

GLOBAL ADJUSTMENT SMOOTHING PROPOSAL

ISSUE: How is the government refinancing the Global Adjustment?

KEY MESSAGES:

- Between 2005 and 2015, Ontario invested more than \$50 billion in the electricity system, including \$35 billion in electricity generation to ensure the system is clean and reliable. The costs of these investments are funded in part through the Global Adjustment (GA).
- To relieve the current burden on ratepayers and distribute costs more fairly over the period of expected benefit to ratepayers, a portion of the GA is being refinanced.
- Refinancing the GA would provide significant and immediate rate relief to eligible ratepayers by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.
- In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers.
- In later years, the cost of refinancing is expected to be recovered from ratepayers.
- Under current forecasts, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding \$1.4 billion.

- The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The proposed legislation would also outline the role for the Ontario Energy Board (OEB), as it relates to the financing proposal.
- Any further questions related to the GA refinancing should be directed to my colleague, the Minister of Finance.

IF ASKED ABOUT ACCOUNTING METHODS FOR GLOBAL ADJUSTMENT:

- Under the proposed structure, the Province's net debt and annual surplus/deficit is not expected to be negatively impacted since all costs are expected to be recovered through future rates.
- However, there is still much to be done in terms of working out the remaining details through regulations and commercial agreements.
- The fiscal impact to the Province will only be known once those details are finalized.
- MOF continues to work closely with Treasury Board Secretariat, the Ministry of Energy, OPG, the IESO and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the GA refinancing.
- The Auditor General has also been briefed on the proposed structure of the GA refinancing structure and will be advised of the government's proposed

accounting treatment once the necessary details are available.

IF ASKED ABOUT STRUCTURAL DEFICIT:

- The government has restored balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.
- The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.
- Gains from the sale of qualifying assets are dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure.

Commented [EK01]: To be confirmed by MOF

CURRENT STATUS:

- The Global Adjustment (GA) smoothing proposal was announced March 2, 2017, as a part of the proposed Fair Hydro Plan.
- The government intends to introduce legislation on May 11, 2017 that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

BACKGROUND:

- The Ministry of Finance (MOF) and Ontario Financing Authority (OFA) are the lead on questions relating to debt financing for the Global Adjustment (GA).
- The global adjustment component of the electricity bill covers part of the cost of the electricity commodity.

- The global adjustment is set monthly to reflect:
 - The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and:
 - Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations
 - Payments for contracted rates paid to a number of generators across the province that have built or refurbished and operate electricity generation infrastructure such as gas-fired and renewable facilities (e.g., hydro, wind, solar) and nuclear.
 - The cost of delivering conservation programs
- The GA varies from month to month, responding to changes in the HOEP compared to contract prices. Generally speaking, when the HOEP is lower, the GA is higher to cover additional costs for the items referenced above. The GA rate is also impacted when new projects come into service, contract payments take effect or as a result of changes in Ontario electricity demand.
- To relieve the current burden on ratepayers and allocate costs more fairly, a portion of the GA is proposed to be refinanced under the Fair Hydro Plan.
- Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over 30 years to better reflect the expected lifecycle of infrastructure that has been built.
- In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers
- In later years, the cost of refinancing would be recovered from ratepayers.
- Under current forecasts, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years.

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