TBS

Rate Mitigation Update

Minister's Briefing

April 18, 2017

Agenda

- Background
- Timelines
- TBS work streams
- Update on components of plan
  - GA refinancing
  - Affordability fund
  - Social programs – OESP, RRRP, FN
  - ICI
- Next steps

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

Timelines

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

- Approval dates:
  - TB – May 1, 2017
  - LRC -- GA refinancing – May 1 2017, other legislation – complete
  - Cabinet -- May 3, 2017

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

- Effective dates
  - In place now – Affordability Fund
  - May 1 – GA Refinancing (retroactive); first financing by OPG Trust – Fall 2017; regulations and commercial contracts to be drafted/negotiated before first financing
  - July 1

TBS Work streams

- Member of Rate Mitigation Implementation Group
- Preparation of analyst note for May 1 Treasury Board meeting
  - Draft minute from March 1 submission included in Appendix A
- Review of draft legislation – GA refinancing and social programs
- Review of financial model – GA refinancing
- Accounting analysis – GA refinancing -- coordination of opinions from OPG and IESO and overall analysis; Affordability Fund – accounting analysis and coordination with Hydro One

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, prior to going to LRC with any legislation, on the approach to refinance Global Adjustment.

GA Refinancing

- Process to review draft legislation
  - OPCD involved in review of draft framework document as of April 4th
  - Accounting teams from IESO and OPG as well as their advisors also reviewing drafts as well as OEB and OFA
  - Advisors:
    - Province – Blakes, TD, EY
    - OPG – Torys, Hunton, Goldman Sachs, CIBC, EY
    - IESO – Stikemans, KPMG
    - Dealers -- Oslers
  - First draft of legislation received April 14
  - Outstanding issues (to be added based on review of legislation)
  - Accounting opinions from IESO and OPG – to be available for May 1; will be based on the same draft legislation and assumptions
  - OPCD working with accounting teams from IESO, OPG, OFA to identify and resolve issues

GA Draft Legislation

Building blocks

- 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 Draft 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 Draft 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)

Affordability Fund

- The Ministry of Energy transferred $100M on March 30, 2017 to a limited purpose Trust (the Affordability Fund) to provide energy efficiency measures to electricity customers who do not qualify for existing low income conservation programs and who have difficulty paying their electricity bills.
- Recommendations on beneficiaries will be made by Electricity Distributors based on principles established in the Trust Declaration and decisions on distributions will be made by the Board of Trustees.
- In order to provide funding to the Trust, the Ministry of Energy entered into a Transfer Payment Agreement (TPA) with the Interim Trustee of the Trust (Computershare). It is expected that by May 31st, Computershare will be replaced by an independent Board of Trustees which will be appointed based on the advice of an independent Advisory Committee.
- Preliminary accounting analysis of the Trust concludes that the entity is not controlled by either the Province or Hydro One which is engaged to provide administrative services to the Trust under an Administrative Services Agreement. Hydro One is currently undertaking a more detailed accounting analysis under IFRS.

Energy Social Programs Update

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

APPENDIX A: PROPOSED MINUTE (DRAFT) – MARCH 1, 2017TB MEETING

Should TB/MBC wish to proceed with the Ministry's request, the following minute could be considered:

Approve electricity rate mitigation actions that support up to a 25% electricity bill reduction (including the 8% reduction announced in 2016) for an average household in 2017.

In this regard, the Board:

i. Direct the Ministry of Energy to implement electricity rate mitigation for all electricity consumers eligible to be billed under the Ontario Energy Board's Regulated Price Plan (RPP) and any other consumers who would be eligible for RPP if their electricity account was with a licensed distributor by:

   a) Subject to completed legal, accounting and financing risk assessments, refinance the Global Adjustment (GA) in order to partially defer RPP-eligible ratepayer GA costs by reducing projected after-tax electricity costs for a typical residential customer consuming 750kWh per month in 2017 by about 16%. Total projected bill increases will be kept in line with CPI until the end of 2021. From 2022 onwards, bills will increase at a rate that ensures gradual recovery of the accumulated debt by 2048, with escalation in subsequent years set above Consumer Price Index (CPI) in order to ensure that bill increases due to repayments are capped at around 10% of the total bill.

   b) Direct the Ministry to report back to TB/MBC by Spring 2017, prior to going to LRC with any legislation, on the approach to refinance Global Adjustment , including, but not limited to:

      - 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.