Record 1

From: Schuurman, Tim (MOF)
To: Christie, Tim (ENERGY)
Subject: Re: FHP Report
Date: May 19, 2017 9:53:26 AM

Thanks Tim. That's not what we discussed yesterday and as a result not what I told our DM and MO. I suggest Serges office reach out to our DMO to sort this out.

As I indicated to you, our Minister is out of the country all of next week as is our DM and chief of staff, so not available to lead a response. Plus Energy is the lead on the legislation and it's expected this will be part of the Committee discussions next week. Not sure it's the right fit.

I'm out of the office today and Tuesday. Probably best for your DMO to reach out to ours.

Tim

From: Christie, Tim (ENERGY)
Sent: Friday, May 19, 2017 9:34 AM
To: Schuurman, Tim (MOF)
Subject: RE: FHP Report

Tim, further to our discussion Energy's preference is for Finance to take the lead on the response to the FAO given that the biggest issues with the report dealt with accounting and interest rates. I assume your comms shop will loop in with ours for messaging on OFHP?

Tim

From: Christie, Tim (ENERGY)
Sent: May-18-17 10:27 AM
To: Hume, Steen (ENERGY); Schuurman, Tim (MOF)
Subject: Re: FHP Report

Tim can I give you a call around 11?

On Thu, May 18, 2017 at 10:24 AM -0400, "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca> wrote:

Hey Tim, Steen

Wanted you guys to know I just got off the phone with Jeff. I'm willing to provide more detail in person, but essentially the feedback is as follows:

- They fully appreciated yesterday's meeting and are engaged in a significant, full re-write of the appendix. They also plan on reviewing the language throughout the report and amending it to be less definitive.
- However, they believe its important for the report to flag the accounting for a regulatory asset as a "risk" that MPPs' should be aware of, and as such, note what the impact would be and suggest the AG be asked to opine.
- We will not be given another chance to review the report before it is provided to Ministers on Tuesday.
- I offered up a briefing from KPMG again, and they appreciate the offer, but declined the invitation. They are into report finalization mode and they feel they have sufficient info and feedback from us to proceed.

We should talk about comms plans and bringing our MO's into the loop and how the government will respond. Let me know when you're available to discuss this. You should know that Minister Sousa, his chief of staff, and Scott T. are in Europe next week while the report is being released and likely won't be available to lead the comms exercise.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Jeffrey Novak [mailto:jnovak@fao-on.org]
Sent: May-18-17 9:26 AM
To: Schuurman, Tim (MOF); Christie, Tim (ENERGY)
Cc: Hume, Steen (ENERGY)
Subject: FHP Report

Hi folks,

FYI below, we'll be releasing our report on Wednesday.

Advance copies will be delivered to your Ministers and both of you on Tuesday morning. I know we sometimes provide advance copies 48 hours in advance but due to time constraints on this report we can only do 24 hours.

Regards,

Jeff

From: Kismet Baun

Sent: May 18, 2017 9:13 AM
To: Kismet Baun <kbaun@fao-on.org>
Subject: FW: MEDIA ADVISORY: The Financial Accountability Officer of Ontario will Release an Assessment of the Fiscal Impact of the Province's Fair Hydro Plan on Wednesday, May 24, 2017

2 Bloor Street West |Suite 900 | Toronto, Ontario |M4W 3E2

MEDIA ADVISORY

THE FINANCIAL ACCOUNTABILITY OFFICER OF ONTARIO WILL RELEASE AN ASSESSMENT OF THE FISCAL IMPACT OF THE PROVINCE'S FAIR HYDRO PLAN ON WEDNESDAY, MAY 24, 2017

Media Briefing: 8:00 a.m. to 9:00 a.m., May 24, 2017
Room 230, Ontario Legislature

News Conference: 9:00 a.m. to 10:00 a.m., May 24, 2017
Media Studio, Queen's Park

(TORONTO) May 18, 2017 - On Wednesday, May 24th, Stephen LeClair, Ontario's Financial Accountability Officer, will release ***An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan***. Mr. LeClair will discuss the report at a **9:00 a.m. news conference** in the **Media Studio** at **Queen's Park.**

In advance of the news conference, there will be a background briefing for *****accredited media at 8:00 a.m. in Room 230 at the Legislature (*****Accreditation is available through **Gerald Christopher, Room 387A, 416-325-7922** or via email at gchristopher@ola.org).

At the media briefing, senior officials from the Financial Accountability Office of Ontario (FAO) will provide a review of the report and answer questions on a not-for-attribution basis. Copies of the report will be available for the media at the start of the briefing. The report will be posted on the FAO website http://www.fao-on.org/en/ at **9:00 a.m. on Wednesday, May 24th**.

About the FAO

Established by the Financial Accountability Officer Act, 2013, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. Visit our website at http://www.fao-on.org/en/ and follow us on Twitter at https://twitter.com/InfoFAO.

-30-

For further information or to arrange interviews, please contact:

Kismet Baun l (416) 254-9232 l kbaun@fao-on.org l fao-on.org

cid:image012.png@01D2CFB2.51356DB0

Record 12

From: Hsu, Priscilla (MOF)
To: Hendy, Adam (ENERGY); Nutter, George (ENERGY); Barbaro, Rachel (ENERGY)
Subject: MOF KM/QAs FAO Report
Date: May 23, 2017 7:59:24 PM
Attachments: MOF QAs FAO Fair Hydro Plan_v4.docx

Hi Adam, George and Rachel,

Please see attached for our final Media KM/QAs for the FAO report on OFHP.
The file is password protected with the external budget password – please let me know if you have trouble accessing the file.

Thank you for all your help today. If you can send me your final KM/QAs will share with our policy areas for their reference as well.

Thank you in advance.

Cheers,
Priscilla

MOF - FAO Report on the Fair Hydro Plan
May 23, 2017

MEDIA KEY MESSAGES

- The Fair Hydro Plan, which includes the Ontario Rebate for Electricity Consumers equivalent to the provincial 8 per cent portion of the HST, will lower electricity bills by 25 per cent on average for residential consumers in the province starting this summer — the single-largest reduction in Ontario's history.

- The Financial Accountability Office's (FAO) analysis confirms that people in living in Ontario would receive significant relief under the Fair Hydro Plan.

- Under the proposed legislation, programs such as the Ontario Electricity Support Program and the Rural or Remote Rate Protection Program would be government-funded going forward and not just for a few years. This would mean more savings for ratepayers on an on-going basis.

- About 500,000 small businesses and farms will also benefit from the initiative.

- We are also proposing to lower energy costs by expanding access to natural gas to communities that are currently underserved, including rural, northern Ontario and First Nation communities.

- As part of the Fair Hydro Plan, we are helping to relieve the burden of financing system improvements and funding key electricity support social programs to allocate costs more fairly and equitably.

- Reducing electricity costs is part of Ontario's plan to create jobs, grow our economy and help people in their everyday lives.

MEDIA QAs

Q: The Financial Accountability Office (FAO) estimates that the FHP will cost the Province approximately $45 billion over 29 years while providing overall savings to electricity ratepayers of $24 billion resulting in a net cost of $21 billion. Why is the Government doing this if the costs outweigh the benefits?

The burden of financing improvements to Ontario's electricity infrastructure and funding key programs has unfairly fallen on the shoulders of today's ratepayers.

That is why our Fair Hydro Plan is committed to reduce current high electricity bills by 25 per cent while shifting costs to the future to more fairly match the benefits and costs of these investments.

Recognizing that the electricity infrastructure that has been built will last for decades to come, the Province is proposing to refinance those capital investments to ensure that system costs are more equitably distributed over time.

The plan significantly reduces rates today and ensures fairness and predictability for tomorrow.

Q. Why have electricity rates gone up in the first place?

Electricity rates have risen for two key reasons:

1. Years of under-investment in the electricity system, which meant more than $50 billion has been invested since 2003 to ensure the system is cleaner and more reliable.

2. The decision to eliminate Ontario's use of coal and produce cleaner and renewable power.

The burden of financing these system improvements and funding key electricity support social programs has unfairly fallen on today's ratepayers.

As part of the Fair Hydro Plan, we are helping to relieve that burden and allocating costs more fairly and equitably.

Q. How are you going to help share the cost more fairly?

The electricity infrastructure that has been built will last for decades to come.

We are refinancing the cost of the contracts for those capital investments so that system costs are more equitably distributed over time.

In addition, a number of important programs, such as the Ontario Electricity Support Program and Rural or Remote Electricity Rate Protection, will now be funded by the government instead of ratepayers.

Q. How can Ontario afford the Fair Hydro Plan?

With a growing economy, responsible fiscal management and balanced budgets projected in 2017-18 and the following two years, we are able to take measures to help ease electricity cost pressures for people in Ontario.

This will not mean an increase in taxes.

We'll do this by changing the way electricity costs are recovered and moving funding for assistance programs off of electricity bills.

[If pressed]

This Fair Hydro Plan includes changing some funding sources to be government-funded, which will cost the government $2.5 billion over the first three years, and recovering other costs more fairly from ratepayers over a longer time period.

Q. Will you raise taxes to pay for the relief?

The Fair Hydro Plan will not mean an increase in taxes or create a need for new taxes.

Q. Aren't you just making the taxpayer subsidize the ratepayer? And won't that be even more expensive once interest rates are taken into account?

We are dedicated to reducing electricity costs wherever possible, while maintaining reliability for all consumers.

The Fair Hydro Plan would deliver significant savings for eligible electricity consumers.

Q. Why not make changes to directly benefit those who really need it?

With the Fair Hydro Plan, those with eligible low incomes and those living in eligible rural or remote communities would benefit from additional reductions to their electricity bills.

Ontario has a number of programs in place to help low-to-moderate income individuals and families with energy costs.

Programs include the Ontario Energy and Property Tax Credit, the Ontario Electricity Support Program, the Ontario Sales Tax Credit and the Northern Ontario Energy Credit.

We are also reducing costs for eligible rural or remote customers by expanding eligibility and providing additional funding to the Rural or Remote Electricity Rate Protection program.

The removal of the debt retirement charge has been saving typical residential users about $70 every year since January 1, 2016.

Q. How much is this going to add to your debt?

The intention is that refinancing the cost of the contracts for the electricity generation infrastructure investments (i.e. global adjustment deferral and refinancing) will leave net debt unaffected.

[If pressed]

This Fair Hydro plan includes changing some funding sources to be government-funded, which will cost the government up to $2.5 billion over the first three years,

Q. Does third party accounting opinion support the Global Adjustment deferral plan?

Yes. The proposed legislation was reviewed by impacted government agencies involved and their external advisors. Their preliminary advice conditionally supports the accounting structure.

[If pressed]

Input was provided by the Independent Electricity Sector Operator and Ontario Power Generation as well as their external accounting advisors.

Many specifics remain outstanding and will only be addressed through future regulations and commercial agreements, which is why the accounting firms can only conditionally support the accounting structure.

Record 13

Not relevant to MOF

From: Young, Gwendolynne (MOF) <Gwendolynne.Young@ontario.ca>
Sent: Tuesday, May 23, 2017 8:06 PM
To: Schlaepfer, Martin (ENERGY)
Subject: Fw: Next Steps - FAO FHP report

Hi Martin,

Please find attached MOF's briefing note and QsAs on the FAO's FHP report.

External budget password.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Tuesday, May 23, 2017 7:55 PM
To: Young, Gwendolynne (MOF)
Subject: FW: Next Steps - FAO FHP report

Hi Gwen,

Just to follow up on Selena's message, I've saved both documents with the external budget doc password in the event you want to share with ENE counterparts. As of right now, only the Q&As have been shared with ENE comms.

Could you please also share the BN and Q&As with the MO? I imagine they might want to share with ENE MO counterparts.

Thanks!
Ryan

From: Esmail, Selena (MOF)
Sent: May-23-17 7:33 PM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA); Veinot, Cindy (TBS); Nelms, Scott (MOF); Hughes, Karen (TBS); Dodbiba, Teuta (TBS); Duran-Schneider, Maria (TBS); Thompson, Scott (MOF)
Cc: Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Waddell, Colleen (MOF); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Laughton, Patrick (TBS); Schuurman, Tim (MOF); Tiburcio, Daniel (MOF); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF); Young, Gwendolynne (MOF); McLean, David (MOF)
Subject: RE: Next Steps - FAO FHP report

Thanks to everyone for your input today! I've attached the summary note along with a Key messages and Q and A document (Budget password) that has the consolidated MOF/TBS KMs and Qs and As. We are expecting to receive ENE's KMs and Qs and As as well which I will pass along to you for your information once received.

Thank you again and have a good evening!

From: Esmail, Selena (MOF)
Sent: May-23-17 12:47 PM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA); Veinot, Cindy (TBS); Nelms, Scott (MOF); Hughes, Karen (TBS); Dodbiba, Teuta (TBS); Duran-Schneider, Maria (TBS)
Cc: Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Waddell, Colleen (MOF); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Laughton, Patrick (TBS); Schuurman, Tim (MOF); Tiburcio, Daniel (MOF); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF)
Subject: RE: Next Steps - FAO FHP report

Hi Everyone – here is our summary note updated to reflect the revised report. Could I ask that you please review and provide any feedback by 3pm today. We've left a highlighted section of the note to flag our key areas of concern/comment with respect to the accounting treatment, financing/interest rate spread and treatment of electricity relief that we originally flagged when we reviewed the draft report. I don't know if these remain areas to flag so please let me know/update accordingly.

Thanks very much. We will follow up through your EAs as well.

From: Esmail, Selena (MOF)
Sent: May-23-17 10:24 AM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA); Veinot, Cindy (TBS); Nelms, Scott (MOF); Hughes, Karen (TBS); Dodbiba, Teuta (TBS); Duran-Schneider, Maria (TBS)
Cc: Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Waddell, Colleen (MOF); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Laughton, Patrick (TBS); Schuurman, Tim (MOF); Tiburcio, Daniel (MOF); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF)
Subject: RE: Next Steps - FAO FHP report

Hi Everyone, here is a copy of the report. I understand that a copy of the report was also delivered to the Ministers of Energy and Finance this morning. A reminder that the report is confidential and embargoed until 9:00am tomorrow morning.

As I mentioned on Friday we are working on updating our summary note including key messages and Qs and As (which I've reattached). I will share the note for your comments and input asap once updated. We will need to turn it pretty quick so thanks in advance for your cooperation. Ryan will also follow up with your EAs as well.

Don't hesitate to contact me if you have any questions.

From: Esmail, Selena (MOF)
Sent: May-19-17 4:58 PM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA); Veinot, Cindy (TBS); Nelms, Scott (MOF); Hughes, Karen (TBS); Dodbiba, Teuta (TBS); Duran-Schneider, Maria (TBS)
Cc: Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Waddell, Colleen (MOF); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Laughton, Patrick (TBS); Schuurman, Tim (MOF); Tiburcio, Daniel (MOF); Arbabzadeh, Nina (TBS)
Subject: Next Steps - FAO FHP report

Hi Everyone,

I just wanted to give you a heads up on next steps with respect to the review of the FAO's report which we are to get an embargoed copy of on Tuesday in advance of the release on Wednesday.

The Minister of Energy has been tasked with leading the government's response to this report. My team is going to coordinate a summary note including some key messages to support a response as required. I've attached the most recent key messages and Qs and As we have on the FHP which you can update as necessary.

As soon as we receive a copy of the report, we will ensure that you have it and be in touch for input on the note.

Thanks very much in advance.

Office of the Budget
MINISTRY of FINANCE

Financial Accountability Office Report: Fiscal Impact of the Province's Fair Hydro Plan

May 23, 2017

ISSUE

- On Wednesday May 24, 2017, the Financial Accountability Office of Ontario (FAO) is scheduled to publicly release a report that assesses the fiscal impact of the Province's Fair Hydro Plan (FHP).

- In undertaking this research project, the FAO's report was guided by a number of questions including:
    - What is the fiscal impact of the FHP on the Province's long-term finances over 30 years?
    - What is the impact on electricity costs and electricity ratepayers over 30 years?
    - A review of the financing structure of the FHP, including the electricity cost (global adjustment) refinancing.

KEY MESSAGES (FOR THE MINISTER OF FINANCE)

- The Fair Hydro Plan, which includes the Ontario Rebate for Electricity Consumers equivalent to the provincial 8 per cent portion of the HST, will lower electricity bills by 25 per cent on average for residential consumers in the province starting this summer. This would be the single largest reduction in Ontario's history.

    - The Financial Accountability Office's analysis confirms that people in living in Ontario would receive significant relief under the Fair Hydro Plan.

- Under the proposed legislation, programs such as the Ontario Electricity Support Program and the Rural or Remote Rate Protection Program would be government-funded going forward and not just for a few years. This would mean more savings for ratepayers on an on-going basis.

- About 500,000 small businesses and farms will also benefit from the initiative.

- We are also proposing to lower energy costs by expanding access to natural gas to communities that are currently underserved, including rural, northern Ontario and First Nation communities.

- As part of the Fair Hydro Plan, we are helping to relieve the burden of financing system improvements and funding key electricity support social programs to allocate costs more fairly and equitably.

- Reducing electricity costs is part of Ontario's plan to create jobs, grow our economy and help people in their everyday lives.

SUMMARY OF MOF/TBS KEY CONCERNS/COMMENTS ON THE FAO'S REPORT

- MOF/TBS concerns/comments on the report can be categorized in three buckets, as follows:
    - **Accounting Treatment** – the description of the accounting treatment of the regulatory / investment asset portrays a very uncertain outcome with regard to compliance with Public Sector Accounting Standards (PSAS), the outcome of which will only be known once future regulations and commercial agreements are completed. It will be difficult to respond to questions regarding fiscal impact, or to

support an Auditor General review of the accounting treatment, prior to the availability of those documents.

- **Financing Costs and Interest Rate Spread Assumptions** – the FAO's estimates are based on an illustrative assumed 3 to 5 per cent interest rate, while actual financing costs may differ. In the report, the FAO assumes the high end of this range of 5 per cent as a weighted average of Provincial (at 4.5%) and OPG Trust (at 5.4%) borrowing costs. As per the 2017 Budget (pages 250, 252) the projected Government of Canada borrowing rate does not exceed 3.2%, which combined with a typical Canada/Ontario spread of approximately 75 basis points means that the Province's borrowing costs are projected to be lower than the FAO average of 4.5%. As such, it appears that the high end of the range estimated by the FAO as the total cost of borrowing through the OPG Trust is overstated.
- **Treatment of Electricity Relief Programs** – the FAO's assumption that government support for these programs may conclude in 2020-21 is not plausible, given that the legislation introduced in the House transfers these programs from ratepayer-funded to government-funded.

HIGH-LEVEL SUMMARY

- The FAO report provides a brief overview of the FHP, which includes the following initiatives:
  - **Harmonized Sales Tax (HST) Rebate**: A rebate to residential ratepayers for an amount equal to the 8% provincial portion of the HST on electricity bills.
  - **Electricity Cost Refinancing**: the Province is proposing to borrow an average of $2.5B per year through 2027 to pay a portion of electricity costs to temporarily reduce the amount paid by eligible ratepayers. The Province would recover the borrowed funds, including interest, from ratepayers over an estimated 18-year period starting in 2028.
  - **Adjusting Electricity Relief Programs**: currently the cost of the Rural or Remote Rate Protection Program (RRRP) and Ontario Electricity Support Program (OESP) is recovered from all electricity ratepayers through the cost of electricity. The FHP would transfer the cost of these programs from electricity bills to the Province.
- The FAO estimates that the **FHP will have a total net cost of $21B over a 29-year time period (2017-2045)**, based on the following:
  - Total **cost to the Province** of approximately **$45B;**
  - **Net savings** to **eligible electricity ratepayers of $24B**.

<u>RISKS FLAGGED BY THE FAO</u>

- The FAO states that if the Province **funds the cost of the FHP through debt**, the total cost to the taxpayer could increase to between $69B and $93B.
- The FAO flags risks which would result in higher costs to ratepayers during the repayment period related to **higher-than-expected:**
  - **Ratepayer demand for electricity;**
  - **Costs to generate/deliver electricity; and/or**
  - **Interest rates on borrowed funds**.
- The FAO also flags **risks related to the proposed accounting treatment** of the electricity cost refinancing component that could result in additional costs to the Province of $26B between 2017-18 and 2027-28.

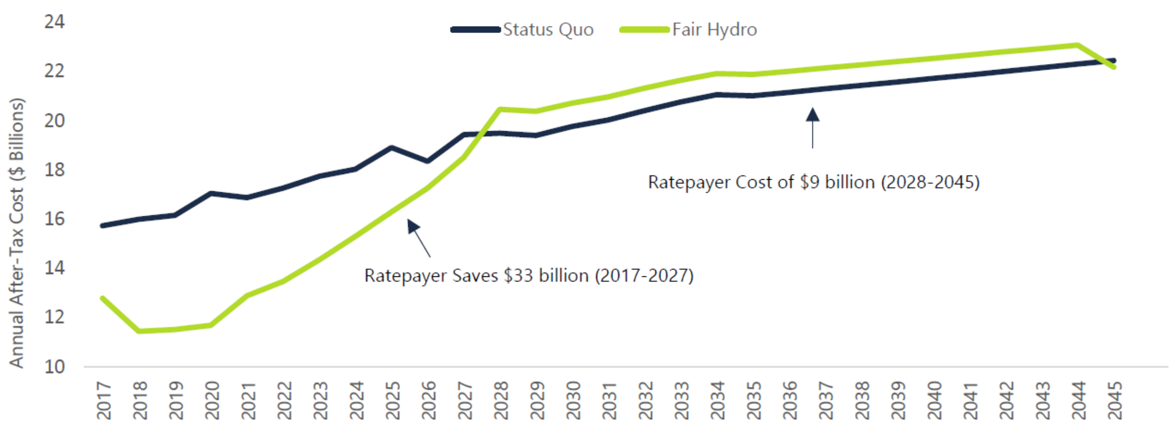
IMPACT ON RATEPAYERS – NET SAVINGS OF $24B

- The FAO projects that the FHP will result in total net savings to ratepayers of $24B over 29 years:
    - From 2017 to 2027 – costs will be lower under the FHP compared to the status quo (for a total savings of $33B), and
    - From 2028 to 2045* – costs will be higher under the FHP compared to the status quo (for a total cost of $9B).

  *Under the electricity cost refinancing plan, ratepayers do not begin repayment until 10 years after borrowing commences.

  Figure 3-1 shows the FAO's estimated impact of the FHP on eligible ratepayer electricity costs relative to a status quo scenario

Figure 3-1: FAO's Estimated Impact of the FHP on Eligible Ratepayer Electricity Costs



Source: FAO analysis of Provincial information.

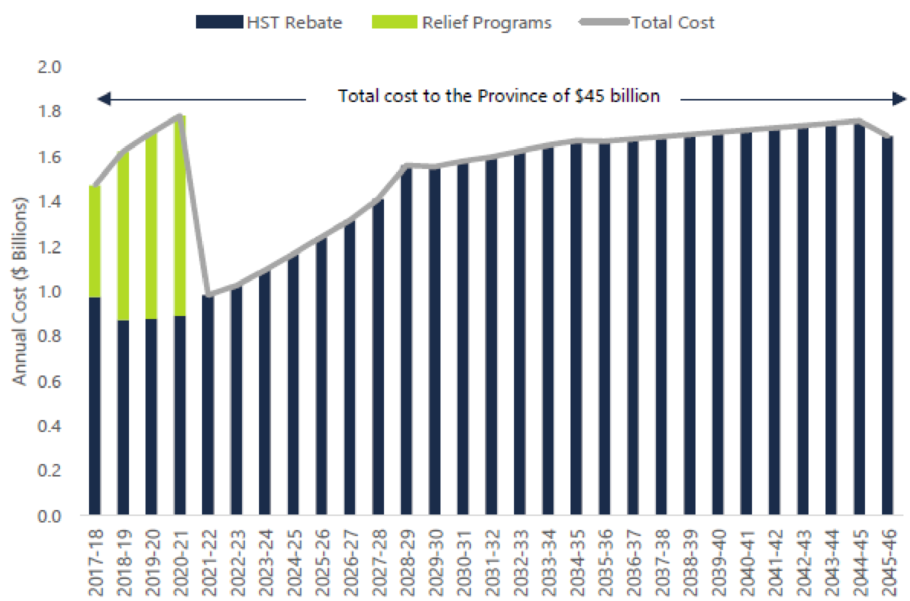
- The estimated $24B savings for eligible electricity ratepayers under the FHP is made up of the following components:
    - HST Rebate: savings of $42B.
    - Electricity Cost Refinancing: cost of $21B.
    - Adjusting Electricity Relief Programs: savings of $3B.

IMPACT ON THE PROVINCE'S FINANCES – TOTAL COSTS OF $45B

- The FAO estimates that the FHP will cost the Province approximately $45B over 29 years. The cost estimate is made up of the following components:
    - HST Rebate: cost of $42B.
    - Adjusting Electricity Relief Programs: cost of $3B.
- Figure 3-3 shows the FAO's estimated annual cost of the FHP to the Province. This estimate assumes that the Province:
    - Will provide the HST Rebate for the entire time period (2017-2045), and
    - Will not fund the electricity relief programs after 2020-21.

- The FAO notes that its overall estimate of $21B in net costs to Ontarians would not be impacted if the electricity relief programs were to continue after 2020-21 because, in the FAO's estimation, incremental savings to ratepayers would be offset by costs to the Province.

Figure 3-3: FAO's Estimated Annual Cost of the FHP to the Province, 2017-18 to 2045-46

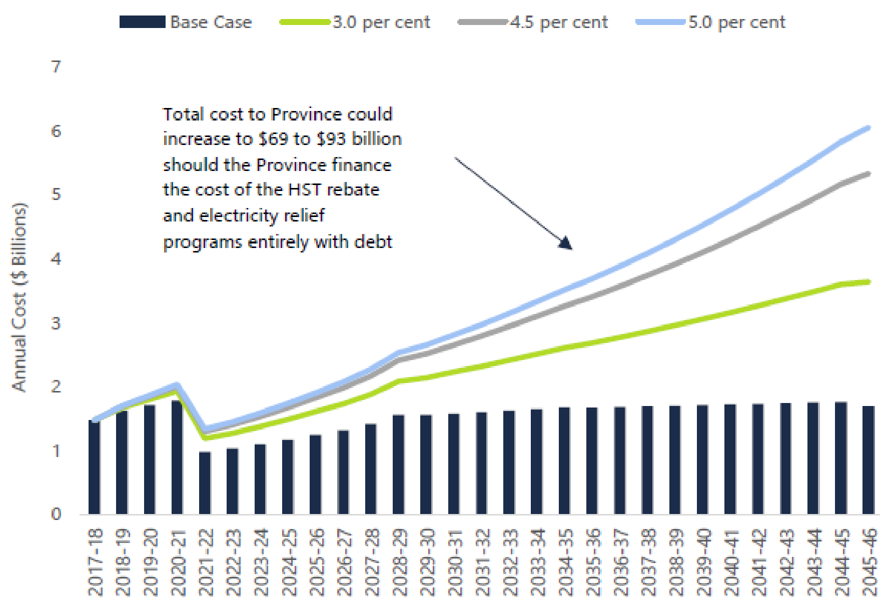


Note: Provincial funding for electricity relief programs is assumed to end after 2020-21 based on the Province's announced commitments regarding the FHP and information provided by the Province to the FAO.
Source: FAO analysis of Provincial information.

- If the Province funds the electricity relief programs, along with the HST rebate, by borrowing over the 29-year period, the FAO projects that costs to the Province would increase by $24B to $48B (from $45B to between $69B and $93B).

Figure 3-4 shows the FAO's estimated annual cost of the FHP to the Province under different assumed interest rate scenarios.

Figure 3-4: FAO's Estimated Annual Cost of the FHP to the Province, 2017-18 to 2045-46



Source: FAO analysis of Provincial information

ACCOUNTING TREATMENT

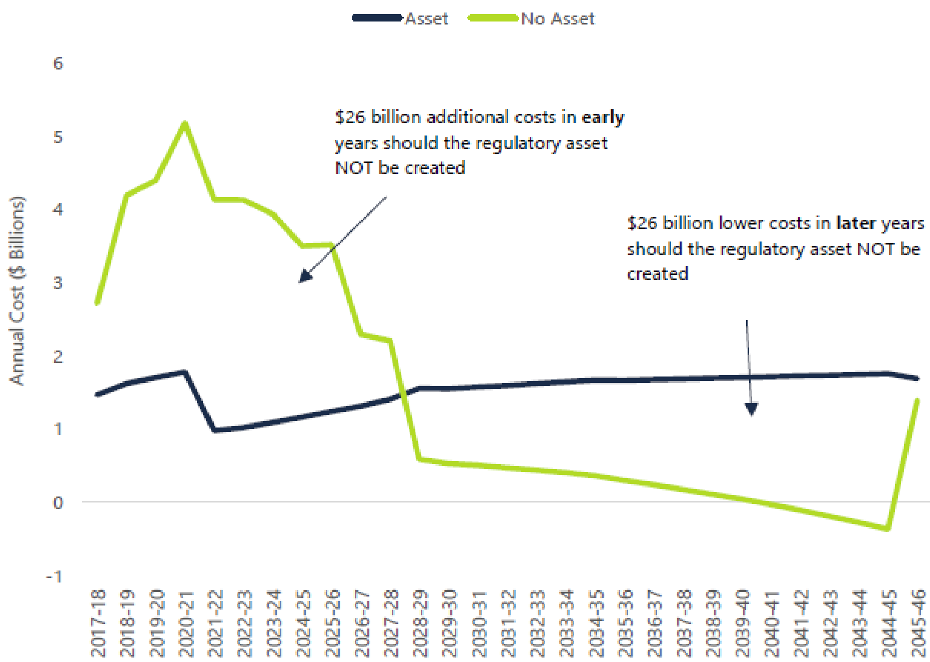
- The FAO states that the FHP involves the use of a complicated accounting structure that will create a regulatory / investment asset under which the electricity cost refinancing component will:
    - Increase gross debt by approximately $26B by 2027-28;
    - Create an obligation for ratepayers to repay the OPG Trust approximately $26B, thereby
    - Not impacting the annual surplus / deficit or net debt of the Province.

- The FAO is uncertain as to whether the creation and recording of the regulatory / investment asset, as proposed under the electricity cost refinancing initiative, is consistent with PSAS.

- If the regulatory / investment asset does not meet PSAS, the FAO estimates that the electricity cost refinancing initiative would result in $26B in additional costs to the Province from 2017-18 to 2027-28 and $26B in lower costs to the Province from 2028-29 to 2045-46.

  Figure 4-1 shows the FAO's estimated annual cost to the Province of the FHP under scenarios in which the regulatory / investment asset is created or not created.

Figure 4-1: FAO's Estimated Annual Cost to the Province of the FHP if the Regulatory / Investment Asset is Created or Not Created, 2017-18 to 2045-46



Source: FAO analysis of Provincial information

MOF - FAO Report on the Fair Hydro Plan
May 23, 2017

MEDIA KEY MESSAGES

- The Fair Hydro Plan, which includes the Ontario Rebate for Electricity Consumers equivalent to the provincial 8 per cent portion of the HST, will lower electricity bills by 25 per cent on average for residential consumers in the province starting this summer — the single-largest reduction in Ontario's history.

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MEDIA QAs

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The plan significantly reduces rates today and ensures fairness and predictability for tomorrow.

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Electricity rates have risen for two key reasons:

1. Years of under-investment in the electricity system, which meant more than $50 billion has been invested since 2003 to ensure the system is cleaner and more reliable.

2. The decision to eliminate Ontario's use of coal and produce cleaner and renewable power.

The burden of financing these system improvements and funding key electricity support social programs has unfairly fallen on today's ratepayers.

As part of the Fair Hydro Plan, we are helping to relieve that burden and allocating costs more fairly and equitably.

Q. How are you going to help share the cost more fairly?

The electricity infrastructure that has been built will last for decades to come.

We are refinancing the cost of the contracts for those capital investments so that system costs are more equitably distributed over time.

In addition, a number of important programs, such as the Ontario Electricity Support Program and Rural or Remote Electricity Rate Protection, will now be funded by the government instead of ratepayers.

Q. How can Ontario afford the Fair Hydro Plan?

With a growing economy, responsible fiscal management and balanced budgets projected in 2017-18 and the following two years, we are able to take measures to help ease electricity cost pressures for people in Ontario.

This will not mean an increase in taxes.

We'll do this by changing the way electricity costs are recovered and moving funding for assistance programs off of electricity bills.

[If pressed]

This Fair Hydro Plan includes changing some funding sources to be government-funded, which will cost the government $2.5 billion over the first three years, and recovering other costs more fairly from ratepayers over a longer time period.

Q. Will you raise taxes to pay for the relief?

The Fair Hydro Plan will not mean an increase in taxes or create a need for new taxes.

Q. Aren't you just making the taxpayer subsidize the ratepayer? And won't that be even more expensive once interest rates are taken into account?

We are dedicated to reducing electricity costs wherever possible, while maintaining reliability for all consumers.

The Fair Hydro Plan would deliver significant savings for eligible electricity consumers.

Q. Why not make changes to directly benefit those who really need it?

With the Fair Hydro Plan, those with eligible low incomes and those living in eligible rural or remote communities would benefit from additional reductions to their electricity bills.

Ontario has a number of programs in place to help low-to-moderate income individuals and families with energy costs.

Programs include the Ontario Energy and Property Tax Credit, the Ontario Electricity Support Program, the Ontario Sales Tax Credit and the Northern Ontario Energy Credit.

We are also reducing costs for eligible rural or remote customers by expanding eligibility and providing additional funding to the Rural or Remote Electricity Rate Protection program.

The removal of the debt retirement charge has been saving typical residential users about $70 every year since January 1, 2016.

Q. How much is this going to add to your debt?

The intention is that refinancing the cost of the contracts for the electricity generation infrastructure investments (i.e. global adjustment deferral and refinancing) will leave net debt unaffected.

[If pressed]

This Fair Hydro plan includes changing some funding sources to be government-funded, which will cost the government up to $2.5 billion over the first three years,

Q. Does third party accounting opinion support the Global Adjustment deferral plan?

Yes. The proposed legislation was reviewed by impacted government agencies involved and their external advisors. Their preliminary advice conditionally supports the accounting structure.

[If pressed]

Input was provided by the Independent Electricity Sector Operator and Ontario Power Generation as well as their external accounting advisors.

Many specifics remain outstanding and will only be addressed through future regulations and commercial agreements, which is why the accounting firms can only conditionally support the accounting structure.