STANDING COMMITTEE ON PUBLIC ACCOUNTS
Ministry of Energy Top Line KMs/QAs
December 2015 – AG Report on Electricity Power System Planning

KEY MESSAGES

- We agree with the Auditor General (AG) that a clear planning process is critical for Ontario's electricity system. The AG's in depth analysis has provided helpful insights on the future of Hydro One's business and broader electricity planning in Ontario.

- The Ministry agreed with the AG's recommendations and committed to implement these recommendations through two pieces of legislation: The Energy Statue Law Amendment Act, 2015 and the Strengthening Consumer Protection and Electricity System Oversight Act, 2015.

- The Energy Statue Law Amendment Act, 2015 received Royal Assent on June 9, 2016 and was fully proclaimed into force on July 1, 2016. Since the passage of Bill 135, the Ministry has sent a letter to the IESO per the legislation to kick-start the Long Term Energy Planning (LTEP) process. This legislation replaces the former Integrated Power System Plan (IPSP) process with an enhanced LTEP process that is transparent, efficient and able to respond to changing policy and system needs.

- The legislation identifies that the Long-Term Energy Plan may include goals and objectives respecting cost-effectiveness, reliability, clean energy, community and Indigenous engagement, and prioritization of conservation and energy efficiency measures.

- The enhanced LTEP process requires the Ministry of Energy engage with generators, transmitters and distributors, Indigenous communities and the public before developing an LTEP. The Ministry will work with the Independent Electricity System Operator (IESO) and technical experts as well as stakeholders as it develops the next LTEP.

- The next LTEP will expand on the lessons-learned in the 2013 LTEP by increasing the number of in-person engagement sessions and the use of online and other consultation tools.

- Consultations for the next LTEP are currently well underway, including 17 sessions across Ontario, parallel meetings with Indigenous communities, and an extensive suite of online tools.

- The Ministry will be required to promote the participation of the public and stakeholders in the consultation process by:
    - posting information on the Environmental Registry;
    - having in-person sessions; and
    - making use of online and other consultation tools.

Hydro One Management of Assets

- We expect that Hydro One's management team will review and act on the recommendations contained in the report, as we would expect any company to.

- As indicated on page 48 of the Hydro One prospectus, Hydro One's Board and new management team expects to draw on any recommendations in developing and implementing the Company's strategy and related performance goals.

IESO Accounting Change

- This has been in IESO's publicly issued audited financial statements ever since the change and therefore part of our ongoing annual review by the OEB. Totally public throughout and simply a function of change in accounting rules from commercial Generally Accepted Accounting Principles to Canadian Public Sector Accounting Standards determined to be more relevant to the IESO.

- This item was always part of IESO's balance sheet under GAAP, the former accounting principles. The difference in moving to the new accounting principles is that they were required to separate it out and show it separately in their statements.

- IESO fees have been reduced over the period.

QUESTIONS AND ANSWERS

Electricity Power System Planning

Q1. The Report claims that there is a lack of transparency surrounding the planning process. How does the Long-Term Energy Plan (LTEP) ensure both reliability and transparency in the energy sector?

Our government recognizes that sound, prudent long-term energy planning is essential to a clean, reliable and affordable energy future. We're achieving that goal and these key objectives through the implementation of the 2013 Long-Term Energy Plan (2013 LTEP), or more commonly known as LTEP.

In October 2015, the Minister of Energy introduced the Energy Statute Law Amendment Act (Bill 135) that enshrines in legislation a long term energy planning framework that is transparent, efficient and responsive to changing technology, policy and program needs.

The legislated LTEP process builds on the planning principles used by the Ministry to develop the 2010 and 2013 LTEPs. The LTEPs identified the need for various investments over the shorter term while broadly mapping out the direction of the sector over a 20 year timeframe.

The next LTEP will expand on the lessons-learned in the 2013 LTEP by increasing the number of in-person engagement sessions and the use of online and other consultation tools. Consultations are currently well underway, including 17 sessions across Ontario, additional Indigenous meetings, and an extensive suite of Web tools.

This legislation also specifies that energy planning takes a transparent and pragmatic approach, and that future LTEPs are developed consistent with the following principles:

- Cost-effectiveness;
- Reliability;
- Clean energy;
- Community and Indigenous engagement; and
- Emphasis on conservation and demand management before building new generation.

Conservation and Demand Management

Q2. What actions is the government undertaking to address the Auditor General's recommendations on conservation?

The Ministry and the Independent Electricity System Operator (IESO) are committed to the on-going evaluation of programs to ensure they support provincial needs.

The new 2015 Conservation First Framework (CFF) increases the rigour of program cost-effectiveness requirements. As per the requirement of the new Framework, all local distribution companies (LDCs) have submitted Conservation and Demand Management Plans to the IESO. The programs within the plans are all individually subject to cost-effectiveness tests (with specific exceptions, for example, low-income programs) and to a high degree of oversight with ongoing Evaluation, Measurement and Verification by the IESO.

Furthermore, the new Framework encourages collaboration among LDCs, and between CFF and natural gas Demand Side Management Framework programs, to achieve efficiencies and convenient integrated programs for customers. The new Framework also recognizes the value of measures that result in peak demand reductions, by accounting for the higher value of savings achieved during peak periods in cost-effectiveness tests.

Public reporting of energy savings and peak demand reduction will continue through quarterly Ontario Energy Reports as well as annual conservation results reports released separately by the IESO and the Environmental Commissioner of Ontario.

Conservation requires a sustained commitment to ensure persistent savings and a reduction of demand for electricity over the long-term. The 2013 LTEP set a conservation target of 30 TWh by 2032 which is expected to result in 5,868 MW of peak demand reduction and a goal to use demand response to meet 10% of peak demand by 2025. Working with the IESO, the Ministry will continue to review Ontario's supply-demand balance as part of the LTEP planning process, adjusting targets as required.

Q3. The Auditor General has criticized the government for not effectively reducing peak electricity demand. How would you respond to this criticism?

The 2013 LTEP established a goal of aiming to use demand response to meet 10% of peak demand by 2025, equivalent to approximately 2,400 MW under forecast conditions.

Achieving this goal is supported by a number of demand response initiatives aimed at reducing peak demand, including time-of-use pricing, IESO's demand response auction, the Industrial Conservation Initiative and dispatchable customer loads under contract in the IESO administered market.

In December, 2015, the IESO held its first demand response auction. About 390 MW were procured for the summer commitment period (May 2016 to October 2016) and about 400 MW for the winter commitment period (November 2016 to April 2017).

Further, through a competitive procurement process, the IESO secured up to 70 MW of DR from three companies representing 10 pilot projects ranging from 1 MW to 35 MW. The pilot projects are being used to assess the ability of the companies to follow changes in electricity consumption and help balance supply and demand.

The Industrial Conservation Initiative (ICI) continues to provide a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third.

Recently, Ontario announced a proposal to expand the ICI program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the current threshold of three megawatts. In addition, sector restrictions would be removed and smaller institutional and commercial businesses would be eligible to participate.

Q4. With the billions of dollars already invested in conservation what has been the impact on rate-payers?

Conservation and energy efficiency are the cleanest and most cost-effective energy resource, providing multiple benefits to Ontarians:

- Helping families and businesses manage their energy bills and improve their home comfort and quality of life.
- Reducing strain on our electricity system and the need to build expensive energy infrastructure, mitigating upward pressure on electricity prices.
- Reducing greenhouse gas (GHG) emissions and air pollution, contributing to a cleaner future for our children and grandchildren.

Ontarians are making progress in putting conservation first. Between 2005 and 2014, Ontarians conserved 9.9 TWh of electricity—enough to power the cities of Ottawa and Windsor in 2014.

The IESO has reported that for every $1 invested in electricity conservation, Ontario has avoided about $2 in costs to the electricity system.

Hydro One/Transmission Reliability

Q5. What measures are in place to ensure that reliable operation of the transmission system and meeting reliability standards remains a priority for Hydro One?

Hydro One noted their commitment to improving transmission system reliability ratings in their response to the Auditor General's report. While we have a great deal of confidence in the commitment of Hydro One's Board and Management Team in this regard, it is also important to note that there are a number checks and balances in place to ensure that the reliability of the transmission system is maintained.

Like other North American utilities, Hydro One is obligated to comply with North American Electricity Reliability Corporation (NERC) standards. There are compliance mechanisms in place and Hydro One would face penalties if it was determined that their noncompliance with NERC standards led to a reliability issue on the interconnected North American bulk electric system. The Independent Electricity System Operator (IESO) is responsible for enforcement of NERC standards in Ontario.

The Ontario Energy Board (OEB), which is the independent regulator of the electricity sector in Ontario, is charged with protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

Hydro One has stated that it will continue to make reliability a key priority by reducing the number of its planned outages. It will do so by combining planned maintenance activities undertaken during the outage. This will reduce the number of planned customer interruptions.

Q6. How does the government plan on ensuring that Ontario's transmission system operates efficiently and reliably?

We agree with the Auditor General that a clear planning process is critical for Ontario's electricity system. That is why we completed Long-Term Energy Plans in 2010 and 2013, and are currently working on the development of our next Long-Term Energy Plan (LTEP).

Governing is about choices. Our government has been clear we are committed to a clean, modern, and reliable electricity system.

Narrowly focused value-for-money audits always show it would have been cheaper to burn dirty coal, we chose cleaner air, a healthier future, and the single largest climate change action in North America was a choice the people of Ontario support.

On July 1, 2016, the *Energy Statute Law Amendment Act, 2015* (Bill 135) came into force. It enshrines the Long-Term Energy Plan process in law.

Among other things, the legislation empowers the Independent Electricity System Operator (IESO) to undertake competitive selection or procurement of transmission when appropriate, and this competitive approach will ensure that ratepayers get the best value from infrastructure investments.

Developing the LTEP is a highly collaborative process. The Ministry works closely with its agencies and stakeholders during LTEP engagements and development.

Public consultations and Indigenous engagements are being supported by an electricity technical report developed by IESO and a fuels sector technical report prepared by Navigant Consulting.

The IESO's electricity technical report is posted on its website (http://ieso.ca/Pages/Ontario%27s-Power-System/Ontario-Planning-Outlook/default.aspx).

The fuels sector technical report is posted on the Ministry of Energy's website: http://www.energy.gov.on.ca/en/archive/fuels-technical-report/

Ontario Energy Reporting (OER) also helps us identify progress to date on the LTEP and increases transparency in the sector. This is an important tool to ensure stakeholders and all Ontarians can play their part in the planning process.

Q7. How has the government facilitated the sharing of data around changing supply and demand conditions, and progress on LTEP 2013?

Ontario is committing resources to maintain flexibility to respond to changes in demand. We are ensuring we have the supply to meet the likely demand and keeping options open to meet higher demand if needed. Regular energy reporting allows us to respond to changing supply and demand conditions, and identify progress to date on the LTEP.

Regular energy reporting was a commitment of the 2013 LTEP and supports the provincial Open Government initiative.

The Ministry of Energy partnered with the Independent Electricity System Operator (IESO) and other agencies to help meet this request and created OntarioEnergyReport.ca.

OntarioEnergyReport.ca includes content from the Ministry of Energy, IESO, Ontario Energy Board, and Ontario Power Generation all in one place. OntarioEnergyReport.ca also houses quarterly Ontario Energy Reports that provide content on supply, demand and cost from the electricity and oil and natural gas sectors.

The first Ontario Energy Report was released in December 2014. New reports will continue to be released each quarter to allow users to compare energy trends over time.

The IESO also releases summaries of market demand, capacity, prices, and other power data on its website in regular daily, weekly, and monthly intervals.

The Ontario Planning Outlook, released by the IESO on September 1, 2016, included a ten-year review and a twenty-year outlook (to 2035) for electricity demand, supply, system costs, conservation and emissions.

The ten-year review described in both the Ontario Planning Outlook and the associated module released by the IESO provides a comprehensive overview of how demand and supply have changed since 2006.

Global Adjustment

Q8. According to the AG, Ontarians paid $37 billion over the market price for their electricity between 2006 and 2014 via the Global Adjustment (GA) mechanism and were expected to pay another $133 billion via GA from 2015 to 2032. How does the ministry respond to these claims?

Global Adjustment (GA) simply reflects costs associated with contracted and regulated generation (i.e., such as nuclear, natural gas and renewables) and the cost of conservation programs. The GA is necessary in order to ensure reliable electricity supply in the province.

The vast majority of electricity generators in Ontario are contracted by the Independent Electricity System Operator (IESO) or regulated by the Ontario Energy Board (OEB). These generators are generally paid fixed prices for their output or have contractual minimum revenue requirements to cover their fixed costs.

Wholesale market prices are frequently insufficient to pay for these fixed prices and costs so the excess is collected through the GA. The cost of Ontario's conservation programs are also recovered via the GA. GA does fluctuate from month to month; however, the all-in commodity price is reasonably stable over time.

Surplus Generation/Exports

Q9. Ontario is exporting electricity at a much cheaper rate than Ontario residents pay for power. Why is that?

Ontario trades electricity with our neighbouring jurisdictions in Canada and the USA as part of the regular operation of the electricity system. Electricity trading provides additional grid reliability and is consistent with our goal of providing a clean, reliable, and affordable electricity system for all Ontarians.

Ontario exports to our neighbours when we have available power and we are able to rely on imports of power from our neighbours when it is cost-effective. Electricity exports reflect the prevailing market price and are scheduled when it is economic for both Ontario and the associated importing jurisdiction.

Electricity trade is one way Ontario is working to ensure both that ratepayer value is maximized from existing transmission infrastructure and that the most economic generation resource is scheduled to produce electricity.

In addition, electricity exports create revenue for Ontario's generators, which helps to recoup some of the costs of maintaining their facilities. These are costs that would otherwise be borne by Ontario ratepayers who are paying to ensure that Ontario always has sufficient generating capacity to meet its peak demand.

The Independent Electricity System Operator (IESO) estimates that the benefit to Ontario from electricity trading in 2014 was approximately $320 million. This amount represents the revenue received by the Province for off-peak electricity exports, as well as revenue received from transmission tariffs for all exports.

Q10. Why does Ontario have surplus baseload generation (SBG)?

While electricity supply and demand must always be balanced in real time, periods of low demand can lead to an excess in supply from time to time.

Surplus generation occurs when the available generation capacity from baseload and inflexible resources exceeds customer demand. These surplus conditions occur most frequently during low-electricity demand periods (such as weekends and overnight), particularly during the spring and fall.

Ontario has invested in new generation in anticipation of the nuclear refurbishment period when a significant amount of generating capacity at the Bruce and Darlington stations will be out of service.

Ontario has a number of tools to reliably and effectively mitigate SBG. Normal market mechanisms to mitigate SBG include – the economic scheduling of electricity exports, wind curtailment and nuclear manoeuvring or shutdown while out-of-market control actions include curtailing electricity imports.

IESO is also able to dispatch off production from wind and solar generation when the province (or a particular region of the province) does not require it. IESO rules minimize costly nuclear shutdowns and the corresponding use of replacement natural gas-fired generation.

The introduction of wind dispatch is saving ratepayers money through more efficient operation of the electricity system and changes to related IESO wind contracts.

Surplus generation is forecast to decrease once nuclear refurbishment begins later this year.

Q11. Why does the government continue to sign power deals when we have a surplus of power?

While the province is currently in a strong supply position, we will begin taking nuclear units out of service for refurbishment beginning in 2016 as per the 2013 Long-Term Energy Plan (2013 LTEP). There will be a much smaller surplus when refurbishment starts.

Ontario is committed to investing in a clean, modern and reliable electricity system that reduces greenhouse gas (GHG) emissions and provides cleaner air for this and future generations of Ontarians. The Large Renewable Procurement (LRP) process is an important component of Ontario's ongoing commitment to building a cleaner and more sustainable energy system.

Ontario's 2013 LTEP includes targets for renewable energy

- 10,700 megawatts (MW) for wind, solar, and bioenergy to be online by 2021; and
- 9,300 MW for hydroelectricity to be online by 2025.

We set those targets to fulfill our commitment to replace coal-fired generation with cleaner sources of energy, which not only benefits our environment but also the health of Ontarians.

The diversity of the current supply mix also insulates Ontario against sudden changes in cost or availability of any one source, and is one of the greatest strengths of Ontario's electricity system.

Each of the supply mix elements, including hydroelectric, nuclear, natural gas, non-hydro renewables, conservation and clean imports, plays a unique role in delivering a reliable and cost-effective source of energy to Ontarians.

Ontario-Québec Electricity Trade Agreement

Q12. What are we doing to pursue importing electricity from other jurisdictions such as Quebec?

Electricity imports and exports are an important aspect of Ontario's supply mix and help maintain a reliable, cost-effective and competitive electricity system.

Ontario will consider opportunities for import agreements with other jurisdictions where they provide benefits to the electricity system and are cost-effective for Ontario ratepayers.

Ontario and Quebec are already significant electricity trading partners. Since the Ontario electricity market opened in 2002, this trade has occurred through the sale of energy in the wholesale market.

On October 21, 2016, we signed a historic agreement with Quebec for trading electricity, capacity and energy storage to help make electricity more affordable and reliable while continuing to reduce greenhouse gas emissions.

It is expected that the finalized agreement will reduce Ontario's electricity system costs by about $70 million over the course of the agreement and will reduce electricity sector GHG emissions by approximately 1 million tonnes per year.

This agreement builds on the Seasonal Capacity Exchange agreement between Ontario and Quebec, which was signed in 2015.

Ontario's focus remains on mitigating costs for Ontario ratepayers. Any deal would only go forward if it provided a savings to Ontario ratepayers.

Our government is committed to continuing to pursue opportunities with Quebec and other neighbouring jurisdictions, to increase the flexibility and reliability of our electricity system and reduce costs for Ontario consumers.

I'll pass it over to the Assistant Deputy Minister of Energy Supply Policy, Steen Hume, who will discuss Ontario's interties in more detail and speak more specifically to the progress Ontario has made with Quebec.

Cap and Trade Costs

Q13. How will the electricity sector be affected by cap and trade?

Ontario has been taking strong climate-positive actions for years, such as successfully eliminating coal as a source of electricity generation and developing a long-term energy plan that focuses on a safe, clean, reliable and affordable energy future.

The elimination of coal-fired generation represents a 30 Mt reduction in greenhouse gas emissions since 2003. Ontario's electricity sector is now over 90% emissions free. As a result of these efforts, Ontario's electricity system is in a strong position as we move forward with implementing the province's cap and trade program.

Under the cap and trade program design, Ontario's natural gas utilities (i.e., Enbridge Gas and Union Gas) will be the "point of regulation" for Ontario's natural gas-fired electricity generators and users that are not directly covered under the program (i.e., those emitting less than the 10,000 t CO2 opt-in threshold). This means that natural gas utilities will purchase allowances to cover greenhouse gas (GHG) emissions of natural gas-fired electricity generators and other consumers that are not directly covered under cap and trade.

As a regulated entity, costs incurred by natural gas utlities to comply with the cap and trade program would be passed on to natural gas consumers once reviewed and approved by the Ontario Energy Board (OEB).

Emissions from electricity generation would be subject to a carbon price through the cost of fuel.

Natural gas-fired electricity generators are expected to pass on to consumers the cost of carbon through increased offers into the wholesale electricity market.

Q14. What are the estimated impacts of cap and trade on electricity consumers?

The government intends to recycle a portion of the cap and trade auction proceeds to keep electricity rates affordable for industrial and commercial consumers.

Ontario intends to recycle proceeds to the electricity sector to meet this commitment.

We continue to work with the Ministry of the Environment and Climate Chance (MOECC) and the Independent Electricity System Operator (IESO) to determine an approach to meet this commitment.

A decision on the final approach has not yet been made.

Local Distribution Companies (LDCs) / Consolidation

Q15. Why are you forcing consolidation of Local Distribution Companies (LDCs)? How is the government encouraging voluntary consolidation?

We are always looking for ways to help minimize price impacts on Ontario families and businesses. This includes the possibility of finding efficiencies through restructuring and consolidation of electrical utilities.

Our government has been clear that we will not be forcing the consolidation of Local Distribution Companies (LDCs), but will work to create incentives for voluntary consolidation.

As announced in the 2015 Ontario Budget, the Province has moved forward with the Premier's Advisory Council on Government Assets recommendations to broaden the ownership of Hydro One through an initial public offering (IPO) and the sale of Hydro One Brampton to three other large utilities – PowerStream, Enersource and Horizon, which when all merged, will be the second largest LDC in the Province.

The Province is also providing time-limited relief on taxes pertaining to transfers of electricity assets for all municipal electricity utilities (MEUs), including transfers to the private sector. This includes:

- Reducing the transfer tax rate from 33 to 22 per cent;
- Exempting MEUs with fewer than 30,000 customers from the transfer tax; and
- Exempting capital gains arising under the PILs Deemed Disposition Rules.

These measures are for the period beginning January 1, 2016 and ending December 31, 2018.

This represents a major step forward in promoting Local Distribution Company (LDC) consolidation in Ontario, in line with the recommendations made in the 2012 Ontario Distribution Sector Review Panel Report and with the Premier's Advisory Council on Government Assets.

Renewable Power Costs

Q16. The Green Energy and Green Economy Act expedited the development of renewable energy without fully evaluating the impact, trade-offs and alternatives through a comprehensive business case analysis. Why has the government paid such excessive prices for renewable energy?

The FIT Program was created in the aftermath of the 2008 financial crisis, FIT reflected a policy decision that underscored not only the need to address climate change by increasing renewable energy generation, but also the urgent need to attract capital to Ontario and spur economic development.

FIT programs are designed to attract investment quickly. Standard prices and program rules avoid the administrative costs, complexity and long timeframes associated with competitive procurements.

The GEA and the FIT program created jobs in the Ontario-based manufacturing and construction industries and attracted significant foreign investment into the province. Since launching the FIT program in 2009, Ontario has firmly established itself as a North American leader in renewable energy.

Q17. The 2015 OAG Annual Report states that renewable energy is not procured competitively, costing Ontarians $9.2 billion more than they would have paid under the previous procurement program. What has the government done to increase competition in renewable energy procurement and reduce costs to electricity consumers?

The competitive Large Renewable Procurement (LRP) process replaced the Large Feed-in Tariff (FIT) program for future renewable energy projects generally larger than

500 kilowatts (kW). LRP was designed to strike a balance between early community engagement and achieving value for all electricity ratepayers.

The first phase of the Ontario Large Renewable Procurement (LRP I) launched in 2014 introduced strong competition among developers of large renewable projects, helping to drive down price and secure clean, reliable generation for the province.

The results for LRP I show that the weighted average price for solar projects (15.7 ¢/kWh) was more than 40 percent below the maximum price accepted under the procurement, and the weighted average price for wind projects (8.6 ¢/kWh) was more than 20 percent below the maximum price accepted under the procurement.

The Ontario Feed-in Tariff (FIT) and microFIT programs continue to provide opportunities for communities and homeowners to develop their own small-scale renewable energy projects. FIT and microFIT prices are designed to cover project costs, plus a reasonable rate of return. Under the FIT and microFIT programs, prices for new solar projects have been reduced between 50 percent and 75 percent since 2009.

New in FIT 4 was the opportunity for applicants to gain priority points by electing to reduce the base price available in the FIT price schedule by one of three optional tiers. Approximately $31 million of additional cost reduction will be achieved as a result of voluntary price reductions in FIT 4 with 52% of applicants choosing a price reduction tier.

Overall, costs associated with the FIT and microFIT programs have been reduced by about $800 million as a result of lower prices and reduced procurement capacity relative to the 2013 LTEP forecast, representing an approximate reduction of about $0.32 per month on a typical residential electricity bill over the forecast period.

As identified in Ontario's 2013 LTEP, ENERGY is updating the net metering program, responding to the 2013 LTEP commitment to examine the potential to evolve microFIT to net metering.

Net metering is a billing arrangement that allows customers to generate renewable energy onsite for their own use, and to receive bill credits that can be carried forward for any surplus electricity they send to the grid.

The Ministry has considered feedback received from stakeholder consultations and engagements held over Summer/Fall 2015 and posted proposed updates to Ontario's 2005 Net Metering Regulation on the Environmental and Regulatory Registries on August 19, 2016 for a 48 day comment period, ending October 6, 2016.

The decision to transition the microFIT and FIT programs to an updated net metering program was informed by reductions in solar PV equipment costs (99.9% of microFIT systems are solar PV). The transition to net metering will reduce costs to electricity

ratepayers relative to the microFIT and FIT programs, while continuing to enable customers to generate renewable to meet their own needs.

Pensions/Agency Efficiencies

Q18. What's being done to ensure agencies are operating efficiently, and savings are being maximized for ratepayers?

The government expects that Hydro One and OPG continue to operate in a safe and cost effective manner, to the benefit of Ontarians.

As part of the 2013 Long Term Energy Plan (LTEP) the government announced that it will continue to work with OPG and Hydro One to develop efficiency targets that will reduce agency costs and result in significant ratepayer savings.

In the 2012 Budget, the government announced its intent to review the electricity sector, to improve agency efficiency, reduce both costs and complexity in the sector, and help mitigate cost impacts to ratepayers. A benchmarking review of Hydro One and OPG was completed by KPMG in early 2013 identified opportunities for incremental savings.

Since the beginning of 2011 to the end of the first quarter of 2016, through the Business Transformation and other initiatives, OPG has reduced regular headcount from ongoing operations by over 2,800, achieving cumulative savings of approximately $1 billion.

Q19. What about the pension review?

The government is committed to engaging with both employer and labour representatives of its electricity agencies on pension reform to move towards a more sustainable framework.

The Power Workers Union (PWU) and the Society of Energy Professionals (SEP) collective agreements with Hydro One and OPG provided for net zero increases and substantial movement in pension sustainability, aligning with the recommendations contained in the Leech report.

- The share grants to current employees are part of Hydro One's collective agreements with the PWU and The Society. They are described on page 49 of the prospectus and were made possible as a result of increased pension contributions by those employees, per the recommendations in the Leech Report on electricity sector pensions plans.

In the long-term, changes to pensions represent a key element of these agreements. Employee pension contributions will increase and in the long run pension benefits will be reduced. We're moving in the right direction towards equal cost sharing.

IESO's current collective agreements with the Power Workers Union and Society of Energy Professionals are ending March 31, 2017 and December 31, 2018 respectively. The IESO has committed to achieving an overall net zero impact by offsetting the incremental cost from collective agreements through managing FTEs and various operational savings. IESO has also achieved increases to employee pension

contributions as well as amendments to the IESO pension plan design that would yield savings in the longer term.

IESO Pension Accounting Treatment Change

Q20. Will the $80M loss be passed on to electricity ratepayers?

The IESO has not increased employee benefit levels in the past few years.

The $80M accumulated deficit is a result of a change in the method of reporting in the IESO's financial statements.

Pension expense is calculated based on methods prescribed by the Canadian Institute of Chartered Accountants. In 2011, the IESO adopted the Canadian Public Sector Accounting standards (PSAB), a change from the former Generally Accepted Accounting Principles (GAAP). The corresponding change was an $80M reported separately in accumulated deficit. This item was always part of the IESO balance sheet under GAAP.

The IESO includes a portion of the accumulated deficit resulting from PSAB transition in the annual proposed expenditures to the Ontario Energy Board for recovery through usage fees.

The usage fees approved by the Ontario Energy Board have been declining in recent years.

Hydro One Management of Assets

Q21. How are you going to ensure Hydro One acts on these recommendations?

We expect that Hydro One's management team will review and act on the recommendations contained in the report, as we would expect any company to.

As indicated on page 48 of the Hydro One prospectus, Hydro One's Board and new management team expects to draw on any recommendations in developing and implementing the Company's strategy and related performance goals.

Q22. Why did you remove Hydro One from the reach of the Auditor General?

Hydro One is a publicly traded company. Even though the government remains the largest shareholder, Hydro One now has different structures and oversight. Similar changes occurred when there were shares released to the public for Air Canada, Petro-Canada and CN Rail.

And Hydro One will continue to be captured by the Ontario Business Corporations Act (OBCA) and the Ontario Securities Act. It will continue to file financial information with the Ontario Securities Commission.

- Various companies were removed from the list of Crown Corporations in the federal Financial Administration Act (FAA), including Air Canada in 1988, Petro-Canada in 1991 and CN Rail in 1995.
- The federal Auditor General Act also ceased to apply to these same three companies when they were removed from the FAA list.
- Similarly, the federal Access to Information Act did not apply to Air Canada, Petro-Canada or CN Rail at the time of their privatization.

Gas Plants

Q23. How has the cost of the cancelled gas plants at Oakville and Mississauga, how can the government be trusted regarding the siting of generation facilities going forward?

Natural gas-fired generation facilities help ensure the reliability of the electricity system during periods of peak demand.

They complement Ontario's nuclear and baseload hydro facilities, which provide round-the-clock power.

These facilities provide Ontario homes and businesses with a secure electricity supply. Natural gas projects must complete an environmental review process, which requires proponents to identify potential environmental effects, identify mitigation measures and consult with the public.

The government now has a better siting process to ensure that decisions about siting are sound from the beginning.

Strengthening the OEB

Q24. Why did the government strengthen the OEB? What has this done to protect energy consumers?

The Government is committed to putting energy consumers first.

On December 1, 2015, Ontario passed the *Strengthening Consumer Protection and Electricity System Oversight Act, 2015* which further protects Ontario's energy consumers by providing the Ontario Energy Board (OEB) with enhanced consumer protection tools.

In anticipation of a continually evolving electricity sector, including changes in ownership and corporate organization, we have provided enhancements through the Ontario Energy Board Act, 1988 (OEBA) to allow for strengthened protection of Ontario consumers and appropriate compliance and enforcement tools.

The amendments to the OEBA enhance the role of the OEB to ensure that it continues to have a robust set of tools to protect consumers and regulate the energy sector. Changes include:

- Providing the OEB with stronger compliance and enforcement powers by increasing the amount of penalties that can be levied against companies for non-compliance to a maximum of $1 million per day;
- Creating further opportunities to enhance consumer representation in OEB proceedings;
- Enhancing the OEB's ability to ensure continuity of service;
- Enhancing the OEB's oversight for ensuring best practices on utility consolidation activities; and
- Increasing the OEB's flexibility to determine the types of business activities that an LDC can engage in.

Amendments also provide the government with the ability to identify priority transmission projects to ensure that critical transmission infrastructure is built in a timely manner.

Amendments to the ECPA will also enhance protection for consumers who sign retail energy contracts by banning door-to-door sales of retail electricity and gas contracts and requiring that all contracts are subject to a verification process.

OEB Role in LTEP Implementation

Q25. How is the OEB involved in the development of the LTEP?

To ensure that the government's goals and expectations outlined in the LTEP are implemented, the proposed legislation includes authority for directives, approved by Cabinet to be sent to the IESO and the OEB setting out the government's requirements for implementation and directing each agency to develop respective implementation plans.

Once implementation plans have been approved by the Minister, the IESO and the Ontario Energy Board (OEB) would move forward with procurements and the development of programs or policies as identified in their implementation plans.