3) Global Adjustment Smoothing

The Global Adjustment (GA) accounts for the fixed costs, including capital costs, of running Ontario's generation fleet, as well as the cost of conservation programs. The GA has risen over the past decade as the province's electricity system has decarbonized. The vast majority of GA costs now stem from greenhouse gas (GHG) emissions-free renewable and nuclear generation facilities, as well as natural gas plants that were constructed to restore system reliability and replace coal-fired capacity.

The majority of the province's electricity generators are under 20-year contracts and some of the assets are expected to continue to provide value to the electricity system beyond their contract lives (i.e., beyond 20-years). Similarly, conservation costs are recovered annually on an 'as incurred basis' through the GA while conservation initiatives can reasonably be expected to provide benefits to the electricity system over many years.

The Ministry is proposing to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs. Through GA Smoothing, these costs would be spread over a longer period and provide immediate ratepayer relief (i.e., similar to re-financing a mortgage). The result of this proposal is that cost to ratepayers remains lowered in the short term (for approximately 12 years in the 25% bill reduction example) through borrowing, but increases over the long term up to a maximum of 3.2 billion above the true cost of GA (with average residential pre-tax bill impact up to $38.1/month in the same example) – until the borrowed money is paid back by 2048.

The Ministry continues efforts to identify an effective business structure to support:

- Required increase in provincial borrowing
- No increase in net debt,
- No impact on annual surplus/deficit, but depending on funding to OPG/Trust from Province, an increase in interest on debt and an increase on income from OPG.

The Ministry however has indicated that if the GA smoothing transaction structure does not effectively address the accounting risks to the province's Public Accounts, there would be a negative impact over the province's fiscal planning period. The table below shows the projected fiscal impact based on three possible transaction structures options:

($M)	2017-18	2018-19	2019-20	2020-21
Option 1: GA Smoothing for RPP Eligible Only – Residential Bills Lowered 25% (with Government Funded 8% Rebate and Social Programs, 2% increase)	2,534	2,668	3,420	3,183
3b Option 1: Interest Portion	*29*	*145*	*266*	*401*
Option 2: GA Smoothing for RPP Eligible Only – Residential Bills Lowered 20% (with Government Funded 8% Rebate and Social Programs, 2% increase)	1,770	1,850	2,072	2,489
3b Option 2: Interest Portion	*20*	*100*	*184*	*278*
Option 3: GA Smoothing for RPP Eligible Only – Residential Bills Lowered 18% (with Government Funded 8% Rebate and Social Programs)	1,487	1,585	1,524	1,503
3b Option 3: Interest Portion	*19*	*95*	*176*	*254*

Note: Potential to avoid fiscal impact would depend heavily on decision on accounting treatment. Based on an annual interest rate of 5% compounded monthly.

Analysis conducted by the Ontario Financing Authority, MOF indicates that over the 30-year GA smoothing period, estimated total accumulated interest costs exceed the estimated total cumulative savings produced under each option.

- In an effort to smooth out the GA, ratepayers will incur interest costs that over a 30-year period, will be added to the GA payments ratepayers make. Under the options above, interest costs exceed the amount being financed (i.e. benefit being provided) over the 30-year periods.

$ millions	Total Cumulative Savings	Total Accumulated Interest Costs
Option 1	$21,561	$30,205
Option 2	$13,503	$17,883
Option 3	$12,862	$19,498

Assumes an interest rate of 5% (compounded monthly).

The Ministry will report back to TB/MBC in March 2017 on a recommended approach, with an objective of addressing legal and accounting challenges while minimizing fiscal risks. If unsuccessful in identifying an effective transaction design which avoids significant fiscal impacts, it is reasonable to require the Ministry to return with results of further analysis of alternative approaches to mitigate fiscal impacts versus adding GA smoothing directly to the deficit.

The current cost estimates assume that the program is limited to RPP Eligible participants only. Given the new incentives, it is possible that consumers who currently opted out of the RPP may argue that the incentives be expanded based on the RPP eligibility rather than RPP enrolment. In this case, any potential fiscal impacts could be higher. Similarly, there may be a risk to the government should consumers opt out of the RPP costs again when costs begin to increase and unable to recover the debt. It is unclear whether the government will be required to underwrite this risk and deal with potential new stranded debt.