initiatives – The *Ontario Rebate for Electricity Consumers Act, 2016*, (ORECA) put in place a rebate for an amount equivalent to the 8% provincial portion of the HST for eligible residential, small business customers and farms, beginning January 1, 2017.

The Ontario Clean Energy Benefit (OCEB) – Was a five-year legislated program put in place as a broad-based, transitional measure to a cleaner electricity system. OCEB was also put in place following the implementation of the Harmonised Sales Tax (HST). Unlike the previous provincial Retail Sales Tax (RST), the HST (and GST) included electricity in the taxable base. OCEB program ended on December 31, 2015.

Debt Retirement Charge – On January 1, 2016, the government ended the electricity DRC on residential users, which was earlier than previously estimated. For all other consumers the DRC will be removed by April 2018, also earlier than previously estimated.

Affordability Fund – Approved as part of OFHP, and under development, the Affordability Fund is intended to provide energy efficiency measures to Ontarians who are not eligible for low income conservation programs, and who are otherwise unable to make energy efficiency improvements without financial assistance.

Ontario's Climate Change Action Plan (CCAP) – The CCAP, released in summer 2016, reiterated the 2016 Budget commitment and stated that Ontario intends to invest in initiatives that both reduce greenhouse gas (GHG) emissions and ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to \$2 per month, on average, to residential consumers. This commitment to residential consumers was exceeded by the January 2017 8% rebate.

Other Jurisdictions:

Overall, the established GA refinancing structure is unique to Canada.

[NTD: ENERGY to advise on how proposed management fees compare to other financial service managers that provide similar services]

Stakeholder response:

General public – Generally supports the GA refinancing initiative, which is projected to provide up to 25% in rate relief (including the 8% announced in 2016) for a typical residential consumer, but also question the longer term implications. [NTD: how is the public expected to react to the proposed management fees?]

OPG- [NTD: What is OPG's view on the proposed fees?]

OEB- [NTD: What is the OEB's view on the proposed fees and review process?]

Risks:

Terms you need to know

- **Global Adjustment (GA)** – The GA accounts for the difference between generation costs (contracted and rate-regulated) and the wholesale market price in order to recover fixed costs, including capital costs, of putting in place and

operating Ontario's generation fleet, as well as the cost of conservation and demand management programs. The GA is instrumental in maintaining a reliable electricity system by ensuring that sufficient generating capacity is available.

- **Regulated Price Plan (RPP)** – Since April 2005, the Ontario Energy Board (OEB) has administered an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the price paid to generators. This pricing plan is known as the Regulated Price Plan (RPP). About 5 million residential consumers, small businesses and farms are eligible for the RPP.
- **Ontario Power Generation (OPG)** – A business corporation owned by the Province that owns and operates generation assets, including nuclear and hydro, and generates almost half of Ontario's electricity.
- **Ontario Energy Board (OEB)** – A Crown Agency that independently regulates Ontario's electricity and natural gas sectors in the public interest. Implements an open and transparent process to allow for stakeholders to participate in quasi-judicial proceedings and formal stakeholder consultations.
- **Independent Electricity System Operator (IESO)** – An independent corporation established under the *Electricity Act, 1998* that operates the electricity market in Ontario. Balances the supply of and demand for electricity in Ontario and then directs its flow across the province's transmission lines, including interties with other jurisdictions.
- **Specified Consumer:** The defined group of consumers to whom the "Fair Adjustment" applies. Prescribed consumers include residential consumers, farms, small businesses, condominiums, long-term care homes and co-operative housing. These are primarily consumers eligible for the RPP, and aligns with the eligibility under the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA).