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 (ENERGY 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 – Implementation of expanded electricity support programs (OESP, RRRP FNORDC, ICI).

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, <u>prior to going to LRC with any legislation</u>, 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 15
  - 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)

Electricity Support Programs

- As part of the suite of electricity price mitigation initiatives, TB/MBC on March 1, 2017 approved the enhancement of a number of electricity support programs, including shifting the costs of these programs from the rate-base to government funding.

- These programs include:
  - Affordability Fund
  - Ontario Electricity Support Program (OESP)
  - Rural or Remote Electricity Rate Protection (RRRP) Program
  - First Nations On-Reserve Delivery Credit (FNORDC)

- Through the 2017-18 PRRT, multi-year funding for these programs, based on refined forecasts, were built into the Ministry of Energy's allocation (Appendix B provides details).

- The following slides provide an update on the implementation of these programs.

Electricity Support Programs – Affordability Fund

- As part of the March 1 approval, TB/MBC approved a commitment of up to $200M on a multi-year basis towards 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.
- On March 6, TB/MBC approved $100M in 2016-17 to establish the fund, which the Ministry of Energy transferred to a limited purpose Trust (the Affordability Fund) on March 30, 2017.
- 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.

Electricity Support Programs – Affordability Fund

- No legislative changes are required to create this program.
- The Ministry is planning to report back to TB/MBC in June 2017 with final program details and a performance management framework, including outcome measures and targets.
- The Ministry expects LDC can begin to apply the Trust for funding beginning in Summer 2017.
- The Ministry has also been directed to report back to TB/MBC through the 2018-19 PRRT with a value for money assessment, including spending to date and results and outcomes achieved.

Electricity Support Programs – Ontario Electricity Support Program

- As part of the March 1 approval, TB/MBC approved expanding the benefit level of OESP by 50%, moving the program from a ratepayer funded program to a government funded program, and pursuing additional measures to substantially increase take up.

- On April 10, LRC / Cabinet approved regulatory amendments under the Ontario Energy Board Act, 1998. These amendments included:
  - Increasing funding by 50% for existing OESP consumers;
  - Add new classes of OESP-eligible consumers; and
  - Ensure the IESO continues to fund the program through its OESP variance account (estimated at $100M)

- The Ministry has also begun work with the Behavioural Insights Unit, Centre of Excellence for Evidence-Based Decision Making, to accelerate / maximize program uptake.

Electricity Support Programs – Ontario Electricity Support Program

- Next Steps:
  - May 1, 2017 – TB/MBC & LRC – proposed legislation to shift the funding of this program from rate-payer to government funding.
  - Spring 2017 – further regulatory amendments on program design / eligibility criteria and report back to TB/MBC with final program details, including performance metrics.

Electricity Support Programs – RRRP

- As part of the March 1 approval, TB/MBC approved broadening the RRRP program to mitigate distribution charges for customers of LDC with some of the highest distribution rates and moving the program from a ratepayer funded program to a government funded program beginning in 2017.

- The Ministry is currently working on the program details and has convened a LDC working group in late March.

- Next Steps:
  - May 1, 2017 – TB/MBC & LRC – proposed legislation to shift the funding of this program from rate-payer to government funding.
  - Spring 2017 – regulatory amendments on program design / eligibility criteria and report back to TB/MBC with final program details, including performance measurement framework.

Electricity Support Programs – FNORDC

- As part of the March 1 approval, TB/MBC approved the establishment of a new province-wide government funded program beginning in 2017 that would eliminate the delivery charge for First Nations customers on reserve.

- The Ministry is currently working on the program details, including working with the Chiefs of Ontario.

- Next Steps:
  - May 1, 2017 – TB/MBC & LRC – proposed legislation to create the FNORDC
  - Spring 2017 – regulatory amendments on program design / eligibility criteria and report back to TB/MBC with final program details, including performance measurement framework.

Electricity Support Programs – Other Initiatives

Additional initiatives supporting electricity price mitigation:

- **Expanding Industrial Conservation Initiative (ICI)**
  - Lowering ICI eligibility threshold to 500 kW for consumers in targeted sectors, such as manufacturing. Program to remain funded through the rate-base.
  - Reg amendments were approved by LRC / Cabinet on April 10, 2017.
  - Implementation set for May 2017; eligible consumers can opt in to the ICI by June 15 so that they can be considered as Class A consumers in the annual billing period starting on July 1.
- **Additional Initiatives** for **Small Business and Industrials** (ENERGY, MEDG, MOF, MOECC, MOL, Small Business)
  - Identify additional opportunities to assist Class B electricity consumers and small and medium sized manufacturers
  - Report back to TBC/MBC and Cabinet in fall 2017
- **Initiatives for Tenants** (ENERGY, MOH)
  - Explore ways to provide direct assistance to tenants that are not sub-metered and do not directly benefit under the existing and proposed rate mitigation programs
  - Report back to TBC/MBC and Cabinet in fall 2017

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.

   c) If a non-fiscal mechanism cannot be established:

   - Direct the Ministry to report back to Cabinet and TB/MBC with options for achieving a comparable level of electricity rate mitigation in the most cost effective way, in order to minimize the impact on the province's fiscal plan.
   - Note costs to government of proceeding if cost of refinancing of Global Adjustment is recognized as an expense in the fiscal plan of up to \$2,534,000,000 in 2017-18, \$2,668,000,000 in 2018-19, \$2,942,000,000 in 2019-20, \$3,420,000,000 in 2020-21 and \$3,232,000,000 in 2021-22.

Appendix A: March 1, 2017 TB/MBC Minute (Slide 2 of 3)

ii) Broadening the Rural or Remote Rate Protection (RRRP) program to mitigate distribution charges for customers of Local Distribution Companies (LDC) with some of the highest distribution rates, and moving the program from a ratepayer funded program to a government funded program beginning in 2017, including:

a) Harmonizing distribution cost for customers with the highest distribution rates (Hydro One (R1 and R2 rate classes), Algoma Power, Atikokan Hydro, InnPower, Chapleau Public Utilities Commission, Sioux Lookout Hydro, Lakeland Power (Parry Sound service territory) and Northern Ontario Wires Inc) at the lowest distribution rate paid by the average consumer of the LDCs noted by fall 2017.

b) Note costs estimated at up to $459,000,000 in 2017-18, $472,000,000 in 2018-19, $484,000,000 in 2019-20, and $497,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.

c) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

d) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including fiscal plan implications to broaden RRRP.

e) Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Current program outcomes identified and results achieved to date.
- Establishing program performance management framework including targets for the broadened program now government funded
- Report on and assessment of impacts of consolidation of LDCs
- Assessment of distribution rates and implications for the program

iii) Expanding every benefit level of the Ontario Electricity Support Program by 50%, moving the program from a ratepayer funded program to a government funded program beginning in 2017 and pursuing additional measures to substantially increase take-up.

a) Note costs estimated at up to $186,000,000 in 2017-18, $261,000,000 in 2018-19, $325,000,000 in 2019-20, and $375,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.

b) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

c) Direct the Ministry to work Treasury Board Secretariat (Behavioural Insights Unit, Centre of Excellence for Evidence-Based Decision Making) to accelerate/ maximize program uptake.

d) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including fiscal plan implications to expand OESP.

e) Direct the Ministry to report back to TB/MBC in 2017-18 on the program's effectiveness, efficiency, and sustainability. Report back to include, but not limited to:

- Identify eligibility criteria, and refinements being made.
- Current program outcomes identified and results achieved to date.
- Establishing program performance management framework including targets for the expanded program now government funded.

Appendix A: March 1, 2017 TB/MBC Minute (Slide 3 of 3)

iv) Establishing a new government funded 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.

a) Approve to commit up to $200,000,000 on a multi-year basis to support the Affordability Fund.
b) Direct the Ministry to report back to TB/MBC with program details, including performance management framework, and multi-year funding profile, and fiscal plan implications.

v) Establishing a new province-wide government funded program beginning in 2017 that would eliminate the delivery charge for First Nations customers on reserve.

a) Note costs estimated at up to $20,000,000 in 2017-18, $20,000,000 in 2018-19, $20,000,000 in 2019-20, and $20,000,000 in 2020-21 and on-going as part of the 2017-18 PRRT planning process.
b) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, including performance management framework, and clarifying how the programs aligns with the significant Ontario Energy Board estimate of program costs, from $13M to $20M.
c) Direct that any underspending related to any of the initiatives be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministry.

vi) Expanding the Industrial Conservation Initiative (ICI) by reducing the eligibility threshold to 500kW to enhance competitiveness for Class B manufacturers beginning July 2017.

a) Direct the Ministry to report back to TB/MBC by Spring 2017 with final program details, results achieved to date versus expectations for the ICI program, impacts of the change for participation, and impact for ratepayers as costs are recovered from ratepayers.

vii) Direct the Ministry:

a) To work with Treasury Board Secretariat and the Ministry of Finance on the development of a comprehensive risk-based costing, including forecast models and sensitivity tests on assumptions and financial estimates, for the electricity mitigation initiatives.
b) To report back to TB/MBC through regular updates including quarterly reports and the 2018-19 Program Review, Renewal and Transformation (PRRT) on the status of implementation, and revised out-year expenditure requirements if applicable.
c) To continue to work with the Ontario Energy Board, the Independent Electricity System Operator and Ontario Power Generation, through the Long-Term Energy Plan 2017, to further reduce electricity rates across the system.
d) To work with the Ministry of Finance, Treasury Board Secretariat, Cabinet Office and Office of the Premier on an integrated communications strategy.

Appendix B: Multi-Year Funding Profile for Social Programs Providing Electricity Price Mitigation

- The following tables provides the current multi-year funding profile for social programs providing electricity price mitigation

($ million)	2016-17	2017-18	2018-19	2019-20	2020-21
Ontario Rebate for Electricity Consumers (OREC) (Revised Forecast for OFHP)	300	939	882	882	895
Ontario Fair Hydro Plan (OFHP):					
Affordability Fund	100				
Expanding and Enhancing OESP		344	261	325	375
Broadening RRRP		140	472	484	497
Providing First Nations On-Reserve Delivery Credit		15	20	20	20
OFHP Total	100	499	753	829	892
TOTAL	400	1438	1635	1711	1787