Accounting for Ontario's Fair Hydro Plan

In May 2017, the government passed the Ontario Fair Hydro Plan Act, 2017 (the Act) which established a framework under which the costs and benefits associated with the Government of Ontario's clean energy initiatives are to be allocated between present and future consumers of electricity under the Fair Hydro Plan.

The Independent Electricity System Operator (IESO) is a consolidated government organization and reports its financial results in accordance with Public Sector Accounting Standards. The IESO is an entity regulated by the Ontario Energy Board. Ontario Power Generation (OPG), an entity wholly-owned by the Province, was appointed the Financial Services Manager under the Act, and in December 2017 established the Fair Hydro Trust (the Trust), a wholly-owned subsidiary of OPG, as the financing entity contemplated by the Act.

Under the Fair Hydro Plan, costs associated with the Ontario Electricity Support Program (OESP) and most of the Rural or Remote Rate Protection (RRRP) program, which provide rate relief to eligible customers, were removed from electricity rates paid electricity consumers and are now reported as a program expense. The expenses reported for the OESP and RRRP in 2017-18 are $xxx million.

In 2016, the IESO adopted rate-regulated accounting which allows deferral for certain expenses which are expected to be collected from consumers through future billings. Under the Fair Hydro Plan, the IESO incurs a cash shortfall for the difference between Ontario's electricity market clearing price charged to specified consumers and the contracted or regulated price of power generation. The shortfall is deferred for recovery through the Global Adjustment to be recovered in the future from specified consumers. The amount of the shortfall incurred in the fiscal year was $xxx million. During the year, the IESO under the authority permitted under the Act, transferred a $xxx million of the shortfall to the Trust that funded the cash shortfall in exchange for an irrevocable right to the recovery of the transferred balance and financing and other costs to be received from specified consumers in the future.

The Trust is expected to fund the acquisition of the deferred balance with subordinated debt from Ontario Power Generation to the Trust to a maximum of 49% of the Trust's total outstanding debt, of which approximately 90% will be funded by equity injections from the Province, and senior debt from capital markets. In December 2017, the Trust entered into an $800 million revolving warehouse facility agreement with an expiry date of December 2019. In February 2018, the Trust issued $500 million of senior notes payable maturing in 2033.

As part of the debt issuance by the Trust, the Province issued a limited guarantee to fund all future obligations associated with debt issued and outstanding at the time that the guarantee is invoked. These conditions are limited to the repealing or significant change to the Act its regulations or other legislation, or any significant change to the structure of Ontario's electricity market which impacts the Fair Hydro Plan. As a wholly-owned subsidiary of Ontario Power Generation, the assets and liabilities of the Ontario Power Generation Trust are included with the amounts disclosed as part of Ontario Power Generation in these consolidated financial statements (see Schedule 9).