| | |
|---|---|
| **From:** | Bonnie Lemcke |
| **To:** | "cindy.veinot@ontario.ca" |
| **Cc:** | Nadine Petsche (MOF); "sarah.hosick@ontario.ca"; Ken Kandeepan; John Psinas; Lynsey Wynberg; Gadi Mayman |
| **Subject:** | FW: Draft Research Note on Expert Panel Opinion (Pension Accounting) |
| **Date:** | Tuesday, February 14, 2017 10:53:52 AM |
| **Attachments:** | Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017).docx |

Hi Cindy,

Here is another article on the pension issue that we have been asked to review. They would like to send this out as soon as possible.

Bonnie

**From:** Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
**Sent:** Tuesday, February 14, 2017 10:31 AM
**To:** Bonnie Lemcke
**Cc:** Bognar, Tom
**Subject:** Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hello Bonnie,

Here is the draft research note. Your review for factual accuracy would be much appreciated.

Thank you,

Maria

**Maria Berlettano, CFA** | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

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## Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017)

**Credit Implications:** Potentially positive

**Credit Ratings:** DBRS AA(Low), Moody's Aa2, S&P A+, Fitch AA-, All outlooks stable

Yesterday, an expert accounting advisory panel engaged by the Province of Ontario to review the province's accounting practices for pension assets released its report. The report sided with the province in concluding that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements. The panel concluded that it should be reported for the following reasons:

- Recognizing the asset will provide a faithful representation of the province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the province's share of the assets in Public Accounts.

For the full report Click Here

The implications of this conclusion is that the province will have more financial flexibility to achieve its financial targets if it chooses to return to the pension accounting treatment it had used in the past. Adopting the Auditor General's treatment has resulted in an upward adjustment to the accumulated deficit as well as higher pension expense in fiscal 2015-16 and in future years. More information about these adjustments is provided below in the "Background" section.

The Auditor General is reviewing the report and is expected to comment in the near future. For the Province of Ontario's fiscal 2015-16 results, the Auditor General issued a qualified opinion because, although the statements adopted the Auditor General's pension accounting treatment for fiscal 2015-16, it did not retroactively restate the comparative 2014-15 public accounts and, therefore, by not correcting the error in accounting treatment, it constituted a departure from Public Sector Accounting Standards (PSAS).

At the same time, the preparer of the financial statements (Treasury Board Secretariat) who felt that they were and have always been in compliance with PSAS, signed off on fiscal 2015-16 results, but only following the adoption by the Province of Ontario of the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment").

**Background**

**In our Ontario Talking Points (January 27, 2017) research note we provided the following background information on this issue.**

Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.
- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
- Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

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**From:** Ronald Kwan
**To:** Bonnie Lemcke
**Cc:** Gadi Mayman; Lynsey Wynberg; Gavin He
**Subject:** FW: Ontario Talking Points (CIBC Capital Markets)
**Date:** Friday, January 20, 2017 9:25:47 AM

---

Hi Bonnie,
Note John's comment wrt the wording of the CIBC question. It`s really CIBC`s exposure to be using such wording, as there won`t be another 'initial' offering, rather 'secondary' offerings (or private placements such as with the First Nations), as per the wording in the response.
Ron

**From:** John Kim
**Sent:** January-20-17 08:05
**To:** Ronald Kwan
**Cc:** Gavin He
**Subject:** RE: Ontario Talking Points (CIBC Capital Markets)
Hi Ron,
No concern about it other than the part about "next IPO" being planned for Hydro One.
Thanks,
John.

**From:** Ronald Kwan
**Sent:** Wednesday, January 18, 2017 6:13 PM
**To:** John Kim <John.Kim@ofina.on.ca>
**Cc:** Gavin He <Gavin.He@ofina.on.ca>
**Subject:** FW: Ontario Talking Points (CIBC Capital Markets)
Hi John,
Please review.
Thanks,
Ron

**From:** Bonnie Lemcke
**Sent:** January-18-17 17:55
**To:** Ronald Kwan <Ronald.Kwan@ofina.on.ca>
**Cc:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
**Subject:** Fwd: Ontario Talking Points (CIBC Capital Markets)
Hi Ron,
Can you review the info on hydro. Maria produces a publication for investors and has asked for additional info and fact checking.
Thanks,
Bonnie

Begin forwarded message:

**From:** "Berlettano, Maria (Macro Strategy)" <Maria.Berlettano@cibc.com>
**Date:** January 18, 2017 at 4:39:02 PM EST
**To:** 'Bonnie Lemcke' <Bonnie.Lemcke@ofina.on.ca>
**Cc:** "Bognar, Tom" <Tom.Bognar@cibc.com>
**Subject: RE: Ontario Talking Points (CIBC Capital Markets)**

Hi Bonnie,

Although we released our publication already, we get one-off requests for it. I noticed a factual oversight in regards to inter-provincial migration. Although it has been historically near 0%, it has in fact increased sharply in recent quarters. This was also a comment made by the Bank of Canada in today's Monetary Policy Report.

I am sending you a revised copy to reflect this change. However, I would also like to incorporate a question on Ontario's power market as per below. Would you please review and edit as you see fit. A more fulsome answer would be appreciated, as what I have is quite skeletal.

Thank you.

Question:

What is being done to deal with rising energy costs in Ontario?
The Province announced news measures to help households and businesses with electricity costs. It includes a rebate equal to the 8% provincial portion of HST for eligible customers, estimated to cost $300mln. Ontario has also signed a deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.

Sincere regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

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-----Original Message-----
From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, January 09, 2017 8:15 AM
To: Berlettano, Maria (Macro Strategy)
Subject: Re: Ontario Talking Points (CIBC Capital Markets)

Thanks Maria,
I will forward to others.

Bonnie

On Jan 9, 2017, at 7:55 AM, Berlettano, Maria (Macro Strategy) <Maria.Berlettano@cibc.com<mailto:Maria.Berlettano@cibc.com>> wrote:

Good morning Bonnie,

We issued the research note this morning. Thank you again for your assistance and support. Would you please forward it to Gadi Mayman, Paul Lewis, Ken Kandeepan and the others with my appreciation.

Regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com<mailto:maria.berlettano@cibc.com>

From: CIBC CM Macro Strategy
Sent: Monday, January 09, 2017 7:37 AM

Subject: Ontario Talking Points (CIBC Capital Markets)

CIBC Capital Markets

Macro Strategy Research

Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

· How is Ontario positioned with respect to the quality and rising cost of healthcare?

- Ontario is planning, building and/or upgrading 37 hospitals across the province.

- As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.

- Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca] <https://urldefense.proofpoint.com/v2/url?u=https-3A__files.ontario.ca_web-5F2015-2D2016-5Fannual-5Freport-5Feng-5F0.pdf&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=FmC13eMROgEHF17o5oN8mdIDeK3Ku-qqho7QBhQhJ98&e=>]

- The aging population adds about 1% to annual expense growth.

- Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.

- While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.

- Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Source: Statistics Canada and The World Bank

· What agreement does the province expect with the Federal government under the federal/provincial Health Accord?

- We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.

- The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.

- Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

· How will Federal infrastructure funding affect borrowing and capital plans?

- It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

· Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?

- Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here[fin.gov.on.ca]<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_reformcommission_&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=Kj_FGSnafUdwp6wVinDJxrGaaufkdAS6LGpQMBb4wtU&e=>

- Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here[fin.gov.on.ca] <https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_budget_ontariobudgets_2016_ch2b.html-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=8bpNLVRSN7xkknQpWuvPZgVm7cSpHdmSnOBFBAGbVzA&e=>

- The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.

- Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.

- External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

· Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.

- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.

- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.

- Background - Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015-16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015-2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016-17, $2.8bln in 2017-18, and $3.7bln in 2018-19 to the annual Pension Adjustment.

· What is the future of Ontario's automotive sector?

- Ontario's auto industry is very important, but just one component of Ontario's diversified economy.

- Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.

- Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of Michigan.

- Ontario can compete with low-wage jurisdictions on the basis of productivity, technological leadership and our highly skilled workforce.

1 Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

· What trends do you see with respect to immigration?

- Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.

- The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.

- Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.

- Inter-provincial migration has been historically very low, near 0%.

· What is Ontario's housing market outlook?

- The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.

· Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?

- Each country has its own financial institutions regulator.

- We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.

- In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.

· What is the expectation for changes in Equalization payments from the Federal government?

- Ontario began collecting equalization in 2009-2010. Click Here[fin.gc.ca]<https://urldefense.proofpoint.com/v2/url?u=https-3A__www.fin.gc.ca_fedprov_mtp-2Deng.asp-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=eqpvVvH8i5g671Yx3CotxLnHKHuSo0ndUw5qV0CgeQY&e=>

- Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).

· When is the next IPO planned for Hydro One?

- The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14 per cent of common shares in April [2016] and raised approximately $2.0 billion in total gross proceeds. The Province now holds approximately 70 per cent of Hydro One common shares and will reduce its stake to 40 per cent over time.

Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)

Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS AA(low)
Fitch AA-
Moody's Aa2
S&P A+

All Outlooks Stable

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maria.berlettano@cibc.com<mailto:maria.berlettano@cibc.com>

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| | |
|---|---|
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| **To:** | Lynsey Wynberg |
| **Subject:** | FW: Ontario Talking Points (CIBC Capital Markets) |
| **Date:** | Friday, January 27, 2017 11:00:26 AM |
| **Attachments:** | image001.png<br>image002.png<br>image003.png<br>image004.png<br>image007.png<br>Ontario Talking Points (January 27, 2017).pdf<br>image008.png |

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**From:** CIBC CM Macro Strategy [mailto:Mailbox.CIBCMacroStrategy@cibc.com]
**Sent:** Friday, January 27, 2017 10:42 AM
**Subject:** Ontario Talking Points (CIBC Capital Markets)

## CIBC Capital Markets

### Macro Strategy Research

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## Ontario Talking Points (January 27, 2017)

This research note replaces the one issued on January 9. It incorporates some updated information, a perspective on Ontario's energy policy as well as the Province's current view of the implications of the shift in U.S. economic, fiscal and trade policies under President Donald Trump.
Insights from our meeting last month with officials from the province.

- What are the implications for Ontario under NAFTA renegotiations as well as under U.S. President Trump's policies concerning lower corporate and income taxes, shift on climate change, withdrawal from the Trans Pacific Partnership Agreement, and less regulation?
  - It is too early to assess the net impact on Ontario's economy from potential policy initiatives by the new U.S. administration, given the lack of detail.
  - In general, potential policy initiatives by the new U.S. administration pose upside and downside risks to Ontario's near-term economic outlook. In the near-term, prolonged policy uncertainty could weigh on business investment in Ontario. On the other hand, tax cuts and increased federal spending could stimulate the U.S. economy and boost Ontario's exports.

| Ontario Trade Data - 2015 | | | | | |
|---|---|---|---|---|---|
| Foreign Export Share of GDP (%) | 35.75 | | | | |
| Share of Merchandise Exports | % | US by State | % | Key Merchandise Exports (%) - Top 10 | % |
| - US | 80.52 | - Michigan | 24.57 | - Autos | 28.10 |
| - UK | 6.37 | - California | 13.42 | - Gold (unwrought) | 7.83 |
| - Mexico | 1.42 | - New York | 5.41 | - Motor vehicle parts | 6.16 |
| - Hong Kong | 1.27 | - Ohio | 4.24 | - Medications (packaged for retail use) | 3.10 |
| - China | 1.23 | - Indiana | 3.21 | - Engines | 1.64 |
| - Norway | 0.75 | - Illinois | 3.11 | - Nickel mattes | 1.30 |
| - Japan | 0.72 | - Pennsylvania | 2.95 | - Helicopters, aircraft, and spacecraft parts | 1.14 |
| - Germany | 0.67 | -Texas | 2.86 | - Bread, pastry, cakes, etc. | 1.08 |
| - Italy | 0.48 | - Massachusetts | 1.67 | - Seats | 0.91 |
| - France | 0.40 | - New Jersey | 1.64 | - Furniture | 0.88 |
| - Other | 6.17 | - Other | 17.44 | | |
| | 100.00 | | 80.52 | % Top 10 | 52.14 |

Source: Statistics Canada, International Trade Division (August 2016)

Province of Ontario Trade Fact Sheet Click Here[sourcefromontario.com]

- What is Ontario doing to address high electricity costs in the province?
  - The Province announced several additional measures in its fall fiscal and economic review to help households and businesses with electricity costs. These measures include, but are not limited to:
    - Rebating an amount equal to the 8% provincial portion of HST for eligible customers starting January 1, 2017, which is estimated to cost \$300mln in

2016-17 and save the typical consumer an average of $11 each month;

- Enhancing the Rural or Remote Electricity Rate Protection program to provide eligible rural customers with savings of about $45 per month when combined with the 8% rebate;
- Ending the debt retirement charge as of April 1, 2018, for commercial, industrial and other electricity users (the debt retirement charge was removed from residential electricity bills as of January 1, 2016 saving a typical user $70 per month).
- Expanding the eligibility of the Industrial Conservation Initiative, providing an incentive to more than 1,000 additional electricity consumers with demand greater than one megawatt to shift demand off-peak to save up to one third of their bill.
- Signing an energy trade deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.
- Ontario Fall Economic Statement Click Here[fin.gov.on.ca]

**Electricity Costs**

| Residential - One Month Bill* | | |
|---|---|---|
| Cities | 1,000 kWh | ¢/kWh |
| Ottawa ON | $165.37 | 16.537 |
| Halifax NS | $158.83 | 15.883 |
| Saskatoon SK | $146.49 | 14.649 |
| Regina SK | $146.45 | 14.645 |
| Moncton NB | $124.98 | 12.498 |
| St. John's NL | $119.64 | 11.964 |
| Saint John NB | $111.71 | 11.171 |
| Calgary AB | $111.70 | 11.170 |
| Vancouver BC | $107.03 | 10.703 |
| Edmonton AB | $105.08 | 10.508 |
| Winnipeg MB | $84.29 | 8.429 |
| Montreal QC | $72.26 | 7.226 |

*Survey effective May 1, 2016

Source: Manitoba-Hydro Electric Board

https://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/utility_rate_comp.shtml[hydro.mb.ca]

- Premier Kathleen Wynne, in a speech at the Economic Club in Toronto, stated that the government is considering alternatives for further lowering costs, such as looking at options related to the delivery charge.
- In April 2015, the Ontario Energy Board ruled that it will gradually move over four years, starting in 2016, to fully-fixed distribution rates for residential customers so that customers of the same utility will pay an all-fixed distribution rate regardless of their level of consumption. The rate is currently a blend of fixed and variable. Over the four years, the fixed rate will increase gradually and the usage rate will decline.
- Ontario is moving forward with the refurbishment of the Darlington nuclear power plant in a further step towards its clean energy policy. Darlington Nuclear Generating Station has been producing about 20% of the province’s electricity since the early 1990s. The refurbishment of the four reactors will span 10 years and scheduled for completion by 2026. It will cost $12.8bln and secure 3,500 megawatts of affordable, reliable, emissions-free power, extending the life of the plant until 2055. The refurbishment will have considerable environmental and economic benefits over other energy supply options.
- Ontario has eliminated coal-fired generation in the last decade to reduce GHG emissions that cause climate change and improve Ontario’s air quality. Nuclear generation provided the largest share of Ontario’s electricity in 2015 followed by hydroelectric generation, natural gas and non-hydro renewables such as wind, solar and bioenergy.

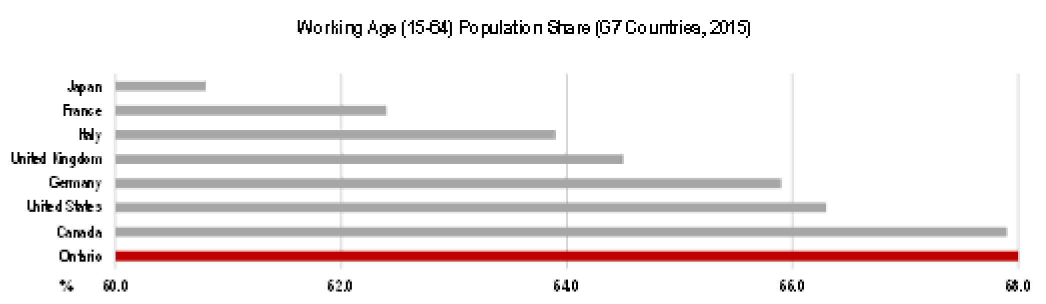
- Ontario generated 160 TWh of electricity in 2015 from a diverse portfolio of generation assets and has the ability to produce much more with installed capacity of 39,393 MW. The province is in a strong position to meet the range of demand growth forecasts for electricity that could occur. See Planning Ontario's Energy Future Click Here[energy.gov.on.ca]

**Electricity Production**

| Ontario electricity production in 2005 and 2015 | | |
|---|---|---|
| Source | 2005 | 2015 |
| Nuclear | 51% | 58% |
| Natural Gas | 8% | 10% |
| Water | 22% | 23% |
| Solar/Wind/Bioenergy | <1% | 9% |
| Coal | 19% | 0% |
| Includes electricity produced to meet Ontario demand, including embedded generation (which brings the total to 143 TWh in 2015), and exports (17 TWh in 2015). | | |

Source: Ontario Ministry of Energy – Planning Ontario's Energy Future

- When is the next IPO planned for Hydro One?
  - The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14% of common shares in April [2016] and raised approximately $2.0bln in total gross proceeds. The Province now holds approximately 70% of Hydro One common shares and will reduce its stake to 40% over time.
- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is planning, building and/or upgrading 37 hospitals across the province.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca]]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.




Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of

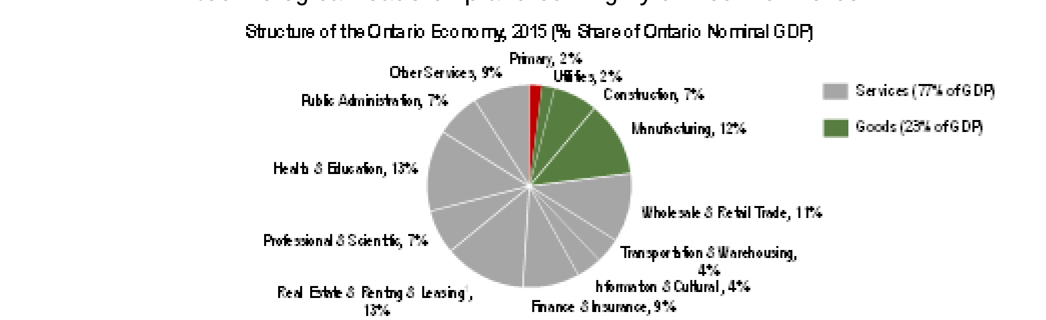
provincial health spending. The federal share of health funding is currently between 20-25%.

- The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
- Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.
- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here[fin.gov.on.ca]
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here[fin.gov.on.ca]
  - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
  - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
  - External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.
- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
  - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.
  - The Province has engaged an expert panel of accountants to assess the issue.
  - The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
  - The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
  - <u>Background – Ontario Public Accounts 2015-16:</u> In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for

the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the “Pension Adjustment”). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

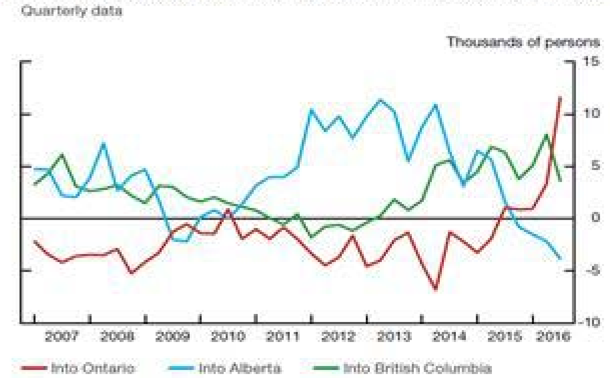
- What is the future of Ontario’s automotive sector?
    - Ontario’s auto industry is very important, but just one component of Ontario’s diversified economy.
    - Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.
    - Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of Michigan.
    - Ontario can compete with low-wage jurisdictions on the basis of productivity, technological leadership and our highly skilled workforce.




[1] Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

- What trends do you see with respect to immigration?
    - Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.
    - The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.
    - Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.
    - Inter-provincial migration has been historically very low, near 0%, but has increased sharply in recent quarters.

Chart 7: Net interprovincial migration into Ontario has increased sharply
Quarterly data



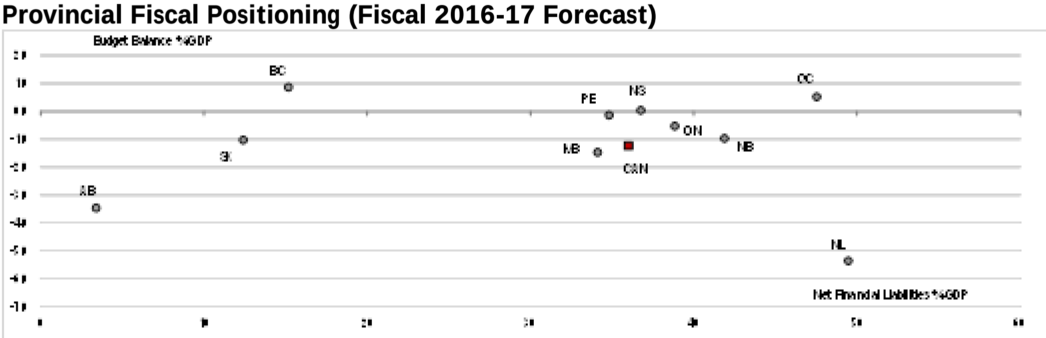

Note: Figures do not sum to zero because of the exclusion of net migration figures for the other Canadian provinces and territories.
Sources: Statistics Canada and Bank of Canada calculations Last observation: 2016Q3

- What is Ontario’s housing market outlook?

- The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.

- Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?
    - Each country has its own financial institutions regulator.
    - We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.
    - In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.
- What is the expectation for changes in Equalization payments from the Federal government?
    - Ontario began collecting equalization in 2009-2010. [Click Here[fin.gc.ca]]
    - Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).

**Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)**




Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

**Province of Ontario Credit Ratings:**

DBRS AA(low)
Fitch AA-
Moody's Aa2
S&P A+
All Outlooks Stable

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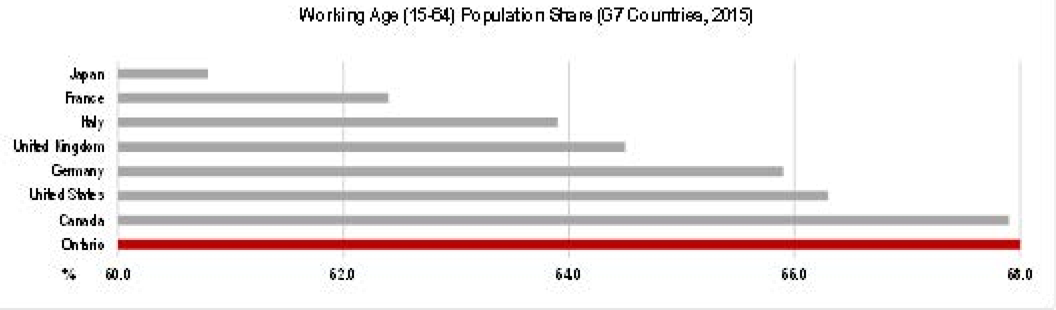
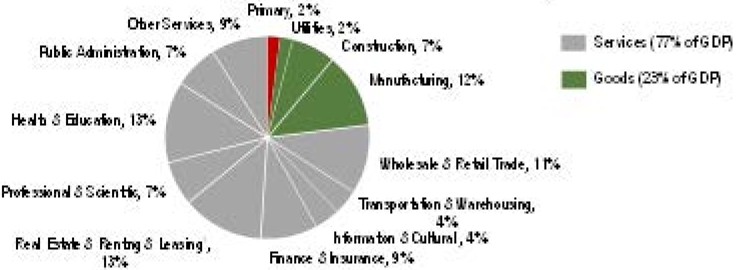
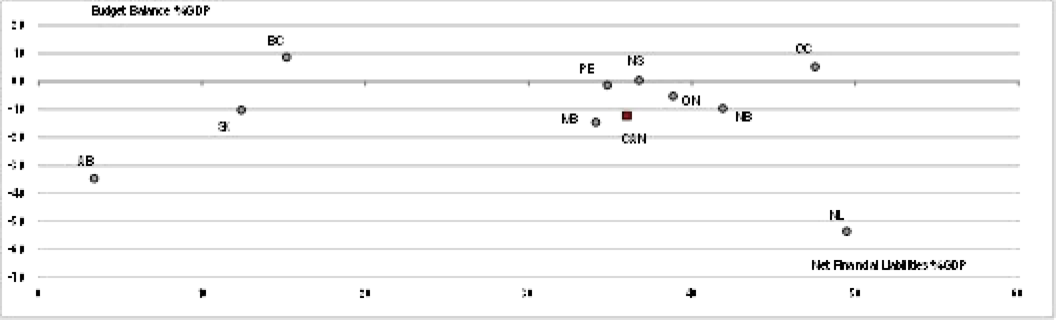

Working Age (15-64) Population Share (G7 Countries, 2015)
Japan
France
Italy
United Kingdom
Germany
United States
Canada
Ontario
%
60.0
62.0
64.0
66.0
68.0

Structure of the Ontario Economy, 2015 (% Share of Ontario Nominal GDP)





Budget Balance %GDP
BC
QC
PE
NS
ON
SK
MB
NB
CAN
AB
NL
Net Financial Liabilities %GDP

## Ontario Talking Points (January 27, 2017)

This research note replaces the one issued on January 9. It incorporates some updated information, a perspective on Ontario's energy policy as well as the Province's current view of the implications of the shift in U.S. economic, fiscal and trade policies under President Donald Trump.

Insights from our meeting last month with officials from the province.

- What are the implications for Ontario under NAFTA renegotiations as well as under U.S. President Trump's policies concerning lower corporate and income taxes, shift on climate change, withdrawal from the Trans Pacific Partnership Agreement, and less regulation?
  - It is too early to assess the net impact on Ontario's economy from potential policy initiatives by the new U.S. administration, given the lack of detail.
  - In general, potential policy initiatives by the new U.S. administration pose upside and downside risks to Ontario's near-term economic outlook. In the near-term, prolonged policy uncertainty could weigh on business investment in Ontario. On the other hand, tax cuts and increased federal spending could stimulate the U.S. economy and boost Ontario's exports.

| Ontario Trade Data - 2015 | | | | | |
|---|---|---|---|---|---|
| Foreign Export Share of GDP (%) | 35.75 | | | | |
| Share of Merchandise Exports | % | US by State | % | Key Merchandise Exports (%) - Top 10 | % |
| - US | 80.52 | - Michigan | 24.57 | - Autos | 28.10 |
| - UK | 6.37 | - California | 13.42 | - Gold (unwrought) | 7.83 |
| - Mexico | 1.42 | - New York | 5.41 | - Motor vehicle parts | 6.16 |
| - Hong Kong | 1.27 | - Ohio | 4.24 | - Medications (packaged for retail use) | 3.10 |
| - China | 1.23 | - Indiana | 3.21 | - Engines | 1.64 |
| - Norway | 0.75 | - Illinois | 3.11 | - Nickel mattes | 1.30 |
| - Japan | 0.72 | - Pennsylvania | 2.95 | - Helicopters, aircraft, and spacecraft parts | 1.14 |
| - Germany | 0.67 | -Texas | 2.86 | - Bread, pastry, cakes, etc. | 1.08 |
| - Italy | 0.48 | - Massachusetts | 1.67 | - Seats | 0.91 |
| - France | 0.40 | - New Jersey | 1.64 | - Furniture | 0.88 |
| - Other | 6.17 | - Other | 17.44 | | |
| | 100.00 | | 80.52 | % Top 10 | 52.14 |

Source: Statistics Canada, International Trade Division (August 2016)
Province of Ontario Trade Fact Sheet Click Here

- What is Ontario doing to address high electricity costs in the province?
  - The Province announced several additional measures in its fall fiscal and economic review to help households and businesses with electricity costs. These measures include, but are not limited to:
    - Rebating an amount equal to the 8% provincial portion of HST for eligible customers starting January 1, 2017, which is estimated to cost $300mln in 2016-17 and save the typical consumer an average of $11 each month;
    - Enhancing the Rural or Remote Electricity Rate Protection program to provide eligible rural customers with savings of about $45 per month when combined with the 8% rebate;
    - Ending the debt retirement charge as of April 1, 2018, for commercial, industrial and other electricity users (the debt

retirement charge was removed from residential electricity bills as of January 1, 2016 saving a typical user $70 per month).
- Expanding the eligibility of the Industrial Conservation Initiative, providing an incentive to more than 1,000 additional electricity consumers with demand greater than one megawatt to shift demand off-peak to save up to one third of their bill.
- Signing an energy trade deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.
- Ontario Fall Economic Statement Click Here

**Electricity Costs**

| Residential - One Month Bill* | | |
|---|---|---|
| Cities | 1,000 kWh | ¢/kWh |
| Ottawa ON | $165.37 | 16.537 |
| Halifax NS | $158.83 | 15.883 |
| Saskatoon SK | $146.49 | 14.649 |
| Regina SK | $146.45 | 14.645 |
| Moncton NB | $124.98 | 12.498 |
| St. John's NL | $119.64 | 11.964 |
| Saint John NB | $111.71 | 11.171 |
| Calgary AB | $111.70 | 11.170 |
| Vancouver BC | $107.03 | 10.703 |
| Edmonton AB | $105.08 | 10.508 |
| Winnipeg MB | $84.29 | 8.429 |
| Montreal QC | $72.26 | 7.226 |

*Survey effective May 1, 2016
Source: Manitoba-Hydro Electric Board
https://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/utility_rate_comp.shtml

- Premier Kathleen Wynne, in a speech at the Economic Club in Toronto, stated that the government is considering alternatives for further lowering costs, such as looking at options related to the delivery charge.
- In April 2015, the Ontario Energy Board ruled that it will gradually move over four years, starting in 2016, to fully-fixed distribution rates for residential customers so that customers of the same utility will pay an all-fixed distribution rate regardless of their level of consumption. The rate is currently a blend of fixed and variable. Over the four years, the fixed rate will increase gradually and the usage rate will decline.
- Ontario is moving forward with the refurbishment of the Darlington nuclear power plant in a further step towards its clean energy policy. Darlington Nuclear Generating Station has been producing about 20% of the province’s electricity since the early 1990s. The refurbishment of the four reactors will span 10 years and scheduled for completion by 2026. It will cost $12.8bln and secure 3,500 megawatts of affordable, reliable, emissions-free power, extending the life of the plant until 2055. The refurbishment will have considerable environmental and economic benefits over other energy supply options.
- Ontario has eliminated coal-fired generation in the last decade to reduce GHG emissions that cause climate change and improve Ontario’s air quality. Nuclear generation provided the largest share of Ontario’s electricity in 2015 followed by hydroelectric generation, natural gas and non-hydro renewables such as wind, solar and bioenergy.
- Ontario generated 160 TWh of electricity in 2015 from a diverse portfolio of generation assets and has the ability to produce much more with installed capacity of 39,393 MW. The province is in a strong position to meet the range of demand growth forecasts for electricity that could occur. See Planning Ontario’s Energy Future Click Here

### Electricity Production

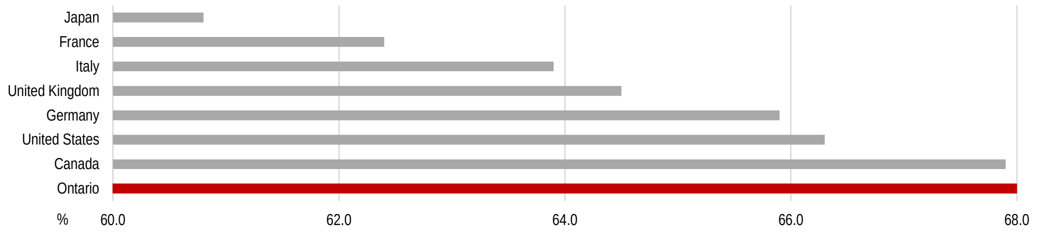
| Ontario electricity production in 2005 and 2015 | | |
|---|---|---|
| Source | 2005 | 2015 |
| Nuclear | 51% | 58% |
| Natural Gas | 8% | 10% |
| Water | 22% | 23% |
| Solar/Wind/Bioenergy | <1% | 9% |
| Coal | 19% | 0% |
| Includes electricity produced to meet Ontario demand, including embedded generation (which brings the total to 143 TWh in 2015), and exports (17 TWh in 2015). | | |

Source: Ontario Ministry of Energy – Planning Ontario's Energy Future

- When is the next IPO planned for Hydro One?
  - The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14% of common shares in April [2016] and raised approximately $2.0bln in total gross proceeds. The Province now holds approximately 70% of Hydro One common shares and will reduce its stake to 40% over time.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is planning, building and/or upgrading 37 hospitals across the province.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Working Age (15-64) Population Share (G7 Countries, 2015)




Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

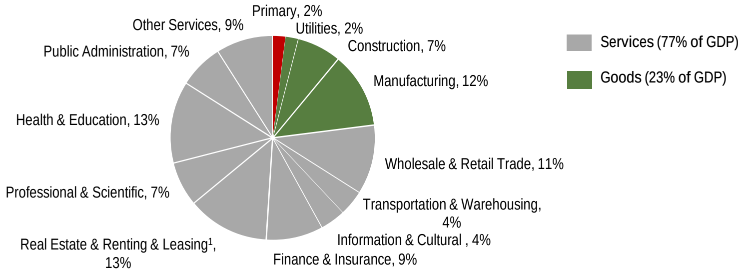
- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
  - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
  - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
  - External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
  - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.
  - The Province has engaged an expert panel of accountants to assess the issue.
  - The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.

- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the  discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
- Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

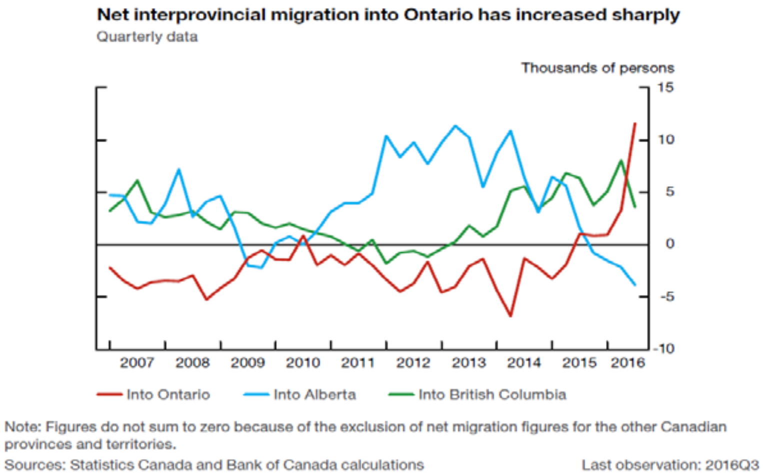
- What is the future of Ontario's automotive sector?
  - Ontario's auto industry is very important, but just one component of Ontario's diversified economy.
  - Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.
  - Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of Michigan.
  - Ontario can compete with low-wage jurisdictions on the basis of productivity, technological leadership and our highly skilled workforce.

Structure of the Ontario Economy, 2015 (% Share of Ontario Nominal GDP)




[1] Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

- What trends do you see with respect to immigration?
  - Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.
  - The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.
  - Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.
  - Inter-provincial migration has been historically very low, near 0%, but has increased sharply in recent quarters.

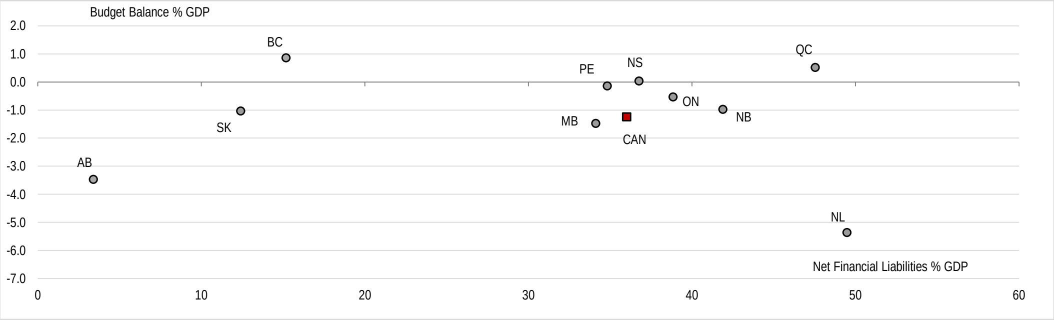



- What is Ontario's housing market outlook?
  - The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.

- Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?
  - Each country has its own financial institutions regulator.
  - We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.
  - In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.

- What is the expectation for changes in Equalization payments from the Federal government?
  - Ontario began collecting equalization in 2009-2010. Click Here
  - Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).

## Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)




Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

## Province of Ontario Credit Ratings:

DBRS AA(low)
Fitch AA-
Moody's Aa2
S&P A+

All Outlooks Stable

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**From:** Bonnie Lemcke
**To:** Ronald Kwan
**Cc:** Gadi Mayman; Lynsey Wynberg
**Subject:** Fwd: Ontario Talking Points (CIBC Capital Markets)
**Date:** Wednesday, January 18, 2017 5:54:33 PM
**Attachments:** Ontario Talking Points (January 9, 2017).docx
ATT00001.htm

---

Hi Ron,
Can you review the info on hydro. Maria produces a publication for investors and has asked for additional info and fact checking.

Thanks,
Bonnie

Begin forwarded message:

**From:** "Berlettano, Maria (Macro Strategy)" <Maria.Berlettano@cibc.com>
**Date:** January 18, 2017 at 4:39:02 PM EST
**To:** 'Bonnie Lemcke' <Bonnie.Lemcke@ofina.on.ca>
**Cc:** "Bognar, Tom" <Tom.Bognar@cibc.com>
**Subject: RE: Ontario Talking Points (CIBC Capital Markets)**

Hi Bonnie,

Although we released our publication already, we get one-off requests for it. I noticed a factual oversight in regards to inter-provincial migration. Although it has been historically near 0%, it has in fact increased sharply in recent quarters. This was also a comment made by the Bank of Canada in today's Monetary Policy Report.

I am sending you a revised copy to reflect this change. However, I would also like to incorporate a question on Ontario's power market as per below. Would you please review and edit as you see fit. A more fulsome answer would be appreciated, as what I have is quite skeletal.

Thank you.

Question:

What is being done to deal with rising energy costs in Ontario?
The Province announced news measures to help households and businesses with electricity costs. It includes a rebate equal to the 8% provincial portion of HST for eligible customers, estimated to cost $300mln. Ontario has also signed a deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.

Sincere regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

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-----Original Message-----
From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, January 09, 2017 8:15 AM
To: Berlettano, Maria (Macro Strategy)
Subject: Re: Ontario Talking Points (CIBC Capital Markets)

Thanks Maria,
I will forward to others.

Bonnie

On Jan 9, 2017, at 7:55 AM, Berlettano, Maria (Macro Strategy) <Maria.Berlettano@cibc.com<mailto:Maria.Berlettano@cibc.com>> wrote:

Good morning Bonnie,

We issued the research note this morning. Thank you again for your assistance and support. Would you please forward it to Gadi Mayman, Paul Lewis, Ken Kandeepan and the others with my appreciation.

Regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com<mailto:maria.berlettano@cibc.com>

From: CIBC CM Macro Strategy
Sent: Monday, January 09, 2017 7:37 AM
Subject: Ontario Talking Points (CIBC Capital Markets)

CIBC Capital Markets

Macro Strategy Research

Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

· How is Ontario positioned with respect to the quality and rising cost of healthcare?

- Ontario is planning, building and/or upgrading 37 hospitals across the province.

- As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.

- Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca] <https://urldefense.proofpoint.com/v2/url?u=https-3A__files.ontario.ca_web-5F2015-2D2016-5Fannual-5Freport-5Feng-5F0.pdf&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=FmC13eMROgEHF17o5oN8mdIDeK3Ku-qqho7QBhQhJ98&e=>]

- The aging population adds about 1% to annual expense growth.

- Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.

- While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.

- Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Source: Statistics Canada and The World Bank

· What agreement does the province expect with the Federal government under the federal/provincial Health Accord?

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S&P A+

All Outlooks Stable

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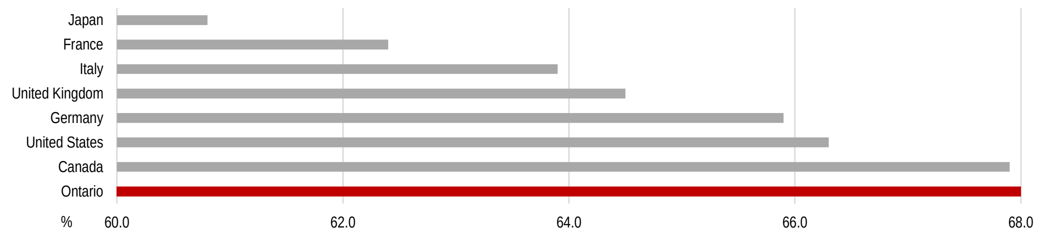
## Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
    - Ontario is planning, building and/or upgrading 37 hospitals across the province.
    - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
    - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here]
    - The aging population adds about 1% to annual expense growth.
    - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
    - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
    - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Working Age (15-64) Population Share (G7 Countries, 2015)

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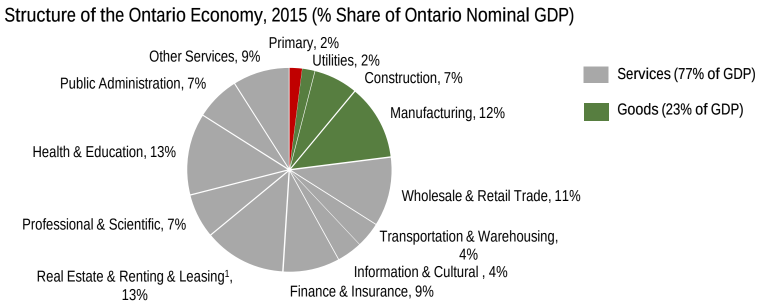


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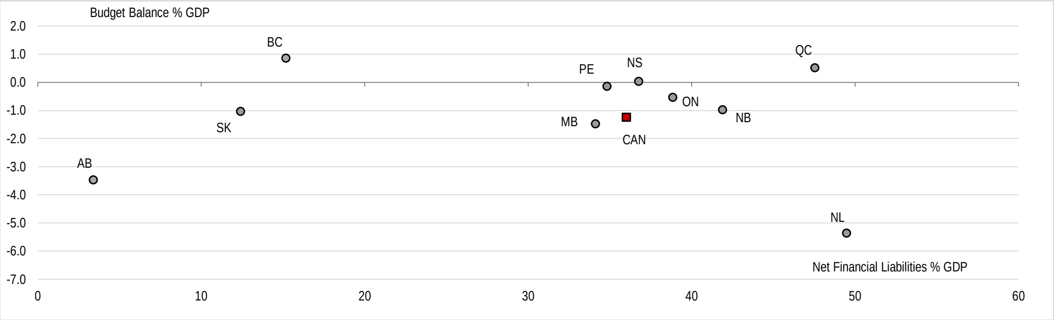


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| | |
|---|---|
| **From:** | Ronald Kwan |
| **To:** | Bonnie Lemcke |
| **Cc:** | Gadi Mayman; Lynsey Wynberg |
| **Subject:** | RE: Ontario Talking Points (CIBC Capital Markets) |
| **Date:** | Wednesday, January 18, 2017 6:15:18 PM |

Hi Bonnie,
Sure. What are the timelines?
Ron
N.B. And we will try to be comprehensive, while avoiding being accused of being 'fulsome'!

**From:** Bonnie Lemcke
**Sent:** January-18-17 17:55
**To:** Ronald Kwan
**Cc:** Gadi Mayman ; Lynsey Wynberg
**Subject:** Fwd: Ontario Talking Points (CIBC Capital Markets)

Hi Ron,
Can you review the info on hydro. Maria produces a publication for investors and has asked for additional info and fact checking.
Thanks,
Bonnie

Begin forwarded message:

**From:** "Berlettano, Maria (Macro Strategy)" <Maria.Berlettano@cibc.com>
**Date:** January 18, 2017 at 4:39:02 PM EST
**To:** 'Bonnie Lemcke' <Bonnie.Lemcke@ofina.on.ca>
**Cc:** "Bognar, Tom" <Tom.Bognar@cibc.com>
**Subject: RE: Ontario Talking Points (CIBC Capital Markets)**

Hi Bonnie,

Although we released our publication already, we get one-off requests for it. I noticed a factual oversight in regards to inter-provincial migration. Although it has been historically near 0%, it has in fact increased sharply in recent quarters. This was also a comment made by the Bank of Canada in today's Monetary Policy Report.

I am sending you a revised copy to reflect this change. However, I would also like to incorporate a question on Ontario's power market as per below. Would you please review and edit as you see fit. A more fulsome answer would be appreciated, as what I have is quite skeletal.

Thank you.

Question:

What is being done to deal with rising energy costs in Ontario?
The Province announced news measures to help households and businesses with electricity costs. It includes a rebate equal to the 8% provincial portion of HST for eligible customers, estimated to cost $300mln. Ontario has also signed a deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.

Sincere regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

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-----Original Message-----
From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, January 09, 2017 8:15 AM
To: Berlettano, Maria (Macro Strategy)
Subject: Re: Ontario Talking Points (CIBC Capital Markets)

Thanks Maria,
I will forward to others.

Bonnie

On Jan 9, 2017, at 7:55 AM, Berlettano, Maria (Macro Strategy) <Maria.Berlettano@cibc.com<mailto:Maria.Berlettano@cibc.com>> wrote:

Good morning Bonnie,

We issued the research note this morning. Thank you again for your assistance and support. Would you please forward it to Gadi Mayman, Paul Lewis, Ken Kandeepan and the others with my appreciation.

Regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com<mailto:maria.berlettano@cibc.com>

From: CIBC CM Macro Strategy
Sent: Monday, January 09, 2017 7:37 AM
Subject: Ontario Talking Points (CIBC Capital Markets)

CIBC Capital Markets

Macro Strategy Research

Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

· How is Ontario positioned with respect to the quality and rising cost of healthcare?

- Ontario is planning, building and/or upgrading 37 hospitals across the province.

- As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.

- Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal

2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca]
<https://urldefense.proofpoint.com/v2/url?u=https-3A__files.ontario.ca_web-5F2015-2D2016-5Fannual-5Freport-5Feng-5F0.pdf&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=FmC13eMROgEHF17o5oN8mdIDeK3Ku-qqho7QBhQhJ98&e=>]

- The aging population adds about 1% to annual expense growth.

- Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.

- While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.

- Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Source: Statistics Canada and The World Bank

· What agreement does the province expect with the Federal government under the federal/provincial Health Accord?

- We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.

- The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.

- Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

· How will Federal infrastructure funding affect borrowing and capital plans?

- It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

· Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?

- Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here[fin.gov.on.ca]<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_reformcommission_&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=Kj_FGSnafUdwp6wVinDJxrGaaufkdAS6LGpQMBb4wtU&e=>

- Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here[fin.gov.on.ca]
<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_budget_ontariobudgets_2016_ch2b.html-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=8bpNLVRSN7xkknQpWuvPZgVm7cSpHdmSnOBFBAGbVzA&e=>

- The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.

- Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.

- External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

· Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.

- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.

- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.

- Background - Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015-16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015-2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016-17, $2.8bln in 2017-18, and $3.7bln in 2018-19 to the annual Pension Adjustment.

· What is the future of Ontario's automotive sector?

- Ontario's auto industry is very important, but just one component of Ontario's diversified economy.

- Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.

- Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of Michigan.

- Ontario can compete with low-wage jurisdictions on the basis of productivity, technological leadership and our highly skilled workforce.

1 Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

· What trends do you see with respect to immigration?

- Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.

- The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.

- Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.

- Inter-provincial migration has been historically very low, near 0%.

· What is Ontario's housing market outlook?

- The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.

· Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?

- Each country has its own financial institutions regulator.

- We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.

- In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.

· What is the expectation for changes in Equalization payments from the Federal government?

- Ontario began collecting equalization in 2009-2010. Click Here[fin.gc.ca]<https://urldefense.proofpoint.com/v2/url?u=https-3A__www.fin.gc.ca_fedprov_mtp-2Deng.asp-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=eqpvVvH8i5g671Yx3CotxLnHKHuSo0ndUw5qV0CgeQY&e=>

- Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).

· When is the next IPO planned for Hydro One?

- The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14 per cent of common shares in April [2016] and raised approximately $2.0 billion in total gross proceeds. The Province now holds approximately 70 per cent of Hydro One common shares and will reduce its stake to 40 per cent over time.

Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)

Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS AA(low)
Fitch AA-
Moody's Aa2
S&P A+

All Outlooks Stable

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**From:** Gavin He
**To:** Bonnie Lemcke
**Cc:** Ronald Kwan; John Kim; Lynsey Wynberg
**Subject:** RE: Ontario Talking Points (CIBC Capital Markets)
**Date:** Thursday, January 26, 2017 12:20:59 PM
**Attachments:** Ontario Talking Points (January 26, 2017)_CEFD.docx

Hi Bonnie,
Please find attached the talking points with our edits and comment, highlighted in yellow.
We have a question on the "Ontario electricity production in 2005 and 2015" table on page 5, highlighted in yellow as well.
Regarding to Maria's question below about the 39,393 MW, there's no real conversion for calculating the total add-on to Ontario's generation. The 39,393 MW are the new capacity added in Ontario, but not all will be dispatched.
Thanks,
Gavin He

**From:** Bonnie Lemcke
**Sent:** Wednesday, January 25, 2017 10:18 AM
**To:** Ronald Kwan
**Cc:** John Kim ; Gavin He ; Lynsey Wynberg
**Subject:** FW: Ontario Talking Points (CIBC Capital Markets)
**Importance:** High

Hi Ron,
Maria had asked for some additional info on Darlington and the mix of electricity. I sent her infor from the FES and the Ministry of Energy's discussion guide. She has another question on electricity generation and I don't know who can provide an answer. They want to publish this report tomorrow.
Can you let me know who to contact.
Thanks,
Bonnie

**From:** Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
**Sent:** Wednesday, January 25, 2017 8:50 AM
**To:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
**Cc:** Bognar, Tom <Tom.Bognar@cibc.com>
**Subject:** RE: Ontario Talking Points (CIBC Capital Markets)

Good morning Bonnie,
Here is revised draft with more changes (including new charts and tables).
With respect to the Energy comment, I am having difficulty with the following paragraph:
Ontario generated 160 TWh of electricity in 2015 from a diverse portfolio of generation assets and has the ability to produce much more with installed capacity of 39,393 MW. The province is in a strong position to meet the range of growth in demand forecasts for electricity that could occur.
Is the 39,393 mw per day which then converts to a certain amount of TWh that is bigger than 160? If so, what is the convention for converting into TWh (i.e. 24 hours x 365 days?).
Our goal is to release tomorrow morning.
Thank you,
Maria

**Maria Berlettano, CFA** | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

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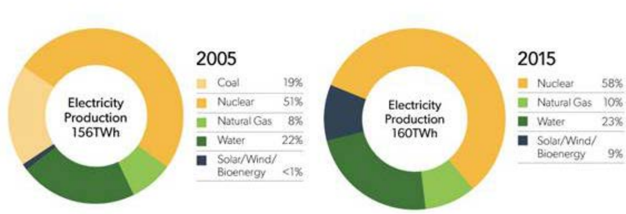
**From:** Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
**Sent:** Tuesday, January 24, 2017 5:01 PM
**To:** Berlettano, Maria (Macro Strategy)
**Subject:** RE: Ontario Talking Points (CIBC Capital Markets)

HI Maria,
I am sending you some infor that I found on Darlington and the current supply mix. The first is from the Fall Statement and the second is from a discussion guide the government released in advance of the province's Long-Term Energy Plan
Here is the info from page 46 of the Fall Statement:
http://www.fin.gov.on.ca/en/budget/fallstatement/2016/chapter1b.html#s1b-8[fin.gov.on.ca]
Darlington Refurbishment Project
Ontario Power Generation (OPG) has commenced refurbishment of the first of four units at its Darlington Nuclear Generating Station. The project's $12.8 billion budget is about $1.2 billion lower than initially projected. The refurbishment project will span 10 years and will secure 3,500 megawatts (MW) of affordable, reliable, emissions-free power. A Conference Board of Canada study has estimated that refurbishment and continued operation of Darlington up to 2055 will contribute about $90 billion to Ontario's gross domestic product and that the continued operations of Darlington will increase employment by an estimated average of 14,200 jobs annually, including 2,300 to 2,600 jobs onsite.1
Here is the infor on the current energy mix
http://www.energy.gov.on.ca/en/ltep/2017-discussion-guide/[energy.gov.on.ca]

# Ontario's Energy Mix at the end of 2015

## Electricity Supply

Ontario produced 160 Terawatt-hours (TWh) of electricity in 2015. That electricity does not come from any one type of generation. The province relies on a diverse number of sources to give it a secure and reliable supply of electricity. Nuclear, natural gas and renewable generation, such as hydroelectric, wind, solar and bioenergy, all produce the electricity Ontarians rely on.
The province's supply mix must also be flexible to respond to the changing priorities of Ontarians. The most significant change over the past decade was the elimination of coal-fired generation. To reduce the GHG emissions that cause climate change and improve to Ontario's air quality, the province eliminated the use of coal by closing three coal plants and converting the remaining two plants to cleaner biomass plants. It also invested in new and refurbished generating facilities to replace the closed coal plants.




[energy.gov.on.ca]

Figure 1: Ontario electricity production (Source: Ontario Planning Outlook, 2016)
Data for Figure 1: Ontario electricity production in 2005 and 2015

| Source | 2005 | 2015 |
|---|---|---|

| | | |
|---|---|---|
| **Nuclear** | 51% | 58% |
| **Natural Gas** | 8% | 10% |
| **Water** | 22% | 23% |
| **Solar/Wind/Bioenergy** | <1% | 9% |
| **Coal** | 19% | 0 |

Includes electricity produced to meet Ontario demand, including embedded generation (which brings the total to 143 TWh in 2015), and exports (17 TWh in 2015).
Nuclear generation provided the biggest share of Ontario's electricity in 2015, producing 92.3 TWh of electricity. That was followed by the 37.3 TWh provided by hydroelectric generation, 15.9 TWh generated from natural gas, and non-hydro renewables such as wind, solar and bioenergy that provided 14.2 TWh.
While Ontario generated 160 TWh of electricity last year, it has the ability to produce more. The installed capacity of the province's generating fleet totals 39,393 MW. Since the 2013 LTEP, the share of wind, solar and bioenergy capacity in our supply mix has grown from 9% to over 18%. At the end of June 2016, the 4,500 MW of installed wind capacity represents the largest source of our non-hydro renewable generation. Approximately 1,600 MW of additional wind capacity is under contract and under development.
Bonnie
-----Original Message-----
From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Tuesday, January 24, 2017 4:20 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Ontario Talking Points (CIBC Capital Markets)
Good afternoon Bonnie,
Here is a revised version. Would you please review. There is some information I need to complete the sections highlighted in yellow. In regards to the Darlington Nuclean Power Station, do you know if they are uprating the capacity and, if so, to what level.
Also, any other information about increasing generation capacity, energy mix, etc. in the province to update that section would be helpful.
Thank you,
Maria
Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com
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-----Original Message-----
From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, January 23, 2017 4:10 PM
To: Berlettano, Maria (Macro Strategy)
Subject: RE: Ontario Talking Points (CIBC Capital Markets)
Hi Maria,
I have attached the backgrounder that we released at the time of the Fall Statement. It has more information on what the government is doing for hydro rates. Also, I should have caught this error last time but there won't "another IPO" or 'initial' offering, rather there will be another 'secondary' offering.
You might want to mention what the Premier has been saying in the press (see article below from QP Briefing) .
I hope that helps.
Bonnie
****************************************
January 19, 2017
Premier mulls using tax dollars to pay hydro delivery charge
By Jessica Smith Cross
Premier Kathleen Wynne spoke specifically about high delivery charges.
Premier Kathleen Wynne gave a speech to a business crowd in Toronto Thursday - and teased a major potential change to electricity bills with an anecdote about meeting a retiree from the Ottawa Valley named Lloyd.
In the speech, Wynne said she's committed to instituting new measures to deal with high hydro rates soon and specifically noted Ontarians' complaints about high delivery charges on their bill. And afterwards, she confirmed her government is considering moving costs, such as the delivery charge, from Ontarians' hydro bills, to government coffers. A big announcement will be made before the next budget.
Wynne said she's been setting aside time for people who've written her letters about their electricity bills, including Lloyd, a retiree on a fixed income.
"He saw that energy prices were going up here, like they are all over the continent, so he found the money to install some new, energy-efficient windows. Still, he's gobsmacked by his hydro bill every month. With delivery charges making up 50 per cent of his bill, Lloyd feels like he's being punished for his efforts. Lloyd has every right to be angry."
"At the end of the day, what people like Lloyd should be paying for is the electricity they use. It is why I have committed to finding more ways to lower rates and reduce the burden on consumers in the weeks and months ahead - work that is well underway. I am listening to the people of the province and it is the right thing to do," said Wynne.
After the speech, Wynne took questions from the media. She said the delivery charge is a frequent target of hydro-related complaints she hears.
"There have been decisions made about what would be paid on the rate base, in other words, what would go on people's electricity bills, and what would be paid out of general revenue, government revenue. We have to look at whether we've got that balance right as well," she said.
"When I say we have to look at the delivery charge, that's exactly what I mean," she continued. "The delivery charge is an example of the kind of thing that we have to - we really have to pull that apart and make sure that there's a fairness across the province in terms of the cost that people are bearing."
Wynne declined to offer more details, such as if a delivery charge shift is the only change she's considering making, saying she wouldn't "scoop" herself, and that her government hasn't made those decisions quite yet.
Last year, the Ontario Energy Board ruled that all utilities will move to fixed distribution rates for residential customers, which means that customers of the same utility pay the same distribution charge no matter how little or how much electricity they use. The distribution rate, along with transmission costs, are what makes up the delivery charge on a hydro bill
-----Original Message-----
From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Thursday, January 19, 2017 7:26 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Ontario Talking Points (CIBC Capital Markets)
Thanks Bonnie. No particular rush. Next week would be fine.
Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com
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-----Original Message-----
From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Wednesday, January 18, 2017 6:35 PM
To: Berlettano, Maria (Macro Strategy)
Subject: Re: Ontario Talking Points (CIBC Capital Markets)
Hi Maria,
How soon do you need the info.
Bonnie
> On Jan 18, 2017, at 4:39 PM, Berlettano, Maria (Macro Strategy) <Maria.Berlettano@cibc.com> wrote:

>
> Hi Bonnie,
>
> Although we released our publication already, we get one-off requests for it. I noticed a factual oversight in regards to inter-provincial migration. Although it has been historically near 0%, it has in fact increased sharply in recent quarters. This was also a comment made by the Bank of Canada in today's Monetary Policy Report.
>
> I am sending you a revised copy to reflect this change. However, I would also like to incorporate a question on Ontario's power market as per below. Would you please review and edit as you see fit. A more fulsome answer would be appreciated, as what I have is quite skeletal.
>
> Thank you.
>
> Question:
>
> What is being done to deal with rising energy costs in Ontario?
> The Province announced news measures to help households and businesses with electricity costs. It includes a rebate equal to the 8% provincial portion of HST for eligible customers, estimated to cost $300mln. Ontario has also signed a deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.
>
> Sincere regards,
>
> Maria
>
> Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com
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>
> -----Original Message-----
> From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
> Sent: Monday, January 09, 2017 8:15 AM
> To: Berlettano, Maria (Macro Strategy)
> Subject: Re: Ontario Talking Points (CIBC Capital Markets)
>
> Thanks Maria,
> I will forward to others.
>
> Bonnie
>
> On Jan 9, 2017, at 7:55 AM, Berlettano, Maria (Macro Strategy) <Maria.Berlettano@cibc.com>> wrote:
>
> Good morning Bonnie,
>
> We issued the research note this morning. Thank you again for your assistance and support. Would you please forward it to Gadi Mayman, Paul Lewis, Ken Kandeepan and the others with my appreciation.
>
> Regards,
>
> Maria
>
> Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com>
>
>
>
> From: CIBC CM Macro Strategy
> Sent: Monday, January 09, 2017 7:37 AM
> Subject: Ontario Talking Points (CIBC Capital Markets)
>
>
> CIBC Capital Markets
>
> Macro Strategy Research
>
>
> Ontario Talking Points (January 9, 2017)
>
>
> Insights from our meeting last month with officials from the province.
>
>
> · How is Ontario positioned with respect to the quality and rising cost of healthcare?
>
> - Ontario is planning, building and/or upgrading 37 hospitals across the province.
>
> - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
>
> - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca] <https://urldefense.proofpoint.com/v2/url?u=https-3A__files.ontario.ca_web-5F2015-2D2016-5Fannual-5Freport-5Feng-

5F0.pdf&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=FmC13eMROgEHF17o5oN8mdIDeK3Ku-qqho7QBhQhJ98&e=>]
>
> - The aging population adds about 1% to annual expense growth.
>
> - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
>
> - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
>
> - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.
>
>
> Source: Statistics Canada and The World Bank
>
>
> · What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
>
> - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
>
> - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
>
> - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.
>
>
> · How will Federal infrastructure funding affect borrowing and capital plans?
>
> - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.
>
>
> · Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
>
> - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here[fin.gov.on.ca]<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_reformcommission_&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=Kj_FGSnafUdwp6wVinDJxrGaaufkdAS6LGpQMBb4wtU&e=>
>
> - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here[fin.gov.on.ca]
<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fin.gov.on.ca_en_budget_ontariobudgets_2016_ch2b.html-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=8bpNLVRSN7xkknQpWuvPZgVm7cSpHdmSnOBFBAGbVzA&e=>
>
> - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
>
> - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
>
> - External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.
>
>
> · Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
>
> - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.
>
> - The Province has engaged an expert panel of accountants to assess the issue.
>
> - The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
>
> - The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
>
> - Background - Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015-16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015-2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016-17, $2.8bln in 2017-18, and $3.7bln in 2018-19 to the annual Pension Adjustment.
>
>
> · What is the future of Ontario's automotive sector?
>

> - Ontario's auto industry is very important, but just one component of Ontario's diversified economy.
>
> - Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.
>
> - Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of Michigan.
>
> - Ontario can compete with low-wage jurisdictions on the basis of productivity, technological leadership and our highly skilled workforce.
>
>
> 1 Includes estimate of imputed rental income on owner occupied dwellings
> Source: Statistics Canada and Ontario Ministry of Finance
>
>
> · What trends do you see with respect to immigration?
>
> - Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.
>
> - The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.
>
> - Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.
>
> - Inter-provincial migration has been historically very low, near 0%.
>
>
> · What is Ontario's housing market outlook?
>
> - The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.
>
>
> · Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?
>
> - Each country has its own financial institutions regulator.
>
> - We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.
>
> - In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.
>
>
> · What is the expectation for changes in Equalization payments from the Federal government?
>
> - Ontario began collecting equalization in 2009-2010. Click Here[fin.gc.ca]<https://urldefense.proofpoint.com/v2/url?u=https-3A__www.fin.gc.ca_fedprov_mtp-2Deng.asp-2520&d=CwMFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=7angY65xsE81CtQD3ZkNMdE3GXeWAAw_kSqEF7kvE_A&m=F-rh7wTYCV_P3S_WyCqbtNDpAduUn_YuWQGtr9q4QHQ&s=eqpvVvH8i5g671Yx3CotxLnHKHuSo0ndUw5qV0CgeQY&e=>
>
> - Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).
>
>
> · When is the next IPO planned for Hydro One?
>
> - The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14 per cent of common shares in April [2016] and raised approximately $2.0 billion in total gross proceeds. The Province now holds approximately 70 per cent of Hydro One common shares and will reduce its stake to 40 per cent over time.
>
>
> Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)
>
>
> Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)
>
>
> Province of Ontario Credit Ratings:
>
> DBRS AA(low)
> Fitch AA-
> Moody's Aa2
> S&P A+
>
> All Outlooks Stable
>
>
> Maria Berlettano, CFA
> 416 594-8041
> maria.berlettano@cibc.com>
>
> www.cibcmacro.com[cibcmacro.com][cibcmacro.com[cibcmacro.com]%3chttps]=>
>

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> 416 956-6032
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> www.cibcmacro.com[cibcmacro.com][cibcmacro.com[cibcmacro.com]%3chttps]=>
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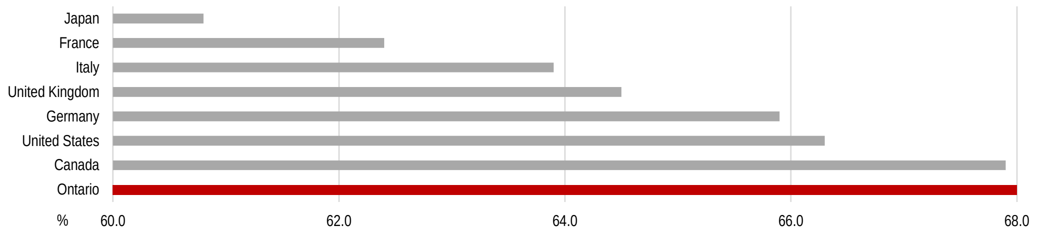
## Ontario Talking Points (January 24, 2017)

This research note replaces the one issued on January 9. It incorporates some updates as well as information obtained on Ontario's energy policy.

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is planning, building and/or upgrading 37 hospitals across the province.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.

Working Age (15-64) Population Share (G7 Countries, 2015)




Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had

reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

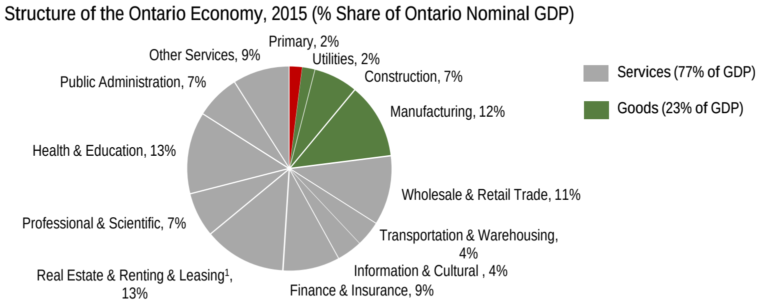
- How will Federal infrastructure funding affect borrowing and capital plans?
    - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
    - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
    - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
    - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
    - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
    - External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
    - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.
    - The Province has engaged an expert panel of accountants to assess the issue.
    - The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
    - The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
    - Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This

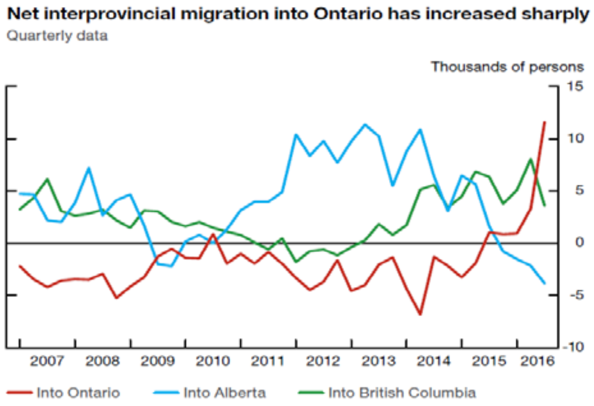
cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

- What is the future of Ontario’s automotive sector?
  - Ontario’s auto industry is very important, but just one component of Ontario’s diversified economy.
  - Overall, the auto industry represents only 2.5% of GDP, but it is the largest manufacturing sector accounting for almost 20% of total manufacturing.
  - Ontario is the largest sub-national jurisdiction for auto assembly in North America, ranking ahead of
  - Ontario can compete with low-wa[illegible]ns on the basis of productivity, technological leadership and our highly skilled workforce.




[1] Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

- What trends do you see with respect to immigration?
  - Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.
  - The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.
  - Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.
  - Inter-provincial migration has been historically very low, near 0%, but has increased sharply in recent quarters.




Note: Figures do not sum to zero because of the exclusion of net migration figures for the other Canadian provinces and territories.
Sources: Statistics Canada and Bank of Canada calculations Last observation: 2016Q3

- What is Ontario’s housing market outlook?
  - The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by population growth and still favourable financial conditions, although borrowing rates and mortgage underwriting conditions have tightened somewhat.

- Why is the province’s debt risk-weighted 20% instead of 0% in some international jurisdictions?
  - Each country has its own financial institutions regulator.

- We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.
- In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.

- What is the expectation for changes in Equalization payments from the Federal government?
  - Ontario began collecting equalization in 2009-2010. Click Here
  - Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln in 2016-17 and reflects the province's better relative performance (i.e. economy and fiscal capacity) to the other provinces in 2012-13, 2013-14, and 2014-15. The Equalization Framework is a three-year weighted moving average with a two-year lag of measured fiscal capacities which, in effect, takes into account the variation in the revenue generating capacity of the provinces. The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each).

- What is Ontario doing to address high electricity costs in the province?
  - The Province announced several additional measures in its fall fiscal and economic review to help households and businesses with electricity costs. These measures include, but are not limited to:
    - Rebating an amount equal to the 8% provincial portion of HST for eligible customers starting January 1, 2017, which is estimated to cost $300mln in 2016-17 and save the typical consumer an average of $11 each month;
    - Enhancing the Rural or Remote Electricity Rate Protection program to provide eligible rural customers with savings of about $45 per month when combined with the ~~HST (~~8%~~)~~ rebate;
    - Ending the debt retirement charge as of April 1, 2018, for commercial, industrial and other electricity users (the debt retirement charge was removed from residential electricity bills as of January 1, 2016 saving a typical user $70 per month).
    - Expanding the eligibility of the Industrial Conservation Initiative, providing an incentive to more than 1,000 additional electricity consumers with demand greater than one megawatt to shift demand off-peak to save up to one third of their bill.
    - Signing an energy trade deal with Quebec to import electricity. This arrangement is projected to save Ontario about $70mln.
    - Ontario Fall Economic Statement Click Here

| Residential - One Month Bill* | | |
|---|---|---|
| Cities | 1,000 kWh | ¢/kWh |
| Ottawa ON | $165.37 | 16.537 |
| Halifax NS | $158.83 | 15.883 |
| Saskatoon SK | $146.49 | 14.649 |
| Regina SK | $146.45 | 14.645 |
| Moncton NB | $124.98 | 12.498 |
| St. John's NL | $119.64 | 11.964 |
| Saint John NB | $111.71 | 11.171 |
| Calgary AB | $111.70 | 11.170 |
| Vancouver BC | $107.03 | 10.703 |
| Edmonton AB | $105.08 | 10.508 |
| Winnipeg MB | $84.29 | 8.429 |
| Montreal QC | $72.26 | 7.226 |

*Survey effective May 1, 2016
Source: Manitoba-Hydro Electric Board
https://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/utility_rate_comp.shtml

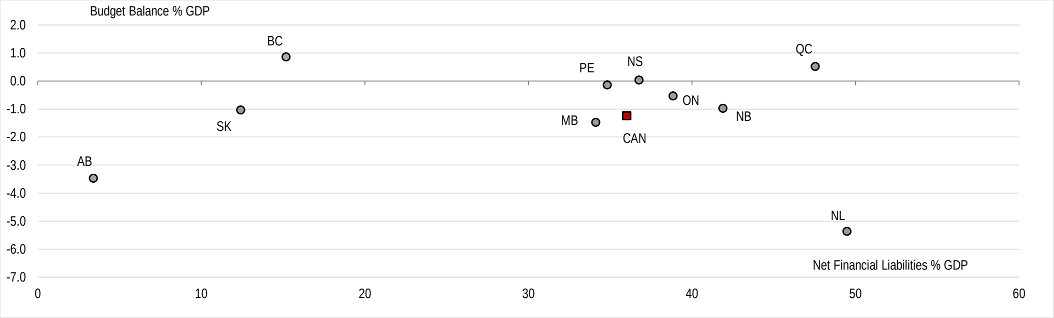
- Premier Kathleen Wynne, in a speech at the Economic Club in Toronto, stated that the government is considering ~~moving~~ options for further lowering costs, such as looking at options related to the delivery charge~~, from consumer hydro bills to the government's accounts~~.
- In April 2015, the Ontario Energy Board ruled that it will gradually move over four years starting in 2016 to fully-fixed distribution rates for residential customers so that customers of the same utility will pay an all-fixed distribution rate regardless of their level of consumption. The rate is currently a blend of fixed and variable. Over the four years, the fixed rate will increase gradually and the usage rate will decline.
- Ontario is moving forward with the refurbishment of the Darlington nuclear power plant in a further step towards its clean energy policy. Darlington Nuclear Generating Station has been producing about 20 per cent of the province's electricity since the early 1990s. The refurbishment of the four reactors will span 10 years and scheduled for completion by 2026. It will cost $12.8bln and secure 3,500 megawatts of affordable, reliable, emissions-free power, extending the life of the plant until 2055. The refurbishment will have considerable environmental and economic benefits over other energy supply options.
- Ontario has eliminated coal-fired generation in the last decade to reduce GHG emissions that cause climate change and improve Ontario's air quality. Nuclear generation provided the largest share of Ontario's electricity in 2015 followed by hydroelectric generation, natural gas and non-hydro renewables such as wind, solar and bioenergy.
- Ontario generated 160 TWh of electricity in 2015 from a diverse portfolio of generation assets and has the ability to produce much more with installed capacity of 39,393 MW. The province is in a strong position to meet the range of growth in demand forecasts for electricity that could occur. See Planning Ontario's Energy Future Click Here

| Ontario electricity production in 2005 and 2015 | | |
|---|---|---|
| Source | 2005 | 2015 |
| Nuclear | 51% | 58% |
| Natural Gas | 8% | 10% |
| Water | 22% | 23% |
| Solar/Wind/Bioenergy | <1% | 9% |
| Coal | 19% | 0% |
| Includes electricity produced to meet Ontario demand, including embedded generation (which brings the total to 143 TWh in 2015), and exports (17 TWh in 2015). | | |

Source: Ontario Power Generation
Note: is this report from OPG or from IESO's OPO report?

- When is the next IPO planned for Hydro One?
  - The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14 per cent of common shares in April [2016] and raised approximately $2.0 billion in total gross proceeds. The Province now holds approximately 70 per cent of Hydro One common shares and will reduce its stake to 40 per cent over time.

**Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)**




Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

**Province of Ontario Credit Ratings:**

DBRS AA(low)
Fitch AA-
Moody's Aa2
S&P A+

All Outlooks Stable

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