Entity Mandate

- The Following table depicts either a prescriptive or flexible mandate for a new entity established to manage Global Adjustment (GA) smoothing.
- This mandate could be established through legislation or through a combination of legislation and the constating documents of the organization.
- The focus of the governance principles would be to reinforce the independence of the entity from Government.

Element	Prescriptive Mandate	Flexible Mandate
Objective	- Smooth impacts of the Global Adjustment Mechanism (GAM) in order to allocate costs to ratepayers across a [25 / 30] year time horizon, in accordance with the following parameters - OEB oversight (annually) but no licensing or rate-order. - Could have OEB set overall cap for collection each year, allowing entity to recover according to prescribed rules within specified range.	- Smooth impacts of the Global Adjustment Mechanism (GAM) in order to allocate costs to ratepayers across a 25-35 year time horizon, guided by the following parameters - All decisions to balance the interests of current and future ratepayers, taking into account factors including but not limited to: o Current and expected future demand for electricity o Current and future expected number and composition of ratepayers o Total cost of electricity and expected future changes to the cost of electricity - OEB oversight (annually) but no licensing or rate-order. o Could have OEB set overall cap for collection each year, allowing entity to recover at will within specified range. o Could accommodate moderate role for OEB to manage/supervise entity's (and IESOs) collection schedule.

		o Ambit of OEB role could be constrained by reg. - Current and expected future interest expenses
Sources of Financing	- Borrow via the Ontario Financing Authority (OFA) under commercial terms	- Seek lowest cost of financing either from the OFA or 3rd party lenders in order to balance cost and risk to ratepayers - Develop and deploy borrowing strategies to minimize cost and mitigate risk to ratepayers, considering factors above
GAM Payment & Financing Approach	- Legislated loan and interest repayment mechanism with recourse to rate-payers only (cost of capital and financing costs) - In year 1 provide $X billion to finance the cost of GAM (hereafter known as "Annual Financed GAM Payment"), offset by a deferral account to be recovered from ratepayers - Over years 2 to x, reduce Annual Financed GAM Payment amounts, relative to the year 1 total ($x billion), such that the decrease is not greater than 2% of the total annual cost of GAM from the prior year - Starting in year 1, recover, on a monthly basis, interest expenses related to accumulated debt from electricity ratepayers - Reduce Annual Financed GAM Payment amounts to $0 or less (once less than $0, this becomes a charge to ratepayers) in 12 to 15 years - In years a to b, Recover accumulated debt via a charge to ratepayers over remaining 10 to 13 years (25 years total),	- Legislated loan and interest repayment mechanism with recourse to rate-payers only (cost of capital and financing costs) - In year 1 provide $X billion to finance the cost of GAM (hereafter known as "Annual Financed GAM Payment"), offset by a deferral account to be recovered from ratepayers - Each year, the New Entity will submit plans for approval to the OEB that propose a rolling [5 yr / 10 yr] declining Annual Financed GAM Payment schedule , such that the annual decrease is not greater than 3% of the total annual cost of GAM from the prior year. - Legislate or prescribe criteria OEB to apply in approving or requiring changes to such schedule. - Manage the recovery of interest expenses and administrative costs related to accumulated debt from electricity ratepayers, subject to OEB review - Manage the recovery of accumulated debt over a 25-35

<table>
<tr><td></td><td>- provided that the annual increase in the charge to ratepayers is not greater than 2% of the total annual cost of GAM from the prior year</td><td>- year period
- Financed Annual GAM Payment schedules and recovery of accumulated debt should take into account the interests of both current and future ratepayers, while ensuring long term financial stability for the new entity.
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<tr><td>Mechanism for Recovery from Ratepayers</td><td>-</td><td>-</td></tr>
<tr><td></td><td colspan="2">- Legislation would provide the entity with the right to recover debt, interest and administrative costs from rate payers.
- Prescriptive mandate: legislation prescribes who pays and in what proportions
- Broad mandate: Board has discretion to determine recovery.
Amendments to Electricity Act, 1998 could specify:
- Amendments to IESO mandate (objects) and GAM provisions to authorize IESO to receive and pay amounts from and to entity;
- monthly amounts to be settled (separately) with IESO, distributors/retailers then collected from consumers and settle with IESO. IESO makes payments to entity. Separate reporting can be explicitly mandated.
- IESO to report annually to OEB about these settlements separately.
- Variance accounts established within entity, IESO, distributors to track payment flows and variances. OEB oversight of accounts (reporting only)
- Optional: OEB could set overall cap for annual recovery and/or manage repayment schedule or could be prescribed.
- Amendments to OEBA: “Rate mitigation” added to Board’s objectives re electricity;
- IESO specifically required to make payments to entity:
-</td></tr>
<tr><td>Ontario Energy Board Oversight</td><td colspan="2">- OEB could receive and review annual report from entity.
- No OEB license or rate-order for entity (light touch) versus overseeing repayment schedule or even fixing / approving same (closer to rate-making).
- OEB could set cap or repayment schedule. or
- OEB could fix entity’s rate: OEB’s approval of internal/operating costs together with approval of schedule and setting hard cap.
- New Entity to submit to the OEB on an [annual] basis its rolling 5 year declining Annual Financed GAM Payment schedule and / or recovery</td></tr>
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	- mechanism from ratepayers to demonstrate that the plan aligns with its mandate and maximizes benefit to both current and future ratepayers, while mitigating risks - New Entity to submit annual business plans to the OEB for review and approval. This review would exclude any pre-existing debt obligations and would ensure that all associated debt covenants are respected
Contract with IESO	- New Entity to enter into a commercial, contractual arrangement with IESO whereby IESO will collect a portion of GAM to service debt (see cost-recovery amendments above) - Once the GAM payment switches to a charge (as described in “GAM Payment & Financing Approach”), the New Entity will contract collection from ratepayers to the IESO, while retaining all rights and obligations associated with collection of this charge - The contract between the New Entity and IESO will establish an annual (monthly?) mechanism to reset payment and recovery amounts, as established by through the Ontario Energy Board review process described above