TBS

Rate Mitigation Update

Minister's Briefing

April 18, 2017

Background

- The proposed Global Adjustment smoothing option would reduce RPP eligible residential bills by 25%, and cap rate increases for the next four years at the Consumer Price Index (CPI).
- Subsequent years would be set above CPI in order to ensure that bill increases related to the deferred GA amounts are capped at around 10% of the total bill while allowing for repayment of related financing and administrative costs over the recover term ending by 2047.
- People with low incomes, those served by local distribution companies (LDCs) with the highest distribution costs, OESP recipients and On-Reserve First Nation households are expected to benefit from even greater reductions to their electricity bills.
- These new measures will cost the government up to $2.5 billion over the next three years.

Source: Ministry of Energy Technical Briefing Deck

Rate Mitigation Implementation Group (RMI)

- The Rate Mitigation Implementation Working Group was created in mid-March with representatives from Energy, TBS, MOF, OPG, IESO, and the OEB, as well as external legal advisors.
- The implementation group meets weekly in order to discuss status on key outstanding issues, including considerations relevant to drafting of the legislation for Global Adjustment Refinancing.
- RMI participants also actively participate in broader discussions involving both internal and external advisors on key aspects of the GA legislation, including identification of potential creditor, legal and accounting risks.
- If passed, the legislation would enable IESO and OPG to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the OEB, as it relates to the financing proposal.
- Note that the March 1st draft TB minute directs the Ministry to report back to TB/MBC by Spring 2017, <u>prior to going to LRC with any legislation</u>, on the approach to refinance Global Adjustment.

Rate Mitigation Implementation Group

- OPCD has reminded both OPG and IESO that the Ministry report back is expected to include:
  - Formal accounting opinions from OPG and IESO auditors.
  - Completed legal, financing and accounting risk assessments. Assessments to include, but not limited to proposed legislation, technical aspects such as Eurig analysis, and risk to borrowing (in discussion with the OFA).
  - Report on the multi-year profile of GA smoothing, identifying specific assumptions.
  - Report on sensitivity analysis completed as assumptions vary, such as under different recovery rates and periods.
  - Overall risk mitigation plan addressing completed legal, accounting and financing risk assessments.
- For purposes of the accounting opinions, it is suggested that the firms plan to work on a common set of facts to ensure consistency. Facts will be based on draft legislation, and be subject to confirmation by MOE.
- In accordance with professional standards, the Auditor General will need to be advised that the firms are engaging their external auditors to provide accounting opinions.

GA Legislation

Key elements of the draft legislation will include:

- **Fair Allocation Plan**
  - Will reflect non-compulsory principles and parameters
  - 3 distinct periods covered: Inflation period (Nov.2017 – Apr. 2022) bill increases to be capped at inflation; Transition Period (May 2022- Apr. 2027) bills to increase at a rate such that borrowings will not exceed the Trust's capacity (determined by OPG Trust as the Finance Service Manager); and, the Amortization Period (May 2027-Apr. 2047) to recover at rate equitable among Regulated Consumers
  - Costs to be fully recovered by 2047
- **Treasury Plan**
  - Created by OPG to implement the Fair Allocation Plan
  - Will pass through actual costs and expenses of funding obligations incurred
  - 3 components:
    - Treasury Plan expected to consider the principles and parameters of the Fair Allocation Plan;
    - Plan is expected to match maturities to allocations under the Fair Allocation Plan, as well as achieve funding efficiencies and cost management articulated in the Fair Allocation Plan

GA Legislation

- **Establishment of the Regulatory Asset**
  - Right to recover from rate payers, through collection by LDCs and IESO, the regulatory charge, late fees, and interest established by legislation
  - Legislation will create property rights and allow for security interests in the Regulatory Asset
  - Role of the OEB in establishing the Regulatory Asset TBD (relevant for accounting)
  - Role of OPG Trust in acquiring the asset (sale)
  - Dealer interest in ensuring collectability (to minimize financing costs)
  - Clearly defined class of rate payers that receive and pay for the benefit
  - Charges are irrevocable
  - LDCs have duty to invoice rate payers for the charge (LDCs bare ADA risk)
  - IESO and LDCs have duty to collect charges as agent and pay remittances to IESO
  - IESO has duty to pay remittances to the Regulatory Asset Owner
  - Non-by-passability – subject rate payers who opt to go off grid to a penalty
  - True up mechanism to reconcile collections with incurrences
  - Province shall not take steps to reduce, alter, impair or terminate the Regulatory Asset or collection

GA Legislation

- **OEB Role**
  - Details under discussion
  - Inspect books and records related to incremental cost charged by OPG Trust [?]
  - Consequences of OEB review [?]
    - Ability to review
    - Ability to review and make recommendations (non-binding)
    - Review and approve or refer back for reconsideration (binding)

- **Provincial Guarantee**
  - Scope / Triggers / Consequences / Form
  - Consideration of contingencies involving possible provincial action as key to assessing accounting risk (i.e. Provincial control over Trust)

Energy Social Programs Update

- [PEMD to update with input from OPCD, COE]

Timelines

- AG briefing on April 19, 2017 (MOE Lead)

- Approval dates:
  - TB/LRC on May 1 2017; and
  - Cabinet on May 3, 2017

- Legislation introduced May 4, 2017.
  - Opposition Briefing (TBD)

- Summer 2017 implementation (June/July).
  - OPG preference for July 1 to align with quarter-end