Accounting for Ontario's Reduction in Current Electricity Prices

In May 2017, the government passed the Ontario Fair Hydro Plan Act, 2017 (the Act).

The components of the plan to reduce current electricity prices include both aspects of the plan provided for in the Act as well as other policy decisions, as follows:

1. A rebate in the amount of 8% of electricity bills for residential consumers, commencing January 2017, funded by the tax base;

2. Increases to the Ontario Electricity Support Program, and transfer of the funding of this program from the electricity rate base to the tax base;

3. Reductions for certain rural electricity consumers, funded by the tax base;

4. Reduction equivalent to the delivery charge for First National residential consumers living on reserve, funded by the tax base;

5. A fund established to provide free, energy efficient devices and products to qualified individuals and organizations, funded by the tax base; and

6. An additional reduction in current electricity bills for residential customers, commencing July 1, 2017, such that the impact of this reduction combined with the impact of items 1 to 3 above resulted in an average reduction of 25%, which unlike items 1 to 5 above was funded by the electricity rate base. This reduction will be recovered from electricity ratepayers in future years. This aspect of the plan is referred to as the Global Adjustment Refinancing

The impact of Items 1 through 5 noted above, all funded by the tax base, are recognized as an expense in the consolidated financial statements, as incurred.

Item 6, the Global Adjustment Refinancing, funded by the electricity rate base, and to be recovered from electricity ratepayers in future years, is accounted for using rate-regulated accounting, the specifics of which are described below.

- 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.

In connection with the Global Adjustment Refinancing (item 6) IESO incurs a cash shortfall for the difference between the amounts collected from the electricity consumers and the contracted price paid to the power generators. This shortfall is to be recovered in the future from specified consumers. IESO has determined that this shortfall meets the criteria for recognition as a rate-regulated asset. 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, sold $xxx million of the shortfall to the Trust 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 funded the acquisition of the shortfall with subordinated debt from Ontario Power Generation to a maximum of 49% of the Trust's total outstanding debt, and the balance from third party lenders. Of the amount lent to the Trust from OPG, approximately 90% of that amount was funded by equity injections from the Province, and 10% was funded by debt borrowed by OPG from third party lenders. As of March 31, 2018, the Trust owed $x million to OPG and $y million to third party lenders.

In connection with the debt issued 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 Trust are recorded as part of the Investment in Government Business Enterprises in the consolidated statement of financial position, and disclosed as part of Ontario Power Generation in Schedule 9 to these consolidated financial statements.

In summary, the impact on expenses and assets of the consolidated financial statements of the components of the plan to reduce current electricity rates is as follows:

Component	Funding source	Amount recognized as an expense (in billions)	Amount recognized as an asset (in billions)
1 – 8% rebate	Tax base	$x	NIL
2 - OESP	Tax base	$x	NIL
3 – Rural rate reduction	Tax base	$x	NIL
4 – First Nations delivery credit	Tax base	$x	NIL
5 – Affordability Fund (amount expensed in 2016-17)	Tax base	$NIL	NIL
6 – Global Adjustment	Electricity	NIL	$x

refinancing	Rate Base		

Any debt incurred to fund items 1 to 5 is part of general borrowing of the Province and recorded as Debt on the consolidated statement of financial position.

Debt incurred to fund item 6 is recorded based on the source of the financing:

Source of financing	Amount of debt at March 31, 2018	Where recognized in the consolidated statement of financial position
1 – Equity injection from Province to OPG	$x	Debt
2 – Debt borrowed by OPG from third party lenders	$x	Investment in Government Business Enterprises, the details of which are disclosed in Schedule 9
3 – Debt borrowed by Fair Hydro Trust from third party lenders	$x	Investment in Government Business Enterprises, the details of which are disclosed in Schedule 9