

Media Q&A – Energy (UPDATED)

On Fair Hydro Plan Legislation

Q1. Once legislation is passed, how soon will rate updates take effect?

This proposed legislation includes the provision that gives the OEB 15 days from Royal Assent to determine updates to the Regulated Price Plan rates, enabling customers to receive the full benefit of the Fair Hydro Plan.

Q2. If the Liberals lose the next election, could the new government undo this legislation?

Yes, they could. While the Opposition has presented no credible alternative to provide relief to our province's ratepayers, a future government could undo this legislation. This would significantly claw back the 25 per cent on average savings for all residential customers and as many as half a million small businesses and farms, and the up to 40 to 50 per cent cut for families in rural or remote areas. (NOTE: repealing legislation would not include the 8% rebate that took effect January 1, 2017).

Q3. Were there any outside experts that disagreed with what you're doing?

In crafting the Fair Hydro Act, 2017 the government has consulted broadly, including with:

- Ontario's Energy Agencies
- Experts across government
- External accounting experts
- External legal advisors
- Financial advisors
- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Q4. When will the 'Fair Hydro Plan' expire?

Our proposed Ontario Fair Hydro Act, 2017, with our other initiatives, would, if passed, lower rates by 25 per cent on average across the province for all residential customers and as many as half a million small businesses and farms. The government has committed to hold increases to the rate of inflation for four years.

Under GA refinancing, initial analysis indicates that borrowing would occur for about 10 years. Initial analysis indicates that it is currently anticipated that loans will begin to be paid back in the mid-to-late 2020s. The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible. This is a significant structural change that represents a fair solution to an issue that has unfairly burdened current electricity ratepayers. This does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills. This plan would deliver the biggest rate reduction in Ontario's history.

Q5. How did you decide how much to reduce rates by – 25%, 40%, 50%, etc.?

The amount of GA proposed to be smoothed out to later years reflects the projected lifespan of new generation built to update Ontario's electricity system. When combined with the 8 per cent rebate and shifting social programs to the tax base, the result is a significant rate reduction that will make a real difference in peoples' household budgets.

Q6. There are a lot of variables here – what is the chance this legislation won't work as planned?

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Q7. Why isn't the 4-year inflation part of the plan in the legislation? Why can't you commit to this promise via legislation?

Regulations offer the flexibility to respond to potential fluctuations in inflation rates in any given year. The Ontario Fair Hydro Act, 2017, would if passed, allow future increases to hydro bills to be set by regulation. This enables the government's commitment to hold increases, for four years, to the rate of inflation. By including this measure in regulation, it offers the Province flexibility to respond to potential fluctuations in inflation rates in any given year.

Q8. Have you proactively engaged the Auditor General on this refinancing plan?

The Auditor General has received multiple briefings and all of the materials that have been requested to this point.

Q9. Is the Auditor General going to agree with all of this accounting?

We can't presuppose the work of the Auditor General. Our officials worked hard to assess all fiscal impacts and worked closely with both internal government and external accounting experts.

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Q10. We're at the end of the legislative session – are you speeding this through to avoid scrutiny?

Our promise has been to deliver real rate relief to Ontarians by this summer. We have consulted extensively with experts within and outside of government to craft a solution that will deliver on the 25 per cent average rate reduction to all households, and as many as 500,000 small businesses and farms.

It's our hope that the Opposition will do the right thing and support this legislation, so families can see their bills go down as soon as possible.

On Debt Refinancing

Q11. How much debt are you borrowing?

The last decade has seen massive investments in improving our system. These costs need to be recovered, but it needs to be fair.

Part of that means moving the cost of social programs from the rate base to the tax base, and expanding support to certain vulnerable groups. The fiscal impact of this move would be \$2.5B over the next three years - this cost is additional to our expenditure on the 8% rebate.

And part of that means sharing some of the costs of these investments with the future ratepayers who will continue to benefit from them. This element - the GA refinancing - is not expected to impact the fiscal plan.

Initial analysis indicates that the accumulated debt would not exceed \$28 billion, including interest.

Q12. What will be the total interest paid on the accumulated debt?

Initial analysis indicates that total interest will not exceed \$28 billion.

Q13. How does the borrowing work? In tranches?

Leveraging the expertise of both organizations, the government has introduced legislation that would enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to finance certain clean energy costs within the global adjustment (GA) over a longer period of time.

Under the proposed legislation, OPG would develop a financing plan, which sets out the funding obligations and amounts related to the financing of the deferred GA amounts. This plan would be submitted to the Minister of Energy. The Ontario Energy Board (OEB) would continue its role as regulator for the electricity sector. In particular, it would continue to set commodity rates for Regulated Price Plan (RPP) consumers, including any cost reductions under the Fair Hydro Act, 2017. Debt and financing costs would be recovered through adjustments to consumer bills.

Borrowing is expected to be done in tranches, as set out in the Financing Plan developed by OPG.

Q14. What happens if the OEB doesn't allow OPG/IESO to recover the exact amount it has borrowed? Will this saddle us with more unwanted debt?

The proposed Fair Hydro Plan legislation is written to prevent such a scenario. The proposed Act, together with amendments to the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, would enable Ontario Power Generation (OPG), the Ontario Energy Board (OEB), and the Independent Electricity System Operator (IESO) to address payment, settlement and cost-recovery obligations and to manage the refinanced GA costs. The transaction is expected to be fiscally neutral to the province.

Q15. Is there going to be a new CEO of this OPG entity?

The financing entity would be managed by a board appointed by OPG.

OPG has a great deal of experience managing the risks associated with borrowing through their experience developing capital-intensive generation projects as well as their management of Nuclear Funds.

Q16. Is this entity within OPG or IESO?

Leveraging the expertise of both companies, the government intends to introduce legislation that would enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to finance certain clean energy costs within the global adjustment over a longer period of time.

OPG, in its role as Financial Services Manager, would create the appropriate entity within which to manage its Financing Plan. Under the proposed legislation, OPG would develop a financing plan, which sets out the funding obligations and amounts related to the financing of the deferred Global Adjustment (GA) amounts. This plan would be submitted to the Minister of Energy. The Ontario Energy Board (OEB) would be responsible for approving administrative fees related to OPG's role as Financial Services Manager in respect of the GA refinancing.

Q17. Does this financing entity report in to the government?

The entity would be directly accountable to OPG.

Q18. What accountability measures and oversight will government have over the OPG financing entity?

While OPG would have independence in appointing the board of the financing entity, OPG is ultimately accountable to its sole shareholder, the Minister of Energy.

Q19. Will you take advantage of the OFA's borrowing rates? Or will OPG secure their own?

OPG would finance the deferral of Global Adjustment through a mix of OFA financing and external private sector financing.

Q20. Could this level of borrowing/refinancing ultimately affect Ontario's credit rating?

The refinancing of the Global Adjustment would take place only within the electricity system – current ratepayers would pay less now, and future ratepayers in turn would help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal.

The refinancing is not expected to impact the fiscal plan.

Q21. What do you expect to happen after 4 years?

Based on current modelling, we project that borrowing will continue for about 10 years. Initial analysis indicates that it is currently anticipated that consumers will begin to repay the borrowed amount in the mid-to-late 2020s. The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible.

In the meantime, the government and our agencies are working hard to reduce system costs and to give consumers more choice. The IESO is embarking on a Market Renewal project to improve the way we procure and dispatch energy, which will save costs. And the OEB is piloting projects to give customers greater flexibility in how they consume and pay for electricity. These measures will help ensure that electricity bills stay low in Ontario.

Q22. What if financiers don't want to buy your debt?

In crafting the proposed Ontario Fair Hydro Act, 2017 the government has consulted broadly, including with:

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- Experts across government
- External accounting experts
- External legal advisors
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- Local Distribution Companies

The proposed legislation would deliver on the Government's commitment to fairness, and electricity rates would come down and make life more affordable for families and businesses across the province.

Q23. You say you want to ensure fairness for this generation – how can you ensure fairness for our kids and grandkids if you're borrowing billions?

Future generations would be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but from the cleaner air from the reduction of coal-fired generation.

Our proposed Fair Hydro Plan acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers would pay less now, and future ratepayers in turn help to pay for their fair share of the significant investments we've made to build a clean and reliable electricity system, free of burning dirty coal. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q24. How long are you talking about refinancing for?

Our proposal would spread costs over a 30-year period. This is a more fair approach that more accurately reflects the lifespan of our generation assets, and spreads the cost out among those people who will use them.

Original Fair Hydro Plan Announcement Qs&As

Q25. What took you so long? How are you just realizing this now?

It did take too long, and we've talked about that. Our Fair Hydro Plan is part of a significant system restructuring that would address long-standing policy challenges and ensure greater fairness over the next three decades. It is crucial that we get it right.

While our government has taken steps to address rates with targeted relief and support programs - it was not enough.

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades governments pushed off the price of reinvesting in the system. This put too much of the burden on a single generation of ratepayers.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change.

And that's why we are proposing the structural change to the system that will give Ontarians relief on their bills.

Q26. How is this different from what was done in the past?

This proposal is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation of ratepayers. This is not a temporary solution, and it does not sacrifice investments

in the energy system. We're proposing to change the way electricity costs are recovered, and to move funding for assistance programs off of hydro bills. This plan is the biggest rate reduction in Ontario's history.

Q27. Isn't artificially freezing rates what got us into trouble in the first place?

We've already invested over \$50 billion in badly needed improvements to our electricity system. These investments will last Ontarians for generations to come, and it's only fair that more than one generation pays for them.

This is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

We're proposing to change the way electricity costs are recovered, and to move funding for assistance programs off of hydro bills. This plan would result in the biggest rate reduction in Ontario's history.

Q28. Why not just renegotiate contracts?

We would have done this if it was that easy.

We have done that where we could - Samsung saved an estimated \$3.7B in costs.

We looked further to see if this was a realistic solution. We received independent expert advice that said if we were to renegotiate, not only is it completely uncertain if we would get benefits, but the benefits would be negligible compared to the systemic changes we announced today.

This is a key aspect of the NDP and PC proposals - so we would look to them to ask how they would be better suited at finding significant ratepayer savings than the government and the independent legal advice we received.

I also know that the PC energy critic, Todd Smith, admitted that renegotiating contracts would come at a huge cost to taxpayers and would increase electricity rates.

Q29. Why not just reign in salaries?

We froze salaries across the broader public sector in 2012, and these salaries will remain frozen until organizations comply with our framework. Just as we did with Ontario's colleges, if proposals come forward that are unacceptable, we will keep salaries frozen and force them back to the drawing board.

Every dollar of public money should be spent with good intention and consideration. We are monitoring the implementation at OPG very closely, if we feel that the actual salaries selected are unacceptable, we will reject them.

However, the percentage of savings that reducing salaries would contribute to our energy system is not significant. OPG managers make up approximately 1.6 per cent of the entire energy system spending.

Reducing this amount, even significantly, would have a minimal impact on bills.

Q30. The NDP has a strategy that doesn't require borrowing \$27.7 billion – why not take their strategy for once?

The NDP hydro pamphlet is both short on details and long on hollow promises. Many of that party's proposals rely on a vague and yet-to-be-determined "expert panel" that will be convened in the future, as well as pie-in-the-sky negotiations with the federal government. The NDP's most expensive idea – buying back more than

\$4-billion in shares of Hydro One – will not take one cent off electricity bills. What it will do is send billions to the stock market instead of making much needed infrastructure investments in communities across Ontario.

Our plan would deliver real immediate relief for everyone and it is lasting because we are making a structural change to our electricity system.

Q31. Why didn't you just stop the sale of Hydro One?

The sale of Hydro One has nothing to do with rates. That is simply misinformation perpetuated by the opposition parties. Hydro One does not set their own rates. Rates are set by the Ontario Energy Board. Third party experts have said that they expect to see efficiencies from the broadening of Hydro One's ownership, potentially leading to savings across the system.

In fact, as part of Ontario's proposed Fair Hydro Plan, rates would be reduced by 25 per cent on average for all Hydro One residential customers and over 100 thousand of its small business and farm customers. And a Hydro One low density (R2) customer in a rural or remote community that consumes about 2500 kilowatt-hours would see delivery charges for their electricity cut by more than \$75 per month.

Q32. Why are you saddling our kids with billions of dollars of debt?

So the good news is that we've created an electricity grid that is second-to-none. In the past few years we've invested more than 50 billion dollars in electricity infrastructure – new dams in the south, new towers in the north, and we plan to spend 13 billion dollars to refurbish nuclear power plants. These are enormously important assets that meet the demand for cleaner and reliable power everywhere in the province.

But we asked one generation – today's generation – to unfairly shoulder the burden of nearly all those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

Think of it in terms of a mortgage. We needed to rebuild the system and so we went to the bank for that money. The mistake we made was setting terms that weren't fair – particularly the amortization. Instead of paying off the mortgage over 30 years, we agreed to a term of 20. That means we pay things down faster. But the monthly mortgage payments – or, in this case, your hydro bills – are higher. And it doesn't really make sense since that house – or in this case the electricity system – is an asset that will continue to benefit people far past that ten year window. In effect, this generation is subsidizing not just those who came before, but those who will come next.

It was a mistake – and it has been notably unfair on today's hydro users. So we're fixing that. We're renegotiating the mortgage and setting a new term that stretches over a longer period. Over time, it will cost a bit more. And it will take longer to pay off. But it is fairer – because it doesn't ask this generation of hydro customers alone to pay the freight for everyone before and after. The burden now will be shared more evenly and more appropriately.

Q33. Are you trying to buy yourself some time before the next election?

Beginning last year, we started to ask tougher questions about how we got to this point. And what could be done. For decades, mistakes had piled up on top of more mistakes. Putting too much of the burden on a single generation of ratepayers? That was a mistake. And asking hydro users alone to pay for policies that ought to be paid for by all taxpayers? That was a mistake also.

People want to know three things:

- First, that relief – substantial relief – is on its way.
- Second, that the relief will go to everyone
- And third, that the relief will be lasting because it is built on a real change.

Q34. Are you using taxpayer money to fix liberal mistakes?

The situation that we find ourselves in is the result of years of inadequate investment in generation by all parties.

Our plan is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation.

This is not a temporary solution, and it does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for assistance programs off of hydro bills. This plan is the biggest rate reduction in Ontario's history.

Q35. You keep saying "immediate" but summer doesn't sound "immediate" to us. What about this spring?

Our proposed Fair Hydro Plan Act, 2017 would, if passed, bring down rates, on average, 25 per cent this year. It would start to be seen on people's bills near the end of spring, early summer – just when people start to turn on their air conditioners.

Ontarians are already starting to see the benefits of our Fair Hydro Plan, through the 8 per cent reduction in January, as well as the Ontario Energy Board's May 1 rate update, which will deliver further savings to ratepayers sooner than expected.

Q36. Will you continue to be able to balance budgets?

With our economic growth projected to continue and balanced budgets planned for the foreseeable future, Ontario is once again in a strong, healthy position. A balanced budget means 100 per cent of the funds it borrows is for capital investments, like new hospitals, schools, roads and public transit.

These are important assets in our communities, create jobs and contribute to Ontario's long-term economic growth. [from Finance Budget Qs&As]

Q37. You say you'll hold rates to increases of only inflation for 4 years – assuming that's 2% that brings you back to an 8% increase over those 4 years. How will that help Ontarians?

This proposal is a significant structural change that represents a fair solution to an issue that's been unfairly placed on one generation. This is not a temporary solution, and it does not sacrifice investments in the energy system.

We realize that energy bills have gone up too quickly in the past 10 years, so holding any future increases to the rate of inflation allows Ontarians to adjust accordingly and plan ahead. We believe this is a fair structural change to the system.

Additionally, it's difficult to implement savings in the short-term and takes a significant period of time to properly structure long-term savings across the energy system. This is primarily due to the complexities in the system and all the partners involved. That's why we have committed to holding rates for 4 years – allowing us to implement significant short-term savings, and also develop a long-term plan for additional savings in the 5th year and beyond.

Q38. Why aren't you bringing relief to large industrials?

Our focus was on families, farms, and small to medium sized businesses across Ontario.

However, larger businesses will still see a modest reduction in their electricity bills.

Through SaveOn Energy, many large industrials have already taken advantage of energy saving programs. And we also lowered the eligibility threshold for ICI to 1 MW, allowing additional consumers to benefit. But we know we can do more. That's why we are lowering the threshold again to 500 kW as part of our Fair Hydro Plan.

Q39. Where did this idea come from?

Our government met with many stakeholders over the last few months - our plan is a culmination of the feedback we received and hard work by officials to come up with options. Our government felt this was the strongest, fairest reduction and structural change to Ontario's electricity system.

Approximately 18 US states have passed similar legislation in the past to help spread out costs from today over a longer time period. These examples offer strong frameworks to help guide Ontario's own proposal. Duke Energy has used a similar mechanism to refinance the early retirement of nuclear energy. Long Island Power Authority also used a similar mechanism to spread out the cost of recovering the costs of debt.

Q40. What are you doing to tackle delivery charges for those in rural Ontario?

People living in rural and remote parts of Ontario have been paying much higher distribution costs, compared to people who live in urban areas.

We are going to be providing more relief on those distribution costs – supporting some 800,000 families.

Customers of LDCs benefitting from this include: Hydro One R2 and R1 customers, and residential customers of Northern Ontario Wires, Lakeland Parry Sound, Chapleau, Sioux Lookout, InnPower, Atikokan and Algoma. The benefits would differ from LDC to LDC.

Q41. Will you negotiate an additional 5% off bills with the federal government?

This is up to the federal government.

Q42. Why not just legislate contracts on the private sector generators?

We have already negotiated where we could - Samsung saved an estimated \$3.7 billion in costs. We also received independent expert advice that said if we were to renegotiate, not only is it completely uncertain if we would get benefits, but the benefits would be negligible compared to the systemic changes we announced today.

The renegotiation process would be extremely complex and lengthy, and the advice we received stated that it is very unclear that the end result would be in the interest of ratepayers without any form of taxpayer subsidy.

The potential positive impacts are extremely small, not to mention potential litigation.

Q43. Why are you saying an average of 25%? Are some getting 50% while others get 0%?

We are proposing to triple the size of the cut we're making to people's hydro bills from 8 per cent to an average of 25 per cent. Electricity rates in Ontario would come down significantly, they're going to stay down and everyone would benefit.

Let me emphasize that last point – the cut would go to all households that pay for electricity. There will be no asterisks, no loop holes and no exceptions. And for those living in rural communities or with low incomes the break would be even greater – up to 40 to 50 per cent.

Q44. How much will this cost?

As I've stated very clearly, the last decade has seen massive investments in improving our system. These costs need to be recovered, but it needs to be fair.

Part of that means moving the cost of social programs from the rate base to the tax base, and expanding this support to certain vulnerable groups. The fiscal impact of this move would be \$2.5 billion over the next three years - this cost is additional to our expenditure on the 8 per cent rebate.

And part of that means sharing some of the costs of these investments with the future ratepayers who would continue to benefit from them. This element - the GA refinancing - would not impact the fiscal plan.

Q45. How can you ensure this is feasible? What if interest rates go up and it impacts your borrowing?

We built in conservative estimates in our financial calculations. There's always a chance that interest rates rise or fall, but we are confident that we built in the necessary buffer in our estimates by using higher rates than are currently forecasted.

Q46. Will this rate decrease apply to curling rinks, hospitals, schools?

These facilities would receive a marginal decrease on their electricity bills.

If pressed: approximately 2 to 4 per cent as a result of shifting the social support programs to the tax base.

Q47. Doesn't this lower the incentive to conserve energy? It's against all your conservation efforts.

Our government remains committed to putting conservation first. Conservation is good public policy - it empowers individuals to lower their own bills, while reducing system costs and saving all Ontarians the cost of new generation and transmission infrastructure.

We will continue to encourage and support to ratepayers who are looking to lower their bills through conservation, by providing incentives and rebates through saveONenergy programs.

Q48. Will any proceeds from cap and trade will be used for the relief package? NGOs have been asking.

No.