Backgrounder on Electricity Sector Stranded Debt in the Context of Electricity Price Mitigation Discussion

The Ministry of Energy (Energy) is providing options for potential price mitigation initiatives. The following note provides background information on the electricity sector stranded debt of the Ontario Electricity Financial Corporation (OEFC) and how the OEFC is consolidated into Public Accounts, which would help provide context in comparing how the OEFC structure differs from the current GA-related electricity price mitigation proposal.

ACCOUNTING FOR THE PROVINCE'S ELECTRICITY ENTITIES: IMPLICATIONS OF STRANDED DEBT AND OEFC

OEFC

- OEFC is consolidated line-by-line into the Province's accounts
  - Affects the Province's revenues (e.g., Debt Retirement Charge, payments-in-lieu of taxes) and expenses on the statement of operations.
  - OEFC debt is consolidated into the Province balance sheet.
- Various potential changes in the annual amount of OEFC (non-Provincial) revenues or expenses that affect the pay down of stranded debt would affect the Province's bottom line.
  - For example, the ending of the Debt Retirement Charge (DRC) on residential consumers has reduced OEFC revenues by about $340 million per year, which has a dollar-for-dollar impact on the Province on consolidation.
  - Once the DRC on the remaing DRC payers (e.g., industrial, commercial and institutional users of electricity) ends (currently legislated as at April 1, 2018, there would be a reduction in annual revenue of about $625 million.

<u>Other Electricity Agencies</u>

- Other electricity sector entities, such as the Ontario Energy Board (OEB) and the IESO, are also consolidated line-by-line.
  - OEB and IESO are consolidated under the Ministry of Energy.
  - Currently, these electricity sector entities are regulated by OEB and operate on a cost-recovery basis from the ratebase with no significant fiscal impact.
- The Province's electricity sector government business enterprises (GBEs) are consolidated into the Province's accounts and directly affect the Province's surplus/deficit position, on a modified equity basis.
  - Under modified equity basis of consolidation, net incomes of the electricity sector GBEs are consolidated to the Province's income statement and the Province's equity interest is consolidated as part of investment in the GBEs or Investment in government business enterprises line of its balance sheet.
  - OPG's financial results have a dollar-for-dollar impact on the Province.
  - Hydro One financial results have a direct impact on the Province, based on the Province's proportionate ownership (about 70% currently).
  - The equity interest of the Province in OPG and Hydro One is consolidated to the [net debt/net assets]

Corporate and Electricity Finance Division / Ontario Financing Authority
February 16, 2017