COE OBSERVATIONS AND COMMENTS

OVERALL COMMENTS:

- Need to understand the models and the assumptions embedded in them to assess the validity of the estimated impacts/forecasts. It will be important to understand the sensitivity of the models and the financial impacts to the assumptions. Sensitivity analysis would allow the government to make better informed decisions and to develop a risk based outlook to manage potential fluctuations in the cost of these initiatives.

- Given the scale and scope of the initiatives that are being proposed, it is important to note that there will be significant incentives/disincentives being introduced. It will be important to understand how these may impact the behaviour of various key stakeholders going forward and hence the assumptions built into the models and the financial estimates.

- The submission states that the electricity prices are projected to increase above inflation for the foreseeable future. While there are a number of initiatives referenced in the deck to bend the cost curve, it is not clear what the estimated impact of these changes would be. Are these measures projected to limit the increases in the price of electricity at or below inflationary increases? Otherwise, the widening gap will continue to drive need for government action, creating future pressures on the Fiscal Plan.

- With so many proposed changes impacting different consumers, and costs shifting from the rate-base to the tax base, it will be important to understand the profile/net impact of the changes on different customer groups and geographies. Need to know the net winners and net losers.

GLOBAL ADJUSTMENT (GA) SMOOTHING:

- The submission assumes that the proposed GA smoothing will receive the favourable accounting treatment; hence the provincial debt and the fiscal plan would not be impacted.
    - There are a number of complex issues that need to be addressed and stringent criteria to be met to achieve a satisfactory path forward. Several requirements are high risk.
    - If this key assumption re: favourable accounting treatment is incorrect, the impacts would be significant and can vary depending on the market changes. So, in addition to having a significant fiscal impact, the proposed plan would also introduce significant volatility to the medium- to long-term fiscal plan (as interest rates, energy prices, consumer behaviour change, the financial impacts would continue to change).

- Does the GA smoothing apply to all customers or just those that are part of the Regulated Price Plan?

    - Our current working assumption is that the Ministry of Energy's proposal/cost estimates are based on the GA applying to those customers currently participating in the Regulated Price Plan. If so:
        - What would be the financial impact/revised cost estimate that includes customers that are eligible for RPP, but have opted out?
        - Given the new incentives, the customers who have previously chosen to out of RPP may want to opt in or argue that the incentives be expanded based on the RPP eligibility rather than RPP enrolment. (Ron's estimate is that this could create a deferral, and cumulative debt and interest pressure of about 17%, hence increasing financial risk by that amount).
        - How will the opt-in/opt-out provisions set/refined to ensure there is no gaming.
            - If everyone opts in to benefit from the lower prices, how will the government ensure that they will continue to be part of the plan when the prices start to increase?
            - If the consumers who benefit from RPP are allowed to opt-out later as $ higher payments are needed to pay for the deferred GA amount, the government may face a vicious cycle (as more people opt out, the recovery $/% per remaining household increases, which further creates incentives to opt out of the RPP), possibly stranding the balance as unfinanced debt. Is the government assumed to be underwriting this risk? To deal with potential stranded debt?

- The current projections use nominal interest rates of 5%. The average interest rate in Canada between 1990 and 2017 was 5.94% (from high of 16% in Feb 1991 to 0.5% in April 2009), which includes the last decade that has experienced historically low interest rates. Given the 30 yr projected time horizon, what would be the impacts and funding requirements be at different:
    - Interest rates; and
    - Scenarios for electricity prices.

- It is unclear how and why the GA borrowing requirements are changing so dramatically between various drafts of the submission (from $5-7B in the earlier decks to $1.5-$2B).

RURAL AND REMOTE RATE PROTECTION PROGRAM (RRRP):

- Overall, the program is likely to create disincentives towards productivity and performance improvements to drive down delivery costs/changes. Furthermore, the proposed approach may create an incentive for LDCs that fall just outside the cut-off to drive up their distribution costs to gain eligibility into the program. (Toronto Hydro is just below the cut-off).

- Slide 21 notes that forecasting the funding requirements associated with the RRRP enhancement is difficult due to year to year variability of distribution costs. Further the footnote on the table suggests that while the costs will decrease through 2023 due to rate making changes, the costs are expected to increase post 2023 due to regular rate increases. It is recommended that the Ministry provide a long term forecast, with risk bands that account for variability of distribution costs, to show the full expected financial impact of this initiative on the fiscal plan.

- The submission notes that the forecasting and costing of the program requires alignment between a large number of parties (LDCs/OEB/IESO/Province). As such, it is likely that financial requirements and uncertainty/volatility will increase over time.

ONTARIO ELECTRICITY SUPPORT PROGRAM

- Given the funding requirements for this initiative almost doubles (from $178M in 2017-18 to $334M in 2020-21), we assume that the Ministry of Energy has built in an increase in take-up rates, as well as the financial impact of the 50% enhancement into their costing estimates.

- Current program take-up rate is 30%. Consideration could be given to focussing efforts on increasing the take-up of the existing program, and seeing the effectiveness of the supports, before benefits are further enhanced.
    - Behavioural Insights Unit (BIU) can help support efforts to increase uptake of the program. Increasing awareness of the program + removing barriers to enrolment/making the enrolment process easier is expected to have a significant impact on the program.
    - This approach would not only lower the fiscal impact in the short-term, but ensure that the effectiveness of the program can be assessed before it is scaled up.

NEW LDC AFFORDABILITY FUND:

- The Ministry is proposing to establish a fund, administered by LDC(s), to extend the existing Low-Income Conservation Program to other electricity customers (customers who are not low income but are in arrears of their payments, may be facing disconnection but do not qualify for the existing low-income programs).

- With the eligibility criteria, delivery models and business case still in development, it may be premature to proceed with the proposal. Having a better understanding of why the target households are in arrears of payment would be key to structuring an effective program.

    - BIU can help with addressing the late payments (like we have done with MOF and late payers)

- Without a clear understanding of why payments are delayed (or how the payment patterns may be changing), there is the danger of incenting adverse behaviour (delaying payments on purpose to become eligible for grant payments) regardless of the capacity to pay.

IMPLEMENTING ON-RESERVE FIRST NATIONS DELIVERY CREDIT

- Incredibly specific number of customers (21,494), yet such a round and flat estimate of cost @ $13-$20M. Why the broad range? What is included in this model?