Electricity Price Mitigation

Deferral of a portion of the Global Adjustment -- LDC long-term receivable option

Preliminary Analysis

Option	An amount of the deferred GA is billed to the LDCs, however, the payment terms are extended into the future (e.g. a long-term receivable from the LDCs) Example (ignores time value of money/interest) • GA = 100 • Amount to be deferred from the ratepayers bills = 30 • LDCs are billed 70 (amount not deferred, due based on current payment terms) + a percentage of the 30, based on the minimum amount that would be expected to be billed to the LDC based on modelling future consumption • If 75% of the 30 were billed with extended payment terms, 22.5 (30*.75) would be set up as receivable from the LDC (Note – this example does not consider time value of money/interest, which would need to be considered)
New entity required	No
Quantum of amount of long term receivable from the LDCs	Based on the [minimum] amount expected to be billed to LDCs Actual amount to be collected from each LDC will be based on consumption; modelling will be required to estimate the amount
LDC implications	Would be required to account for the long-term payable to the n their financial statements. Impact to LDCs to be determined (e.g. credit rating, borrowing capacity, etc.) Expect that most LDCs would be able to offset the fiscal impact with a regulatory asset; some LDCs do not follow rate-regulated accounting – may be a fiscal impact to them as expect they would not be able to set up a receivable from ratepayers.
Direct Connect implications	To determine percentage of GA billed through LDCs vs. direct connects and determine if there would be a different billing arrangement for direct connects
Borrowing requirement	Province required to borrow full amount for deferred portion of GA + interest

Accounting issues:	
What entity holds the receivable from the LDCs?	Expect this to be IESO – and in the "market books" Note -- Currently "market books" are not consolidated with the Province; IESO is preparing an accounting analysis on this issue; current expectation is that "market books" should be consolidated, but analysis is not complete; analysis expected by end of week.
What is the accounting for the long-term receivable from the LDCs?	Expect long-term receivables to be recognized by the Province and classified as financial assets (e.g. receivables will offset additional borrowings in computation of net-debt). Need to determine how interest is charged on long-term receivables; preliminary view – interest would be charged on long-term receivable and interest income would be recognized annually and added to long-term receivable balance. Interest rate to be set (same as borrowing rate of province?)
What is the fiscal impact of this option?	Preliminary analysis – fiscal impact would be based on the portion of the deferred GA that is not billed to the LDCs/direct connects. Based on the example above, the fiscal impact would be 7.5 (30 deferred GA less 22.5 billed to LDCs with extended payment terms. Fiscal impact may also include any spread between province's borrowing rate for new debt and rate charged on long-term receivables from LDCs (+/-)
What are the risks to the analysis?	Ability to collect from LDCs if estimates are wrong (too high) – may impact valuation of receivables from LDCs and create additional fiscal impact To confirm if/how Hydro One would be impacted by this scenario and any implications to consolidated financial statements through use of modified equity accounting (none currently identified).
Other	TBD